kiwibank

Disclosure Statement

& Annual Report

Number 40

For the year ended 30 June 2011

Contents

General matters

Details of incorporation

Kiwibank Limited ("Kiwibank") is a company domiciled in New Zealand and was incorporated in New Zealand under the Companies Act 1993 on 4 May 2001 as a wholly owned subsidiary of New Zealand Post Limited ("NZP").

On 29 November 2001, Kiwibank was registered as a bank under the Reserve Bank of New Zealand Act 1989 and was required to comply with the conditions of registration as laid down by the Reserve Bank of New Zealand ("RBNZ") from that date onwards.

This Disclosure Statement has been issued by Kiwibank for the year ended 30 June 2011, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2011 (the "Order"). Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

Address for service

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

Ultimate holding company

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

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.

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 this rating in the two years preceding 30 June 2011. NZP has a credit rating of AA- and has given Kiwibank a deed poll guarantee.

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.

Guarantees

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

NZP Guarantee

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

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

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

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

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

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

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

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

The net tangible assets of NZP were $958m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2011. There were no qualifications in the audit report accompanying the Annual Report.

NZP has a credit rating applicable to its long term unsecured obligations payable in New Zealand, in New Zealand dollars, from Standard & Poor's (Australia) Pty Limited of AA-. There have been no changes made to the rating in the two years preceding 30 June 2011. For an explanation of Standard & Poor's (Australia) Pty Limited's credit rating scale see the table on page 6.

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 Kiwi Group Holdings Limited'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/economy/guarantee/wholesale.

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

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

i) The Crown has the following credit ratings (which have not changed in the two years preceding 30 June 2011) 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

Guarantees continued

There have been no changes made to Kiwibank's rating in the two years preceding 30 June 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 from 31 March 2011 to 30 June 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).

Amendments to Conditions of registration

With effect from 1 July 2011, the Bank's conditions of registration were amended to the effect that the Banking Group must now ensure that the one year core funding ratio of the banking group is not less than 70 per cent (increased from 65%) at the end of each business day, calculated in accordance with RBNZ documents entitled "Liquidity Policy" (BS13) dated March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated March 2010. In addition the “Connected exposure policy” (BS8), in accordance with which compliance with the rating-contingent connected exposure limit is determined, has been updated.

Directorate

Non-executive director, chair
Robert William Bentley Morrison
BCom
Company director*
Country of residence: New Zealand
Director, Tamata Horticulture Limited, Tamata Holdings Limited, Acer Export Partnership Limited, Agriculture General Partner Limited, RWB Nominees Limited,
Blind Pig Properties Limited, Kotu Farms Limited, Kotu Management Limited, Falkirk Management Limited.
Asian Corporate Governance Association: Hong Kong based NGO
Chairman: Pure Advantage: New Zealand NGO
Trustee: Rob Morrison Family Trust
* Appointed director 25 February 2011
Appointed chair 1 July 2011.

Non-executive directors
David Stephen Willis
BCA, ACA (NZ), ICA (Australia)
Company director*
Country of residence: Australia
Director, New Zealand Post Limited, B.Q.L. Management Pty Ltd, B.Q.L. Nominees Pty Ltd, B.Q.L. Properties Ltd, Bank of Queensland Ltd, BOQ Credit Pty Ltd, BOQ Equipment Finance Ltd, BOQ Finance (Aust) Limited, BOQ Funding Pty Ltd, BOQ Share Plans Nominee Pty Ltd, Parcel Direct Group Pty Limited, Interflour Holdings Limited (Singapore), Interflour Holdings Limited (British Virgin Islands), St Andrews Insurance Limited, St Andrews Services Pty Ltd., St Andrews Life Insurance Pty Ltd., CBH Grain Pty Ltd, Volpaia Services Pty Limited, Equipment Rental Billing Services Pty Ltd, Hartwood House Pty Ltd, Home Building Society Ltd, Home Credit Management Ltd, Home Financial Planning Pty Ltd, Hunter Leasing Ltd, Newcourt Financial (Australia) Pty Ltd, Pioneer Permanent Building Society Ltd, Queensland Electronic Switching Pty Ltd, Statewest Financial Services Ltd, Statewest Financial Services Ltd, The Horizons Programme, The King's School Foundation Ltd
* Appointed 21 July 2010

Murray Ian David Gribben
BA (Hons), MBA
Company director
Country of residence: New Zealand
Director, New Zealand Post Limited, Ruapehu Alpine Lifts Limited, WBGP Developments Limited
Trustee, New Zealand Post Superannuation Plan

Hon. Dr. Michael John Cullen
MA, Ph.D
Company director
Country of residence: New Zealand
Chair, New Zealand Post Limited, Express Couriers Limited, Tuhoe Investment Committee.
Trustee and chair, New Zealand Post Superannuation Plan
Alternate Director, Parcel Direct Group Pty Limited.
Principal Treaty Claims Negotiator, Tuwharetoa.
Trustee and chair
Chief Adviser to the Chief Executive, Waikato-Tainui.
Chief Claims Negotiator, Mana Ahuriri Incorporated

Brian Joseph Roche
BCA CA
Company director
Country of residence: New Zealand
Director, Datam Limited, Datacom Group Limited, Kiwi Group Holdings Limited, Express Couriers Limited, The ECN Group Limited, Parcel Direct Group Pty Limited, New Zealand Post Australia Holdings Pty Limited, New Zealand Post Group Finance Limited, Localist Limited (formerly NZP Group Holdings Limited), Rugby New Zealand 2011 Limited, Valley Road Forest Limited.
Trustee, St Patricks' Foundation, BJ and ML Roche Family Trust

Independent non-executive directors
Richard Gordon Alexander Westlake
MA
Company director
Country of residence: New Zealand
Director, Westlake Consulting Limited, Homesick-Kiwi Limited, Dairy Goat Co-operative (NZ) Limited.
Board member, Industry Training Federation Inc.
Chair, Telecommunications Carriers' Forum Inc., Intergen Limited, GZ2 Holdings Limited, Community Support Services ITO Limited.

Alison Rosemary Gerry
BMS (Hons), MAppFin
Company director
Country of residence: New Zealand
Director, Lindis Crossing Vineyard Limited, Glendora Holdings Limited, Glendora Avocados Limited, Random Walk (2010) Limited, Queenstown Airport Corporation Limited, Pioneer Generation Limited, Television New Zealand Limited*.
* Appointed 1 January 2011

Directorate continued

Ian Fitzgerald resigned as director and chair on 30 June 2011.

Mark Yeoman is an alternate director of Kiwibank Limited.

Finance, Audit and Risk Committee Members

Richard Gordon Alexander Westlake (Chair)	Independent non-executive director
Murray Ian David Gribben	Non-executive director
Alison Gerry	Independent non-executive director

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

Executive directors

None of the directorate are executive directors of Kiwibank.

Communications with directors

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

Policy for avoiding and dealing with conflicts of interests

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

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

a. the nature and monetary value of the director's interest in a transaction or proposed transaction if its monetary value is able to be quantified; or

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

Directors' benefits

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

Auditors

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

Directors' statement

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 (No.2) 2011 ; and

   ii. the Disclosure Statement is not false or misleading.

2. During the year ended 30 June 2011:

   i. Kiwibank has complied with the conditions of registration applicable during the year;

   ii. credit exposures to connected persons were not contrary to the interests of the Banking Group;

   iii. Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

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

24 August 2011

Financial statements

Financial statements

Statements of comprehensive income

For the year ended 30 June 2011

		The Banking Group		Kiwibank Limited	
Dollars in thousands	Note	**12 months ended 30/06/11**	12 months ended 30/06/10	**12 months ended 30/06/11**	12 months ended 30/06/10
Interest income	2	**720,372**	563,886	**741,241**	583,599
Interest expense	2	**(529,040)**	(430,496)	**(549,961)**	(450,230)
Net interest income		**191,332**	133,390	**191,280**	133,369
Gains/(losses) on financial instruments at fair value	3	**16,414**	36,323	**16,414**	36,323
Other income	4	**145,254**	131,729	**148,520**	135,303
Total operating income		**353,000**	301,442	**356,214**	304,995
Operating expenses	5	**(241,674)**	(218,902)	**(244,392)**	(222,455)
Impairment losses on loans and advances	24	**(78,982)**	(17,860)	**(78,965)**	(17,860)
Profit before taxation		**32,344**	64,680	**32,857**	64,680
Income tax expense	6	**(11,116)**	(18,832)	**(11,269)**	(18,832)
Profit after taxation		**21,228**	45,848	**21,588**	45,848
Attributable to:					
Owners of the parent		**21,228**	45,848	**21,588**	45,848
Non controlling interest		**-**	-	**-**	-

Other comprehensive income

Available-for-sale reserve					
Gross gain/(loss) from changes in reserve	23	**3,533**	(4,846)	**3,533**	(4,846)
Cash flow hedge reserve					
Gross gain from changes in reserve	23	**5,476**	37,344	**5,476**	37,344
Tax expense relating to components of other comprehensive income		**(2,593)**	(9,749)	**(2,593)**	(9,749)
Other comprehensive income for the year		**6,416**	22,749	**6,416**	22,749
Total comprehensive income for the year		**27,644**	68,597	**28,004**	68,597
Attributable to:					
Owners of the parent		**27,644**	68,597	**28,004**	68,597
Non controlling interest		**-**	-	-	-

The notes on pages 21 to 101 form part of these financial statements.

Financial statements

Consolidated statements of changes in equity

The Banking Group	Fully Paid Ordinary Shares	Retained Earnings	Available For Sale Reserve	Cash Flow Hedge Reserve	Non Controlling Interest	Total
Dollars in thousands						
Balance at 1 July 2009	295,000	128,366	3,814	(72,014)	-	355,166
Year ended 30 June 2010						
Profit for the year	-	45,848	-	-	-	45,848
Other comprehensive income						
Available for sale financial assets	-	-	(3,392)	-	-	(3,392)
Cash flow hedges (net of tax)	-	-	-	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	**310,000**	**174,214**	**422**	**(45,873)**	**150,000**	**588,763**
Year ended 30 June 2011						
Profit for the year	**-**	**21,228**	**-**	**-**	**-**	**21,228**
Other comprehensive income						
Available for sale financial assets	**-**	**-**	**2,473**	**-**	**-**	**2,473**
Cash flow hedges (net of tax)	**-**	**-**	**-**	**3,943**	**-**	**3,943**
Total other comprehensive income	**-**	**-**	**2,473**	**3,943**	**-**	**6,416**
Total comprehensive income	**-**	**21,228**	**2,473**	**3,943**	**-**	**27,644**
Transactions with owners						
Dividends paid to non-controlling interest	**-**	**(8,558)**	**-**	**-**	**-**	**(8,558)**
Balance at 30 June 2011	**310,000**	**186,884**	**2,895**	**(41,930)**	**150,000**	**607,849**

The notes on pages 21 to 101 form part of these financial statements.

Financial statements

Statements of changes in equity

Kiwibank Limited	Fully Paid Ordinary Shares	Retained Earnings	Available For Sale Reserve	Cash Flow Hedge Reserve	Perpetual Preference Shares	Total
Dollars in thousands						
Balance at 30 June 2009	295,000	128,364	3,814	(72,014)	-	355,164
Year ended 30 June 2010						
Profit for the year	-	45,848	-	-	-	45,848
Other comprehensive income						
Available for sale financial assets	-	-	(3,392)	-	-	(3,392)
Cash flow hedges (net of tax)	-	-	-	26,141	-	26,141
Total other comprehensive income	-	-	(3,392)	26,141	-	22,749
Total comprehensive income	**-**	45,848	(3,392)	26,141	**-**	68,597
Transactions with owners						
Issuance of ordinary share capital	15,000	-	-	-	-	15,000
Issuance of perpetual preference shares	-	-	-	-	150,000	-
Balance at 30 June 2010	310,000	174,212	422	(45,873)	150,000	588,761
Year ended 30 June 2011						
Profit for the year	**-**	**21,588**	**-**	**-**	**-**	**21,588**
Other comprehensive income						
Available for sale financial assets	**-**	**-**	**2,473**	**-**	**-**	**2,473**
Cash flow hedges (net of tax)	**-**	**-**	**-**	**3,943**	**-**	**3,943**
Total other comprehensive income	**-**	**-**	**2,473**	**3,943**	**-**	**6,416**
Total comprehensive income	**-**	**21,588**	**2,473**	**3,943**	**-**	**28,004**
Transactions with owners						
Dividends paid	**-**	**(8,558)**	**-**	**-**	**-**	**(8,558)**
Balance at 30 June 2011	**310,000**	**187,242**	**2,895**	**(41,930)**	**150,000**	**608,207**

The notes on pages 21 to 101 form part of these financial statements.

Financial statements continued

Statements of financial position

As at 30 June 2011

Dollars in thousands	Note	The Banking Group 30/06/11	The Banking Group 30/06/10	Kiwibank Limited 30/06/11	Kiwibank Limited 30/06/10
Assets					
Cash and cash equivalents	8	**296,302**	303,866	**295,400**	303,804
Due from NZP related parties	25	**3,571**	-	**604,989**	600,916
Due from other financial institutions	9	**440,483**	156,871	**440,483**	156,871
Financial assets held for trading	10	**324,609**	671,152	**324,609**	671,152
Available-for-sale assets	11	**1,123,452**	544,453	**1,123,452**	544,453
Loans and advances	12	**11,494,796**	10,418,502	**11,494,964**	10,418,502
Derivative financial instruments	13	**73,545**	46,320	**73,545**	46,320
Property, plant and equipment	15	**25,036**	20,182	**25,036**	20,182
Intangible assets	16	**47,686**	47,505	**47,686**	47,505
Deferred taxation	7	**35,701**	20,813	**35,696**	20,813
Other assets	17	**10,156**	8,711	**10,103**	8,868
Total assets		**13,875,337**	12,238,375	**14,475,963**	12,839,386
Interest earning and discount bearing assets		***13,840,328***	*12,160,670*	***14,440,559***	*12,761,524*
Liabilities					
Due to other financial institutions	18	**795,964**	164,051	**795,964**	164,051
Due to NZP related parties	25	**19**	12,114	**601,004**	613,241
Deposits and other borrowings	20	**10,586,271**	10,295,325	**10,586,277**	10,295,325
Derivative financial instruments	13	**182,819**	202,588	**182,819**	202,588
Debt securities issued	21	**1,509,847**	795,237	**1,509,847**	795,237
Current taxation	7	**7,922**	4,636	**7,430**	4,636
Other liabilities	22	**41,923**	32,362	**41,692**	32,248
Term subordinated debt	19	**142,723**	143,299	**142,723**	143,299
Total liabilities		**13,267,488**	11,649,612	**13,867,756**	12,250,625
Interest and discount bearing liabilities		*13,217,624*	*11,610,500*	*13,818,615*	*12,211,582*
Equity attributable to owners of the parent					
Share capital		**310,000**	310,000	**460,000**	460,000
Reserves		**147,849**	128,763	**148,207**	128,761
Total equity attributable to owners of the parent	23	**457,849**	438,763	**608,207**	588,761
Non controlling interest	23	**150,000**	150,000	**-**	-
Total equity		**607,849**	588,763	**608,207**	588,761
Total liabilities and shareholder's equity		**13,875,337**	12,238,375	**14,475,963**	12,839,386

The notes on pages 21 to 101 form part of these financial statements.

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

Robert Morrison

Richard Westlake

Financial statements continued

Cash flow statements

For the year ended 30 June 2011

Dollars in thousands	Note	The Banking Group **12 months ended 30/06/11**	The Banking Group 12 months ended 30/06/10	Kiwibank Limited **12 months ended 30/06/11**	Kiwibank Limited 12 months ended 30/06/10
Cash flows from operating activities					
Interest income		**717,584**	553,565	**738,453**	573,218
Fees and other income		**156,005**	131,729	**159,271**	135,303
Operating expenses paid		**(215,555)**	(199,524)	**(218,681)**	(203,189)
Interest paid		**(536,456)**	(403,395)	**(557,377)**	(423,129)
Taxes paid		**(27,131)**	(18,311)	**(27,772)**	(18,311)
Net cash flows from operating activities before changes in operating assets and liabilities		**94,447**	64,064	**93,894**	63,892
Net changes in operating assets and liabilities:					
Decrease in financial assets held for trading		**352,833**	51,026	**352,833**	51,026
(Increase)/decrease in available-for-sale assets		**(574,607)**	138,751	**(574,607)**	138,751
Increase in loans and advances		**(1,193,709)**	(1,933,045)	**(1,193,860)**	(1,933,045)
Increase in amounts due from related parties		**-**	-	**-**	(645)
Increase in balances due from other financial institutions		**(283,612)**	(156,871)	**(283,612)**	(156,871)
Increase in deposits and other borrowings		**297,746**	2,002,648	**297,752**	2,002,648
Decrease in amounts due to related parties		**(10,000)**	(25,000)	**(10,142)**	(24,243)
Increase/(decrease) in balances due to other financial institutions		**631,913**	(152,597)	**631,913**	(152,597)
Net cash flows provided by operating activities		**(684,989)**	(11,024)	**(685,829)**	(11,084)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(12,841)**	(8,701)	**(12,841)**	(8,701)
Purchase of intangible software assets		**(15,786)**	(17,911)	**(15,786)**	(17,911)
Net cash flows from investing activities		**(28,627)**	(26,612)	**(28,627)**	(26,612)
Cash flows from financing activities					
Issue of ordinary shares		**-**	18,361	**-**	15,000
Issue of perpetual preference shares		**-**	150,000	**-**	150,000
Issuance costs of perpetual preference shares		**-**	(3,361)	**-**	-
Increase/(decrease) in debt securities issued		**714,610**	(117,303)	**714,610**	(117,303)
Dividends paid		**(8,558)**	-	**(8,558)**	-
Net cash flows from financing activities		**706,052**	47,697	**706,052**	47,697
(Decrease)/increase in cash and cash equivalents		**(7,564)**	10,061	**(8,404)**	10,001
Cash and cash equivalents at beginning of the year		**303,866**	293,805	**303,804**	293,803
Cash and cash equivalents at end of the year	8	**296,302**	303,866	**295,400**	303,804

The notes on pages 21 to 101 form part of these financial statements.

