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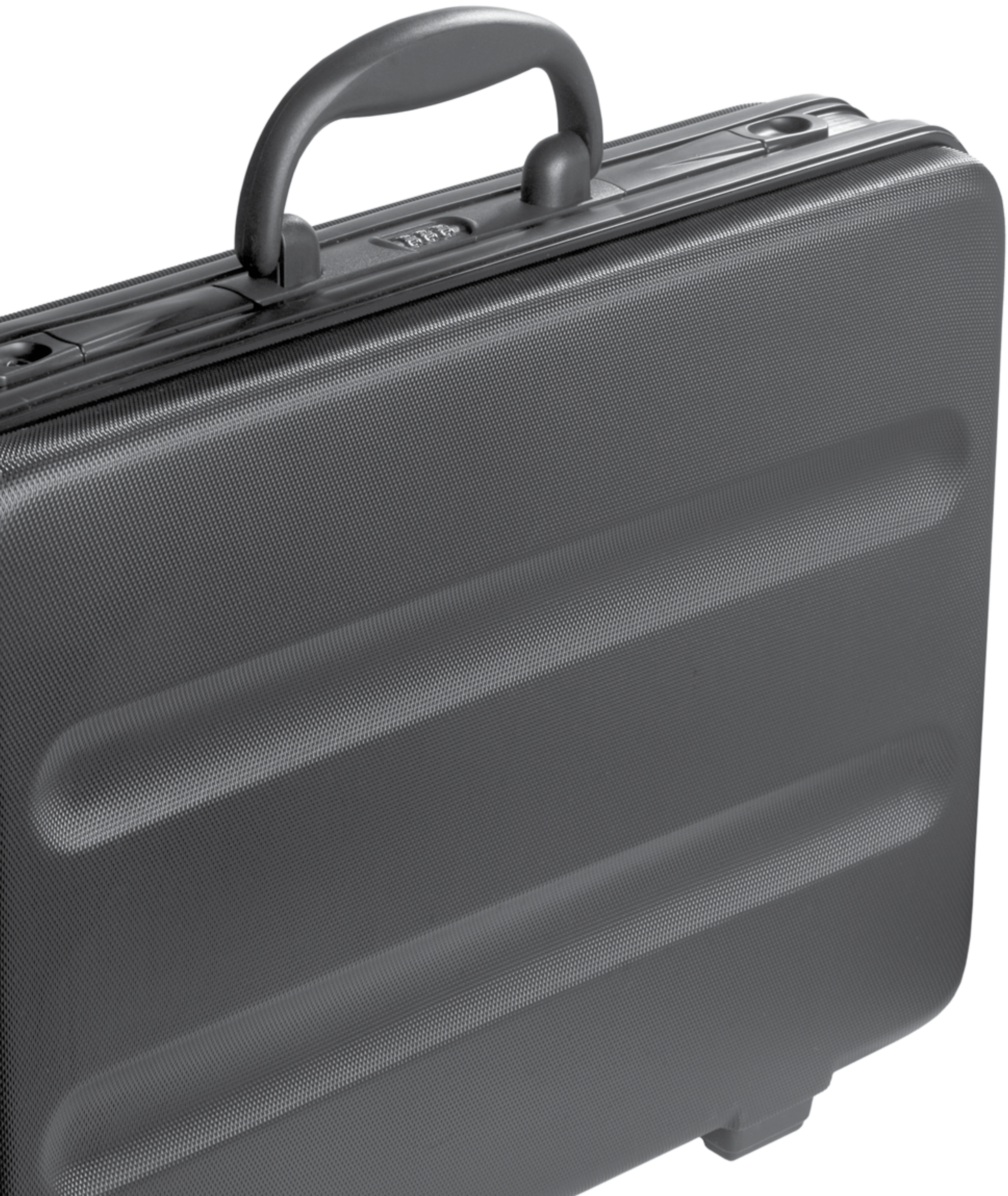
Disclosure Statement

Number 39
For the nine months ended 31 March 2011



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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 Disclosure Statement has been issued by Kiwibank for the nine months ended 31 March 2011, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011 (the "Order"). Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

Address for service

The address for service is: Kiwibank Limited, 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 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 25 February 2011, Robert William Bentley Morrison was appointed as a director of Kiwibank Limited. As at the date of signing of the Disclosure Statement, the directors of Kiwibank were:

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

Credit ratings

On 29 November 2001, Standard & Poor's (Australia) Pty Limited granted Kiwibank a credit rating of AA- for long-term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

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

There have been no changes made to the ratings in the two years preceding 31 March 2011.

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

Guarantees

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

NZP Guarantee

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

All payment obligations (excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the NZP Guarantee) of Kiwibank are guaranteed pursuant to the NZP Guarantee. The following is a summary of the features of the NZP Guarantee as at 31 March 2011:

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

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

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

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

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

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

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

NZP has a credit rating applicable to its long term unsecured obligations payable in New Zealand, in New Zealand dollars, from Standard & Poor's (Australia) Pty Limited of AA-. There have been no changes made to the rating in the two years preceding 31 March 2011. For an explanation of Standard & Poor's (Australia) Pty Limited's credit rating scale see the Crown Wholesale Guarantee section below.

