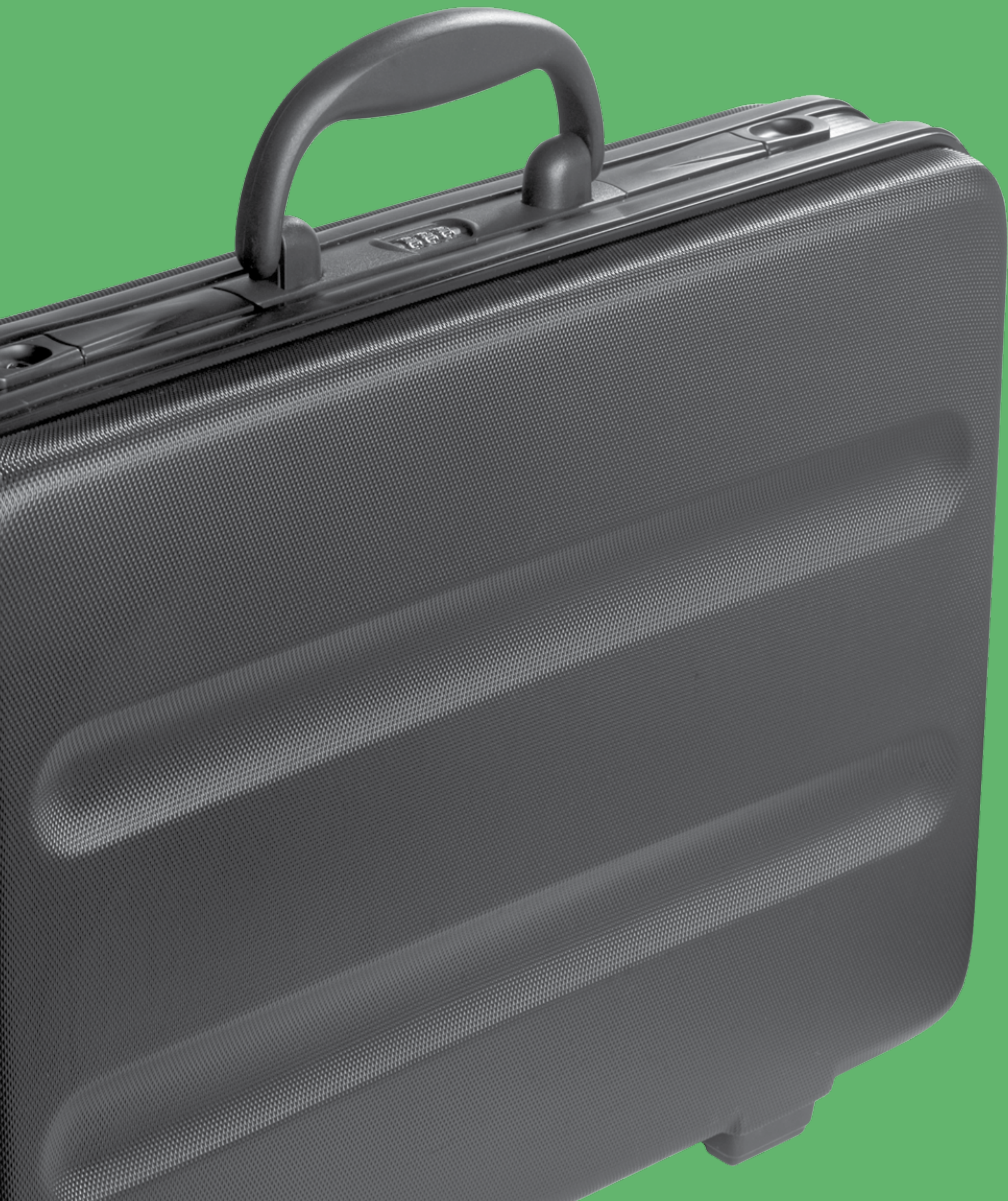
General Short Form Disclosure Statement

Number 37
For the three months ended 30 September 2010



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General matters

Details of incorporation

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

This General Short Form Disclosure Statement has been issued by Kiwibank for the three months ended 30 September 2010, in accordance with the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008 (the "Order") and with the Registered Bank Disclosure Statement (Off-Quarter – 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 Short Form Disclosure Statement.

Address for service

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

Ultimate holding company

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

Voting securities and power to appoint directors

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

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

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

Other material matters

Kiwibank's directors are of the opinion that there are no matters relating to the business or affairs of Kiwibank, which would, if disclosed in this General Short Form 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 General Disclosure Statement. On 31 October 2010, Rt. Hon. James Brendan Bolger resigned as chair and director of Kiwibank Limited. On 1 November 2010, Ian Robert Fitzgerald was appointed chair of Kiwibank Limited. As at the date of signing of the Short Form Disclosure Statement, the directors of Kiwibank were:

Ian Robert Fitzgerald
Alison Rosemary Gerry
Brian Joseph Roche
David Stephen Willis
Hon. Dr. Michael John Cullen
Murray Ian David Gribben
Richard Gordon Alexander Westlake

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 September 2010.

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

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

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

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

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

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

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

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

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

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

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

D rated corporations are in default.

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

Guarantees

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

NZP Guarantee

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

All payment obligations (excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the NZP Guarantee) of Kiwibank are guaranteed pursuant to the NZP Guarantee. The following is a summary of the features of the NZP Guarantee as at 30 September 2010:

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

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

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

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

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

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

The net tangible assets of NZP were $997m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2010. There were no qualifications in the audit report accompanying the Annual Report.

NZP has a credit rating applicable to its long term unsecured obligations payable in New Zealand, in New Zealand dollars, from Standard & Poor's (Australia) Pty Limited of AA-. There have been no changes made to the rating in the two years preceding 30 September 2010. For an explanation of Standard & Poor's (Australia) Pty Limited's credit rating scale see the Crown Wholesale Guarantee section below.

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.

Guarantees continued

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 September 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

Guarantees continued

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.

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

A copy of Kiwibank's most recent Supplemental Disclosure Statement, containing a copy of the full guarantee contracts for the NZP Guarantee, and the Crown Wholesale Guarantee will be provided immediately at no charge to any person requesting a copy from Kiwibank's Head Office at Level 6, Radio New Zealand House, 155 The Terrace, Wellington 6011, New Zealand or at any branch of Kiwibank 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 15 October 2010 (and which apply as at the date on which this General Short Form 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 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, 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 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 October 2010.