Financial statements continued

Cash flow statements continued

For the year ended 30 June 2011

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**12 months ended 30/06/11**	12 months ended 30/06/10	**12 months ended 30/06/11**	12 months ended 30/06/10
Reconciliation of net profit after taxation to net cash flows from operating activities				
Net profit after taxation	**21,228**	45,848	**21,588**	45,848
Non cash movements/non operating activities				
Unrealised fair value adjustments	**(5,664)**	(35,305)	**(5,664)**	(35,305)
Depreciation	**7,985**	6,621	**7,985**	6,621
Amortisation of intangibles	**15,605**	12,617	**15,605**	12,617
Intangible asset write off	**-**	2,720	**-**	2,720
Increase in deferred expenditure	**(2,685)**	(5,082)	**(2,685)**	(5,082)
Increase in provision for credit impairment	**67,635**	7,298	**67,618**	7,298
Lending losses written off	**11,347**	10,562	**11,347**	10,562
Increase in deferred taxation	**(18,241)**	(1,105)	**(18,237)**	(1,105)
Decrease in operating assets and liabilities				
Increase in financial assets held for trading	**352,833**	51,026	**352,833**	51,026
(Decrease)/increase in available-for-sale assets	**(574,607)**	138,751	**(574,607)**	138,751
Increase in loans and advances	**(1,193,709)**	(1,933,045)	**(1,193,860)**	(1,933,045)
Decrease/(increase) in balances due from other financial institutions	**631,913**	(156,871)	**631,913**	(156,871)
Increase in deposits	**297,746**	2,002,648	**297,752**	2,002,648
Decrease in amounts due to related parties - term	**(10,000)**	(25,000)	**(10,142)**	(24,243)
Decrease in balances due to other financial institutions	**(283,612)**	(152,597)	**(283,612)**	(152,597)
Increase in accrued operating expenses	**9,641**	709	**9,459**	686
(Decrease)/increase in interest payable	**(7,416)**	27,101	**(7,416)**	27,101
Increase in interest receivable	**(103)**	(5,239)	**(103)**	(5,239)
Decrease in balances with related parties	**(5,666)**	(458)	**(6,102)**	(1,095)
Increase in current taxation	**2,226**	609	**1,734**	609
Decrease in other assets	**(1,445)**	(2,832)	**(1,235)**	(2,989)
Net cash flows from operating activities	**(684,989)**	(11,024)	**(685,829)**	(11,084)

The notes on pages 21 to 101 form part of these financial statements.

Notes to the financial statements

1. Statement of accounting policies

Reporting entity and statutory base

In these financial statements, the reporting entity is Kiwibank Limited ("Kiwibank"). The "Banking Group" consists of Kiwibank and its subsidiaries (as set out in note 14). Kiwibank is registered under the Companies Act 1993 and is registered as a bank under the Reserve Bank of New Zealand Act 1989.
The principal activity of the Banking Group is the provision of retail and banking products and services to individuals and small to medium-sized businesses.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities, and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No.2) 2011 (the "Order"). The financial statements comply with International Financial Reporting Standards.

These financial statements have been approved for issue by the Board of Directors on 24 August 2011.

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although Kiwibank has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

The following new disclosure requirements and amendments have been early adopted by the Banking Group.

Amendments to NZ IFRS 7 Appendix E – New Zealand specific additional disclosure requirements applicable to financial institutions (2011)

The scope of Appendix E is now limited to non-bank deposit takers. All references to the term "financial institution" in Appendix E is replaced with the term "deposit taker" as defined in the Reserve Bank of New Zealand Act 1989. Non-bank deposit takers are subsumed within the definition of deposit taker in that Act.

As a result of the amendments, the requirements of NZ IFRS 7 Appendix E no longer apply to the Banking Group.

Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2011
The Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 2) 2011 (the "Order") has been adopted for the year ended 30 June 2011. This has impacted the disclosure requirements. The main changes are reflected in the following notes, asset quality (note 24), interest repricing (note 33), credit exposure concentrations (note 39) and risk management policies (note 41).

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

NZ IFRS 9 - *Financial Instruments*

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

NZ IFRS 10 - *Consolidated Financial Statements*
NZ IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. NZ IFRS 10 is effective for annual periods beginning on or after 1 January 2013 and will be applied for the accounting period beginning 1 July 2013. It is not anticipated that there would be any change to the entities included within these consolidated financial statements if this standard was applied now.

Notes to the financial statements

1. Statement of accounting policies

NZ IFRS 12 - *Disclosure of Interests in Other Entities*

NZ IFRS 12 is a new standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. NZ IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Some additional disclosures may be required when this standard is adopted.

NZ IFRS 13 - *Fair Value Measurement*

NZ IFRS 13 centralises all requirements for the measurement of fair value. NZ IFRS 13 is effective for annual periods beginning on or after 1 January 2013. The Banking Group is investigating the impact of NZ IFRS 13 in conjunction with NZ IFRS 9.

NZ IAS 24 - *Related Party Disclosures (2009)*

This standard, on adoption, supersedes NZ IAS 24 - *Related Party Disclosures (2004).* The revised Standard simplifies some of the disclosure requirements, clarifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. This standard is effective for annual reporting periods beginning on or after 1 January 2011.
It is unlikely that changes arising from NZ IAS 24 will materially impact disclosures in the financial statements.

NZ IAS 27 - *Separate Financial Statements*

NZ IAS 27 includes accounting and disclosure requirements for investments in subsidiaries, joints ventures and associates when an entity prepares separate financial statements such as financial statements for the parent of a group. NZ IAS 27 (as amended in 2011) is effective for annual periods beginning on or after 1 January 2013. Some additional disclosures may be required when this standard is adopted.

Financial Reporting Standard No. 44 New Zealand Additional Disclosures

FRS-44 sets out New Zealand-specific disclosures for entities that have adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs). These disclosures have been relocated from NZ IFRSs to clarify that these disclosures are additional to those required by International Financial Reporting Standards (IFRSs). The Standard supports the objective of harmonising financial reporting standards in Australia and New Zealand. FRS-44 is effective from 1 July 2011. It is not expected that any material change in disclosures will be required.

Measurement base

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

Currency of presentation

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

Notes to the financial statements continued

1. Statement of accounting policies

Specific accounting policies

Basis of consolidation

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

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

Segment reporting

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

Shares in entities

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

Foreign currency translation

The functional currency and presentation currency of Kiwibank and the Banking Group is New Zealand dollars.
Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of comprehensive income. At reporting period date, foreign denominated monetary assets and liabilities are translated at the closing exchange rate, with exchange variations arising from these translations being recognised in the statement of comprehensive income.

Financial instruments

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

Notes to the financial statements continued

1. Statement of accounting policies

Financial assets

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

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

Notes to the financial statements continued

1. Statement of accounting policies

Financial instruments continued

Financial liabilities

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

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

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

Derivative financial instruments and hedge accounting

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

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

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

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

Fair value hedge

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

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts accumulated in equity are recycled to the statement of comprehensive income in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

Notes to the financial statements continued

1. Statement of accounting policies continued

Financial instruments continued

Derivatives at fair value through profit or loss

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

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

Offsetting financial instruments

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

Repurchase and reverse repurchase agreements

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

Impairment of financial assets

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

Assets carried at fair value

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

Assets classified as available-for-sale

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

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

1. Statement of accounting policies continued

Impairment of financial assets continued

Assets carried at amortised cost

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

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

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

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

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

Asset quality

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

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

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

1. Statement of accounting policies continued

Property, plant and equipment

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

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

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

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

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

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

Intangible assets

Computer software

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

Customer relationships

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

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.

Impairment of non-financial assets

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

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

1. Statement of accounting policies continued

Taxation

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

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

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

Leased assets

Operating leases

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

Revenue recognition

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

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

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

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

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

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

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

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

1. Statement of accounting policies continued

Superannuation and employee entitlements

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

Equity

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

Securitisation

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

Cash flow statements

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

i. Cash and cash equivalents is considered to be cash on hand, current accounts in banks, overnight bank deposits, net of bank overdrafts and inter-bank balances arising from the daily RBNZ settlement process.

ii. Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment, intangibles, equity or debt instruments of other entities and other long-term assets.

iii. Financing activities are those activities which result in changes in the size and composition of the capital structure of the Banking Group. This includes both equity and debt not falling within the definition of cash.

iv. Operating activities include all transactions and other events that are not investing or financing activities.

v. Certain cash flows have been netted to provide more meaningful disclosure, including changes in loans and advances to customers, deposits held by customers, balances with other banks, debt securities issued, available-for-sale assets and financial assets held for trading. Many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group.

Accounting period

The audited financial statements are for the year ended 30 June 2011.

Comparative amounts

Comparative amounts are from the audited financial statements for the year ended 30 June 2010. Certain comparatives have been restated to align with the revised disclosure requirements from Schedules 2, 4,7,9,13,14,15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No.2) 2011.

Critical estimates and judgements used in applying accounting policies

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

Notes to the financial statements continued

1. Statement of accounting policies continued

Critical estimates and judgements used in applying accounting policies continued

Fair value estimation

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the end of reporting period date or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. The quoted market price used for financial assets held is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

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

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

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

Asset backed securities not traded in active markets are valued using observable external third party inputs.

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

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

Credit provisioning includes $25m in relation to the Canterbury earthquake of 22 February 2011. This amount reflects management's best estimate of losses that may arise due to this natural disaster.

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

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

Notes to the financial statements continued

Dollars in thousands	The Banking Group 12 months ended 30/06/11	The Banking Group 12 months ended 30/06/10	Kiwibank Limited 12 months ended 30/06/11	Kiwibank Limited 12 months ended 30/06/10

2. Interest

Interest income				
Loans and advances at fair value through profit or loss	**45,883**	116,076	**45,883**	116,076
Loans and advances at amortised cost	**567,136**	448,491	**567,136**	448,491
Government and local authority securities	**29,879**	23,336	**29,879**	23,336
Other securities*	**73,048**	(27,740)	**93,967**	(8,006)
Cash and liquid assets	**4,257**	3,691	**4,174**	3,670
Balances with NZP related parties	**169**	32	**202**	32
Total interest income	**720,372**	563,886	**741,241**	583,599
Interest expense				
Deposits by customers	**345,253**	276,928	**345,253**	276,928
Debt securities issued	**183,263**	152,790	**183,263**	152,790
Balances with NZP related parties	**524**	778	**21,445**	20,512
Total interest expense	**529,040**	430,496	**549,961**	450,230

*Interest income from other securities is a debit balance in 2010. This is because it includes the net income and expenses on interest rate swaps, amounting to a debit of $176.6m for the year ended 30 June 2010 (2011; $93.9m debit).

Interest income on impaired assets is $4,389k (30 June 2010; $872k).

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

Financial assets designated at fair value through profit or loss upon initial recognition	**(12,607)**	(41,550)	**(12,607)**	(41,550)
Derivative financial instruments held for trading	**21,970**	60,150	**21,970**	60,150
Financial liabilities designated at fair value through profit or loss upon initial recognition	**(41)**	464	**(41)**	464
Financial assets held for trading	**6,290**	4,314	**6,290**	4,314
Net ineffectiveness on qualifying cash flow hedges	**135**	57	**135**	57
Net ineffectiveness on qualifying fair value hedges	**180**	(267)	**180**	(267)
Cumulative gain transferred from the available-for-sale reserve	**5,958**	17,735	**5,958**	17,735
Cumulative loss transferred from the cash flow hedge reserve	**(5,700)**	(5,610)	**(5,700)**	(5,610)
Net foreign exchange gains	**229**	1,030	**229**	1,030
Total gains on financial instruments	**16,414**	36,323	**16,414**	36,323

4. Other income

Banking and lending fee income	**86,059**	77,054	**89,325**	80,628
Payment services fee income (related party)	**40,844**	39,129	**40,844**	39,129
Payment services other fee income	**18,351**	15,546	**18,351**	15,546
Total other income	**145,254**	131,729	**148,520**	135,303

Notes to the financial statements continued

Dollars in thousands	The Banking Group **12 months ended 30/06/11**	The Banking Group 12 months ended 30/06/10	Kiwibank Limited **12 months ended 30/06/11**	Kiwibank Limited 12 months ended 30/06/10

5. Operating expenses

Included in operating expenses are the following items:				
Operating lease and rental costs	**11,231**	10,128	**11,185**	10,101
Transaction costs	**56,424**	56,957	**56,424**	56,957
Depreciation	**7,985**	6,621	**7,985**	6,621
Amortisation of intangibles	**15,605**	12,617	**15,605**	12,617
Auditor's remuneration:				
Audit fees	**477**	359	**381**	299
Assurance services*	**65**	126	**55**	126
Other advisory	**-**	29	**-**	29
Tax advisory services	**13**	127	**13**	127
Directors' fees	**319**	293	**319**	293
Salaries and wages	**82,812**	74,033	**82,636**	74,033
Computer and office costs	**26,251**	18,245	**26,238**	18,245
Intangible asset write off	**-**	2,628	**-**	2,628
Termination payments	**657**	288	**657**	288

* In the current year these services relate to off-quarter GDS agreed upon procedures, accounting opinions and Trustee reporting.

6. Taxation

Profit before taxation	**32,344**	64,680	**32,857**	64,680
Tax calculated at a tax rate of 30%	**(9,703)**	(19,404)	**(9,857)**	(19,404)
Tax effect of change in tax rate❶	**(1,361)**	341	**(1,361)**	341
Expenses not subject to tax	**(47)**	(42)	**(46)**	(42)
Prior year adjustment	**(5)**	273	**(5)**	273
Taxation charge as per the statement of comprehensive income	**(11,116)**	(18,832)	**(11,269)**	(18,832)
Represented by:				
Prior year adjustment	**(5)**	273	**(5)**	273
Current income tax	**(29,307)**	(20,529)	**(29,455)**	(20,529)
Deferred income tax	**18,196**	1,424	**18,191**	1,424
Taxation charge as per the statement of comprehensive income	**(11,116)**	(18,832)	**(11,269)**	(18,832)
The deferred tax charge in the statement of comprehensive income comprises the following temporary differences:				
Accelerated tax depreciation	**(1,126)**	(958)	**(1,126)**	(958)
Allowances for credit impairment losses	**19,313**	1,700	**19,308**	1,700
Other provisions and accruals	**1,370**	341	**1,370**	341
Tax effect of change in tax rate❶	**(1,361)**	341	**(1,361)**	341
Total temporary differences	**18,196**	1,424	**18,191**	1,424

❶ In May 2010, legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28%, effective for the 2012 income tax year. The tax effect shown above is the impact on the value of deferred tax assets and liabilities as a result of the reduction in the corporate tax rate for the financial year commencing 1 July 2011. Kiwibank does not have any imputation credits as it is part of the NZP tax group.

Notes to the financial statements continued

Dollars in thousands	The Banking Group 30/06/11	The Banking Group 30/06/10	Kiwibank Limited 30/06/11	Kiwibank Limited 30/06/10
7. Current and deferred taxation				
Current income tax payable				
Balance at beginning of year	**(4,636)**	(4,027)	**(4,636)**	(4,027)
Prior year adjustment	**(50)**	155	**(50)**	155
Current year profit	**(29,307)**	(20,529)	**(29,455)**	(20,529)
Tax on (profits)/losses taken to reserves	**(1,060)**	1,454	**(1,060)**	1,454
Tax losses purchased – related parties	**-**	-	**3,085**	-
Tax paid	**27,131**	18,311	**24,686**	18,311
Balance at end of year	**(7,922)**	(4,636)	**(7,430)**	(4,636)
Deferred tax				
Balance at beginning of year	**20,813**	30,474	**20,813**	30,474
Prior year adjustment	**45**	118	**45**	118
Temporary differences for the year	**19,557**	1,083	**19,552**	1,083
Tax effect of change in tax rate❶	**(2,525)**	341	**(2,525)**	341
Tax on profits taken to reserves	**(2,189)**	(11,203)	**(2,189)**	(11,203)
Balance at end of year	**35,701**	20,813	**35,696**	20,813
Deferred income tax assets				
Cash flow hedges	**16,306**	19,660	**16,306**	19,660
Other provisions and accruals	**1,419**	1,455	**1,419**	1,455
Allowance for loan impairment	**24,989**	5,744	**24,984**	5,744
Total assets	**42,714**	26,859	**42,709**	26,859
Deferred income tax liabilities				
Accelerated tax depreciation	**(7,013)**	(6,046)	**(7,013)**	(6,046)
Total liabilities	**(7,013)**	(6,046)	**(7,013)**	(6,046)
Net deferred taxation	**35,701**	20,813	**35,696**	20,813
Recoverable within twelve months	**30,091**	25,923	**30,086**	25,923
Recoverable after twelve months	**5,610**	(5,110)	**5,610**	(5,110)
Imputation credit account				
Balance at beginning of year	**-**	**-**	**-**	-
Income tax payments during the year	**3,027**	**-**	**-**	-
Imputation credits attaching to dividends paid during the year	**(3,667)**	**-**	**-**	-
Total imputation credits	**(640)**	**-**	**-**	-

The imputation credits in the table above are attributable to Kiwi Capital Securities Limited. Kiwibank Limited does not have imputation credits as it is part of the NZP tax group.

Notes to the financial statements continued

Dollars in thousands	The Banking Group **30/06/11**	The Banking Group 30/06/10	Kiwibank Limited **30/06/11**	Kiwibank Limited 30/06/10

8. Cash and cash equivalents

Cash in hand	**47,470**	44,372	**47,470**	44,372
Cash with central banks	**192,713**	220,625	**192,713**	220,625
Call and overnight advances to financial institutions	**56,119**	38,869	**55,217**	38,807
Total cash and cash equivalents	**296,302**	303,866	**295,400**	303,804
Current	**296,302**	303,866	**295,400**	303,804

9. Due from other financial institutions

Unsettled receivables	**209,727**	17,046	**209,727**	17,046
Short term advances due from other financial institutions	**175,640**	86,007	**175,640**	86,007
Collateralised loans	**55,116**	53,818	**55,116**	53,818
Total amount due from other financial institutions	**440,483**	156,871	**440,483**	156,871
Current	**440,483**	156,871	**440,483**	156,871

As at 30 June 2011, included within the balance above, is $55.1m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (June 10; $53.8m).