Crown Retail Guarantee

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

Guarantees continued

Crown Wholesale Guarantee

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

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

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

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

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

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

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

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

d) Undertakes that if Kiwibank does not pay any such liability on the date on which it becomes due, the Crown shall within 5 business days of a demand being made in accordance with the Crown Wholesale Guarantee and following the expiry of any applicable grace period, pay such liability.

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

f) Additional information on the Crown Wholesale Guarantee scheme and the Crown's most recent audited financial statements are available, free of charge and at all reasonable times, on New Zealand Treasury's website:/www.treasury.govt.nz.

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

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

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

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

Guarantees continued

There have been no changes made to Kiwibank's rating in the two years preceding 31 March 2011. The following table describes the steps in the applicable rating scales for each rating agency:

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

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

Conditions of registration

These conditions apply on and after 31 March 2011, except as provided otherwise.

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

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

For the purposes of this condition of registration, capital, the total capital ratio and the tier one capital ratio must be calculated in accordance with the RBNZ document entitled "Capital Adequacy Framework (Standardised Approach" (BS2A) dated October 2010.

1A. That:

   a) the bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ("ICAAP")" (BS12) dated December 2007;
   b) under its ICAAP, the bank identifies and measures its "other material risks" defined as all material risks of the banking group that are not explicitly captured in the calculation of tier one and total capital ratios under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated October 2010; and
   c) the bank determines an internal capital allocation for each identified and measured "other material risk".

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities, 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:

   a) 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;
   b) In measuring the size of the Banking Group's insurance business:
      (i) where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
         A. the total consolidated assets of the group headed by that entity; or
         B. 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;
      (ii) 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;
      (iii) 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;
      (iv) 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.

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

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

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

c) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interest of the company (i.e. the ban

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

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

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

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

d) an alternate director

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

(ii) for an independent director must be independent;

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

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

g) the bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the bank).

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

Conditions of registration continued

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

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the RBNZ document entitled "Corporate Governance" (BS14) dated March 2011.
10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

10A. That the banking group complies with the following quantitative requirements for liquidity-risk management with effect from 1 April 2010:
   a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
   b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
   c) the one-year core funding ratio of the banking group is not less than 65 per cent at the end of each business day.

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

   This condition does not apply on or after 1 April 2011.

10B. That with effect from 1 April 2010, the registered bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:
   a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
   b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
   c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and
   d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

   This condition does not apply on or after 1 April 2011.

Conditions of registration continued

11. That the banking group complies with the following quantitative requirements for liquidity-risk management:

    a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;

    b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and

    c) the one-year core funding ratio of the banking group is not less than 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 RBNZ documents entitled "Liquidity Policy" (BS13) dated March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010.

    This condition applies on and after 1 April 2011.

12. That the bank has an internal framework for liquidity risk management that is adequate in the bank's view for managing the bank's liquidity risk at a prudent level, and that, in particular:

    a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

    b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

    c) identifies the principal methods that the bank will use for measuring, monitoring and controlling liquidity risk; and

    d) considers the material sources of stress that the bank might face, and prepares the bank to manage stress through a contingency funding plan.

    This condition applies on and after 1 April 2011.

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

    For the purposes of this condition,

    "total assets" means all assets of the banking group plus any assets held by any SPV that are nor included in the banking group's assets:

    "SPV" means a person –

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

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

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

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

    This condition applies on and after 1 April 2011.

    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 Disclosure Statement is signed:
   i. the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011 ;
   ii. the Disclosure Statement is not false or misleading.
2. During the nine months ended 31 March 2011:
   i. Kiwibank has complied with the conditions of registration applicable during the period.
   ii. credit exposures to connected persons were not contrary to the interests of the Banking Group.
   iii. Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

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

19 May 2011

Interim financial statements

Interim financial statements continued

Consolidated statement of comprehensive income

For nine months ended 31 March 2011

Dollars in thousands	Note	**Unaudited 9 months ended 31/03/11**	Unaudited 9 months ended 31/03/10	Audited 12 months ended 30/06/10
Interest income		**533,999**	396,369	563,886
Interest expense		**(393,375)**	(296,302)	(430,496)
Net interest income		**140,624**	100,067	133,390
Gains on financial instruments at fair value	2	**10,784**	30,096	36,323
Other income		**107,740**	98,721	131,729
Total operating income		**259,148**	228,884	301,442
Operating expenses		**(181,147)**	(165,234)	(218,902)
Impairment losses on loans and advances	11	**(56,803)**	(12,904)	(17,860)
Profit before taxation		**21,198**	50,746	64,680
Income tax expense		**(6,476)**	(14,979)	(18,832)
Profit after taxation		**14,722**	35,767	45,848
Other comprehensive income				
Available-for-sale reserve				
Net gain/(loss) from changes in reserve		**798**	(7,081)	(4,846)
Cash flow hedge reserve				
Net (loss)/gain from changes in reserve		**(4,605)**	35,967	37,344
Income tax credit/(expense) relating to components of other comprehensive income		**1,142**	(8,666)	(9,749)
Other comprehensive income for the period		**(2,665)**	20,220	22,749
Total comprehensive income for the period		**12,057**	55,987	68,597
Attributable to:				
Owners of the parent		**12,057**	55,987	68,597
Non controlling interest		**–**	–	–