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

Directors' statement

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

1. As at the date on which the Short Form Disclosure Statement is signed:
   i. the Short Form Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008;
   ii. the Short Form Disclosure Statement is not false or misleading.
2. During the three months ended 30 September 2010:
   i. Kiwibank has complied with the conditions of registration applicable during the period.
   ii. credit exposures to connected persons were not contrary to the interests of the Banking Group.
   iii. Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

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

Ian Fitzgerald

17 November 2010

Richard Westlake

Interim financial statements

Consolidated statement of comprehensive income

For three months ended 30 September 2010

Dollars in thousands	Note	**Unaudited 3 months ended 30/09/10**	Unaudited 3 months ended 30/09/09	Audited 12 months ended 30/06/10
Interest income		**167,425**	177,712	563,886
Interest expense		**(124,025)**	(144,344)	(430,496)
Net interest income		**43,400**	33,368	133,390
Gains on financial instruments at fair value	2	**3,078**	16,065	36,323
Other income		**34,777**	33,578	131,729
Total operating income		**81,255**	83,011	301,442
Operating expenses		**(59,334)**	(57,587)	(218,902)
Impairment losses on loans and advances	13	**(9,529)**	(5,481)	(17,860)
Profit before taxation		**12,392**	19,943	64,680
Income tax expense		**(3,729)**	(6,083)	(18,832)
Profit after taxation		**8,663**	13,860	45,848
Other comprehensive income				
Available-for-sale reserve				
Net gain/(loss) from changes in reserve	12	**3,857**	(8,111)	(4,846)
Cash flow hedge reserve				
Net (loss)/gain from changes in reserve	12	**(7,004)**	27,654	37,344
Income tax (expense)/credit relating to components of other comprehensive income		**944**	(5,863)	(9,749)
Other comprehensive income for the period		**(2,203)**	13,680	22,749
Total comprehensive income for the period		**6,460**	27,540	68,597
Attributable to:				
Owners of the parent		**6,460**	27,540	68,597
Non controlling interest		**–**	–	–

The notes on pages 14 to 37 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of changes in equity

For the three months ended 30 September 2010

	Fully Paid Ordinary Shares $'000	Retained Earnings $'000	Available For Sale Reserve $'000	Cash Flow Hedge Reserve $'000	Non controlling interest $'000	Total $'000
Balance at 1 July 2009	295,000	128,366	3,814	(72,014)	–	355,166
Three months ended 30 September 2009						
Profit for the period	–	13,860	–	–	–	13,860
Other comprehensive income						
Available for sale financial assets	–	–	(5,678)	–	–	(5,678)
Cash flow hedges	–	–	–	19,358	–	19,358
Total other comprehensive income	–	–	(5,678)	19,358	–	13,680
Total comprehensive income	–	13,860	(5,678)	19,358	–	27,540
Balance at 30 September 2009 (unaudited)	295,000	142,226	(1,864)	(52,656)	–	382,706
Year ended 30 June 2010						
Profit for the period	–	45,848	–	–	–	45,848
Other comprehensive income						
Available for sale financial assets	–	–	(3,392)	–	–	(3,392)
Cash flow hedges	–	–	–	26,141	–	26,141
Total other comprehensive income	–	–	(3,392)	26,141	–	22,749
Total comprehensive income	–	45,848	(3,392)	26,141	–	68,597
Transactions with owners						
Issuance of ordinary share capital	15,000	–	–	–	3,361	18,361
Issuance of perpetual preference shares	–	–	–	–	150,000	150,000
Issuance costs	–	–	–	–	(3,361)	(3,361)
Balance at 30 June 2010 (audited)	310,000	174,214	422	(45,873)	150,000	588,763
Comprehensive income						
Three months ended 30 September 2010						
Profit for the period	**–**	**8,663**	**–**	**–**	**–**	**8,663**
Other comprehensive income						
Available for sale financial assets	**–**	**–**	**2,700**	**–**	**–**	**2,700**
Cash flow hedges	**–**	**–**	**–**	**(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	**–**	**(2,139)**	**–**	**–**	**–**	**(2,139)**
Balance at 30 September 2010 (unaudited)	**310,000**	**180,738**	**3,122**	**(50,776)**	**150,000**	**593,084**

The notes on pages 14 to 37 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of financial position

As at 30 September 2010

Dollars in thousands	Note	**Unaudited 30/09/10**	Unaudited 30/09/09	Audited 30/06/10
Assets				
Cash and cash equivalents		**241,600**	212,765	303,866
Due from other financial institutions		**51,130**	58,651	156,871
Financial assets held for trading	3	**803,660**	607,892	671,152
Available-for-sale assets	4	**657,206**	635,271	544,453
Loans and advances	5	**10,708,024**	9,133,130	10,418,502
Derivative financial instruments	8	**76,608**	49,138	46,320
Property, plant and equipment		**19,694**	18,036	20,182
Intangible assets		**48,070**	42,809	47,505
Deferred taxation		**25,301**	22,993	20,813
Other assets		**10,293**	5,586	8,711
Total assets		**12,641,586**	10,786,271	12,238,375
Liabilities				
Due to other financial institutions		**540,700**	350,878	164,051
Balances with NZP related parties	14	**2,552**	39,693	12,114
Deposits and other borrowings	7	**10,197,232**	8,984,758	10,295,325
Derivative financial instruments	8	**196,948**	238,393	202,588
Debt securities issued		**926,601**	609,532	795,237
Current taxation		**6,650**	6,391	4,636
Other liabilities		**36,710**	34,097	32,362
Term subordinated debt	9	**141,109**	139,823	143,299
Total liabilities		**12,048,502**	10,403,565	11,649,612
Equity				
Share capital	12	**310,000**	295,000	310,000
Reserves	12	**133,084**	87,706	128,763
Total equity attributable to owners of the parent		**443,084**	382,706	438,763
Non controlling interest		**150,000**	–	150,000
Total equity		**593,084**	382,706	588,763
Total liabilities and shareholder's equity		**12,641,586**	10,786,271	12,238,375

The notes on pages 14 to 37 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of cash flows

For the three months ended 30 September 2010

Dollars in thousands	Note	**Unaudited 3 months ended 30/09/10**	Unaudited 3 months ended 30/09/09	Audited 12 months ended 30/06/10
Cash flows from operating activities				
Interest received		**160,707**	175,327	553,565
Fees and other income		**34,777**	43,945	131,729
Operating expenses paid		**(50,548)**	(55,974)	(199,524)
Interest paid		**(127,910)**	(130,713)	(403,395)
Net taxes paid		**(5,258)**	(2,101)	(18,311)
Net cash flows from operating activities before changes in operating assets and liabilities		**11,768**	30,484	64,064
Net changes in operating assets and liabilities:				
(Increase)/decrease in financial assets held for trading		**(136,666)**	113,861	51,026
(Increase)/decrease in available-for-sale assets		**(133,684)**	65,938	138,751
Increase in loans and advances		**(303,488)**	(647,812)	(1,933,045)
Decrease/ (increase)in balances due from other financial institutions		**105,741**	(58,651)	(156,871)
(Decrease)/ increase in deposits and other borrowings		**(96,151)**	704,176	2,002,648
Decrease in amounts due to related parties – term		**(10,000)**	–	(25,000)
Increase/(decrease) in balances due to other financial institutions		**376,649**	24,224	(152,597)
Net cash flows from operating activities	17	**(185,831)**	232,220	(11,024)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(1,404)**	(2,208)	(8,701)
Purchase of intangible software assets		**(4,256)**	(7,052)	(17,911)
Net cash flows from investing activities		**(5,660)**	(9,260)	(26,612)
Cash flows from financing activities				
Issue of ordinary shares		**–**	–	18,361
Issue of perpetual preference shares		**–**	–	150,000
Issuance costs of perpetual preference shares		**–**	–	(3,361)
Increase/(decrease)in debt securities issued		**131,364**	(304,000)	(117,303)
Dividends paid		**(2,139)**	–	–
Net cash flows from financing activities		**129,225**	(304,000)	47,697
(Decrease)/increase in cash and cash equivalents		**(62,266)**	(81,040)	10,061
Cash and cash equivalents at beginning of the period		**303,866**	293,805	293,805
Cash and cash equivalents at the end of the period		**241,600**	212,765	303,866

The notes on pages 14 to 37 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. They comply with New Zealand Equivalents to International Accounting Standard 34: Interim Financial Reporting (NZ IAS 34), as appropriate for profit oriented entities, and the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008. 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 2010.