10. Financial assets held for trading

Bank bills	**179,295**	189,288	**179,295**	189,288
Other securities	**145,314**	481,864	**145,314**	481,864
Total financial assets held for trading	**324,609**	671,152	**324,609**	671,152
Current	**203,662**	249,512	**203,662**	249,512
Non-current	**120,947**	421,640	**120,947**	421,640

11. Available-for-sale assets

Government stock and multilateral development banks	**660,779**	350,068	**660,779**	350,068
Local authority securities	**142,683**	18,927	**142,683**	18,927
Other debt securities	**319,990**	175,458	**319,990**	175,458
Total available-for-sale assets	**1,123,452**	544,453	**1,123,452**	544,453
Current	**471,994**	147,084	**471,994**	147,084
Non-current	**651,458**	397,369	**651,458**	397,369

12. Loans and advances

Loans and advances designated upon initial recognition at fair value through profit or loss	**447,853**	1,235,764	**447,853**	1,235,764
Loans and advances at amortised cost	**11,134,084**	9,202,244	**11,134,235**	9,202,244
Allowance for impairment losses (note 24)	**(87,141)**	(19,506)	**(87,124)**	(19,506)
Total net loans and advances	**11,494,796**	10,418,502	**11,494,964**	10,418,502
Current	**1,028,362**	908,415	**1,028,362**	908,415
Non-current	**10,466,434**	9,510,087	**10,466,602**	9,510,087
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value through profit or loss	**269**	741	**269**	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.

13. Derivative financial instruments

Derivatives

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

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

- Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

- Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, the Banking Group assesses counterparties using the same techniques as for its lending activities.

- Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Banking Group and a customer over-the-counter. The Banking Group is exposed to credit risk on purchased options only and only to the extent of their carrying amount, which is their fair value.

- The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Banking Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair value of derivative instruments is set out below.

Notes to the financial statements continued

13. Derivative financial instruments continued

Dollars in thousands	The Banking Group and Kiwibank Limited		
	Notional Principal Amount	**Fair values**	
		Assets	**Liabilities**
30/06/11			
Derivatives held for trading			
Foreign exchange derivatives			
Forward contracts	**649,617**	**1,068**	**(22,863)**
Swap agreements	**512,717**	**18,718**	**(6,571)**
Options Purchased	**105**	**2**	**-**
Options Sold	**107**	**-**	**(2)**
Total	**1,162,546**	**19,788**	**(29,436)**
Interest rate derivatives			
Forward rate agreements	**200,000**	**7**	**(8)**
Swap agreements	**4,923,690**	**33,716**	**(64,757)**
Futures contracts	**1,301,099**	**8**	**(18)**
Total	**6,424,789**	**33,731**	**(64,783)**
Total derivatives held for trading	**7,587,335**	**53,519**	**(94,219)**
Derivatives held for hedging			
Designated as cash flow hedges			
Interest rate derivatives			
Swap agreements	**3,374,500**	**6,281**	**(87,845)**
Total derivatives designated as cash flow hedges	**3,374,500**	**6,281**	**(87,845)**
Designated as fair value hedges			
Interest rate derivatives			
Swap agreements	**445,374**	**13,745**	**(755)**
Total derivatives designated as fair value hedges	**445,374**	**13,745**	**(755)**
Total derivatives held for hedging	**3,819,874**	**20,026**	**(88,600)**
Total derivative financial instruments - current	**11,407,209**	**73,545**	**(182,819)**

13. Derivative financial instruments continued

Dollars in thousands	The Banking Group and Kiwibank Limited		
	Notional Principal Amount	Fair values Assets	Fair values Liabilities
30/06/10			
Derivatives held for trading			
Foreign exchange derivatives			
Forward contracts	118,373	244	(3,867)
Swap agreements	396,864	8,007	(7,195)
Total	515,237	8,251	(11,062)
Interest rate derivatives			
Forward contracts	1,000,000	146	(50)
Swap agreements	3,505,794	15,667	(89,822)
Futures contracts	1,087,459	7	(581)
Total	5,593,253	15,820	(90,453)
Total derivatives held for trading	6,108,490	24,071	(101,515)
Derivatives held for hedging			
Designated as cash flow hedges			
Interest rate derivatives			
Swap agreements	3,900,500	6,747	(99,925)
Total derivatives designated as cash flow hedges	3,900,500	6,747	(99,925)
Designated as fair value hedges			
Interest rate derivatives			
Swap agreements	441,313	15,502	(1,148)
Total derivatives designated as fair value hedges	441,313	15,502	(1,148)
Total derivatives held for hedging	4,341,813	22,249	(101,073)
Total derivative financial instruments - current	10,450,303	46,320	(202,588)

Notes to the financial statements continued

13. Derivative financial instruments continued

Fair value hedges

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

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

Cash flow hedges

The Banking Group hedges the short term future reissuance of fixed rate customers and future retail term deposits through the use of interest rate swaps. Previously the Banking Group also hedged the cash flows from variable rate loan assets and liabilities. Gains and losses deferred in the cash flow hedge reserve will be transferred to the statement of comprehensive income over the next one to five years, as the cash flows under the hedged transactions occur.

14. Investment in subsidiaries

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

		Interest held by Parent	
Name of entity	**Principal activity**	**30/06/11**	30/06/10
Kiwibank Nominees Limited	Provision of custodial services to customers in respect of assets that are beneficially owned by those customers	**100%**	100%
New Zealand Home Lending Limited	Agency services for mortgage lending through The New Zealand Home Loan Company Limited	**100%**	100%
AMP Home Loans Limited	Agency services for mortgage lending through the AMP Advisor network	**100%**	100%
Kiwibank Investment Management Limited	Provision of investment management services	**100%**	100%
KB Custodial Services Limited	Funds management	**100%**	100%
Kiwi Asset Finance Limited	Asset finance leasing	**100%**	-
Kiwi Capital Management Limited*	Issuance management company	**-**	-
Kiwi Capital Securities Limited*	Issuer of perpetual preference shares	**-**	-
Kiwibank Portfolio Investment Entity Unit Trust * (PIE Unit Trust)	Provision of investment management services	**-**	-
Kiwibank RMBS Trust Series 2009-1*	Securitisation finance entity	**-**	-

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

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

Dollars in thousands	The Banking Group 30/06/11	The Banking Group 30/06/10	Kiwibank Limited 30/06/11	Kiwibank Limited 30/06/10
15. Property, plant and equipment				
Furniture and fittings	**4,998**	4,042	**4,998**	4,042
Motor vehicles	**4**	7	**4**	7
Computer hardware work in progress	**5,137**	1,423	**5,137**	1,423
Computer hardware	**14,897**	14,710	**14,897**	14,710
Total property, plant and equipment	**25,036**	20,182	**25,036**	20,182
Furniture and fittings				
Cost brought forward	**6,082**	4,601	**6,082**	4,601
Accumulated depreciation brought forward	**(2,040)**	(1,453)	**(2,040)**	(1,453)
Opening net book value	**4,042**	3,148	**4,042**	3,148
Additions	**1,711**	1,481	**1,711**	1,481
Depreciation	**(755)**	(587)	**(755)**	(587)
Closing net book value	**4,998**	4,042	**4,998**	4,042
Cost	**7,793**	6,082	**7,793**	6,082
Accumulated depreciation	**(2,795)**	(2,040)	**(2,795)**	(2,040)
Closing net book value	**4,998**	4,042	**4,998**	4,042
Motor vehicles				
Cost brought forward	**19**	19	**19**	19
Accumulated depreciation brought forward	**(12)**	(9)	**(12)**	(9)
Opening net book value	**7**	10	**7**	10
Depreciation	**(3)**	(3)	**(3)**	(3)
Closing net book value	**4**	7	**4**	7
Cost	**19**	19	**19**	19
Accumulated depreciation	**(15)**	(12)	**(15)**	(12)
Closing net book value	**4**	7	**4**	7
Work in progress				
Balance brought forward	**1,423**	2,952	**1,423**	2,952
Additions	**5,726**	916	**5,726**	916
Transfers to computer software work in progress	**-**	(1,658)	**-**	(1,658)
Transfers to computer hardware	**(2,012)**	(741)	**(2,012)**	(741)
Write offs	**-**	(46)	**-**	(46)
Closing net book value	**5,137**	1,423	**5,137**	1,423
Computer hardware				
Cost brought forward	**38,969**	32,045	**38,969**	32,045
Accumulated depreciation brought forward	**(24,259)**	(18,302)	**(24,259)**	(18,302)
Opening net book value	**14,710**	13,743	**14,710**	13,743
Additions	**5,404**	6,304	**5,404**	6,304
Transfers from computer hardware work in progress	**2,012**	741	**2,012**	741
Net disposals	**(2)**	(47)	**(2)**	(47)
Depreciation	**(7,227)**	(6,031)	**(7,227)**	(6,031)
Closing net book value	**14,897**	14,710	**14,897**	14,710
Cost	**45,907**	38,969	**45,907**	38,969
Accumulated depreciation	**(31,010)**	(24,259)	**(31,010)**	(24,259)
Closing net book value	**14,897**	14,710	**14,897**	14,710

Dollars in thousands	The Banking Group 30/06/11	The Banking Group 30/06/10	Kiwibank Limited 30/06/11	Kiwibank Limited 30/06/10

16. Intangible assets

Computer software	**37,209**	33,092	**37,209**	33,092
Acquired customer relationships	**1,726**	3,452	**1,726**	3,452
Computer software work in progress (internally developed)	**8,751**	10,961	**8,751**	10,961
Total intangible assets	**47,686**	47,505	**47,686**	47,505
Computer software (internally developed)				
Cost brought forward	**78,434**	60,289	**78,434**	60,289
Accumulated amortisation brought forward	**(45,342)**	(34,559)	**(45,342)**	(34,559)
Opening net book value	**33,092**	25,730	**33,092**	25,730
Transfers from computer software work in progress	**15,983**	14,956	**15,983**	14,956
Additions	**2,013**	3,189	**2,013**	3,189
Disposals - cost	**(418)**	-	**(418)**	-
Disposals - amortisation	**418**	-	**418**	-
Amortisation	**(13,879)**	(10,783)	**(13,879)**	(10,783)
Closing net book value	**37,209**	33,092	**37,209**	33,092
Cost	**96,012**	78,434	**96,012**	78,434
Accumulated amortisation	**(58,803)**	(45,342)	**(58,803)**	(45,342)
Closing net book value	**37,209**	33,092	**37,209**	33,092
Acquired customer relationships				
Cost brought forward	**12,749**	12,749	**12,749**	12,749
Accumulated amortisation brought forward	**(9,297)**	(7,463)	**(9,297)**	(7,463)
Opening net book value	**3,452**	5,286	**3,452**	5,286
Amortisation	**(1,726)**	(1,834)	**(1,726)**	(1,834)
Closing net book value	**1,726**	3,452	**1,726**	3,452
Cost	**12,749**	12,749	**12,749**	12,749
Accumulated amortisation	**(11,023)**	(9,297)	**(11,023)**	(9,297)
Closing net book value	**1,726**	3,452	**1,726**	3,452
Computer software work in progress				
Balance brought forward	**10,961**	12,165	**10,961**	12,165
Additions	**13,773**	14,722	**13,773**	14,722
Transfers to computer software	**(15,983)**	(14,956)	**(15,983)**	(14,956)
Transfers from computer hardware work in progress	**-**	1,658	**-**	1,658
Write offs	**-**	(2,628)	**-**	(2,628)
Balance carried forward	**8,751**	10,961	**8,751**	10,961

Notes to the financial statements continued

Dollars in thousands	The Banking Group 30/06/11	The Banking Group 30/06/10	Kiwibank Limited 30/06/11	Kiwibank Limited 30/06/10
17. Other assets				
Prepayments	**2,070**	3,127	**2,070**	3,127
Trade and other receivables	**8,086**	5,584	**8,033**	5,741
Total other assets	**10,156**	8,711	**10,103**	8,868
Current	**10,108**	8,711	**10,055**	8,868
Non-current	**48**	-	**48**	-
18. Due to other financial institutions				
Repurchase agreements	**736,920**	100,247	**736,920**	100,247
Cash collateral pledged	**13,726**	-	**13,726**	-
Unsettled payables	**42,995**	61,566	**42,995**	61,566
ATM cash at other banks	**2,323**	2,238	**2,323**	2,238
Total due to other financial institutions – (current)	**795,964**	164,051	**795,964**	164,051
19. Term subordinated debt				
Face value	**135,000**	135,000	**135,000**	135,000
Interest accrued	**2,947**	2,947	**2,947**	2,947
Premium	**(206)**	(337)	**(206)**	(337)
Fair value hedge adjustment	**4,982**	5,689	**4,982**	5,689
Total term subordinated debt (non-current)	**142,723**	143,299	**142,723**	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 a deed poll guarantee ("the NZP Guarantee") provided by the Banking Group's ultimate holding company, (NZP). The debt is also not covered by the Crown Guarantee scheme.

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

Dollars in thousands	The Banking Group 30/06/11	The Banking Group 30/06/10	Kiwibank Limited 30/06/11	Kiwibank Limited 30/06/10

20. Deposits and other borrowings

Retail deposits	**7,902,445**	6,911,909	**5,304,362**	5,743,029
Wholesale deposits	**2,683,826**	3,383,416	**2,683,826**	3,383,416
Deposits by PIE Unit Trust	**-**	-	**2,598,089**	1,168,880
Total	**10,586,271**	10,295,325	**10,586,277**	10,295,325
New Zealand	**10,352,270**	10,075,666	**10,352,276**	10,075,666
Overseas	**234,001**	219,659	**234,001**	219,659
Total deposits and other borrowings at amortised cost	**10,586,271**	10,295,325	**10,586,277**	10,295,325
Current	**10,267,107**	9,994,985	**10,267,113**	9,994,985
Non-current	**319,164**	300,340	**319,164**	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 Saver account and PIE Online Call Fund. Kiwibank Investment Management Limited is the issuer and manager of the Unit Trust. Trustees Executors Limited is the trustee of the Unit Trust. Kiwibank is the promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Unit Trust is invested exclusively in term and call deposits with Kiwibank. At 30 June 2011, $2,598m of PIE funds were invested in Kiwibank’s own products or securities (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.

21. Debt securities issued

Short term debt				
Commercial paper	**549,266**	-	**549,266**	-
Certificates of deposit – amortised cost	**116,673**	179,349	**116,673**	179,349
Certificates of deposit – held for trading	**209,113**	199,116	**209,113**	199,116
Long term debt				
Medium term notes	**634,795**	416,772	**634,795**	416,772
Total debt securities issued	**1,509,847**	795,237	**1,509,847**	795,237
Current	**900,572**	403,619	**900,572**	403,619
Non-current	**609,275**	391,618	**609,275**	391,618

In the event of the liquidation of Kiwibank, holders of these debt securities 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. Kiwibank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the year.

Dollars in thousands	The Banking Group 30/06/11	The Banking Group 30/06/10	Kiwibank Limited 30/06/11	Kiwibank Limited 30/06/10

22. Other liabilities

Trade and other payables	**15,200**	12,933	**14,969**	12,822
Employee entitlements	**11,541**	9,738	**11,541**	9,738
Related parties	**351**	298	**351**	298
Other liabilities	**14,831**	9,393	**14,831**	9,390
Total other liabilities	**41,923**	32,362	**41,692**	32,248
Current	**41,923**	32,362	**41,692**	32,248
Non-current	**-**	-	-	-

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

23. Equity

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

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

Banking Group

On 4 May 2010 150,000,000 perpetual callable non-cumulative preference shares were issued for cash at $1 per share by Kiwi Capital Securities Limited. All issued shares were fully paid as at reporting date. The perpetual preference shares are non-redeemable and carry no voting rights. Dividends are paid quarterly in arrears at the discretion of the directors. The costs associated with this share issue have been netted against the perpetual preference share capital in the statement of financial position.

Kiwibank Limited

On 4 May 2010 150,000,000 perpetual callable non-cumulative preference shares were issued for cash at $1 per share by Kiwibank to Kiwi Capital Management Limited. All issued shares were fully paid as at 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. During the year, Kiwibank Limited paid a dividend of $8,558,000 to Kiwi Capital Management Limited (year ended 30 June 2010; $nil). No provision has been made for a variation or suspension of dividend payments.