The notes on pages 19 to 35 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of changes in equity

For the nine months ended 31 March 2011

	Note	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
Nine months ended 31 March 2010							
Profit for the period		–	35,767	–	–	–	35,767
Other comprehensive income							
Available for sale financial assets		–	–	(4,957)	–	–	(4,957)
Cash flow hedges		–	–	–	25,177	–	25,177
Total other comprehensive income		–	–	(4,957)	25,177	–	20,220
Total comprehensive income		–	35,767	(4,957)	25,177	–	55,987
Transactions with owners							
Issuance of ordinary share capital		15,000	–	–	–	–	15,000
Balance at 31 March 2010 (unaudited)		310,000	164,133	(1,143)	(46,837)	–	426,153
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

The notes on pages 19 to 35 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of changes in equity continued

For the nine months ended 31 March 2011

	Note	Fully Paid Ordinary Shares $'000	Retained Earnings $'000	Available For Sale Reserve $'000	Cash Flow Hedge Reserve $'000	Non controlling interest $'000	Total $'000
Nine months ended 31 March 2011							
Profit for the period		–	14,722	–	–	–	14,722
Other comprehensive income							
Available for sale financial assets		–	–	558	–	–	558
Cash flow hedges		–	–	–	(3,223)	–	(3,223)
Total other comprehensive income		–	–	558	(3,223)	–	(2,665)
Total comprehensive income		–	14,722	558	(3,223)	–	12,057
Transactions with owners							
Dividends paid		–	(6,418)	–	–	–	(6,418)
Balance at 31 March 2011 (unaudited)		310,000	182,518	980	(49,096)	150,000	594,402

The notes on pages 19 to 35 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of financial position

As at 31 March 2011

Dollars in thousands	Note	**Unaudited 31/03/11**	Unaudited 31/03/10	Audited 30/06/10
Assets				
Cash and cash equivalents		**201,896**	364,994	303,866
Due from other financial institutions	6	**409,688**	206,814	156,871
Financial assets held for trading	3	**745,167**	620,406	671,152
Available-for-sale assets	4	**1,092,843**	641,678	544,453
Loans and advances	5	**11,184,668**	10,070,843	10,418,502
Derivative financial instruments		**91,032**	72,007	46,320
Property, plant and equipment		**23,138**	20,702	20,182
Intangible assets		**49,623**	46,416	47,505
Current taxation receivable		**2,679**	–	–
Deferred taxation		**36,637**	19,955	20,813
Other assets		**8,887**	12,289	8,711
Total assets		**13,846,258**	12,076,104	12,238,375
Interest bearing assets		***13,792,717***	*11,898,998*	*12,160,670*
Liabilities				
Due to other financial institutions	6	**179,118**	395,095	164,051
Balances with NZP related parties	12	**8,462**	11,894	12,114
Deposits and other borrowings	7	**10,874,132**	9,952,129	10,295,325
Derivative financial instruments		**194,808**	214,328	202,588
Debt securities issued	8	**1,809,720**	901,709	795,237
Current taxation payable		**–**	612	4,636
Other liabilities		**44,991**	34,051	32,362
Term subordinated debt	9	**140,625**	140,133	143,299
Total liabilities		**13,251,856**	11,649,951	11,649,612
Interest bearing liabilities		***13,203,403***	*11,605,883*	*11,610,500*

The notes on pages 19 to 35 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of financial position continued

As at 31 March 2011

Dollars in thousands	Note	**Unaudited 31/03/11**	Unaudited 31/03/10	Audited 30/06/10
Equity				
Share capital		**310,000**	310,000	310,000
Reserves		**134,402**	116,153	128,763
Total equity attributable to owners of the parent		**444,402**	426,153	438,763
Non controlling interest		**150,000**	–	150,000
Total equity		**594,402**	426,153	588,763
Total liabilities and shareholder's equity		**13,846,258**	12,076,104	12,238,375

The notes on pages 19 to 35 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of cash flows