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

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. It is not anticipated that such differences would be material.

Measurement base

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

Currency of presentation

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

Dividend distribution

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

Comparative amounts

Comparative amounts are from the audited financial statements for the year ended 30 June 2010 and from the unaudited financial statements for the period ending 30 September 2009. The interest income and interest expense for the period ended 30 September 2009 has been reduced by $106m due to a change in the methodology used to net interest rate swaps in the net interest income calculation.

Originally these swaps were grossed up. The interest income and interest expense has reduced by $106m respectively from $283.7m and $250.4m. This change also reduces the comparative interest received and expense in the consolidated statement of cash flows. This change aligns the treatment of all periods presented.

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.

The fair value of financial instruments that are not quoted in an active market, including Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008, and over-the-counter derivatives, is determined by using valuation techniques. Kiwibank uses a variety of methods and makes assumptions that are based on market conditions existing at each balance 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 September 2009: 3.1%; 30 June 2010: 3.1%). Only scheduled repayments or contractual lump sum repayments are taken into account in calculating the amortisation rate. Prepayment risk associated with unscheduled repayments or loan terminations have been disregarded as application of Kiwibank's break fees ensures that no mark-to-market impact needs to be considered. The curve against which each loan is discounted is constructed using the end of period NZ Wholesale curve as the benchmark rate to develop a zero curve which is then adjusted by an assessed market credit spread component.

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

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

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

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 3 months ended 30/09/10**	Unaudited 3 months ended 30/09/09	Audited 12 months ended 30/06/10
2. Net gains on financial instruments at fair value			
Financial assets designated at fair value through profit or loss upon initial recognition	**(4,453)**	(18,754)	(41,550)
Derivative financial instruments held for trading	**5,459**	23,673	60,150
Financial liabilities designated at fair value through profit or loss upon initial recognition	**(768)**	1,257	464
Financial assets held for trading	**4,158**	(114)	4,314
Net ineffectiveness on qualifying cash flow hedges	**14**	313	57
Net ineffectiveness on qualifying fair value hedges	**(8)**	(35)	(267)
Cumulative gain transferred from the available-for-sale reserve	**895**	10,710	17,735
Cumulative loss transferred from the cash flow hedge reserve	**(2,659)**	(738)	(5,610)
Net foreign exchange gains/(losses)	**440**	(247)	1,030
Total gain on financial instruments	**3,078**	16,065	36,323

	Unaudited 30/09/10	Unaudited 30/09/09	Audited 30/06/10
3. Financial assets held for trading			
Bank bills	**278,788**	418,103	189,288
Other securities	**524,872**	189,789	481,864
Total financial assets held for trading	**803,660**	607,892	671,152
Current	**310,584**	543,591	249,512
Non-current	**493,076**	64,301	421,640
4. Available-for-sale assets			
Government stock and multilateral development banks	**466,568**	398,637	350,068
Local authority securities	**19,039**	36,966	18,927
Other debt securities	**171,599**	199,668	175,458
Total available-for-sale assets	**657,206**	635,271	544,453
Current	**209,458**	158,248	147,084
Non-current	**447,748**	477,023	397,369

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 30/09/10**	Unaudited 30/09/09	Audited 30/06/10
5. Loans and advances			
Loans and advances designated upon initial recognition at fair value through profit or loss	**912,938**	1,836,470	1,235,764
Loans and advances at amortised cost	**9,821,859**	7,311,677	9,202,244
Allowance for impairment losses (note 13)	**(26,773)**	(15,017)	(19,506)
Total net loans and advances	**10,708,024**	9,133,130	10,418,502
Current	**935,415**	787,538	908,415
Non-current	**9,772,609**	8,345,592	9,510,087
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	**(548)**	(1,102)	(741)

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

6. Total interest earning and discount bearing assets			
Total interest earning and discount bearing assets	**12,477,504**	10,646,865	12,160,670
Current	**1,824,795**	1,785,381	1,830,474
Non-current	**10,652,709**	8,861,484	10,330,196

7. Deposits and other borrowings			
Retail deposits	**7,019,184**	6,937,544	6,911,909
Wholesale deposits	**3,178,048**	2,047,214	3,383,416
Total	**10,197,232**	8,984,758	10,295,325
New Zealand	**9,964,420**	8,767,646	10,075,666
Overseas	**232,812**	217,112	219,659
Total deposits and other borrowings at amortised cost	**10,197,232**	8,984,758	10,295,325
Current	**10,016,776**	8,704,334	9,994,985
Non-current	**180,456**	280,424	300,340

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

The Kiwibank PIE Unit Trust, established under the Unit Trusts Act 1960 in May 2008, operates 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 Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Unit Trust is invested exclusively in term and call deposits with Kiwibank.

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

Notes to the interim financial statements continued

8. Derivative financial instruments

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values	
			Assets	Liabilities
Unaudited 30/09/10				
Derivatives held for trading				
Foreign exchange derivatives				
Forward contracts	164,512	6,716	5,066	(1,373)
Swap agreements	378,546	40,323	23,679	(5,690)
Options purchased	3,309	85	52	(2)
Options sold	1,278	13	–	(39)
Total	547,645	47,137	28,797	(7,104)
Interest rate derivatives				
Forward contracts	585,000	261	261	(102)
Swap agreements	4,180,245	34,132	22,579	(86,782)
Futures contracts	757,706	–	45	(1,033)
Total	5,522,951	34,393	22,885	(87,917)
Total derivatives held for trading	6,070,596	81,530	51,682	(95,021)
Derivatives held for hedging				
Designated as cash flow hedges				
Interest rate derivatives				
Swap agreements	3,287,500	18,541	7,719	(100,861)
Total derivatives designated as cash flow hedges	3,287,500	18,541	7,719	(100,861)
Designated as fair value hedges				
Interest rate derivatives				
Swap agreements	462,437	19,519	17,207	(1,066)
Total derivatives designated as fair value hedges	462,437	19,519	17,207	(1,066)
Total derivatives held for hedging	3,749,937	38,060	24,926	(101,927)
Total derivative financial instruments – current	9,820,533	119,590	76,608	(196,948)