Dollars in thousands	The Banking Group 30/06/11	The Banking Group 30/06/10	Kiwibank Limited 30/06/11	Kiwibank Limited 30/06/10
Equity				
310,000,000 ordinary shares fully paid	**310,000**	310,000	**310,000**	310,000
150,000,000 perpetual preference shares	**-**	-	**150,000**	150,000
Non controlling interest	**150,000**	150,000	**-**	-
Retained earnings	**186,884**	174,214	**187,242**	174,212
Cash flow hedge reserve	**(41,930)**	(45,873)	**(41,930)**	(45,873)
Available-for-sale reserve	**2,895**	422	**2,895**	422
Total equity	**607,849**	588,763	**608,207**	588,761

Dollars in thousands	The Banking Group 30/06/11	The Banking Group 30/06/10	Kiwibank Limited 30/06/11	Kiwibank Limited 30/06/10

23. Equity continued

Share capital				
Balance at beginning of the year	**310,000**	295,000	**310,000**	295,000
Issues in the year	**-**	15,000	**-**	15,000
Balance at end of the year	**310,000**	310,000	**310,000**	310,000
Perpetual preference shares				
Balance at beginning of the year	**-**	-	**150,000**	-
Issues in year	**-**	-	**-**	150,000
Balance at end of the year	**-**	-	**150,000**	150,000
Non controlling interest				
Balance at beginning of the year	**150,000**	-	-	-
Ordinary share capital issued in the year	**-**	3,361	-	-
Perpetual preference share capital issued in the year	**-**	150,000	-	-
Perpetual preference share issuance costs	**-**	(3,361)	-	-
Total perpetual preference share capital	**-**	146,639	-	-
Balance at end of the year	**150,000**	150,000	-	-
Retained earnings				
Balance at beginning of the year	**174,214**	128,366	**174,212**	128,364
Net profit for the year	**21,228**	45,848	**21,588**	45,848
Dividends paid	**(8,558)**	-	**(8,558)**	-
Balance at end of the year	**186,884**	174,214	**187,242**	174,212
Cash flow hedge reserve				
Balance at beginning of the year	**(45,873)**	(72,014)	**(45,873)**	(72,014)
Gross (loss)/gain from changes in fair value	**(224)**	31,734	**(224)**	31,734
Tax on gain/(loss) from changes in fair value	**63**	(9,520)	**63**	(9,520)
Cumulative loss transferred to the statement of comprehensive income on disposal of financial assets	**5,700**	5,610	**5,700**	5,610
Tax effect of items transferred to statement of comprehensive income	**(1,596)**	(1,683)	**(1,596)**	(1,683)
Balance at end of the year	**(41,930)**	(45,873)	**(41,930)**	(45,873)
Available-for-sale reserve				
Balance at beginning of the year	**422**	3,814	**422**	3,814
Gross gain from changes in fair value	**9,491**	12,889	**9,491**	12,889
Tax on gain from changes in fair value	**(2,847)**	(3,867)	**(2,847)**	(3,867)
Cumulative gain transferred to the statement of comprehensive income on disposal of financial assets	**(5,958)**	(17,735)	**(5,958)**	(17,735)
Tax effect of items transferred to statement of comprehensive income	**1,787**	5,321	**1,787**	5,321
Balance at end of the year	**2,895**	422	**2,895**	422

24. Asset quality

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the period. There are no real estate or other assets acquired through the enforcement of security held at 30 June 2011 (30 June 2010: nil). There are no assets under administration as at 30 June 2011 (30 June 2010: nil). There are no unrecognised impaired assets as at 30 June 2011 (30 June 2010: nil). The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are 90 days past due is nil at 30 June 2011 (30 June 2010: nil).

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/11**	30/06/10	**30/06/11**	30/06/10
Allowance for impairment losses in statement of financial position				
Collective allowance for impairment losses	**36,944**	9,543	**36,927**	9,543
Individually impaired assets	**50,197**	9,963	**50,197**	9,963
Allowance for impairment losses (note 12)	**87,141**	19,506	**87,124**	19,506
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value through profit or loss	**269**	741	**269**	741
Total allowance for impairment losses	**87,410**	20,247	**87,393**	20,247

	12 months ended 30/06/11	12 months ended 30/06/10	**12 months ended 30/06/11**	12 months 30/06/10
Impairment losses per statement of comprehensive income				
Collective impairment losses on loans not at fair value through profit or loss	**30,515**	5,846	**30,498**	5,846
Charge to statement of comprehensive income for individually impaired assets	**48,467**	12,014	**48,467**	12,014
Total impairment losses per statement of comprehensive income	**78,982**	17,860	**78,965**	17,860

24. Asset quality continued

Summary of lending

30 June 2011	Banking Group			Kiwibank		
Dollars in thousands	**Loans and advances to retail customers**	**Loans and advances to corporate and institutional customers**	**Total**	**Loans and advances to retail customers**	**Loans and advances to corporate and institutional customers**	**Total**
Neither past due nor impaired	**9,744,148**	**1,547,017**	**11,291,165**	**9,744,148**	**1,547,168**	**11,291,316**
Past due but not impaired (a)	**169,793**	**14,972**	**184,765**	**169,793**	**14,972**	**184,765**
Impaired (c)	**41,088**	**64,919**	**106,007**	**41,088**	**64,919**	**106,007**
Gross	**9,955,029**	**1,626,908**	**11,581,937**	**9,955,029**	**1,627,059**	**11,582,088**
Collective allowance for impairment (d)	**(21,473)**	**(15,471)**	**(36,944)**	**(21,473)**	**(15,454)**	**(36,927)**
Individual allowance for impairment (e)	**(16,955)**	**(33,242)**	**(50,197)**	**(16,955)**	**(33,242)**	**(50,197)**
Net loans and advances	**9,916,601**	**1,578,195**	**11,494,796**	**9,916,601**	**1,578,363**	**11,494,964**

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

Notes to the financial statements continued

24. Asset quality continued

a: Loans and advances past due but not impaired

	The Banking Group and Kiwibank Limited			
Loans and advances to customers Dollars in thousands	**Retail unsecured lending**	**Retail mortgage lending**	**Corporate exposures**	**Total**
30 June 2011				
Past due up to 30 days	**21,895**	**80,879**	**4,215**	**106,989**
Past due 31 – 60 days	**7,526**	**13,008**	**5,269**	**25,803**
Past due 61 – 90 days	**2,959**	**11,662**	**4,577**	**19,198**
Past due > 90 days (b)	**2,934**	**28,930**	**911**	**32,775**
Total	**35,314**	**134,479**	**14,972**	**184,765**
Fair value of collateral	**-**	**149,421**	**16,636**	**166,057**
30 June 2010				
Past due up to 30 days	20,346	94,956	12,137	127,439
Past due 31 – 60 days	6,290	22,924	10,067	39,281
Past due 61 – 90 days	2,881	5,271	13,395	21,547
Past due > 90 days (b)	2,536	19,152	7,981	29,669
Total	32,053	142,303	43,580	217,936
Fair value of collateral	-	158,114	48,422	206,536

Notes to the financial statements continued

24. Asset quality continued

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

Dollars in thousands	The Banking Group		Kiwibank Limited	
	12 months ended 30/06/11	12 months ended 30/06/10	**12 months ended 30/06/11**	12 months ended 30/06/10
b: Past due assets > 90 days – unsecured retail lending				
Gross impaired				
Balance at beginning of the year	**2,536**	2,015	**2,536**	2,015
Transfers to past due assets	**8,300**	6,168	**8,300**	6,168
Transfers from past due assets	**(7,902)**	(5,647)	**(7,902)**	(5,647)
Amounts written off	**-**	-	**-**	-
Balance at end of year	**2,934**	2,536	**2,934**	2,536
Past due assets > 90 days – residential mortgage loans				
Balance at beginning of the year	**19,152**	11,797	**19,152**	11,797
Transfers to past due assets	**70,533**	99,242	**70,533**	99,242
Transfers from past due assets	**(60,755)**	(91,887)	**(60,755)**	(91,887)
Amounts written off	**-**	-	**-**	-
Balance at end of year	**28,930**	19,152	**28,930**	19,152
Past due assets > 90 days – corporate exposures				
Balance at beginning of the year	**7,981**	9,434	**7,981**	9,434
Transfers to past due assets	**34,938**	22,295	**34,938**	22,295
Transfers from past due assets	**(42,008)**	(23,748)	**(42,008)**	(23,748)
Amounts written off	**-**	-	**-**	-
Balance at end of year	**911**	7,981	**911**	7,981
Total past due assets > 90 days	**32,775**	29,669	**32,775**	29,669

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

24. Asset quality continued

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

Dollars in thousands	The Banking Group		Kiwibank Limited	
	12 months ended 30/06/11	12 months ended 30/06/10	**12 months ended 30/06/11**	12 months ended 30/06/10
c: Impaired assets – unsecured retail lending				
Gross impaired				
Balance at beginning of the year	**179**	227	**179**	227
Transfers from productive	**3,367**	3,766	**3,367**	3,766
Transfers to productive	**(90)**	(227)	**(90)**	(227)
Recoveries of amounts previously written off	**-**	-	**-**	-
Amounts written off	**(3,090)**	(3,587)	**(3,090)**	(3,587)
Balance at end of year	**366**	179	**366**	179
Impaired assets – residential mortgage loans				
Balance at beginning of the year	**26,321**	5,588	**26,321**	5,588
Transfers from productive	**20,799**	24,370	**20,799**	24,370
Transfers to productive	**-**	-	**-**	-
Recoveries of amounts previously written off	**(743)**	-	**(743)**	-
Amounts written off	**(5,655)**	(3,637)	**(5,655)**	(3,637)
Balance at end of year	**40,722**	26,321	**40,722**	26,321
Impaired assets – corporate exposures				
Balance at beginning of the year	**11,276**	13,517	**11,276**	13,517
Transfers from productive	**56,510**	12,106	**56,510**	12,106
Transfers to productive	**-**	(10,017)	**-**	(10,017)
Recoveries of amounts previously written off	**(3)**	-	**(3)**	-
Amounts written off	**(2,864)**	(4,330)	**(2,864)**	(4,330)
Balance at end of year	**64,919**	11,276	**64,919**	11,276
Total gross impaired assets	**106,007**	37,776	**106,007**	37,776
Individual allowance for impairment	**(50,197)**	(9,963)	**(50,197)**	(9,963)
Total net impaired assets	**55,810**	27,813	**55,810**	27,813

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

Notes to the financial statements continued

24. Asset quality continued

Dollars in thousands

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

Banking Group	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Collective allowance for impairment losses				
12 months ended 30/06/11				
Balance at beginning of the year	**3,824**	**2,584**	**3,135**	**9,543**
Impairment losses on loans not at fair value through profit or loss	**2,951**	**15,228**	**12,336**	**30,515**
Advances written off	**(3,114)**	-	-	**(3,114)**
Total collective allowance for impairment losses	**3,661**	**17,812**	**15,471**	**36,944**
12 months ended 30/06/10				
Balance at beginning of the year	3,190	1,734	2,359	7,283
Impairment losses on loans not at fair value through profit or loss	3,994	850	776	5,620
Advances written off	(3,360)	-	-	(3,360)
Total collective allowance for impairment losses	3,824	2,584	3,135	9,543

Kiwibank	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Collective allowance for impairment losses				
12 months ended 30/06/11				
Balance at beginning of the year	**3,824**	**2,584**	**3,135**	**9,543**
Impairment losses on loans not at fair value through profit or loss	**2,951**	**15,228**	**12,319**	**30,498**
Advances written off	**(3,114)**	-	-	**(3,114)**
Total collective allowance for impairment losses	**3,661**	**17,812**	**15,454**	**36,927**
12 months ended 30/06/10				
Balance at beginning of the year	3,190	1,734	2,359	7,283
Impairment losses on loans not at fair value through profit or loss	3,994	850	776	5,620
Advances written off	(3,360)	-	-	(3,360)
Total collective allowance for impairment losses	3,824	2,584	3,135	9,543

24. Asset quality continued

Dollars in thousands

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

Banking Group and Kiwibank

	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Individual allowance for impairment losses				
12 months ended 30/06/11				
Balance at beginning of the year	**179**	**824**	**8,960**	**9,963**
Impairment losses on loans not at fair value through profit or loss	**192**	**21,129**	**27,146**	**48,467**
Advances written off	**(5)**	**(5,364)**	**(2,864)**	**(8,233)**
Total individual allowance for impairment losses	**366**	**16,589**	**33,242**	**50,197**
12 months ended 30/06/10				
Balance at beginning of the year	227	1,056	3,642	4,925
Impairment losses on loans not at fair value through profit or loss	179	7,735	5,318	13,232
Advances written off	(227)	(7,967)	-	(8,194)
Total individual allowance for impairment losses	179	824	8,960	9,963

f: The reconciliation of loans and advances at FVTPL is as follows:

Banking Group and Kiwibank

	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
12 months ended 30/06/11				
Balance at beginning of the year	**-**	**741**	**-**	**741**
Credit risk unwind	**-**	**(472)**	**-**	**(472)**
Total allowance for impairment losses	**-**	**269**	**-**	**269**
12 months ended 30/06/10				
Balance at beginning of the year	-	1,273	-	1,273
Credit risk unwind	-	(532)	-	(532)
Total allowance for impairment losses	-	741	-	741

24. Asset quality continued

Dollars in thousands

g: Reconciliation of net loans and advances

	The Banking Group		Kiwibank Limited	
	12 months ended 30/06/11	12 months ended 30/06/10	**12 months ended 30/06/11**	12 months ended 30/06/10
Retail unsecured lending	**262,332**	264,018	**262,332**	264,018
Residential mortgage loans	**9,654,269**	8,724,746	**9,654,269**	8,724,746
Corporate exposures	**1,578,195**	1,429,738	**1,578,363**	1,429,738
Balance at end of year	**11,494,796**	10,418,502	**11,494,964**	10,418,502

- Retail unsecured lending comprises drawn-down loans to individuals including credit cards.
- Residential mortgage loans comprise drawn-down loans to individuals and corporates, secured against residential mortgages. It includes investments in residential property as well as owner-occupied housing
- Corporate exposures comprise primarily drawn-down loans to small to medium enterprises (SME's) secured against commercial property.

Notes to the financial statements continued

25. Related party transactions

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.

Transaction with NZ Post and related entities

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.

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.

Kiwibank provided Treasury services to NZP under a service level agreement. During the year, NZP held a number of property leases on behalf of Kiwibank. Kiwibank reimbursed NZP for the lease charges but had no contractual lease commitments for property charges. At 30 June 2011, Kiwibank holds a property lease with NZP.

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 is part of the NZP consolidated tax group.

Payment Services' fee revenue (see note 4) and expenditure are included in Kiwibank under a management agreement whereby Kiwibank manages the Payment Services activity of NZP. Payment Services' activity consists of collection agency business.

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

Transaction within the Banking Group

Kiwibank received management fees from the RMBS Trust of $3,542,000 in the year (30 June 2010: $3,574,000). During the year, Kiwibank Limited paid a dividend of $8,558,000 to Kiwi Capital Management Limited (year ended 30 June 2010; $nil). At 30 June 2011, $2,598m of PIE funds under management (note 20) were invested in Kiwibank's own products or securities (30 June 2010: $1,169m).

As at 30 June 2011, 5,000 of the non-cumulative perpetual preference share capital of Kiwi Capital Securities Limited are held by related parties of the Banking Group (30 June 2010; 55,000). During the year ended 30 June 2011, Kiwibank Limited purchased $3.7m of tax losses from Kiwi Capital Management Limited (30 June 2010; $nil).

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

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/11**	30/06/10	**30/06/11**	30/06/10
Revenue				
NZP	**41,188**	55,019	**41,188**	55,019
Other controlled entities of Kiwibank	**-**	-	**63,625**	61,634
Other subsidiaries within the NZP Group	**1,094**	908	**1,094**	908
Expenditure				
NZP	**52,686**	49,477	**52,632**	49,477
Other subsidiaries within the NZP Group	**12,478**	11,784	**12,478**	11,784
Other controlled entities of Kiwibank	**-**	-	**149,936**	110,683
Associates of the NZP Group	**6,728**	6,042	**6,728**	6,042

Notes to the financial statements continued

25. Related party transactions continued

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

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/11**	30/06/10	**30/06/11**	30/06/10
Outstanding balances				
NZP	**-**	12,264	**-**	12,264
Other subsidiaries within the NZP Group	**19**	(150)	**19**	(150)
RMBS Trust (note 40)	**-**	-	**600,985**	601,082
Other controlled entities of Kiwibank	**-**	-	**-**	45
Total per statement of financial position	**19**	12,114	**601,004**	613,241
NZP Electoral Enrolment Centre (deposits)	**2,747**	2,109	**2,747**	2,109
NZP Superannuation Plan (deposits)	**12,351**	16,155	**12,351**	16,155
PIE Unit Trust (note 20)	**-**	-	**2,598,089**	1,168,880
Balances owed to NZP related parties	**351**	448	**351**	358
Total balances due to related parties	**15,468**	30,826	**3,214,542**	1,800,743
Receivables				
Other controlled entities of Kiwibank	**-**	-	**436**	-
NZP	**3,062**	-	**3,062**	-
RMBS Trust	**-**	-	**600,982**	600,916
Other subsidiaries within the NZP Group	**509**	-	**509**	-
Total per statement of financial position	**3,571**	-	**604,989**	600,916
Loans to NZP related parties (note 12)	**2,046**	1,716	**2,046**	1,716
Loans to other controlled entities of Kiwibank (note 12)	**-**	-	**5,028**	1,225
Total related party receivables	**5,617**	1,716	**612,063**	603,857

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

Key management personnel is defined as those persons having authority and responsibility for planning directing and controlling the activities of the entity, directly or indirectly. This includes the Board of Directors and members of the senior executive team.

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

Key management personnel

Salaries and short-term employee benefits	**5,264**	5,657	**5,264**	5,657
Total compensation of key management personnel	**5,264**	5,657	**5,264**	5,657
Loans to key management personnel	**2,270**	1,693	**2,270**	1,693
Deposits from key management personnel	**1,763**	2,144	**1,763**	2,144

Notes to the financial statements continued

26. Concentration of credit risk

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

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/11**	30/06/10	**30/06/11**	30/06/10
New Zealand				
Government, local authorities and services	**1,003,598**	780,754	**1,003,598**	780,754
Finance, investment and insurance	**830,083**	713,377	**1,430,314**	1,314,231
Households	**9,955,029**	8,996,176	**9,955,029**	8,996,176
Transport and storage	**81,889**	17,637	**81,889**	17,637
Communications	**11,504**	24,058	**11,504**	24,058
Electricity, gas and water	**26,559**	27,820	**26,559**	27,820
Construction	**74,585**	59,734	**74,585**	59,734
Property services	**1,081,665**	1,021,922	**1,081,665**	1,021,922
Agriculture	**27,284**	23,245	**27,284**	23,245
Health and community services	**47,686**	30,923	**47,686**	30,923
Personal and other services	**129,696**	86,798	**129,696**	86,798
Retail and wholesale trade	**67,224**	60,096	**67,224**	60,096
Food & other manufacturing	**114,933**	115,232	**114,933**	115,232
Overseas				
Finance, investment and insurance	**388,593**	202,898	**388,593**	202,898
Total financial assets (interest earning)	**13,840,328**	12,160,670	**14,440,559**	12,761,524
Less allowance for impairment losses	**(87,141)**	(19,506)	**(87,124)**	(19,506)
Other financial assets	**11,657**	5,584	**12,040**	5,741
Total financial assets	**13,764,844**	12,146,748	**14,365,475**	12,747,759

Notes to the financial statements continued

26. Concentration of credit risk continued

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

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/11**	30/06/10	**30/06/11**	30/06/10
Credit risk relating to statement of financial position assets				
Fixed rate mortgages at fair value through profit or loss	**447,853**	1,235,764	**447,853**	1,235,764
Fixed rate mortgages at amortised cost	**4,572,826**	4,998,841	**4,572,826**	4,998,841
Variable rate mortgages	**6,294,899**	3,967,613	**6,295,050**	3,967,613
Unsecured lending	**266,359**	235,790	**266,359**	235,790
Due from other financial institutions	**440,483**	156,871	**440,483**	156,871
Balances with related parties	**-**	-	**600,982**	600,916
Derivative financial instruments	**73,545**	46,320	**73,545**	46,320
Financial assets held for trading	**324,609**	671,152	**324,609**	671,152
Available-for-sale assets	**1,123,452**	544,453	**1,123,452**	544,453
Cash and cash equivalents	**296,302**	303,866	**295,400**	303,804
Other assets	**11,657**	5,584	**12,040**	5,741
Total gross financial assets	**13,851,985**	12,166,254	**14,452,599**	12,767,265
Allowance for impairment losses	**(87,141)**	(19,506)	**(87,124)**	(19,506)
Total net financial assets	**13,764,844**	12,146,748	**14,365,475**	12,747,759

The above table represents a worst case scenario of credit risk exposure to Kiwibank Limited and the Banking Group at 30 June 2011 and 30 June 2010, without taking account of any collateral held or other credit enhancements attached. The exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 84% of the total maximum exposure of the Banking Group is derived from loans and advances to retail and corporate customers (30 June 2010: 86%). Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from both its loan and advances portfolio and its wholesale assets.