For the nine months ended 31 March 2011

Dollars in thousands	Note	**Unaudited 9 months ended 31/03/11**	Unaudited 9 months ended 31/03/10	Audited 12 months ended 30/06/10
Cash flows from operating activities				
Interest received		**525,125**	378,965	553,565
Fees and other income		**107,740**	98,721	131,729
Operating expenses paid		**(153,107)**	(143,246)	(199,524)
Interest paid		**(398,723)**	(280,403)	(403,395)
Net taxes paid		**(28,473)**	(18,853)	(18,311)
Net cash flows from operating activities before changes in operating assets and liabilities		**52,562**	35,184	64,064
Net changes in operating assets and liabilities:				
(Increase)/decrease in financial assets held for trading		**(69,397)**	103,253	51,026
(Increase)/decrease in available-for-sale assets		**(536,548)**	51,641	138,751
Increase in loans and advances		**(871,852)**	(1,622,172)	(1,933,045)
Increase in balances due from other financial institutions		**(252,817)**	(206,814)	(156,871)
Increase in deposits and other borrowings		**581,070**	1,670,654	2,002,648
Decrease in amounts due to related parties – term		**(5,000)**	(25,000)	(25,000)
Increase/(decrease) in balances due to other financial institutions		**15,067**	78,447	(152,597)
Net cash flows from operating activities	15	**(1,086,915)**	85,193	(11,024)
Cash flows from investing activities				
Purchase of property, plant and equipment		**(9,246)**	(5,662)	(8,701)
Purchase of intangible software assets		**(13,874)**	(12,511)	(17,911)
Net cash flows from investing activities		**(23,120)**	(18,173)	(26,612)

The notes on pages 19 to 35 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of cash flows continued

For the nine months ended 31 March 2011

Dollars in thousands	Note	**Unaudited 9 months ended 1/03/11**	Unaudited 9 months ended 31/03/10	Audited 12 months ended 30/06/10
Cash flows from financing activities				
Issue of ordinary shares		**–**	15,000	18,361
Issue of perpetual preference shares		**–**	–	150,000
Issuance costs of perpetual preference shares		**–**	–	(3,361)
Increase/(decrease)in debt securities issued		**1,014,483**	(10,831)	(117,303)
Dividends paid		**(6,418)**	–	–
Net cash flows from financing activities		**1,008,065**	4,169	47,697
(Decrease)/increase in cash and cash equivalents		**(101,970)**	71,189	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		**201,896**	364,994	303,866

The notes on pages 19 to 35 form part of these interim financial statements.

Notes to the interim financial statements

1. Statement of accounting policies

Reporting entity and statutory base

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

These interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand as appropriate for profit oriented entities, and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011. The interim financial statements comply with International Accounting Standard 34: Interim Financial Reporting (NZ IAS 34). The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2010.

These interim financial statements have been approved for issue by the Board of Directors on 19 May 2011.

The preparation of these interim financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although the Banking Group has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. 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 and the interim financial statements for the six months ended 31 December 2010.

Currency of presentation

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

Comparative amounts

Comparative amounts are from the audited financial statements for the year ended 30 June 2010 and from the unaudited financial statements for the period ending 31 March 2010.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Critical estimates and judgements used in applying accounting policies

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

The fair value of financial instruments that are not quoted in an active market, including Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008, and over-the-counter derivatives, is determined by using valuation techniques. Kiwibank uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting 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 3.6% is applied (31 March 2010: 3.7%; 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.

Estimates around the February 2011 Christchurch earthquake are highly subjective and loss estimates range from $10m to $45m. See note 11 and Capital Adequacy notes.

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 9 months ended 31/03/11**	Unaudited 9 months ended 31/03/10	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	**(9,141)**	(36,291)	(41,550)
Derivative financial instruments held for trading	**15,738**	49,472	60,150
Financial liabilities designated at fair value through profit or loss upon initial recognition	**(412)**	1,026	464
Financial assets held for trading	**4,215**	2,394	4,314
Net ineffectiveness on qualifying cash flow hedges	**278**	224	57
Net ineffectiveness on qualifying fair value hedges	**245**	(265)	(267)
Cumulative gain transferred from the available-for-sale reserve	**4,884**	15,639	17,735
Cumulative loss transferred from the cash flow hedge reserve	**(5,230)**	(3,393)	(5,610)
Net foreign exchange gains	**207**	1,290	1,030
Total gain on financial instruments	**10,784**	30,096	36,323
3. Financial assets held for trading			
Bank bills	**468,374**	129,245	189,288
Other securities	**276,793**	491,161	481,864
Total financial assets held for trading	**745,167**	620,406	671,152
Current	**571,224**	253,116	249,512
Non-current	**173,943**	367,290	421,640
4. Available-for-sale assets			
Government stock and multilateral development banks	**772,130**	406,277	350,068
Local authority securities	**125,354**	23,626	18,927
Other debt securities	**195,359**	211,775	175,458
Total available-for-sale assets	**1,092,843**	641,678	544,453
Current	**530,206**	126,549	147,084
Non-current	**562,637**	515,129	397,369

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/11**	Unaudited 31/03/10	Audited 30/06/10
5. Loans and advances			
Loans and advances designated upon initial recognition at fair value through profit or loss	**482,762**	1,433,231	1,235,764
Loans and advances at amortised cost	**10,769,329**	8,652,601	9,202,244
Allowance for impairment losses (note 11)	**(67,423)**	(14,989)	(19,506)
Total net loans and advances	**11,184,668**	10,070,843	10,418,502
Current	**1,005,588**	856,759	908,415
Non-current	**10,179,080**	9,214,084	9,510,087
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	**290**	860	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. Due from other financial institutions

Unsettled receivables	**237,792**	94,349	17,046
Bank bills	**115,358**	54,858	86,007
Collateralised loans	**56,538**	57,607	53,818
Total – current	**409,688**	206,814	156,871

As at 31 March 2011, included within the balance above, is $56.5m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties. (March 10: $57.6m: June 10; $53.8m).