Notes to the interim financial statements continued

8. Derivative financial instruments continued

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Fair values Liabilities
Unaudited 30/09/09				
Derivatives held for trading				
Foreign exchange derivatives				
Forward contracts	63,986	1,163	465	(563)
Swap agreements	154,838	16,750	12,420	(6,862)
Total	218,824	17,913	12,885	(7,425)
Interest rate derivatives				
Forward contracts	1,350,000	58	58	(64)
Swap agreements	3,004,530	25,272	18,577	(119,082)
Futures contracts	372,000	–	11	(33)
Total	4,726,530	25,330	18,646	(119,179)
Total derivatives held for trading	4,945,354	43,243	31,531	(126,604)
Derivatives held for hedging				
Designated as cash flow hedges				
Interest rate derivatives				
Swap agreements	4,019,500	24,798	12,476	(110,983)
Total derivatives designated as cash flow hedges	4,019,500	24,798	12,476	(110,983)
Designated as fair value hedges				
Interest rate derivatives				
Swap agreements	114,000	5,702	5,131	(806)
Total derivatives designated as fair value hedges	114,000	5,702	5,131	(806)
Total derivatives held for hedging	4,133,500	30,500	17,607	(111,789)
Total derivative financial instruments – current	9,078,854	73,743	49,138	(238,393)

Notes to the interim financial statements continued

8. Derivative financial instruments continued

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Fair values Liabilities
Audited 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 contracts	1,000,000	146	146	(50)
Swap agreements	3,505,794	24,246	15,667	(89,822)
Futures contracts	1,087,459	–	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 interim financial statements continued

Dollars in thousands	**Unaudited 30/09/10**	Unaudited 30/09/09	Audited 30/06/10
9. Term subordinated debt			
Face value	**135,000**	135,000	135,000
Interest accrued	**190**	190	2,947
Premium	**(280)**	(404)	(337)
Fair value hedge adjustment	**6,199**	5,037	5,689
Total term subordinated debt – non current	**141,109**	139,823	143,299

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

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

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

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

Dollars in thousands	**Unaudited 30/09/10**	Unaudited 30/09/09	Audited 30/06/10
10. Total interest and discount bearing liabilities			
Total interest and discount bearing liabilities	**12,000,135**	10,357,169	11,610,500
Current	**11,555,902**	9,775,949	10,775,243
Non-current	**444,233**	581,220	835,257
11. Assets used to secure deposit obligations			
Assets used to secure deposit obligations	**538,226**	338,427	100,247

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 30/09/10**	Unaudited 30/09/09	Audited 30/06/10
12. Equity			
Issued and paid up capital			
Shares fully paid	**310,000**	295,000	310,000
Non controlling interest	**150,000**	–	150,000
Retained earnings	**180,738**	142,226	174,214
Cash flow hedge reserve	**(50,776)**	(52,656)	(45,873)
Available-for-sale reserve	**3,122**	(1,864)	422
Total equity	**593,084**	382,706	588,763
Share capital			
Balance at beginning of the period	**310,000**	295,000	295,000
Issues in period	**–**	–	15,000
Balance at end of the period	**310,000**	295,000	310,000
Non controlling interest			
Balance at beginning of the period	**150,000**	–	–
Ordinary share capital issued in the period	**–**	–	3,361
Perpetual preference share capital issued in the year	**–**	–	150,000
Perpetual preference share issuance costs	**–**	–	(3,361)
Total perpetual preference share capital	**–**	–	146,639
Balance at end of the period	**150,000**	–	150,000
Retained earnings			
Balance at beginning of the period	**174,214**	128,366	128,366
Profit for the period	**8,663**	13,860	45,848
Dividends paid	**(2,139)**	–	–
Balance at end of the period	**180,738**	142,226	174,214
Cash flow hedge reserve			
Balance at beginning of the period	**(45,873)**	(72,014)	(72,014)
Gross (losses)/gains from changes in fair value	**(9,663)**	26,916	31,734
Tax effect on gross(losses)/gains from changes in fair value	**2,899**	(8,075)	(9,520)
Cumulative loss transferred to the statement of comprehensive income on disposal of financial assets	**2,659**	738	5,610
Tax effect of items transferred to statement of comprehensive income	**(798)**	(221)	(1,683)
Balance at end of the period	**(50,776)**	(52,656)	(45,873)

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 30/09/10**	Unaudited 30/09/09	Audited 30/06/10
12. Equity continued			
Available-for-sale reserve			
Balance at beginning of the period	**422**	3,814	3,814
Gross gains from changes in fair value	**4,752**	2,599	12,889
Tax effect on gross gains from changes in fair value	**(1,426)**	(780)	(3,867)
Cumulative gain transferred to the statement of comprehensive income on disposal of financial assets	**(895)**	(10,710)	(17,735)
Tax effect of items transferred to statement of comprehensive income	**269**	3,213	5,321
Balance at end of the period	**3,122**	(1,864)	422

The total authorised number of ordinary shares at period end was 310 million (30 September 2009: 295 million; 30 June 2010: 310 million). 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 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 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 (in substance a subsidiary of Kiwibank Limited).

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. On 4 August 2010 a gross dividend payment of $3,056k was made (periods ended 30 September 2009 and 30 June 2010: $nil).

Notes to the interim financial statements continued

13. Asset quality

a: Assets past due > 90 days, not impaired

	The Banking Group		
Dollars in thousands	**Unaudited 30/09/10**	Unaudited 30/09/09	Audited 30/06/10
Past due assets > 90 days – unsecured retail lending			
Balance at beginning of the period	**2,536**	2,015	2,015
Transfers to past due assets	**1,088**	1,027	6,168
Transfers from past due assets	**(1,409)**	(982)	(5,647)
Amounts written off	**–**	–	–
Gross balance at end of period	**2,215**	2,060	2,536
Past due assets > 90 days – residential mortgage loans			
Balance at beginning of the period	**19,152**	11,797	11,797
Transfers to past due assets	**11,723**	2,315	56,228
Transfers from past due assets	**(15,086)**	(7,406)	(48,873)
Gross balance at end of period	**15,789**	6,706	19,152
Past due assets > 90 days – corporate exposures			
Balance at beginning of the period	**7,981**	9,434	9,434
Transfers to past due assets	**12,002**	4,400	79,924
Transfers from past due assets	**(14,955)**	(8,002)	(81,377)
Gross balance at end of period	**5,028**	5,832	7,981
Total past due assets > 90 days	**23,032**	14,598	29,669

Undrawn balances on lending commitments to counterparties within the past due assets category were $0.4m as at 30 September 2010 (30 September 2009: $0.8m; 30 June 2010: $0.6m).