Notes to the financial statements continued

27. Concentration of funding

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

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/11**	30/06/10	**30/06/11**	30/06/10
Analysis by industry sector				
New Zealand				
Transport and storage	**157,359**	204,714	**157,359**	204,714
Financing, investment and insurance	**3,589,685**	2,978,704	**4,190,676**	3,579,786
Electricity, gas and water	**5,467**	3,938	**5,467**	3,938
Food & other manufacturing	**24,859**	91,220	**24,859**	91,220
Construction	**20,607**	19,773	**20,607**	19,773
Communications	**5,025**	5,034	**5,025**	5,034
Government, local authorities and services	**444,827**	685,236	**444,827**	685,236
Agriculture	**50,538**	45,488	**50,538**	45,488
Health and community services	**153,706**	198,474	**153,706**	198,474
Personal and other services	**110,445**	107,141	**110,445**	107,141
Property and business services	**282,746**	363,782	**282,746**	363,782
Education	**148,533**	234,400	**148,533**	234,400
Retail and wholesale trade	**51,097**	69,795	**51,097**	69,795
Households	**7,063,816**	6,074,930	**7,063,816**	6,074,930
Overseas				
Financing, investment and insurance - Australia	**335,927**	308,212	**335,927**	308,212
Financing, investment and insurance – rest of world	**538,986**	-	**538,986**	-
Households - Australia	**38,361**	37,647	**38,361**	37,647
Households – rest of the world	**195,640**	182,012	**195,640**	182,012
Total financial liabilities (interest bearing)	**13,217,624**	11,610,500	**13,818,615**	12,211,582
Other financial liabilities	**25,652**	34,476	**25,421**	34,407
Total financial liabilities	**13,243,276**	11,644,976	**13,844,036**	12,245,989

Notes to the interim financial statements continued

28. Segment analysis

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

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

a) Aggregation is consistent with the core principle of NZ IFRS 8 *Operating Segments*

b) Segments have similar economic characteristics

c) Segments are similar in each of the following respects:

- nature of the product and services
- nature of production process
- type or class of customer for their products and services
- methods used to distribute their products or provide their services
- nature of the regulatory environment.

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

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

A summarised description of each business unit is shown below:

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

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

The Banking Group operates predominantly within New Zealand.

28. Segment analysis continued

Dollars in thousands	The Banking Group 12 months ended 30/06/11	The Banking Group 12 months ended 30/06/10	Kiwibank Limited 12 months ended 30/06/11	Kiwibank Limited 12 months ended 30/06/10
Primary reporting - business segments				
Personal banking				
External net interest income	**287,165**	276,190	**287,165**	276,190
Net intersegment interest	**(162,912)**	(180,032)	**(162,912)**	(180,032)
Net interest income	**124,253**	96,158	**124,253**	96,158
Other external operating income	**89,023**	95,432	**89,023**	95,432
Segmental revenue	**213,276**	191,590	**213,276**	191,590
Profit before taxation	**33,849**	34,569	**33,849**	34,569
Total assets	**9,937,054**	9,038,366	**10,542,008**	9,639,436
Total liabilities	**7,936,725**	6,941,659	**8,536,993**	7,542,672
Acquisition of intangible assets	**8,777**	9,186	**8,777**	9,186
Amortisation expense	**(11,263)**	(8,657)	**(11,263)**	(8,657)
Acquisition of property, plant and equipment	**9,425**	4,768	**9,425**	4,768
Depreciation expense	**(6,569)**	(5,249)	**(6,569)**	(5,249)
Impairment losses on loans and advances	**(19,313)**	(5,971)	**(19,313)**	(5,971)
Corporate and institutional banking				
External net interest income	**(95,833)**	(142,800)	**(95,885)**	(142,821)
Net intersegment interest	**162,618**	179,828	**162,618**	179,828
Net interest income	**66,785**	37,028	**66,733**	37,007
Other external operating income	**13,744**	17,945	**17,010**	21,519
Segmental revenue	**80,529**	54,973	**83,743**	58,526
(Loss)/profit before taxation	**(17,373)**	15,937	**(16,860)**	15,937
Total assets	**3,927,051**	3,193,376	**3,922,723**	3,193,317
Total liabilities	**5,323,101**	4,703,239	**5,323,101**	4,703,239
Acquisition of intangible assets	**4,393**	7,315	**4,393**	7,315
Amortisation expense	**(3,145)**	(3,280)	**(3,145)**	(3,280)
Acquisition of property, plant and equipment	**3,073**	2,382	**3,073**	2,382
Depreciation expense	**(1,409)**	(1,360)	**(1,409)**	(1,360)
Impairment losses on loans and advances	**(59,669)**	(11,889)	**(59,652)**	(11,889)

Notes to the financial statements continued

28. Segment analysis continued

Dollars in thousands	The Banking Group 12 months ended 30/06/11	The Banking Group 12 months ended 30/06/10	Kiwibank Limited 12 months ended 30/06/11	Kiwibank Limited 12 months ended 30/06/10
Payment Services				
External net interest income	**-**	-	**-**	-
Net intersegment interest	**294**	204	**294**	204
Net interest income	**294**	204	**294**	204
Other external operating income	**58,901**	54,675	**58,901**	54,675
Segmental revenue	**59,195**	54,879	**59,195**	54,879
Profit before taxation	**15,868**	14,174	**15,868**	14,174
Total assets	**11,232**	6,633	**11,232**	6,633
Total liabilities	**7,662**	4,714	**7,662**	4,714
Acquisition of intangible assets	**2,616**	1,410	**2,616**	1,410
Amortisation expense	**(1,197)**	(680)	**(1,197)**	(680)
Acquisition of property, plant and equipment	**343**	1,551	**343**	1,551
Depreciation expense	**(7)**	(12)	**(7)**	(12)
Impairment losses on loans and advances	**-**	-	**-**	-
Total				
External net interest income	**191,332**	133,390	**191,280**	133,369
Net intersegment interest	**-**	-	**-**	-
Net interest income	**191,332**	133,390	**191,280**	133,369
Other external operating income	**161,668**	168,052	**164,934**	171,626
Total revenue	**353,000**	301,442	**356,214**	304,995
Profit before taxation	**32,344**	64,680	**32,857**	64,680
Income tax expense	**(11,116)**	(18,832)	**(11,269)**	(18,832)
Profit for the year	**21,228**	45,848	**21,588**	45,848
Total assets	**13,875,337**	12,238,375	**14,475,963**	12,839,386
Total liabilities	**13,267,488**	11,649,612	**13,867,756**	12,250,625
Acquisition of intangible assets	**15,786**	17,911	**15,786**	17,911
Amortisation expense	**(15,605)**	(12,617)	**(15,605)**	(12,617)
Acquisition of property, plant and equipment	**12,841**	8,701	**12,841**	8,701
Depreciation expense	**(7,985)**	(6,621)	**(7,985)**	(6,621)
Impairment losses on loans and advances	**(78,982)**	(17,860)	**(78,965)**	(17,860)

Notes to the financial statements continued

29. Lease commitments

Leases for property occupied by Kiwibank are managed by NZP.

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

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**12 months ended 30/06/11**	12 months ended 30/06/10	**12 months ended 30/06/11**	12 months ended 30/06/10
Less than one year	**4,689**	420	**4,689**	420
Between one and two years	**4,454**	310	**4,454**	310
Between two and five years	**13,074**	44	**13,074**	44
Greater than five years	**17,018**	-	**17,018**	-
Total lease commitments	**39,235**	774	**39,235**	774

30. Capital expenditure commitments

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

31. Contingent liabilities

There are no material contingent liabilities as at 30 June 2011. (30 June 2010: nil).

32. Events subsequent to reporting period date

On 1 July 2011, 3,999,000 ordinary shares were issued for cash at $1 per share by Kiwi Asset Finance Limited to Kiwibank Limited. No other material events occurred subsequent to reporting date, that require recognition of, or additional disclosure in these financial statements.

Notes to the financial statements continued

33. Interest repricing

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

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

	The Banking Group						
	30/06/11						
Dollars in thousands	Total	Interest insensitive	Up to 3 months	3 to 6 months	6 months to 1 year	Between 1 & 2 years	Over 2 years
Financial assets							
Cash and cash equivalents	**296,302**	**296,302**	**-**	**-**	**-**	**-**	**-**
Due from other financial institutions	**440,483**	**264,764**	**76,695**	**70,494**	**28,530**	**-**	**-**
Financial assets held for trading	**324,609**	**(4,285)**	**150,870**	**60,880**	**-**	**31,272**	**85,872**
Available-for-sale assets	**1,123,452**	**9,811**	**566,866**	**68,000**	**40,026**	**225,909**	**212,840**
Loans and advances	**11,494,796**	**(68,218)**	**7,301,886**	**953,028**	**1,556,495**	**1,319,533**	**432,072**
Derivative financial instruments	**73,545**	**73,545**	**-**	**-**	**-**	**-**	**-**
Balances with related parties	**3,571**	**-**	**3,571**	**-**	**-**	**-**	**-**
Other financial assets	**8,086**	**8,086**	**-**	**-**	**-**	**-**	**-**
Total financial assets	**13,764,844**	**580,005**	**8,099,888**	**1,152,402**	**1,625,051**	**1,576,714**	**730,784**
Financial liabilities							
Due to other financial institutions	**795,964**	**166,004**	**629,960**	**-**	**-**	**-**	**-**
Deposits and other borrowings	**10,586,271**	**630,817**	**7,113,057**	**1,370,209**	**1,153,025**	**171,077**	**148,086**
Derivative financial instruments	**182,819**	**182,819**	**-**	**-**	**-**	**-**	**-**
Debt securities issued	**1,509,847**	**65,275**	**1,057,197**	**24,664**	**-**	**30,146**	**332,565**
Term subordinated debt	**142,723**	**-**	**-**	**-**	**77,315**	**-**	**65,408**
Balances with related parties	**19**	**19**	**-**	**-**	**-**	**-**	**-**
Other financial liabilities	**25,633**	**25,633**	**-**	**-**	**-**	**-**	**-**
Total financial liabilities	**13,243,276**	**1,070,567**	**8,800,214**	**1,394,873**	**1,230,340**	**201,223**	**546,059**
On-balance sheet gap	**521,568**	**(490,562)**	**(700,326)**	**(242,471)**	**394,711**	**1,375,491**	**184,725**
Net derivative notional principals	**-**	**-**	**2,997,496**	**(1,025,608)**	**(842,663)**	**(1,110,038)**	**(19,187)**
Net effective interest rate gap	**521,568**	**(490,562)**	**2,297,170**	**(1,268,079)**	**(447,952)**	**265,453**	**165,538**

Notes to the financial statements continued

33. Interest repricing continued

	Kiwibank Limited						
	30/06/11						
Dollars in thousands	Total	Interest insensitive	Up to 3 months	3 to 6 months	6 months to 1 year	Between 1 & 2 years	Over 2 years
Financial assets							
Cash and cash equivalents	**295,400**	**295,400**	**-**	**-**	**-**	**-**	**-**
Due from other financial institutions	**440,483**	**264,764**	**76,695**	**70,494**	**28,530**	**-**	**-**
Financial assets held for trading	**324,609**	**(4,285)**	**150,870**	**60,880**	**-**	**31,272**	**85,872**
Available-for-sale assets	**1,123,452**	**9,811**	**566,866**	**68,000**	**40,026**	**225,909**	**212,840**
Loans and advances	**11,494,964**	**(68,199)**	**7,301,886**	**953,028**	**1,556,495**	**1,319,682**	**432,072**
Derivative financial instruments	**73,545**	**73,545**	**-**	**-**	**-**	**-**	**-**
Balances with related parties	**604,989**	**-**	**604,989**	**-**	**-**	**-**	**-**
Other financial assets	**8,033**	**8,033**	**-**	**-**	**-**	**-**	**-**
Total financial assets	**14,365,475**	**579,069**	**8,701,306**	**1,152,402**	**1,625,051**	**1,576,863**	**730,784**
Financial liabilities							
Due to other financial institutions	**795,964**	**166,004**	**629,960**	**-**	**-**	**-**	**-**
Deposits and other borrowings	**10,586,277**	**630,817**	**7,113,063**	**1,370,209**	**1,153,025**	**171,077**	**148,086**
Derivative financial instruments	**182,819**	**182,819**	**-**	**-**	**-**	**-**	**-**
Debt securities issued	**1,509,847**	**65,275**	**1,057,197**	**24,664**	**-**	**30,146**	**332,565**
Term subordinated debt	**142,723**	**-**	**-**	**-**	**77,315**	**-**	**65,408**
Balances with related parties	**601,004**	**19**	**600,985**	**-**	**-**	**-**	**-**
Other financial liabilities	**25,402**	**25,402**	**-**	**-**	**-**	**-**	**-**
Total financial liabilities	**13,844,036**	**1,070,336**	**9,401,205**	**1,394,873**	**1,230,340**	**201,223**	**546,059**
On-balance sheet gap	**521,439**	**(491,267)**	**(699,899)**	**(242,471)**	**394,711**	**1,375,640**	**184,725**
Net derivative notional principals	**-**	**-**	**2,997,496**	**(1,025,608)**	**(842,663)**	**(1,110,038)**	**(19,187)**
Net effective interest rate gap	**521,439**	**(491,267)**	**2,297,597**	**(1,268,079)**	**(447,952)**	**265,602**	**165,538**

33. Interest repricing continued

	The Banking Group						
	30/06/10						
Dollars in thousands	Total	Interest insensitive	Up to 3 months	3 to 6 months	6 months to 1 year	Between 1 & 2 years	Over 2 years
Financial assets							
Cash and cash equivalents	303,866	303,866	-	-	-	-	-
Due from other financial institutions	156,871	156,871	-	-	-	-	-
Financial assets held for trading	671,152	-	202,052	39,666	44,043	211,927	173,464
Available-for-sale assets	544,453	-	110,411	31,325	44,875	80,652	277,190
Loans and advances	10,418,502	(1,519)	2,670,996	3,581,532	1,204,621	2,150,934	811,938
Derivative financial instruments	46,320	46,320	-	-	-	-	-
Other financial assets	5,584	5,584	-	-	-	-	-
Total financial assets	12,146,748	511,122	2,983,459	3,652,523	1,293,539	2,443,513	1,262,592
Financial liabilities							
Due to other financial institutions	164,051	2,238	161,813	-	-	-	-
Deposits and other borrowings	10,295,325	559,736	6,176,710	1,959,804	1,395,909	108,824	94,342
Derivative financial instruments	202,588	202,588	-	-	-	-	-
Debt securities issued	795,237	-	366,512	56,414	9,798	20,510	342,003
Term subordinated debt	143,299	-	-	-	-	76,483	66,816
Balances with related parties	12,114	2,114	10,000	-	-	-	-
Other financial liabilities	32,362	32,362	-	-	-	-	-
Total financial liabilities	11,644,976	799,038	6,715,035	2,016,218	1,405,707	205,817	503,161
On-balance sheet gap	501,772	(287,916)	(3,731,576)	1,636,305	(112,168)	2,237,696	759,431
Net derivative notional principals	-	-	3,548,594	(5,500)	(308,000)	(2,710,233)	(524,861)
Net effective interest rate gap	501,772	(287,916)	(182,982)	1,630,805	(420,168)	(472,537)	234,570

Notes to the financial statements continued

33. Interest repricing continued

	Kiwibank Limited						
	30/06/10						
Dollars in thousands	Total	Interest insensitive	Up to 3 months	3 to 6 months	6 months to 1 year	Between 1 & 2 years	Over 2 years
Financial assets							
Cash and cash equivalents	303,804	303,804	-	-	-	-	-
Due to other financial institutions	156,871	156,871	-	-	-	-	-
Financial assets held for trading	671,152	-	202,052	39,666	44,043	211,927	173,464
Available-for-sale assets	544,453	-	110,411	31,325	44,875	80,652	277,190
Loans and advances	10,418,502	(1,519)	2,670,996	3,581,532	1,204,621	2,150,934	811,938
Derivative financial instruments	46,320	46,320	-	-	-	-	-
Balances with related parties	600,916	-	600,916	-	-	-	-
Other financial assets	5,741	5,741	-	-	-	-	-
Total financial assets	12,747,759	511,217	3,584,375	3,652,523	1,293,539	2,443,513	1,262,592
Financial liabilities							
Due to other financial institutions	164,051	2,238	161,813	-	-	-	-
Deposits and other borrowings	10,295,325	559,736	6,176,710	1,959,804	1,395,909	108,824	94,342
Derivative financial instruments	202,588	202,588	-	-	-	-	-
Debt securities issued	795,237	-	366,512	56,414	9,798	20,510	342,003
Term subordinated debt	143,299	-	-	-	-	76,483	66,816
Balances with related parties	613,241	2,159	611,082	-	-	-	-
Other financial liabilities	32,248	32,248	-	-	-	-	-
Total financial liabilities	12,245,989	798,969	7,316,117	2,016,218	1,405,707	205,817	503,161
On-balance sheet gap	501,770	(287,752)	(3,731,742)	1,636,305	(112,168)	2,237,696	759,431
Net derivative notional principals	-	-	3,548,594	(5,500)	(308,000)	(2,710,233)	(524,861)
Net effective interest rate gap	501,770	(287,752)	(183,148)	1,630,805	(420,168)	(472,537)	234,570