Due to other financial institutions

Repurchase agreements	**97,016**	364,555	100,247
Unsettled payables	**80,146**	23,028	61,566
ATM cash at other banks	**1,956**	7,512	2,238
Total – current	**179,117**	395,095	164,051

The repurchase agreements above are used to secure deposit obligations.

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/11**	Unaudited 31/03/10	Audited 30/06/10
7. Deposits and other borrowings			
Retail deposits	**7,799,204**	6,883,070	6,911,909
Wholesale deposits	**3,074,928**	3,069,059	3,383,416
Total	**10,874,132**	9,952,129	10,295,325
New Zealand	**10,636,105**	9,734,317	10,075,666
Overseas	**238,027**	217,812	219,659
Total deposits and other borrowings at amortised cost	**10,874,132**	9,952,129	10,295,325
Current	**10,607,421**	9,725,405	9,994,985
Non-current	**266,711**	226,724	300,340

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

The Kiwibank PIE Unit Trust, established under the Unit Trusts Act 1960 in May 2008, operates three funds; the PIE Term Deposit Fund, the PIE Notice Call account and PIE Online Call Fund. Kiwibank Investment Management Limited is the issuer and manager of the Unit Trust. Trustees Executors Limited is the trustee of the Unit Trust. Kiwibank is the promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Unit Trust is invested exclusively in term and call deposits with Kiwibank. At 31 March 2011, $2,321m of PIE funds were invested in Kiwibank's own products or securities (31 March 2010: $1,144m; 30 June 2010: $1,169m).

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

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/11**	Unaudited 31/03/10	Audited 30/06/10
8. Debt securities issued			
Certificates of deposit	**259,464**	468,700	378,465
Fixed rate bond	**341,470**	321,061	308,212
Short term paper	**927,275**	–	–
Other debt securities	**281,511**	111,948	108,560
Total debt securities issued	**1,809,720**	901,709	795,237
Current	**1,361,069**	487,659	403,619
Non current	**448,651**	414,050	391,618
9. Term subordinated debt			
Face value	**135,000**	135,000	135,000
Interest accrued	**217**	217	2,947
Premium	**(215)**	(344)	(337)
Fair value hedge adjustment	**5,623**	5,260	5,689
Total term subordinated debt – non current	**140,625**	140,133	143,299

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

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

The term subordinated debt issues are subordinate to all other general liabilities of the Banking Group and are denominated in New Zealand dollars. The debt carried an A+ credit rating from Standard and Poor's Pty Limited as at reporting 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 31 March 2010 and 30 June 2010; same).

Notes to the interim financial statements continued

10. Equity

The total authorised number of ordinary shares at period end was 310 million (31 March 2010: 310 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 reporting 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, 4 November 2010 and 4 February 2011, net dividend payments of $2,139k were made (periods ended 31 March 2010 and 30 June 2010: $nil).

11. Asset quality

	The Banking Group		
Dollars in thousands	**Unaudited 31/03/11**	Unaudited 31/03/10	Audited 30/06/10
Past due assets > 90 days but not impaired			
Residential mortgage loans	**26,051**	19,092	19,152
Corporate lending	**4,915**	1,291	7,981
Other on balance sheet exposures	**7,718**	2,029	2,536
Gross balance at end of period	**38,684**	22,412	29,669
Impaired assets			
Residential mortgage loans	**38,621**	30,195	26,321
Corporate lending	**51,253**	13,966	11,276
Other on balance sheet exposures	**460**	106	179
Gross balance at end of period	**90,334**	44,267	37,776

Notes to the interim financial statements continued

11. Asset quality continued

Allowance for impairment losses

Dollars in thousands	**Unaudited 31/03/11**	Unaudited 31/03/10	Audited 30/06/10
Allowance for impairment losses in statement of financial position			
Collective allowance for impairment losses	**29,461**	9,282	9,543
Individually impaired assets	**37,962**	5,707	9,963
Allowance for impairment losses	**67,423**	14,989	19,506
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	**290**	860	741
Total allowance for impairment losses	**67,713**	15,849	20,247
Impairment losses per statement of comprehensive income			
Collective impairment losses on loans not at fair value through profit or loss	**19,938**	5,012	5,846
Charge to statement of comprehensive income for individually impaired assets	**36,865**	7,892	12,014
Total impairment losses per statement of comprehensive income	**56,803**	12,904	17,860

Included within the March 2011 allowance for impairment losses above are amounts of $18.2m (collective allowance) and $6.8m (individual impairment allowance) in respect of the losses resulting from the 22 February 2011 Christchurch earthquake.