Notes to the interim financial statements continued

13. Asset quality continued

b: Impaired assets

Dollars in thousands	The Banking Group **Unaudited 30/09/10**	Unaudited 30/09/09	Audited 30/06/10
Impaired assets – unsecured retail lending			
Balance at beginning of the period	**179**	227	227
Transfers from productive	**1,230**	1,200	3,766
Transfers to productive	**(1,194)**	(92)	(227)
Amounts written off	**(5)**	(1,201)	(3,587)
Gross balance at end of period	**210**	134	179
Impaired assets – residential mortgage loans			
Balance at beginning of the period	**26,321**	5,588	5,588
Transfers from productive	**1,709**	1,664	28,700
Transfers to productive	**(3)**	–	–
Amounts written off	**(191)**	(3,608)	(7,967)
Gross balance at end of period	**27,836**	3,644	26,321
Impaired assets – corporate exposures			
Balance at beginning of the period	**11,276**	13,517	13,517
Transfers from productive	**14,081**	15,914	7,776
Transfers to productive	**(3)**	(3,449)	(10,017)
Amounts written off	**(1,342)**	(1,086)	–
Gross balance at end of period	**24,012**	24,896	11,276
Total gross impaired assets	**52,058**	28,674	37,776
Individual allowance for impairment	**(16,874)**	(6,181)	(9,963)
Total net impaired assets	**35,184**	22,493	27,813

Undrawn balances on lending commitments to counterparties within the impaired assets category were $nil as at 30 September 2010 (30 September 2009: $1.6m; 30 June 2010: $0.3m).

Notes to the interim financial statements continued

13. Asset quality continued

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the interim financial period. This amounts to $0.8m (30 September 2009: $0.3m; 30 June 2010; $1.2m).There are no real estate or other assets acquired through the enforcement of security held at 30 September 2010 (30 September 2009: nil; 30 June 2010: nil). There are no assets under administration as at 30 September 2010 (30 September 2009: nil; 30 June 2010: nil). There are no unrecognised impaired assets as at 30 September 2010 (30 September 2009: nil; 30 June 2010: nil).

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.

There were no undrawn balances on lending commitments to counterparties within the assets under administration category (30 September 2009: nil; 30 June 2010: nil).

c: Restructured assets

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

Dollars in thousands	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Restructured assets				
Unaudited 3 months ended 30/09/10				
Balance at beginning of the period	**32**	**–**	**–**	**32**
Transfers to restructured assets	**–**	**–**	**–**	**–**
Transfers from restructured assets	**(2)**	**–**	**–**	**(2)**
Balance at end of the period	**30**	**–**	**–**	**30**
Audited 12 months ended 30/06/10				
Balance at beginning of the period	–	–	–	–
Transfers to restructured assets	32	–	86	118
Transfers from restructured assets	–	–	(86)	(86)
Balance at end of the period	32	–	–	32

Notes to the interim financial statements continued

13. Asset quality continued

d: Allowance for impairment losses

Dollars in thousands	**Unaudited 30/09/10**	Unaudited 30/09/09	Audited 30/06/10
Allowance for impairment losses in statement of financial position			
Collective allowance for impairment losses	**9,899**	8,836	9,543
Individually impaired assets	**16,874**	6,181	9,963
Allowance for impairment losses	**26,773**	15,017	19,506
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	**548**	1,102	741
Total allowance for impairment losses	**27,321**	16,119	20,247

Impairment losses per statement of comprehensive income			
Collective impairment losses on loans not at fair value through profit or loss	**1,080**	2,561	5,846
Charge to statement of comprehensive income for individually impaired assets	**8,449**	2,920	12,014
Total impairment losses per statement of comprehensive income	**9,529**	5,481	17,860

Notes to the interim financial statements continued

13. Asset quality continued

e: 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 30/09/10				
Balance at beginning of the period	**179**	**824**	**8,960**	**9,963**
Impairment losses on loans not at fair value through profit or loss	**36**	**138**	**8,275**	**8,449**
Advances written off	**(5)**	**(191)**	**(1,342)**	**(1,538)**
Total individual allowance for impairment losses	**210**	**771**	**15,893**	**16,874**
Unaudited 3 months ended 30/09/09				
Balance at beginning of the period	227	1,056	3,642	4,925
Impairment losses on loans not at fair value through profit or loss	45	334	2,541	2,920
Advances written off	(57)	(637)	(970)	(1,664)
Total individual allowance for impairment losses	215	753	5,213	6,181
Audited 12 months ended 30/06/10				
Balance at beginning of the period	227	1,056	3,642	4,925
Impairment losses on loans not at fair value through profit or loss	179	7,735	5,318	13,232
Advances written off	(227)	(7,967)	–	(8,194)
Total individual allowance for impairment losses	179	824	8,960	9,963

13. Asset quality continued

f: 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 30/09/10				
Balance at beginning of the period	**3,824**	**2,584**	**3,135**	**9,543**
Impairment losses on loans not at fair value through profit or loss	**391**	**358**	**331**	**1,080**
Advances written off	**(724)**	**–**	**–**	**(724)**
Total collective allowance for impairment losses	**3,491**	**2,942**	**3,466**	**9,899**
Unaudited 3 months ended 30/09/09				
Balance at beginning of the period	3,190	1,734	2,359	7,283
Impairment losses on loans not at fair value through profit or loss	2,182	123	256	2,561
Advances written off	(1,008)	–	–	(1,008)
Total collective allowance for impairment losses	4,364	1,857	2,615	8,836
Audited 12 months ended 30/06/10				
Balance at beginning of the period	3,190	1,734	2,359	7,283
Impairment losses on loans not at fair value through profit or loss	3,994	850	776	5,620
Advances written off	(3,360)	–	–	(3,360)
Total collective allowance for impairment losses	3,824	2,584	3,135	9,543

Notes to the interim financial statements continued

14. 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. Kiwibank is part of the NZP consolidated tax group.

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

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

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

Payment Services' fee revenue and expenditure are included in Kiwibank under a management agreement whereby Kiwibank manages the Payment Services activity of NZP. Payment Services' activity consists of collection agency business. Kiwibank received remuneration of $78k for the period (30 September 2009: $78k; 30 June 2010: $312k) from NZP for Treasury services provided to the group under a service level agreement. NZP holds a number of property leases on behalf of Kiwibank. Kiwibank reimburses NZP for the lease charges but has no contractual lease commitments for property charges.

The Banking Group received insurance commission from Kiwi Insurance Limited of $234k in the period (30 September 2009; $218k: 30 June 2010: $908k). Also, Kiwibank paid brokerage commission to The New Zealand Home Loan Company Limited of $1,917k in the period (30 September 2009; $2,306k: 30 June 2010: $7,050k)

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

At balance date 28.1% of the Banking Group's total operating expenditure was paid to NZP group companies (30 September 2009, 26.6%; 30 June 2010, 24.3%) and 4.4% was paid to associated companies (30 September 2009, 4.0%; 30 June 2010, 2.7%). 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 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 2010 the amount owed by the NZP Group to the Banking Group was $nil (30 September 2009; $nil: 30 June 2010; $nil). The table below shows amounts due to individual companies within the NZP group and other related parties as at balance date.