Notes to the financial statements continued

34. Financial instruments by category

30/06/11	The Banking Group					
Dollars in thousands	Loans and receivables	Available-for-sale	Assets at fair value through profit or loss		Derivatives used for hedging	Total
			Held for trading	Designated at FVTPL		
Cash and cash equivalents	**296,302**	**-**	**-**	**-**	**-**	**296,302**
Due from other financial institutions	**440,483**	**-**	**-**	**-**	**-**	**440,483**
Financial assets held for trading	**-**	**-**	**324,609**	**-**	**-**	**324,609**
Available-for-sale assets	**-**	**1,123,452**	**-**	**-**	**-**	**1,123,452**
Loans and advances	**11,046,943**	**-**	**-**	**447,853**	**-**	**11,494,796**
Derivative financial instruments	**-**	**-**	**53,519**	**-**	**20,026**	**73,545**
Balances with related parties	**3,571**	**-**	**-**	**-**	**-**	**3,571**
Other financial assets	**8,086**	**-**	**-**	**-**	**-**	**8,086**
Total financial assets	**11,795,385**	**1,123,452**	**378,128**	**447,853**	**20,026**	**13,764,844**

	Liabilities at fair value through profit or loss		Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	Held for trading	Designated at FVTPL			
Due to other financial institutions	**-**	**-**	**-**	**795,964**	**795,964**
Deposits and other borrowings	**-**	**-**	**-**	**10,586,271**	**10,586,271**
Derivative financial instruments	**94,219**	**-**	**88,600**	**-**	**182,819**
Debt securities issued	**209,113**	**549,266**	**-**	**751,468**	**1,509,847**
Term subordinated debt	**-**	**-**	**-**	**142,723**	**142,723**
Balances with related parties	**-**	**-**	**-**	**19**	**19**
Other financial liabilities	**-**	**-**	**-**	**25,633**	**25,633**
Total financial liabilities	**303,332**	**549,266**	**88,600**	**12,302,078**	**13,243,276**

Notes to the financial statements continued

34. Financial instruments by category continued

30/06/11	Kiwibank Limited					
Dollars in thousands	Loans and receivables	Available-for-sale	Assets at fair value through profit or loss		Derivatives used for hedging	Total
			Held for trading	Designated at FVTPL		
Cash and cash equivalents	**295,400**	**-**	**-**	**-**	**-**	**295,400**
Due from other financial institutions	**440,483**	**-**	**-**	**-**	**-**	**440,483**
Financial assets held for trading	**-**	**-**	**324,609**	**-**	**-**	**324,609**
Available-for-sale assets	**-**	**1,123,452**	**-**	**-**	**-**	**1,123,452**
Loans and advances	**11,047,111**	**-**	**-**	**447,853**	**-**	**11,494,964**
Derivative financial instruments	**-**	**-**	**53,519**	**-**	**20,026**	**73,545**
Balances with related parties	**604,989**	**-**	**-**	**-**	**-**	**604,989**
Other financial assets	**8,033**	**-**	**-**	**-**	**-**	**8,033**
Total financial assets	**12,396,016**	**1,123,452**	**378,128**	**447,853**	**20,026**	**14,365,475**

	Liabilities at fair value through profit or loss		Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	Held for trading	Designated at FVTPL			
Due to other financial institutions	**-**	**-**	**-**	**795,964**	**795,964**
Deposits and other borrowings	**-**	**-**	**-**	**10,586,277**	**10,586,277**
Derivative financial instruments	**94,219**	**-**	**88,600**	**-**	**182,819**
Debt securities issued	**209,113**	**549,266**	**-**	**751,468**	**1,509,847**
Term subordinated debt	**-**	**-**	**-**	**142,723**	**142,723**
Balances with related parties	**-**	**-**	**-**	**601,004**	**601,004**
Other financial liabilities	**-**	**-**	**-**	**25,402**	**25,402**
Total financial liabilities	**303,332**	**549,266**	**88,600**	**12,902,838**	**13,844,036**

Notes to the financial statements continued

34. Financial instruments by category continued

30/06/10	The Banking Group					
Dollars in thousands	Loans and receivables	Available-for-sale	Assets at fair value through profit or loss		Derivatives used for hedging	Total
			Held for trading	Designated at FVTPL		
Cash and cash equivalents	303,866	-	-	-	-	303,866
Due from other financial institutions	156,871	-	-	-	-	156,871
Financial assets held for trading	-	-	671,152	-	-	671,152
Available-for-sale assets	-	544,453	-	-	-	544,453
Loans and advances	9,182,738	-	-	1,235,764	-	10,418,502
Derivative financial instruments	-	-	24,071	-	22,249	46,320
Other financial assets	5,584	-	-	-	-	5,584
Total financial assets	9,649,059	544,453	695,223	1,235,764	22,249	12,146,748

	Liabilities at fair value through profit or loss		Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	Held for trading	Designated at FVTPL			
Due to other financial institutions	-	-	-	164,051	164,051
Deposits and other borrowings	-	-	-	10,295,325	10,295,325
Derivative financial instruments	101,515	-	101,073	-	202,588
Debt securities issued	199,116	-	-	596,121	795,237
Term subordinated debt	-	-	-	143,299	143,299
Balances with related parties	-	-	-	12,114	12,114
Other financial liabilities	-	-	-	32,362	32,362
Total financial liabilities	300,631	-	101,073	11,243,272	11,644,976

Notes to the financial statements continued

34. Financial instruments by category continued

30/06/10

Dollars in thousands	Kiwibank Limited					
	Loans and receivables	Available-for-sale	Assets at fair value through profit or loss		Derivatives used for hedging	Total
			Held for trading	Designated at FVTPL		
Cash and cash equivalents	303,804	-	-	-	-	303,804
Due from other financial institutions	156,871	-	-	-	-	156,871
Financial assets held for trading	-	-	671,152	-	-	671,152
Available-for-sale assets	-	544,453	-	-	-	544,453
Loans and advances	9,182,738	-	-	1,235,764	-	10,418,502
Derivative financial instruments	-	-	24,071	-	22,249	46,320
Balances with related parties	600,916	-	-	-	-	600,916
Other financial assets	5,741	-	-	-	-	5,741
Total financial assets	10,250,070	544,453	695,223	1,235,764	22,249	12,747,759

	Liabilities at fair value through profit or loss		Derivatives used for hedging	Other financial liabilities at amortised cost	Total
	Held for trading	Designated at FVTPL			
Due to other financial institutions	-	-	-	164,051	164,051
Deposits and other borrowings	-	-	-	10,295,325	10,295,325
Derivative financial instruments	101,515	-	101,073	-	202,588
Debt securities issued	199,116	-	-	596,121	795,237
Term subordinated debt	-	-	-	143,299	143,299
Balances with related parties	-	-	-	613,241	613,241
Other financial liabilities	-	-	-	32,248	32,248
Total financial liabilities	300,631	-	101,073	11,844,285	12,245,989

Notes to the financial statements continued

35. Foreign exchange risk

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

As at 30 June 2011

Banking Group

Dollars in thousands	NZD	HKD	JPY	SGD	CAD	AUD	USD	GBP	EUR	Total
Assets										
Cash and cash equivalents	**242,595**	**363**	**685**	**7**	**7**	**12,509**	**17,255**	**12,470**	**10,411**	**296,302**
from other financial institutions	**375,168**	**-**	**-**	**-**	**-**	**5,110**	**60,205**	**-**	**-**	**440,483**
Financial assets held for trading	**274,797**	**-**	**-**	**-**	**-**	**-**	**6,730**	**-**	**43,082**	**324,609**
Available-for-sale assets	**1,056,527**	**-**	**-**	**-**	**-**	**66,925**	**-**	**-**	**-**	**1,123,452**
Loans and advances	**11,494,796**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11,494,796**
Derivative financial instruments	**(42,043)**	**-**	**(350)**	**-**	**-**	**263,327**	**(75,736)**	**-**	**(71,653)**	**73,545**
Balances with related parties	**3,571**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3,571**
Other financial assets	**8,086**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**8,086**
Total financial assets	**13,413,497**	**363**	**335**	**7**	**7**	**347,871**	**8,454**	**12,470**	**(18,160)**	**13,764,844**
Liabilities										
Due to other financial institutions	**795,964**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**795,964**
Deposits and other borrowings	**10,522,809**	**353**	**679**	**-**	**-**	**6,440**	**33,554**	**12,536**	**9,900**	**10,586,271**
Derivative financial instruments	**733,076**	**-**	**(350)**	**(19,590)**	**(17,414)**	**(5,876)**	**(419,125)**	**(99)**	**(87,803)**	**182,819**
Debt securities issued	**682,813**	**-**	**-**	**19,590**	**17,414**	**337,804**	**392,982**	**-**	**59,244**	**1,509,847**
Term subordinated debt	**142,723**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**142,723**
Balances with related parties	**19**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**19**
Other financial liabilities	**25,633**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**25,633**
Total financial liabilities	**12,903,037**	**353**	**329**	**-**	**-**	**338,368**	**7,411**	**12,437**	**(18,659)**	**13,243,276**
Net on balance sheet financial position	**510,460**	**10**	**6**	**7**	**7**	**9,503**	**1,043**	**33**	**499**	**521,568**

Notes to the financial statements continued

35. Foreign exchange risk continued

As at 30 June 2011

Kiwibank Limited

Dollars in thousands	NZD	HKD	JPY	SGD	CAD	AUD	USD	GBP	EUR	Total
Assets										
Cash and cash equivalents	241,693	363	685	7	7	12,509	17,255	12,470	10,411	295,400
Due from other financial institutions	375,168	-	-	-	-	5,110	60,205	-	-	440,483
Financial assets held for trading	274,797	-	-	-	-	-	6,730	-	43,082	324,609
Available-for-sale assets	1,056,527	-	-	-	-	66,925	-	-	-	1,123,452
Loans and advances	11,494,964	-	-	-	-	-	-	-	-	11,494,964
Derivative financial instruments	(42,043)	-	(350)	-	-	263,327	(75,736)	-	(71,653)	73,545
Balances with related parties	604,989	-	-	-	-	-	-	-	-	604,989
Other financial assets	8,033	-	-	-	-	-	-	-	-	8,033
Total financial assets	14,014,128	363	335	7	7	347,871	8,454	12,470	(18,160)	14,365,475
Liabilities										
Due to other financial institutions	795,964	-	-	-	-	-	-	-	-	795,964
Deposits and other borrowings	10,522,815	353	679	-	-	6,440	33,554	12,536	9,900	10,586,277
Derivative financial instruments	733,076	-	(350)	(19,590)	(17,414)	(5,876)	(419,125)	(99)	(87,803)	182,819
Debt securities issued	682,813	-	-	19,590	17,414	337,804	392,982	-	59,244	1,509,847
Term subordinated debt	142,723	-	-	-	-	-	-	-	-	142,723
Balances with related parties	601,004	-	-	-	-	-	-	-	-	601,004
Other financial liabilities	25,402	-	-	-	-	-	-	-	-	25,402
Total financial liabilities	13,503,797	353	329	-	-	338,368	7,411	12,437	(18,659)	13,844,036
Net on balance sheet financial position	510,331	10	6	7	7	9,503	1,043	33	499	521,439

Notes to the financial statements continued

35. Foreign exchange risk continued

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

As at 30 June 2010, there were no other exposures to other currencies.

Notes to the financial statements continued

35. Foreign exchange risk continued

As at 30 June 2010	Kiwibank Limited						
Dollars in thousands	NZD	JPY	AUD	USD	GBP	EUR	Total
Assets							
Cash and cash equivalents	266,667	698	4,517	21,461	8,528	1,933	303,804
Due from other financial institutions	156,871	-	-	-	-	-	156,871
Financial assets held for trading	544,125	-	58,820	46,776	-	21,431	671,152
Available-for-sale assets	473,845	-	70,608	-	-	-	544,453
Loans and advances	10,418,502	-	-	-	-	-	10,418,502
Derivative financial instruments	78,194	-	3,403	(14,575)	-	(20,702)	46,320
Balances with related parties	600,916	-	-	-	-	-	600,916
Other financial assets	5,741	-	-	-	-	-	5,741
Total financial assets	12,544,861	698	137,348	53,662	8,528	2,662	12,747,759
Liabilities							
Due to other financial institutions	164,051	-	-	-	-	-	164,051
Deposits and other borrowings	10,268,018	698	2,427	13,969	8,528	1,685	10,295,325
Derivative financial instruments	355,155	-	(186,625)	33,066	-	992	202,588
Debt securities issued	483,899	-	311,338	-	-	-	795,237
Term subordinated debt	143,299	-	-	-	-	-	143,299
Balances with related parties	613,241	-	-	-	-	-	613,241
Other financial liabilities	32,248	-	-	-	-	-	32,248
Total financial liabilities	12,059,911	698	127,140	47,035	8,528	2,677	12,245,989
Net on balance sheet financial position	484,950	-	10,208	6,627	-	(15)	501,770

As at 30 June 2010, there were no other exposures to other currencies.

36. Liquidity risk

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

Liquidity risk management process

The Banking Group's liquidity management responsibilities include:

- Day-to-day liquidity requirements. RBNZ liquidity ratios are calculated and monitored daily to ensure that the Group:

– is compliant with part 11 of the Conditions of Registration and the RBNZ "Liquidity policy" (BS13).

– maintains a prudent level of cash and highly liquid assets (primary liquid assets") and marketable assets of limited credit risk ("secondary liquid assets") to meet anticipated wholesale and retail outflows over a one week, one month and one year period as well as provide adequate cover against funding stress or unexpected run-of risk.

- Securing an appropriately matched profile of future cash flows from maturing assets and liabilities.
- Implementing the bank's funding plan which includes the development of sustainable wholesale funding capacity.
- Stress testing the bank's funding and liquidity position with a range of adverse events covering:

– A Kiwibank name crisis

– An international credit crisis

– A macro economic events

– A significant earning loss.

Non-derivative cash flows

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

Derivative cash flows

a) Derivatives settled on a net basis

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

b) Derivatives settled on a gross basis

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

36. Liquidity risk continued

	The Banking Group					
	30/06/11					
Dollars in thousands	On demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Non derivative cash flows						
Liabilities						
Due to other financial institutions	**795,964**	**-**	**-**	**-**	**-**	**795,964**
Deposits and other borrowings	**5,163,804**	**2,465,457**	**2,618,357**	**387,930**	**6**	**10,635,554**
Debt securities issued	**146,710**	**669,350**	**119,611**	**678,633**	**-**	**1,614,304**
Term subordinated debt	**-**	**5,520**	**80,520**	**67,875**	**-**	**153,915**
Other financial liabilities	**25,633**	**-**	**-**	**-**	**-**	**25,633**
Total financial liabilities	**6,132,111**	**3,140,327**	**2,818,488**	**1,134,438**	**6**	**13,225,370**
Assets						
Cash and cash equivalents	**296,302**	**-**	**-**	**-**	**-**	**296,302**
Due from other financial institutions	**440,483**	**-**	**-**	**-**	**-**	**440,483**
Financial assets held for trading	**91,065**	**101,097**	**14,954**	**104,562**	**35,341**	**347,019**
Available-for-sale assets	**105,929**	**237,420**	**188,284**	**660,327**	**-**	**1,191,960**
Loans and advances	**186,316**	**273,179**	**773,437**	**2,911,308**	**21,275,691**	**25,419,931**
Other financial assets	**7,992**	**-**	**-**	**-**	**-**	**7,992**
Total financial assets	**1,128,087**	**611,696**	**976,675**	**3,676,197**	**21,311,032**	**27,703,687**
Net non derivative cash flows	**(5,004,024)**	**(2,528,631)**	**(1,841,813)**	**2,541,759**	**21,311,026**	**14,478,317**
Derivative cash flows - net						
Interest rate derivatives	**(11,672)**	**(12,620)**	**(52,666)**	**(24,458)**	**376**	**(101,040)**
Total	**(11,672)**	**(12,620)**	**(52,666)**	**(24,458)**	**376**	**(101,040)**
Derivative cash flows - gross						
Foreign exchange derivatives						
Inflow	**252,780**	**327,192**	**191,213**	**466,334**	**-**	**1,237,519**
Outflow	**(256,178)**	**(341,334)**	**(188,564)**	**(446,219)**	**-**	**(1,232,295)**
Total	**(3,398)**	**(14,142)**	**2,649**	**20,115**	**-**	**5,224**
Off balance sheet cash flows						
Capital commitments	**(404)**	**-**	**-**	**-**	**-**	**(404)**
Loan commitments	**(1,105,185)**	**-**	**-**	**-**	**-**	**(1,105,185)**
Lease commitments	**(391)**	**(781)**	**(3,517)**	**(17,528)**	**(17,018)**	**(39,235)**
Total	**(1,105,980)**	**(781)**	**(3,517)**	**(17,528)**	**(17,018)**	**(1,144,824)**
Net cash flows	**(6,125,074)**	**(2,556,174)**	**(1,895,347)**	**2,519,888**	**21,294,384**	**13,237,677**
Cumulative net cash flows	**(6,125,074)**	**(8,681,248)**	**(10,576,595)**	**(8,056,707)**	**13,237,677**	**13,237,677**