Notes to the interim financial statements continued

11. Asset quality continued

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

Dollars in thousands	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Individual allowance for impairment losses				
Unaudited 9 months ended 31/03/11				
Balance at beginning of the period	**179**	**824**	**8,960**	**9,963**
Net impairment losses on loans not at fair value through profit or loss	**281**	**10,953**	**16,765**	**27,999**
Total individual allowance for impairment losses	**460**	**11,777**	**25,725**	**37,962**
Unaudited 9 months ended 31/03/10				
Balance at beginning of the period	227	1,056	3,642	4,925
Net impairment losses on loans not at fair value through profit or loss	(121)	(408)	1,311	782
Total individual allowance for impairment losses	106	648	4,953	5,707
Audited 12 months ended 30/06/10				
Balance at beginning of the period	227	1,056	3,642	4,925
Net impairment losses on loans not at fair value through profit or loss	(48)	(232)	5,318	5,038
Total individual allowance for impairment losses	179	824	8,960	9,963

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 9 months ended 31/03/11				
Balance at beginning of the period	**3,824**	**2,584**	**3,135**	**9,543**
Net impairment losses on loans not at fair value through profit or loss	**(243)**	**11,445**	**8,716**	**19,918**
Total collective allowance for impairment losses	**3,581**	**14,029**	**11,851**	**29,461**
Unaudited 9 months ended 31/03/10				
Balance at beginning of the period	3,190	1,734	2,359	7,283
Net impairment losses on loans not at fair value through profit or loss	1,007	676	316	1,999
Total collective allowance for impairment losses	4,197	2,410	2,675	9,282
Audited 12 months ended 30/06/10				
Balance at beginning of the period	3,190	1,734	2,359	7,283
Net impairment losses on loans not at fair value through profit or loss	634	850	776	2,260
Total collective allowance for impairment losses	3,824	2,584	3,135	9,543

Notes to the interim financial statements continued

12. 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.

As at 31 March 2011, 50,000 of the non-cumulative perpetual preference share capital of Kiwi Capital Securities Limited (in substance a subsidiary of Kiwibank Limited) are held by related parties of the Banking Group (31 March 2010; nil: 30 June 2010; 55,000).

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 $234k for the period (31 March 2010: $234k; 30 June 2010: $312k) from NZP for Treasury services provided to the group under a service level agreement. NZP holds a number of property leases on behalf of Kiwibank. Kiwibank reimburses NZP for the lease charges but has no contractual lease commitments for property charges.

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

During the period ended 31 March 2011, Kiwibank Limited paid a gross dividend of $9,169k to Kiwi Capital Management Limited (periods ended 31 March 2010 and 30 June 2010; $nil).

NZP has a credit facility with the Banking Group allowing it to drawdown up to $35m at any one time. When loans are drawn down the transaction is undertaken on an arm's length basis at market interest rates. As at 31 March 2011, the amount owed by the NZP Group to the Banking Group was $nil (31 March 2010; $nil: 30 June 2010; $nil).

Kiwibank is part of the NZP consolidated tax group. During the period ended 31 March 2011, Kiwibank Limited purchased $2.8m of tax losses from Kiwi Capital Management Limited.

At 31 March 2011, $2,321m of PIE funds under management (note 7) were invested in Kiwibank's own products or securities (31 March 2010: $1,144m; 30 June 2010: $1,169m).

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

Notes to the interim financial statements continued

12. Related parties continued

Dollars in thousands	**Unaudited 31/03/11**	Unaudited 31/03/10	Audited 30/06/10
Revenue			
NZP	**30,834**	31,553	55,019
Other subsidiaries within the NZP Group	**821**	767	908
Expenditure			
NZP	**39,797**	35,745	49,477
Other subsidiaries within the NZP Group	**8,881**	3,300	11,784
Associates of the NZP Group	**5,278**	5,006	6,042
Payables			
NZP	**7,147**	11,540	12,264
Other subsidiaries within the NZP Group	**783**	(190)	(180)
Associates of the NZP Group	**532**	544	30
Total	**8,462**	11,894	12,114
Deposits from related parties			
NZP Electoral Enrolment Centre	**2,747**	2,109	2,109
NZP Superannuation Plan	**9,775**	14,599	16,155
Total	**12,522**	16,708	18,264
Receivables			
Other subsidiaries within the NZP Group	**2,697**	2,973	1,716
Total	**2,697**	2,973	1,716

Notes to the interim financial statements continued

13. Credit exposure concentrations

Credit exposure to individual counterparties

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

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

	Unaudited 3 months ended 31/03/11		Unaudited 3 months ended 31/03/10		Unaudited 3 months ended 30/06/10	
	Non-Bank	**Bank**	Non-Bank	Bank	Non-Bank	Bank
As at reporting date						
10% – 14%	**–**	**–**	1	–	–	–
15% – 19%	**–**	**–**	–	–	–	–
20% – 24%	**–**	**–**	–	–	–	–
25% – 29%	**–**	**–**	–	–	–	–
30% – 34%	**–**	**–**	–	–	–	–
35% – 39%	**–**	**–**	–	–	–	–
Peak exposure						
10% – 14%	**–**	**–**	1	–	1	–
15% – 19%	**–**	**–**	–	–	–	–
20% – 24%	**–**	**–**	–	–	–	–
25% – 29%	**–**	**–**	–	–	–	–
30% – 34%	**–**	**–**	–	–	–	–
35% – 39%	**–**	**–**	–	–	–	–

In accordance with the revised Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2011 (the "Order"), the credit exposure concentrations above now exclude bank counterparties with a long-term credit rating of A- or A3 above. The comparative information for the periods ended 31 March 2010 and 30 June 2010 has been revised accordingly but has not been audited.