Notes to the interim financial statements continued

14. Related parties continued

Dollars in thousands	**Unaudited 30/09/10**	Unaudited 30/09/09	Audited 30/06/10
Revenue			
NZP	**14,467**	13,462	55,019
Other subsidiaries within the NZP Group	**263**	245	908
Expenditure			
NZP	**13,612**	12,877	49,477
Other subsidiaries within the NZP Group	**3,085**	2,831	11,784
Associates of the NZP Group	**2,628**	2,400	6,042
Payables			
NZP	**2,105**	39,042	12,264
Other subsidiaries within the NZP Group	**447**	651	(150)
Total	**2,552**	39,693	12,114
Deposits from related parties			
NZP Electoral Enrolment Centre (deposits)	**2,747**	2,109	2,109
NZP Superannuation Plan (deposits)	**14,599**	14,310	16,155
Total	**17,346**	16,419	18,264
Receivables			
Other subsidiaries within the NZP Group	**2,731**	2,586	1,566
Total	**2,731**	2,586	1,566
Loans and deposits from key management personnel			
Loans to key management personnel	**2,166**	1,733	1,693
Deposits from key management personnel	**2,051**	2,256	2,144

Notes to the interim financial statements continued

15. 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:

	Unaudited 3 months ended 30/09/10		Unaudited 3 months ended 30/09/09		Audited 3 months ended 30/06/10	
	Non-Bank	**Bank**	Non-Bank	Bank	Non-Bank	Bank
As at balance date						
10% – 19%	**–**	**2**	2	4	–	4
20% – 29%	**–**	**2**	–	1	–	1
30% – 39%	**–**	**–**	–	1	–	–
40% – 49%	**–**	**–**	–	–	–	–
50% – 59%	**–**	**–**	–	–	–	–
60% – 69%	**–**	**–**	–	–	–	–
70% – 79%	**–**	**–**	–	1	–	–
Peak exposure						
10% – 19%	**–**	**2**	2	6	1	3
20% – 29%	**–**	**2**	–	–	–	2
30% – 39%	**–**	**2**	–	1	–	–
40% – 49%	**–**	**–**	–	1	–	1
50% – 59%	**–**	**–**	–	1	–	–
60% – 69%	**–**	**–**	–	–	–	–
70% – 79%	**–**	**–**	–	2	–	–
80% – 89%	**–**	**–**	–	–	–	–
90% – 99%	**–**	**–**	–	–	–	–
100% – 109%	**–**	**–**	–	–	–	–

Notes to the interim financial statements continued

15. 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:

	Unaudited 3 months ended 30/09/10		Unaudited 3 months ended 30/09/09		Audited 3 months ended 30/06/10	
Dollars in thousands	**Amount**	**% of total credit exposure**	**Amount**	**% of total credit exposure**	**Amount**	**% of total credit exposure**
Bank counterparties						
Investment grade credit rating	**529,392**	**100%**	693,605	100%	490,534	100%
Below investment grade credit rating	**–**	**–**	–	–	–	–
Not rated	**–**	**–**	–	–	–	–
Total credit exposure	**529,392**	**100%**	693,605	100%	490,534	100%
Non-bank counterparties						
Investment grade credit rating	**–**	**–**	89,705	100%	–	–
Below investment grade credit rating	**–**	**–**	–	–	–	–
Not rated	**–**	**–**	–	–	–	–
Total credit exposure	**–**	**–**	89,705	100%	–	–

Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of individual credit impairment allowance and excluding advances of a capital nature). The information on credit exposure to connected persons has been derived in accordance with the Banking Group's Conditions of Registration. The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end-of-day credit exposures to non-bank connected persons have been calculated using the Banking Group's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Banking Group as at 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 September 2010 (30 September 2009: nil; 30 June 2010: nil).

Dollars in thousands	**Unaudited 3 months ended 30/09/10**	Unaudited 3 months ended 30/09/09	Audited 3 months ended 30/06/10
Credit exposures to non-bank connected persons at period end	**27**	16	39
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	**0.0%**	0.0%	0.0%
Peak credit exposures to non-bank connected persons during the period	**27**	17	2,541
Peak credit exposures to non-bank connected persons during the period expressed as a percentage of total tier one capital	**0.0%**	0.0%	0.4%

Notes to the interim financial statements continued

16. 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 funds managed at 30 September 2010 is $8.3m.

As at 30 September 2009 and 30 June 2010, Kiwibank did not administer superannuation bonds or superannuation plans.

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

Some funds under management are invested in products of Kiwibank and are recorded as liabilities in the statement of financial position. At 30 September 2010, $1,201m of funds under management (note 7) were invested in Kiwibank's own products or securities (30 September 2009: $1,084m; 30 June 2010: $1,169m)

Provision of financial services

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

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

Risk Management

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

Notes to the interim financial statements continued

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

Dollars in thousands	**Unaudited 3 months ended 30/09/10**	Unaudited 3 months ended 30/09/09	Audited 12 months ended 30/06/10
Profit after taxation	**8,663**	13,860	45,848
Non cash movements/non operating activities			
Unrealised fair value gains	**(3,669)**	(3,789)	(35,305)
Depreciation	**1,892**	1,491	6,621
Amortisation of intangibles	**3,691**	3,585	12,617
Intangible write off	**–**	–	2,720
Increase in deferred expenditure	**(200)**	(1,867)	(5,082)
Increase in provision for credit impairment	**7,267**	2,810	7,298
Lending losses written off	**2,262**	2,672	10,562
(Increase)/decrease in deferred taxation	**(2,386)**	7,481	(1,105)
Increase/(decrease) in operating assets and liabilities			
(Increase)/decrease in financial assets held for trading	**(136,666)**	113,861	51,026
(Increase)/decrease in available-for-sale assets	**(133,684)**	65,938	138,751
Increase in loans and advances	**(303,488)**	(647,812)	(1,933,045)
Decrease/(increase) in balances due from other financial institutions	**105,741**	(58,651)	(156,871)
(Decrease)/increase in deposits	**(96,151)**	704,176	2,002,648
Decrease in amounts due to related parties – term	**(10,000)**	–	(25,000)
Increase/(decrease) in balances due to other financial institutions	**376,649**	24,224	(152,597)
Increase in accrued operating expenses	**4,348**	2,355	709
(Decrease)/increase in interest payable	**(1,942)**	13,631	27,101
Increase in interest receivable	**(9,028)**	(2,385)	(5,239)
Increase/(decrease) in balances with related parties – transactional	**438**	2,121	(458)
Increase in current taxation	**2,014**	2,364	609
Increase in other assets	**(1,582)**	(13,845)	(2,832)
Net cash flows from operating activities	**(185,831)**	232,220	(11,024)

18. Contingent liabilities

There are no material contingent liabilities as at 30 September 2010 other than as separately disclosed in these interim financial statements.

19. Events subsequent to reporting period date

The Crown Retail Guarantee expired at 12:01am on 12 October 2010. The Government has extended the Crown Retail Guarantee to 31 December 2011, however, the Banking Group has decided not to apply to be covered under the extended scheme. Apart from this, no other material events have occurred subsequent to balance date, that require recognition of, or additional disclosure in these financial statements.

Notes to the interim financial statements continued

20. Capital expenditure commitments

Capital expenditure commitments contracted for as at 30 September 2010, but not provided for in these interim financial statements, total $1.7m; (30 September 2009: $0.3m; 30 June 2010: $2.8m). All such commitments are due no later than one year from balance date.