36. Liquidity risk continued

Dollars in thousands	Kiwibank 30/06/11 On demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Non derivative cash flows						
Liabilities						
Due to other financial institutions	**795,964**	**-**	**-**	**-**	**-**	**795,964**
Deposits and other borrowings	**5,163,804**	**2,465,457**	**2,618,357**	**387,930**	**6**	**10,635,554**
Debt securities issued	**146,710**	**669,350**	**119,611**	**678,633**	**-**	**1,614,304**
Term subordinated debt	**-**	**5,520**	**80,520**	**67,875**	**-**	**153,915**
Balances with related parties	**1,854**	**3,909**	**18,242**	**141,753**	**2,032,948**	**2,198,706**
Other financial liabilities	**25,402**	**-**	**-**	**-**	**-**	**25,402**
Total financial liabilities	**6,133,734**	**3,144,236**	**2,836,730**	**1,276,191**	**2,032,954**	**15,423,845**
Assets						
Cash and cash equivalents	**295,400**	**-**	**-**	**-**	**-**	**295,400**
Due from other financial institutions	**440,483**	**-**	**-**	**-**	**-**	**440,483**
Financial assets held for trading	**91,065**	**101,097**	**14,954**	**104,562**	**35,341**	**347,019**
Available-for-sale assets	**105,929**	**237,420**	**188,284**	**660,327**	**-**	**1,191,960**
Loans and advances	**186,316**	**273,179**	**773,437**	**2,911,308**	**21,275,691**	**25,419,931**
Balances with related parties	**1,554**	**3,238**	**15,276**	**125,942**	**1,898,260**	**2,044,270**
Other financial assets	**7,938**	**-**	**-**	**-**	**-**	**7,938**
Total financial assets	**1,128,685**	**614,934**	**991,951**	**3,802,139**	**23,209,292**	**29,747,001**
Net non derivative cash flows	**(5,005,049)**	**(2,529,302)**	**(1,844,779)**	**2,525,948**	**21,176,338**	**14,323,156**
Derivative cash flows - net						
Interest rate derivatives	**(11,672)**	**(12,620)**	**(52,666)**	**(24,458)**	**376**	**(101,040)**
Total	**(11,672)**	**(12,620)**	**(52,666)**	**(24,458)**	**376**	**(101,040)**
Derivative cash flows - gross						
Foreign exchange derivatives						
Inflow	**252,780**	**327,192**	**191,213**	**466,334**	**-**	**1,237,519**
Outflow	**(256,178)**	**(341,334)**	**(188,564)**	**(446,219)**	**-**	**(1,232,295)**
Total	**(3,398)**	**(14,142)**	**2,649**	**20,115**	**-**	**5,224**
Off balance sheet cash flows						
Capital commitments	**(404)**	**-**	**-**	**-**	**-**	**(404)**
Loan commitments	**(1,105,185)**	**-**	**-**	**-**	**-**	**(1,105,185)**
Lease commitments	**(391)**	**(781)**	**(3,517)**	**(17,528)**	**(17,018)**	**(39,235)**
Total	**(1,105,980)**	**(781)**	**(3,517)**	**(17,528)**	**(17,018)**	**(1,144,824)**
Net cash flows	**(6,126,099)**	**(2,556,845)**	**(1,898,313)**	**2,504,077**	**21,159,696**	**13,082,516**
Cumulative net cash flows	**(6,126,099)**	**(8,682,944)**	**(10,581,257)**	**(8,077,180)**	**13,082,516**	**13,082,516**

Notes to the financial statements continued

36. Liquidity risk continued

	The Banking Group					
	30/06/10					
Dollars in thousands	On demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Non derivative cash flows						
Liabilities						
Due to other financial institutions	164,051	-	-	-	-	164,051
Deposits and other borrowings	4,068,887	2,642,730	3,486,467	252,132	-	10,450,216
Debt securities issued	98,191	227,614	104,771	466,388	-	896,964
Term subordinated debt	-	5,520	5,520	153,915	-	164,955
Other financial liabilities	32,362	-	-	-	-	32,362
Total financial liabilities	4,363,491	2,875,864	3,596,758	872,435	-	11,708,548
Assets						
Cash and cash equivalents	303,866	-	-	-	-	303,866
Due from other financial institutions	156,871	-	-	-	-	156,871
Financial assets held for trading	93,826	84,847	97,853	437,449	-	713,975
Available-for-sale assets	242	30,224	111,676	461,475	39,120	642,737
Loans and advances	132,823	265,647	755,030	2,764,703	19,821,868	23,740,071
Other financial assets	5,584	-	-	-	-	5,584
Total financial assets	693,212	380,718	964,559	3,663,627	19,860,988	25,563,104
Net non derivative cash flows	(3,670,279)	(2,495,146)	(2,632,199)	2,791,192	19,860,988	13,854,556
Derivative cash flows - net						
Interest rate derivatives	(17,567)	(28,079)	(61,649)	(49,549)	-	(156,844)
Total	(17,567)	(28,079)	(61,649)	(49,549)	-	(156,844)
Derivative cash flows - gross						
Foreign exchange derivatives						
Inflow	118,996	1,191	67,364	397,246	-	584,797
Outflow	(121,064)	(1,436)	(59,877)	(398,468)	-	(580,845)
Total	(2,068)	(245)	7,487	(1,222)	-	3,952
Off balance sheet cash flows						
Capital commitments	(2,756)	-	-	-	-	(2,756)
Loan commitments	(863,888)	-	-	-	-	(863,888)
Lease commitments	(35)	(70)	(315)	(354)	-	(774)
Total	(866,679)	(70)	(315)	(354)	-	(867,418)
Net cash flows	(4,556,593)	(2,523,540)	(2,686,676)	2,740,067	19,860,988	12,834,246
Cumulative net cash flows	(4,556,593)	(7,080,133)	(9,766,809)	(7,026,742)	12,834,246	12,834,246

36. Liquidity risk continued

	Kiwibank Limited					
	30/06/10					
Dollars in thousands	On demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Total
Non derivative cash flows						
Liabilities						
Due to other financial institutions	164,051	-	-	-	-	164,051
Balances with related parties	2,041	4,326	22,279	148,124	2,293,392	2,470,162
Deposits and other borrowings	4,068,887	2,642,730	3,486,467	252,132	-	10,450,216
Debt securities issued	98,191	227,614	104,771	466,388	-	896,964
Term subordinated debt		5,520	5,520	153,915	-	164,955
Other financial liabilities	32,248		-	-	-	32,248
Total financial liabilities	4,365,418	2,880,190	3,619,037	1,020,559	2,293,392	14,178,596
Assets						
Cash and cash equivalents	303,804	-	-	-	-	303,804
Due from other financial institutions	156,871	-	-	-	-	156,871
Financial assets held for trading	93,826	84,847	97,853	437,449	-	713,975
Available-for-sale assets	242	30,224	111,676	461,475	39,120	642,737
Loans and advances	132,823	265,647	755,030	2,764,703	19,821,868	23,740,071
Balances with related parties	1,716	3,655	19,324	132,311	2,154,713	2,311,719
Other financial assets	5,741	-	-	-	-	5,741
Total financial assets	695,023	384,373	983,883	3,795,938	22,015,701	27,874,918
Net non derivative cash flows	(3,670,395)	(2,495,817)	(2,635,154)	2,775,379	19,722,309	13,696,322
Derivative cash flows - net						
Interest rate derivatives	(17,567)	(28,079)	(61,649)	(49,549)	-	(156,844)
Total	(17,567)	(28,079)	(61,649)	(49,549)	-	(156,844)
Derivative cash flows - gross						
Foreign exchange derivatives						
Inflow	118,996	1,191	67,364	397,246	-	584,797
Outflow	(121,064)	(1,436)	(59,877)	(398,468)	-	(580,845)
Total	(2,068)	(245)	7,487	(1,222)	-	3,952
Off balance sheet cash flows						
Capital commitments	(2,756)	-	-	-	-	(2,756)
Loan commitments	(863,888)	-	-	-	-	(863,888)
Lease commitments	(35)	(70)	(315)	(354)	-	(774)
Total	(866,679)	(70)	(315)	(354)	-	(867,418)
Net cash flows	(4,556,709)	(2,524,211)	(2,689,631)	2,724,254	19,722,309	12,676,012
Cumulative net cash flows	(4,556,709)	(7,080,920)	(9,770,551)	(7,046,297)	12,676,012	12,676,012

Notes to the financial statements continued

37. Sensitivity analysis

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

		Interest rate risk			
30 June 2011					
Banking Group		-1%	+1%	-1%	+1%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	**296,302**	**-**	**-**	**-**	**-**
Due from other financial institutions	**440,483**	**(1,329)**	**1,379**	**(1,329)**	**1,379**
Financial assets held for trading	**324,609**	**4,517**	**(4,348)**	**4,517**	**(4,348)**
Available-for-sale assets	**1,123,452**	**-**	**-**	**13,109**	**(12,770)**
Loans and advances	**11,494,796**	**20,461**	**(20,133)**	**20,461**	**(20,133)**
Derivative financial instruments	**73,545**	**43,631**	**(42,210)**	**45,871**	**(44,391)**
Balances with related parties	**3,571**	**-**	**-**	**-**	**-**
Other financial assets	**8,086**	**-**	**-**	**-**	**-**
Total financial assets	**13,764,844**	**67,280**	**(65,312)**	**82,629**	**(80,263)**
Financial liabilities					
Due to other financial institutions	**795,964**	**1,406**	**(1,324)**	**1,406**	**(1,324)**
Deposits and other borrowings	**10,586,271**	**(2,828)**	**2,797**	**(2,828)**	**2,797**
Derivative financial instruments	**182,819**	**(41,640)**	**39,893**	**(71,315)**	**68,934**
Debt securities issued	**1,509,847**	**(11,479)**	**11,440**	**(11,479)**	**11,440**
Term subordinated debt	**142,723**	**(1,185)**	**1,160**	**(1,185)**	**1,160**
Balances with related parties	**19**	-	-	-	-
Other financial liabilities	**25,633**	-	-	-	-
Total financial liabilities	**13,243,276**	**(55,726)**	**53,966**	**(85,401)**	**83,007**

Notes to the financial statements continued

37. Sensitivity analysis continued

30 June 2011		Currency risk			
Banking Group		-10%	+10%	-10%	+10%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	**296,302**	**5,843**	**(4,781)**	**5,843**	**(4,781)**
Due from other financial institutions	**440,483**	**6**	**(5)**	**6**	**(5)**
Financial assets held for trading	**324,609**	**5,535**	**(4,528)**	**5,535**	**(4,528)**
Available-for-sale assets	**1,123,452**	**-**	**-**	**7,436**	**(6,084)**
Loans and advances	**11,494,796**	**-**	**-**	**-**	**-**
Derivative financial instruments	**73,545**	**12,843**	**(10,508)**	**12,843**	**(10,508)**
Balances with related parties	**3,571**	**-**	**-**	**-**	**-**
Other financial assets	**8,086**	**-**	**-**	**-**	**-**
Total financial assets	**13,764,844**	**24,227**	**(19,822)**	**31,663**	**(25,906)**
Financial liabilities					
Due to other financial institutions	**795,964**	-	-	-	-
Deposits and other borrowings	**10,586,271**	**(7,051)**	**5,769**	**(7,051)**	**5,769**
Derivative financial instruments	**182,819**	**61,140**	**(50,023)**	**61,140**	**(50,023)**
Debt securities issued	**1,509,847**	**(85,304)**	**69,795**	**(85,304)**	**69,795**
Term subordinated debt	**142,723**	**-**	**-**	**-**	**-**
Balances with related parties	**19**	**-**	**-**	**-**	**-**
Other financial liabilities	**25,633**	**-**	**-**	**-**	**-**
Total financial liabilities	**13,243,276**	**(31,215)**	**25,541**	**(31,215)**	**25,541**

Notes to the financial statements continued

37. Sensitivity analysis continued

30 June 2011			Interest rate risk		
Kiwibank Limited		-1%	+1%	-1%	+1%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	**295,400**	**-**	**-**	**-**	**-**
Due from other financial institutions	**440,483**	**(1,329)**	**1,379**	**(1,329)**	**1,379**
Financial assets held for trading	**324,609**	**4,517**	**(4,348)**	**4,517**	**(4,348)**
Available-for-sale assets	**1,123,452**	**-**	**-**	**13,109**	**(12,770)**
Loans and advances	**11,494,964**	**20,461**	**(20,133)**	**20,461**	**(20,133)**
Derivative financial instruments	**73,545**	**43,631**	**(42,210)**	**45,871**	**(44,391)**
Balances with related parties	**604,989**	**557**	**(496)**	**557**	**(496)**
Other financial assets	**8,033**	**-**	**-**	**-**	**-**
Total financial assets	**14,365,475**	**67,837**	**(65,808)**	**83,186**	**(80,759)**
Financial liabilities					
Due to other financial institutions	**795,964**	**1,406**	**(1,324)**	**1,406**	**(1,324)**
Deposits and other borrowings	**10,586,277**	**(2,828)**	**2,797**	**(2,828)**	**2,797**
Derivative financial instruments	**182,819**	**(41,640)**	**39,893**	**(71,315)**	**68,934**
Debt securities issued	**1,509,847**	**(11,479)**	**11,440**	**(11,479)**	**11,440**
Term subordinated debt	**142,723**	**(1,185)**	**1,160**	**(1,185)**	**1,160**
Balances with related parties	**601,004**	**(227)**	**227**	**(227)**	**227**
Other financial liabilities	**25,402**	-	-	-	-
Total financial liabilities	**13,844,036**	**(55,953)**	**54,193**	**(85,628)**	**83,234**

Notes to the financial statements continued

37. Sensitivity analysis continued

30 June 2011		Currency risk			
Kiwibank Limited		-10%	+10%	-10%	+10%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	**295,400**	**5,843**	**(4,781)**	**5,843**	**(4,781)**
Due from other financial institutions	**440,483**	**6**	**(5)**	**6**	**(5)**
Financial assets held for trading	**324,609**	**5,535**	**(4,528)**	**5,535**	**(4,528)**
Available-for-sale assets	**1,123,452**	**-**	**-**	**7,436**	**(6,084)**
Loans and advances	**11,494,964**	**-**	**-**	**-**	**-**
Derivative financial instruments	**73,545**	**12,843**	**(10,508)**	**12,843**	**(10,508)**
Balances with related parties	**604,989**	**-**	**-**	**-**	**-**
Other financial assets	**8,033**	**-**	**-**	**-**	**-**
Total financial assets	**14,365,475**	**24,227**	**(19,822)**	**31,663**	**(25,906)**
Financial liabilities					
Due to other financial institutions	**795,964**	-	-	-	-
Deposits and other borrowings	**10,586,277**	**(7,051)**	**5,769**	**(7,051)**	**5,769**
Derivative financial instruments	**182,819**	**61,140**	**(50,023)**	**61,140**	**(50,023)**
Debt securities issued	**1,509,847**	**(85,304)**	**69,795**	**(85,304)**	**69,795**
Term subordinated debt	**142,723**	**-**	**-**	**-**	**-**
Balances with related parties	**601,004**	**-**	**-**	**-**	**-**
Other financial liabilities	**25,402**	**-**	**-**	**-**	**-**
Total financial liabilities	**13,844,036**	**(31,215)**	**25,541**	**(31,215)**	**25,541**

Notes to the financial statements continued

37. Sensitivity analysis continued

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

37. Sensitivity analysis continued

30 June 2010		Currency risk			
Banking Group		-10%	+10%	-10%	+10%
Dollars in thousands	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	303,866	4,014	(3,284)	4,014	(3,284)
Due from other financial institutions	156,871	-	-	-	-
Financial assets held for trading	671,152	14,114	(11,548)	14,114	(11,548)
Available-for-sale assets	544,453	-	-	7,845	(6,419)
Loans and advances	10,418,502	-	-	-	-
Derivative financial instruments	46,320	(3,542)	2,898	(3,542)	2,898
Other financial assets	5,584	-	-	-	-
Total financial assets	12,146,748	14,586	(11,934)	22,431	(18,353)
Financial liabilities					
Due to other financial institutions	164,051	-	-	-	-
Deposits and other borrowings	10,295,325	(3,734)	3,055	(3,734)	3,055
Derivative financial instruments	202,588	16,952	(13,870)	16,952	(13,870)
Debt securities issued	795,237	(35,380)	28,948	(35,380)	28,948
Term subordinated debt	143,299	-	-	-	-
Balances with related parties	12,114	-	-	-	-
Other financial liabilities	32,362	-	-	-	-
Total financial liabilities	11,644,976	(22,162)	18,133	(22,162)	18,133

37. Sensitivity analysis continued

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

Notes to the financial statements continued

37. Sensitivity analysis continued

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

Notes to the financial statements continued

38. Fair Value of Financial Instruments

	The Banking Group			
	30/06/11		30/06/10	
Dollars in thousands	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**296,302**	**296,302**	303,866	303,866
Due from other financial institutions	**440,483**	**440,483**	156,871	156,871
Financial assets held for trading	**324,609**	**324,609**	671,152	671,152
Available-for-sale assets	**1,123,452**	**1,123,452**	544,453	544,453
Loans and advances	**11,494,796**	**11,554,862**	10,418,502	10,453,603
Derivative financial instruments	**73,545**	**73,545**	46,320	46,320
Balances with related parties	**3,571**	**3,571**	-	-
Other financial assets	**8,086**	**8,086**	5,584	5,584
Total financial assets	**13,764,844**	**13,824,910**	12,146,748	12,181,849
Liabilities				
Due to other financial institutions	**795,964**	**795,964**	164,051	164,051
Deposits and other borrowings	**10,586,271**	**10,604,448**	10,295,325	10,305,234
Derivative financial instruments	**182,819**	**182,819**	202,588	202,588
Debt securities issued	**1,509,847**	**1,512,466**	795,237	797,433
Term subordinated debt	**142,723**	**143,586**	143,299	144,190
Balances with related parties	**19**	**19**	12,114	12,114
Other financial liabilities	**25,633**	**25,633**	32,362	32,362
Total financial liabilities	**13,243,276**	**13,264,935**	11,644,976	11,657,972

	Kiwibank Limited			
	30/06/11		30/06/10	
Dollars in thousands	**Carrying Amount**	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents	**295,400**	**295,400**	303,804	303,804
Due from other financial institutions	**440,483**	**440,483**	156,871	156,871
Financial assets held for trading	**324,609**	**324,609**	671,152	671,152
Available-for-sale assets	**1,123,452**	**1,123,452**	544,453	544,453
Loans and advances	**11,494,964**	**11,555,030**	10,418,502	10,453,603
Derivative financial instruments	**73,545**	**73,545**	46,320	46,320
Balances with related parties	**604,989**	**607,288**	600,916	603,309
Other financial assets	**8,033**	**8,033**	5,741	5,741
Total financial assets	**14,365,475**	**14,427,840**	12,747,759	12,785,253
Liabilities				
Due to other financial institutions	**795,964**	**795,964**	164,051	164,051
Deposits and other borrowings	**10,586,277**	**10,604,448**	10,295,325	10,305,234
Derivative financial instruments	**182,819**	**182,819**	202,588	202,588
Debt securities issued	**1,509,847**	**1,512,466**	795,237	797,433
Term subordinated debt	**142,723**	**143,586**	143,299	144,190
Balances with related parties	**601,004**	**607,226**	613,241	619,760
Other financial liabilities	**25,402**	**25,402**	32,248	32,248
Total financial liabilities	**13,844,036**	**13,871,911**	12,245,989	12,265,504

Notes to the financial statements continued

38. Fair value of financial instruments continued

Fair value estimation

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

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

Cash and cash equivalents

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

Held for trading securities

For held for trading securities, estimated fair values are based on quoted market prices or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. These techniques address factors such as interest rates, credit risk and liquidity.