In the 3 months ended 31 March 2011 there have been no credit exposure concentrations with non bank counterparties where actual credit exposures equalled or exceeded 10% of the Banking Group's shareholder's equity as at reporting date. In the 3 months ended 31 March 2010 and 30 June 2010 there was one non bank counterparty where the actual credit exposure equalled or exceeded 10% of the Banking Group's shareholder's equity. This counterparty had a long-term credit rating of A+.

Notes to the interim financial statements continued

14. 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 31 March 2011 is $29.1m.

As at 31 March 2010 and 30 June 2010, Kiwibank did not administer superannuation bonds or superannuation plans.

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

Some funds under management are invested in products of Kiwibank and are recorded as liabilities in the statement of financial position. At 31 March 2011, $2,321m of funds under management were invested in Kiwibank's own products or securities (31 March 2010: $1,144m; 30 June 2010: $1,169m)

Provision of financial services

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

The Banking Group has not provided any funding to entities which conduct any of the following activities: trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group; marketing and distribution of insurance products during the periods ended 31 March 2011, 31 March 2010 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.

Insurance business

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

Notes to the interim financial statements continued

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

Dollars in thousands	**Unaudited 9 months ended 31/03/11**	Unaudited 9 months ended 31/03/10	Audited 12 months ended 30/06/10
Profit after taxation	**14,722**	35,767	45,848
Non cash movements/non operating activities			
Unrealised fair value gains	**(10,784)**	(48,566)	(35,305)
Depreciation	**5,746**	4,813	6,621
Amortisation of intangibles	**11,608**	9,276	12,617
Intangible write off	**–**	–	2,720
(Increase)/decrease in deferred expenditure	**(7,825)**	3,746	(5,082)
Increase in provision for credit impairment	**47,895**	2,781	7,298
Lending losses written off	**9,600**	10,123	10,562
(Increase)/decrease in deferred taxation	**(14,443)**	10,519	(1,105)
(Decrease)/increase in operating assets and liabilities			
(Increase)/decrease in financial assets held for trading	**(69,397)**	103,253	51,026
(Increase)/decrease in available-for-sale assets	**(536,548)**	51,641	138,751
Increase in loans and advances	**(871,852)**	(1,622,172)	(1,933,045)
Increase in balances due from other financial institutions	**(252,817)**	(206,814)	(156,871)
Increase in deposits	**581,070**	1,670,654	2,002,648
Decrease in amounts due to related parties – term	**(5,000)**	(25,000)	(25,000)
Increase/(decrease) in balances due to other financial institutions	**15,067**	78,447	(152,597)
Increase in accrued operating expenses	**12,629**	2,398	709
(Decrease)/increase in interest payable	**(2,263)**	15,899	27,101
Increase in interest receivable	**(7,941)**	(13,658)	(5,239)
Increase/(decrease) in balances with related parties – transactional	**1,348**	(678)	(458)
(Decrease)/increase in current taxation	**(7,554)**	(3,415)	609
(Increase)/decrease in other assets	**(176)**	6,179	(2,832)
Net cash flows from operating activities	**(1,086,915)**	85,193	(11,024)

Notes to the interim financial statements continued

16. Contingent liabilities

There are no material contingent liabilities as at 31 March 2011 other than as separately disclosed in these interim financial statements.

17. Events subsequent to reporting period date

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

18. Capital expenditure commitments

Capital expenditure commitments contracted for as at 31 March 2011, but not provided for in these interim financial statements, total $3.1m; (31 March 2010: $0.4m; 30 June 2010: $2.8m). All such commitments are due no later than one year from reporting date.

19. Segment analysis

Dollars in thousands	**Unaudited 9 months ended 31/03/11**	Unaudited 9 months ended 31/03/10	Audited 12 months ended 30/06/10
Personal banking			
External net interest income	**216,544**	201,550	276,190
Net intersegment interest	**(125,895)**	(113,005)	(180,032)
Net interest income	**90,649**	88,545	96,158
Other external operating income	**64,291**	66,830	95,432
Segmental revenue	**154,940**	155,375	191,590
Profit before taxation	**24,652**	22,459	34,569
Impairment losses on loans and advances	**(12,243)**	(5,031)	(5,971)
Total assets	**9,667,576**	8,731,840	9,038,366
Payment services			
External net interest income	**–**	–	–
Net intersegment interest	**225**	151	204
Net interest income	**225**	151	204
Other external operating income	**43,372**	40,499	54,675
Segmental revenue	**43,597**	40,650	54,879
Profit before taxation	**11,237**	10,217	14,174
Total assets	**7,445**	3,823	6,633