21. Segment analysis

Dollars in thousands	**Unaudited 3 months ended 30/09/10**	Unaudited 3 months ended 30/09/09	Audited 12 months ended 30/06/10
Personal banking			
External net interest income	**75,676**	62,206	276,190
Net intersegment interest	**(46,703)**	(39,304)	(180,032)
Net interest income	**28,973**	22,902	96,158
Other external operating income	**19,263**	22,673	95,432
Segmental revenue	**48,236**	45,575	191,590
Profit before taxation	**10,021**	3,759	34,569
Total assets	**9,279,527**	7,810,685	9,038,366
Payment services			
External net interest income	**–**	–	–
Net intersegment interest	**65**	44	204
Net interest income	**65**	44	204
Other external operating income	**14,389**	13,326	54,675
Segmental revenue	**14,454**	13,370	54,879
Profit before taxation	**3,828**	3,206	14,174
Total assets	**9,312**	2,771	6,633
Corporate and institutional banking			
External net interest income	**(32,276)**	(28,838)	(142,800)
Net intersegment interest	**46,638**	39,260	179,828
Net interest income	**14,362**	10,422	37,028
Other external operating income	**4,203**	13,644	17,945
Segmental revenue	**18,565**	24,066	54,973
(Loss)/profit before taxation	**(1,457)**	12,978	15,937
Total assets	**3,352,747**	2,972,815	3,193,376

Notes to the interim financial statements continued

21. Segment analysis continued

Dollars in thousands	**Unaudited 3 months ended 30/09/10**	Unaudited 3 months ended 30/09/09	Audited 12 months ended 30/06/10
Total			
External net interest income	**43,400**	33,368	133,390
Net intersegment interest	**–**	–	–
Net interest income	**43,400**	33,368	133,390
Other external operating income	**37,855**	49,643	168,052
Total revenue	**81,255**	83,011	301,442
Profit before taxation	**12,392**	19,943	64,680
Income tax expense	**(3,729)**	(6,083)	(18,832)
Profit after taxation	**8,663**	13,860	45,848
Total assets	**12,641,586**	10,786,271	12,238,375
Total liabilities	**12,048,502**	10,403,565	11,649,612
Amortisation expense	**(3,691)**	(3,585)	(12,617)
Depreciation expense	**(1,892)**	(1,491)	(6,621)
Impairment losses on loans and advances	**(9,529)**	(5,481)	(17,860)

There have been no changes to the methodology applied in the annual financial statements for the year ended 30 June 2010.

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 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 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 balance date

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 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).

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 II 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 2010. Throughout the period Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

Capital adequacy continued

Dollars in thousands	The Banking Group **Unaudited 30/09/10**	 Unaudited 30/09/09	 Audited 30/06/10
Tier one capital			
Issued and fully paid up share capital	**310,000**	295,000	310,000
Perpetual fully paid up non-cumulative preference shares	**146,639**	–	146,639
Revenue and similar reserves	**124,421**	73,846	82,915
Current period's retained earnings	**–**	–	45,848
Tier one minority interest	**3,361**	–	3,361
Less deductions from tier one capital			
Intangible assets	**(48,070)**	(42,809)	(47,505)
Cash flow hedge reserve	**50,776**	52,656	45,873
Total tier one capital	**587,127**	378,693	587,131
Tier two capital – upper level tier two capital			
Unaudited retained profits	**8,663**	13,860	–
Tier two capital – lower level tier two capital			
Term subordinated debt	**135,000**	135,000	135,000
Total tier two capital	**143,663**	148,860	135,000
Total tier one and tier two capital	**730,790**	527,553	722,131
Less deductions from capital	**–**	–	–
Capital	**730,790**	527,553	722,131
Capital adequacy ratios			
Total tier one capital expressed as a percentage of total risk weighted exposures	**9.8%**	7.2%	9.8%
Total capital (Pillar I) expressed as a percentage of total risk weighted exposures	**12.2%**	10.1%	12.0%
Capital ratio (Pillar I and II) expressed as a percentage of total risk weighted exposures	**11.9%**	9.8%	11.7%

Dollars in thousands	Kiwibank Limited **Unaudited 30/09/10**	 Unaudited 30/09/09	 Audited 30/06/10
Capital	**730,776**	527,549	722,129
Capital adequacy ratios			
Total tier one capital expressed as a percentage of total risk weighted exposures	**9.5%**	7.1%	9.5%
Total capital (Pillar I) expressed as a percentage of total risk weighted exposures	**11.9%**	9.8%	11.8%

Capital adequacy continued

Dollars in thousands	Principal amount Unaudited 30/09/10	Risk weighting Unaudited 30/09/10	Risk weighted exposure Unaudited 30/09/10	Minimum Pillar One Capital Requirement Unaudited 30/09/10
	The Banking Group			
On-balance sheet exposures				
Cash and gold bullion	**46,119**	**0%**	**–**	**–**
Sovereigns and central banks	**789,807**	**0%**	**–**	**–**
Multilateral development banks	**98,789**	**0%**	**–**	**–**
		20%		
Claims on public sector entities	**78,350**	**20%**	**15,670**	**1,254**
Claims on other banks	**665,804**	**20%**	**133,161**	**10,653**
	74,402	**50%**	**37,201**	**2,976**
Corporate	**73,386**	**20%**	**14,677**	**1,174**
	11,777	**50%**	**5,889**	**471**
		100%		
Residential mortgages	**7,877,921**	**35%**	**2,757,272**	**220,582**
	1,385,506	**50%**	**692,753**	**55,420**
	607,261	**75%**	**455,446**	**36,436**
	15,695	**100%**	**15,695**	**1,256**
Impaired assets	**52,058**	**100%**	**52,058**	**4,165**
Past due residential mortgages > 90 days	**15,789**	**100%**	**15,789**	**1,263**
Other past due assets > 90 days	**7,243**	**100%**	**7,243**	**579**
Equity holdings (not deducted from capital) that are publicly traded	**–**	**300%**	**–**	**–**
All other equity holdings (not deducted from capital)	**–**	**400%**	**–**	**–**
Other assets	**743,775**	**100%**	**743,775**	**59,502**
Non risk weighted assets	**97,904**	**–**	**–**	**–**
Total balance sheet exposures	**12,641,586**		**4,946,629**	**395,731**

Capital adequacy continued

Dollars in thousands	Total exposure Unaudited 30/09/10	Credit conversion factor Unaudited 30/09/10	Credit equivalent amount Unaudited 30/09/10	Average risk weighting Unaudited 30/09/10	Risk weighted exposure Unaudited 30/09/10	Minimum Pillar One Capital Requirement Unaudited 30/09/10
	The Banking Group					
Off-balance sheet exposures and market related contracts						
Direct credit substitutes	**1,719**	**100%**	**1,719**	**100%**	**1,719**	**138**
Commitments with certain drawdown	**30,846**	**100%**	**30,846**	**100%**	**30,846**	**2,468**
Note issuance facility		**50%**		**0%**		
Revolving credit facilities	**349,674**	**50%**	**174,837**	**40.5%**	**70,809**	**5,665**
Revolving credit facilities	**284,754**	**20%**	**56,951**	**40.5%**	**23,065**	**1,845**
Revolving credit facilities	**71,591**	**0%**	**–**	**0%**	**–**	**–**
Performance-related contingency	**2,294**	**50%**	**1,147**	**100%**	**1,147**	**92**
Other commitments greater than one year	**107,231**	**50%**	**53,616**	**40.5%**	**21,714**	**1,737**
Other commitments less than or equal to one year	**31,755**	**20%**	**6,351**	**100%**	**6,351**	**508**
Other commitments less than or equal to one year	**16,500**	**20%**	**3,300**	**20%**	**660**	**53**
Other commitments that cancel automatically	**345,417**	**0%**	**–**	**0%**	**–**	**–**
Market related contracts: ❶						
Interest rate contracts	**9,272,887**	**–**	**72,453**	**20%**	**14,491**	**1,159**
Foreign exchange contracts	**547,645**	**–**	**47,137**	**20%**	**9,427**	**754**
Total off-balance sheet exposures	**11,062,313**		**448,357**		**180,229**	**14,419**
Credit Risk Mitigation						
Total value of on- and off- balance sheet exposures covered by eligible collateral (after haircutting)	**(12,081)**	**–**	**–**	**–**	**(12,081)**	**(966)**
Total value of on- and off- balance sheet exposures covered by guarantees or credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Operational Risk	**n/a**	**–**	**–**	**–**	**660,674**	**52,854**
Market Risk						
Interest rate risk	**n/a**	**–**	**–**	**–**	**211,525**	**16,922**
Foreign currency risk	**n/a**	**–**	**–**	**–**	**2,850**	**228**
Equity risk	**n/a**	**–**	**–**	**–**	**–**	**–**
Total risk weighted exposures	**23,691,818**	**–**	**–**	**–**	**5,989,826**	**479,188**
Other material risk (Pillar II)	**n/a**	**–**	**–**	**–**	**162,147**	**12,972**

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

Capital adequacy continued

Dollars in thousands	Principal amount Unaudited 30/09/09	Risk weighting Unaudited 30/09/09	Risk weighted exposure Unaudited 30/09/09	Minimum Pillar One Capital Requirement Unaudited 30/09/09
	The Banking Group			
On-balance sheet exposures				
Cash and gold bullion	35,944	0%	–	–
Sovereigns and central banks	449,926	0%	–	–
Multilateral development banks	53,598	0%	–	–
	38,856	20%	7,771	622
Claims on public sector entities	133,800	20%	26,760	2,141
Claims on other banks	594,075	20%	118,815	9,505
	124,449	50%	62,225	4,978
Corporate	105,552	20%	21,110	1,689
	60,708	50%	30,354	2,428
Residential mortgages	6,679,710	35%	2,337,899	187,032
	945,048	50%	472,524	37,802
	664,279	75%	498,209	39,857
	84,010	100%	84,010	6,721
Impaired Assets	28,674	100%	28,674	2,294
Past due residential mortgages > 90 days	6,706	100%	6,706	536
Other past due assets > 90 days	7,892	100%	7,892	631
Equity holdings (not deducted from capital) that are publicly traded	–	300%	–	–
All other equity holdings (not deducted from capital)	–	400%	–	–
Other assets	696,114	100%	696,114	55,689
Non risk weighted assets	76,930	–	–	–
Total balance sheet exposures	10,786,271		4,399,063	351,925

Capital adequacy continued

	The Banking Group					
Dollars in thousands	Total exposure Unaudited 30/09/09	Credit conversion factor Unaudited 30/09/09	Credit equivalent amount Unaudited 30/09/09	Average risk weighting Unaudited 30/09/09	Risk weighted exposure Unaudited 30/09/09	Minimum Pillar One Capital Requirement Unaudited 30/09/09
Off-balance sheet exposures and market related contracts						
Direct credit substitutes	872	100%	872	100%	872	70
Commitments with certain drawdown	11,259	100%	11,259	100%	11,259	901
Note issuance facility	–	50%	–	0%	–	–
Revolving credit facilities	276,516	50%	138,258	41%	56,686	4,535
Revolving credit facilities	246,576	20%	49,315	41%	20,219	1,618
Revolving credit facilities	47,744	0%	–	0%	–	–
Performance-related contingency	1,817	50%	909	100%	909	73
Other commitments greater than one year	171,557	50%	85,779	41%	35,169	2,814
Other commitments less than or equal to one year	72,713	20%	14,543	100%	14,543	1,163
Other commitments less than or equal to one year	2,300	20%	460	20%	92	7
Other commitments that cancel automatically	263,275	0%	–	0%	–	–
Market related contracts: ❶						
Interest rate contracts	8,860,030	–	55,830	20%	11,166	893
Foreign exchange contracts	218,824	–	17,913	20%	3,583	287
Total off-balance sheet exposures	10,173,483		375,138		154,498	12,361
Credit Risk Mitigation						
Total value of on- and off- balance sheet exposures covered by eligible collateral (after haircutting)	(9,708)	–	–	–	(9,708)	(777)
Total value of on- and off- balance sheet exposures covered by guarantees or credit derivatives	–	–	–	–	–	–
Operational Risk	n/a				502,512	40,201
Market Risk		–	–	–		
Interest rate risk	n/a	–	–	–	193,113	15,449
Foreign currency risk	n/a	–	–	–	1,850	148
Equity risk	n/a	–	–	–	–	–
Total risk weighted exposures	20,950,046	–	–	–	5,241,328	419,307
Other material risk (Pillar II)	n/a	–	–	–	136,496	10,920

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

Capital adequacy continued

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
	The Banking Group			
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

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
	The Banking Group					
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: ❶	–		–	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

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

Capital adequacy continued

Residential mortgages by loan-to-value ratio

Dollars in thousands	**Unaudited as at 30/09/10**	Unaudited as at 30/09/09	Audited as at 30/06/10
LVR 0%-80%	**7,877,921**	6,669,270	7,650,017
LVR 80%-90%	**1,385,506**	925,792	1,297,099
LVR 90% +	**622,956**	777,985	656,587

At 30 September 2010, of the LVR 90%+ balance above, $321.0m 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 (Off-Quarter – 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.

Dollars in thousands	**Unaudited as at 30/09/10**	Unaudited as at 30/09/09	Audited as at 30/06/10	**Unaudited Peak for 3 months ended 30/09/10**	Unaudited Peak for 3 months ended 30/09/09	Audited Peak for 3 months ended 30/06/10
Interest rate exposures						
Aggregate interest rate risk exposures	**16,922**	15,449	20,379	**20,248**	20,111	22,202
Aggregate interest rate risk exposures expressed as a percentage of the Banking Group's shareholder's equity	**2.9%**	4.0%	3.5%	**3.4%**	5.3%	3.8%
Implied interest rate risk weighted exposure	**211,525**	193,113	254,738	**253,100**	251,388	277,525
Foreign currency exposures						
Aggregate foreign currency exposures	**228**	148	524	**230**	886	654
Aggregate foreign currency exposures expressed as a percentage of the Banking Group's shareholder's equity	**0.0%**	0.0%	0.1%	**0.0%**	0.2%	0.1%
Implied foreign currency risk weighted exposure	**2,850**	1,850	6,550	**2,875**	11,075	8,175

The Banking Group holds no equity instruments.