Notes to the interim financial statements continued

19. Segment analysis continued

Dollars in thousands	**Unaudited 9 months ended 31/03/11**	Unaudited 9 months ended 31/03/10	Audited 12 months ended 30/06/10
Corporate and institutional banking			
External net interest income	**(75,920)**	(101,483)	(142,800)
Net intersegment interest	**125,670**	112,854	179,828
Net interest income	**49,750**	11,371	37,028
Other external operating income	**10,861**	21,488	17,945
Segmental revenue	**60,611**	32,859	54,973
(Loss)/profit before taxation	**(14,691)**	18,070	15,937
Impairment losses on loans and advances	**(44,560)**	(7,873)	(11,889)
Total assets	**4,171,237**	3,340,441	3,193,376
Total			
External net interest income	**140,624**	100,067	133,390
Net intersegment interest	**–**	–	–
Net interest income	**140,624**	100,067	133,390
Other external operating income	**118,524**	128,817	168,052
Total revenue	**259,148**	228,884	301,442
Profit before taxation	**21,198**	50,746	64,680
Impairment losses on loans and advances	**(56,803)**	(12,904)	(17,860)
Total assets	**13,846,258**	12,076,104	12,238,375

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

Notes to the interim financial statements continued

20. Liquidity analysis	Unaudited 31/03/11
The table below shows the analysis of financial assets held by the registered bank's banking group for the purpose of managing liquidity risk.	
Primary liquid assets	1,606,954
Secondary liquid assets	721,663
Total	**2,328,617**

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 and unaudited retained earnings for the quarter.

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

a) each share contains a single right to vote;

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

c) there is no predetermined dividend rate;

d) there is no maturity date; and

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

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

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

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

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

d) there is no maturity date

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

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 31 March 2011. 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 31/03/11**	 Unaudited 31/03/10	 Audited 30/06/10
Capital			
Tier one capital (before deductions)	**593,588**	413,935	588,763
Total tier one capital (net of all deductions and adjustments)	**593,061**	414,356	587,131
Total tier two capital	**135,814**	147,218	135,000
Total tier one capital and tier two capital	**728,875**	561,574	722,131
Deductions from total capital and other adjustments	**–**	–	–
Capital	**728,875**	561,574	722,131
Capital adequacy ratios			
Tier one capital ratio	**9.0%**	7.1%	9.8%
Total capital (Pillar I) ratio	**11.1%**	9.6%	12.0%
Capital ratio (Pillar I and II) ratio	**10.5%**	9.4%	11.7%
	Pillar 1 capital requirement		
On-balance sheet credit risk			
Residential mortgages (including past due)	**325,897**	298,675	307,083
Corporate	**8,997**	9,226	5,016
Claims on banks	**22,567**	10,958	12,221
Other	**74,351**	74,963	72,323
Total on-balance sheet credit risk	**431,812**	393,822	396,643
Other capital requirements			
Off-balance sheet credit exposures	**18,904**	13,538	12,376
Operational risk	**58,671**	46,896	49,893
Market risk	**16,178**	14,360	20,884
Total other capital requirements	**93,753**	74,794	83,153
Total Pillar 1 capital requirement	**525,565**	468,616	479,796
Capital requirements for other material risk (Pillar II)			
Total capital requirement (Pillar II)	**28,089**	11,594	12,750

Capital requirements for the other material risks covers risks associated with earnings, funding and credit lending. Total capital requirement (Pillar II) includes a capital allocation of $20m for unexpected losses arising from the 22 February 2011 Christchurch earthquake.

Capital adequacy continued

Residential mortgages by loan-to-value ratio

Dollars in thousands			
LVR Range	0%–80%	80%–90%	Over 90%
Value of exposures	8,326,255	1,475,310	523,780

At 31 March 2011, of the LVR 90%+ balance above, $371m 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 Statements (New Zealand Incorporated Registered Banks) Order 2011. Peak exposures are calculated using the Banking Group's shareholder's equity at the end of the quarter.

Dollars in thousands	**Unaudited as at 31/03/11**	Unaudited as at 31/03/10	Audited as at 30/06/10	**Unaudited peak for 3 months ended 31/03/11**	Unaudited peak for 3 months ended 31/03/10	Audited peak for 3 months ended 30/06/10
Interest rate exposures						
Aggregate interest rate risk exposures	**15,544**	14,221	20,379	**18,405**	14,857	22,202
Aggregate interest rate risk exposures expressed as a percentage of the Banking Group's shareholder's equity	**2.6%**	3.3%	3.5%	**3.1%**	3.5%	3.8%
Implied interest rate risk weighted exposure	**194,300**	177,763	254,738	**230,063**	185,713	277,525
Foreign currency exposures						
Aggregate foreign currency exposures	**635**	362	524	**2,118**	444	654
Aggregate foreign currency exposures expressed as a percentage of the Banking Group's shareholder's equity	**0.1%**	0.1%	0.1%	**0.4%**	0.1%	0.1%
Implied foreign currency risk weighted exposure	**7,938**	4,525	6,550	**26,479**	5,550	8,175

The Banking Group holds no equity instruments.