Available-for-sale securities

For available for sale securities, estimated fair values are based on quoted market prices or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. These techniques address factors such as interest rates, credit risk and liquidity.

Loans and advances

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

Other financial assets

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

Deposits by customers

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

Other financial liabilities

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

Impaired and past due assets

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

Interest rate contracts

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

Foreign exchange contracts

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

38. Fair value of financial instruments continued

	Banking Group and Kiwibank Limited			
Audited 30/06/11				
Dollars in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets				
Interest rate swaps	**-**	**53,742**	**-**	**53,742**
Currency swaps	**-**	**18,718**	**-**	**18,718**
Forward foreign exchange contracts	**-**	**1,068**	**-**	**1,068**
Options purchased	**-**	**2**		**2**
Futures contracts	**8**	**-**	**-**	**8**
Forward rate agreements	**-**	**7**	**-**	**7**
Total	**8**	**73,537**	**-**	**73,545**
Other financial assets held for trading				
Bank bills	**-**	**179,295**	**-**	**179,295**
Other securities	**14,518**	**130,796**	**-**	**145,314**
Total	**14,518**	**310,091**	**-**	**324,609**
Available-for-sale assets				
Government stock and multilateral development banks	**629,325**	**31,454**	**-**	**660,779**
Local authority securities	**-**	**142,683**	**-**	**142,683**
Other debt securities	**-**	**319,990**	**-**	**319,990**
Total	**629,325**	**494,127**	**-**	**1,123,452**
Financial assets designated at FVTPL				
Loans and advances	**-**	**-**	**447,853**	**447,853**
Total financial assets	**643,851**	**877,755**	**447,853**	**1,969,459**
Financial liabilities				
Derivative financial liabilities				
Interest rate swaps	**-**	**153,357**	**-**	**153,357**
Currency swaps	**-**	**6,571**	**-**	**6,571**
Forward foreign exchange contracts	**-**	**22,863**	**-**	**22,863**
Options sold	**-**	**2**		**2**
Futures contracts	**18**	**-**	**-**	**18**
Forward rate agreements	**-**	**8**	**-**	**8**
Total	**18**	**182,801**	**-**	**182,819**
Debt securities issued	**-**	**758,379**	**-**	**758,379**
Total financial liabilities	**18**	**941,180**	**-**	**941,198**

38. Fair value of financial instruments continued

	Banking Group and Kiwibank Limited			
Audited 30/06/10				
Dollars in thousands	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets				
Interest rate swaps	-	37,916	-	37,916
Currency swaps	-	8,007	-	8,007
Forward foreign exchange contracts	-	244	-	244
Futures contracts	7	-	-	7
Forward rate agreements	-	146	-	146
Total	7	46,313	-	46,320
Other financial assets held for trading				
Bank bills	-	189,288	-	189,288
Other securities	220,850	261,014	-	481,864
Total	220,850	450,302	-	671,152
Available-for-sale assets				
Government stock and multilateral development banks	261,538	88,530	-	350,068
Local authority securities	-	18,927	-	18,927
Other debt securities	-	175,458	-	175,458
Total	261,538	282,915	-	544,453
Financial assets designated at FVTPL				
Loans and advances	-	-	1,235,764	1,235,764
Total financial assets	482,395	779,530	1,235,764	2,497,689
Financial liabilities				
Derivative financial liabilities				
Interest rate swaps	-	190,895	-	190,895
Currency swaps	-	7,195	-	7,195
Forward foreign exchange contracts	-	3,867	-	3,867
Futures contracts	581	-	-	581
Forward rate agreements	-	50	-	50
Total	581	202,007	-	202,588
Debt securities issued	-	199,116	-	199,116
Total financial liabilities	581	401,123	-	401,704

38. Fair value of financial instruments continued

Fair value hierarchy

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

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

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

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

Loans and receivables designated at fair value through profit or loss

For loans and receivables designated at fair value through profit or loss, a discounted cash-flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. At reporting date, a one basis point movement in credit spread or underlying interest rate would impact the statement of comprehensive income by $30k (June 10; $99k). (See critical accounting estimates, note 1).

The following table presents the changes in level 3 instruments for the year ended 30 June 2011.

Dollars in thousands	**30/06/11**	30/06/10
Financial assets at FVTPL		
Balance at beginning of the year	**1,235,764**	2,121,584
Total fair value losses recorded in statement of comprehensive income	**(12,607)**	(41,550)
Loan repayments	**(775,304)**	(844,270)
Balance at end of the year	**447,853**	1,235,764

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

Notes to the financial statements continued

39. Credit exposure concentrations

Credit exposure to individual counterparties

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

The number of individual counterparties, excluding connected persons, 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:

	The Banking Group			
	3 months ended 30/06/11		3 months ended 30/06/10	
	Non-Bank	Bank	Non-Bank	Bank
As at reporting date				
10% - 14%	**-**	**-**	-	-
15% -19%	**-**	**-**	-	-
20% - 24%	**-**	**-**	-	-
Peak exposure				
10% - 14%	**-**	**-**	1	-
15% -19%	**-**	**-**	-	-

In accordance with the Registered Bank Disclosure Statements (NZ Incorporated Banks) Order (No.2) 2011, the credit exposure concentrations now exclude bank counterparties with a long-term credit rating of A- or A3 and above.

In the 3 months ended 30 June 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 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+.

Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of individual credit impairment allowance and excluding advances of a capital nature). The information on credit exposure to connected persons has been derived in accordance with the Banking Group's Conditions of Registration. The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end-of-day credit exposures to non-bank connected persons have been calculated using the Banking Group's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Banking Group as at reporting period date, is 70%. There have been no rating-contingent limit changes during the last year. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's Conditions of Registration have been complied with at all times over the last year. The limit is 125% of the Banking Group's Tier One Capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure. There are no individual impairment credit allowances against credit exposures to non-bank connected persons nor are there any contingent exposures arising from risk lay-off arrangements to connected persons as at 30 June 2011 (30 June 2010: nil).

	The Banking Group	
Dollars in thousands	**Year ended 30/06/11**	Year ended 30/06/10
Credit exposures to non-bank connected persons at year end	**41**	39
Credit exposures to non-bank connected persons at year end expressed as a percentage of total tier one capital	**0.0%**	0.0%
Peak credit exposures to non-bank connected persons during the year	**16,055**	13,020
Peak credit exposures to non-bank connected persons during the year expressed as a percentage of total tier one capital	**2.7%**	3.1%

40. Fiduciary activities

Custodial services

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

Securitised assets

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

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

Insurance business

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

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 June 2011 is $40.0m.

As at 30 June 2011 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 (note 20). At 30 June 2011, $2,598m of funds under management were invested in Kiwibank's own products or securities (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 years ended 30 June 2011 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.

41. Risk management policies

Risk management

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

Organisational perspective

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

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

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

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

The CEO and executive management team are responsible for implementing the risk management framework approved by the Board and for developing appropriate strategies, policies, controls, processes and procedures for identifying, measuring and managing risk. Three specialised management committees have been formed to ensure bank-wide input and appropriate focus on specific risk matters, namely i) the Asset-Liability Committee (ALCO - which is concerned with statement of financial position structure, capital, funding and market risk); ii) the Credit Committee (focused on credit risk); and iii) the Project Governance Board (which considers certain risks associated with the Bank's information technology capabilities).

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

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

Notes to the financial statements continued

41. Risk management policies continued

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

Risk management framework

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

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

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

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

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

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

  The bank monitors its risk profile and internal and regulatory capital adequacy, and reports this on a regular basis to the Board. In the event of large, unexpected losses, the bank is committed to restoring its capital position. Management have developed plans accordingly. The Banking Group's risk management systems are currently being reviewed by an external party.

Notes to the financial statements continued

41. Risk management policies continued

- **Risk assessment and risk prioritisation** – This function administered by the Risk Management Unit is designed to identify and assess the real risks facing the bank. The prioritisation process is intended to ensure that management focus and appropriate resources are directed at isolating, reducing or controlling expected (probable) risk events. The risk prioritisation process involves assessing the probability and severity of losses using (where possible) quantitative risk and control data.

- **Operations risk management** – Irrespective of their relative significance, the majority of risk situations facing the bank occur in the day-to-day operations of the business. These risks (referred to as operations risks - as they arise from operating the business) are not confined to formal risk domains (i.e. credit, market, or operational risk) or business lines. As it is considered desirable to manage risk in a consistent and comprehensive manner across the whole of Kiwibank, a decision support model exists for any manager needing to make a risk management decision about a specific risk matter arising in their current or proposed operations (i.e. day-to-day business activities).

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

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

Credit risk

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

Key elements of the Credit risk management framework are:

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

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

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

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

- **Credit risk mitigation -** Kiwibank's Board approved wholesale credit management policy sets out the parameters for which it can enter into credit exposures arising from on and off-balance sheet transactions. Kiwibank also has legal arrangements with its major institutional counterparties to allow netting of off-balance sheet exposures along with collateral management arrangements.

  Kiwibank applies the simple method to measure the mitigating effects of collateral.

41. Risk management policies continued

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

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

  The Corporate segment consists of lending to small and medium sized businesses. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default. These exposures are generally required to be reviewed on an annual basis, unless they are small facilities that are managed on a behavioural basis after their initial rating at origination. The Institutional portfolio is comprised of commercial exposures, including bank and government exposures. Exposures in the Institutional portfolio are all individually rated and are of minimum investment grade or equivalent quality.

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

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

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

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

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

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

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

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

41. Risk management policies continued

Market risk

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

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

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

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

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

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

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

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

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

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

41. Risk management policies continued

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

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

Kiwibank maintains liquidity crisis contingency plans defining an approach for responding to liquidity threatening events. Funding risk is allied to liquidity risk, but is concerned with the Bank's capacity to fund increases in assets while meeting its payment obligations, including repaying depositors and maturing wholesale debt.

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

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

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

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

Operational risk

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

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

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

- Senior management are accountable to the Board for maintaining an adequate and effective control environment that is commensurate with Kiwibank's risk appetite and business objectives.
- Business units are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility.
- A central Risk Management Unit supports business units with operational risk identification, measurement and prioritisation. This unit also includes the Bank's legal function, which assists business units with legal and legislative compliance.
  The Risk Management Unit undertakes elementary quantitative operational risk measurements (using internal loss and potential loss data) across the Bank and reports quarterly to the Board Finance Audit and Risk Committee on Kiwibank's overall operational risk profile.
- An independent Internal Audit function, which appraises the adequacy and effectiveness of the internal control environment, and reports results to both management and the Board Finance Audit and Risk Committee.

41. Risk management policies continued

Key management and control techniques employed by Kiwibank, include clear delegation of authority, segregation of duties, sound project management, change control disciplines and business continuity planning. These techniques are enhanced by a focus on staff competency and supervision. Where appropriate these management practices are augmented by risk transfer mechanisms such as insurance, and by regular risk and control assessments.

Business risk

There are numerous external and internal uncertainties that may derail the business strategies or goals of Kiwibank. Success in managing business risk is intrinsically more difficult than managing financial risks (i.e. credit, market and operational risks).
It is only through sound business strategies and skilful execution of these business strategies that Kiwibank's business goals/objectives will be achieved. Risk management strategies are not a substitute for good business strategies but aid in the selection of appropriate strategies and in their successful execution.

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

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

Historical summary of financial statements

Dollars in thousands	Audited NZ IFRS 12 months ended 30/06/11	Audited NZ IFRS 12 months ended 30/06/10	Audited NZ IFRS 12 months ended 30/06/09	Audited NZ IFRS 12 months ended 30/06/08	Audited NZ IFRS 12 months ended 30/06/07	Audited NZ FRS 12 months ended 30/06/06
Financial performance						
Interest income	**720,372**	563,886	648,891	559,105	318,963	188,157
Interest expense	**(529,040)**	(430,496)	(485,478)	(444,004)	(239,965)	(136,222)
Gains/(losses) on financial instruments at fair value	**16,414**	36,323	(4,625)	(6,116)	4,163	-
Other operating income	**145,254**	131,729	142,953	129,113	120,395	98,373
Gain on sale of subsidiary	**-**	-	11,140	-	-	-
Operating expenses	**(241,674)**	(218,902)	(214,946)	(179,432)	(158,414)	(125,155)
Impairment losses on loans and advances	**(78,982)**	(17,860)	(14,345)	(4,097)	(460)	(1,892)
Net profit before taxation	**32,344**	64,680	83,590	54,569	44,682	23,261
Income tax expense	**(11,116)**	(18,832)	(19,975)	(17,748)	(13,830)	(7,490)
Net profit after taxation	**21,228**	45,848	63,615	36,821	30,852	15,771
Dividend paid	**(8,558)**	-	-	-	-	-
Financial position	30/06/11	30/06/10	30/06/09	30/06/08	30/06/07	30/06/06
Total assets	**13,875,337**	12,238,375	10,371,035	7,219,228	4,760,290	3,072,982
Impaired assets	**106,007**	37,776	19,332	4,067	64	60
Total liabilities	**13,267,488**	11,649,612	10,015,869	6,893,251	4,510,934	2,900,559
Equity	**607,849**	588,763	355,166	325,977	249,356	172,423

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

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

The historical summary of financial statements give a true and fair view of the results and the state of affairs of The Banking Group for the year ended 30 June 2011.The amounts specified above have been taken from previous audited financial statements.

Capital adequacy

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

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

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

Regulatory capital

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

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

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

The perpetual preference shares, which are fully paid, are included within Tier One capital. The material terms and conditions of 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
f) no provision has been made for a variation or suspension of dividend payments.

Risk exposures

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

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

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

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

Capital adequacy continued

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

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

Kiwibank's Board is ultimately responsible for capital adequacy and approves capital plans and establishes minimum internal capital levels and limits. These are typically higher than the regulatory minimum. The capital adequacy tables set out below summarise the composition of regulatory capital and capital adequacy ratios for the year ended 30 June 2011. Throughout the year Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

	The Banking Group		Kiwibank Limited	
Dollars in thousands	**30/06/11**	30/06/10	**30/06/11**	30/06/10
Tier one capital				
Issued and fully paid up share capital	**310,000**	310,000	**310,000**	310,000
Perpetual fully paid up non-cumulative preference shares	**146,639**	146,639	**150,000**	145,708
Revenue and similar reserves	**126,621**	82,915	**126,619**	82,913
Current year's audited retained earnings	**21,228**	45,848	**21,588**	45,848
Tier one minority interest	**3,361**	3,361	**-**	-
Less: Deductions from tier one capital				
Intangible assets	**(47,686)**	(47,505)	**(47,686)**	(47,505)
Cash-flow hedge reserve	**41,930**	45,873	**41,930**	45,873
Total tier one capital	**602,093**	587,131	**602,451**	582,837
Tier two capital - upper level tier two capital				
Perpetual fully paid up non-cumulative preference shares	**-**	-	**-**	4,292
Tier two capital - lower level tier two capital				
Term subordinated debt	**135,000**	135,000	**135,000**	135,000
Total tier two capital	**135,000**	135,000	**135,000**	139,292
Total tier one and tier two capital	**737,093**	722,131	**737,451**	722,129
Less deductions from capital		-		-
Capital	**737,093**	722,131	**737,451**	722,129
Capital adequacy ratios				
Total tier one capital expressed as a percentage of total risk weighted exposures	**9.0%**	9.8%	**8.8%**	9.5%
Total capital (Pillar I) capital expressed as a percentage of total risk weighted exposures	**11.0%**	12.0%	**10.8%**	11.8%
Capital ratio (Pillar I & II) expressed as a percentage of total risk weighted exposures (including other material risk)	**10.5%**	11.7%	**10.3%**	11.5%

Capital adequacy continued

	The Banking Group			
Dollars in thousands	**Principal amount 30/06/11**	**Risk weighting 30/06/11**	**Risk weighted exposure 30/06/11**	**Minimum Pillar One Capital Requirement 30/06/11**
On-balance sheet exposures				
Cash and gold bullion	**47,470**	**0%**	**-**	**-**
Sovereigns and central banks	**867,226**	**0%**	**-**	**-**
Multilateral development banks	**33,574**	**0%**	**-**	**-**
Claims on public sector entities	**189,381**	**20%**	**37,876**	**3,030**
Claims on other banks	**738,880**	**20%**	**147,776**	**11,822**
	142,905	**50%**	**71,452**	**5,716**
Corporate	**111,574**	**20%**	**22,315**	**1,785**
	37,743	**50%**	**18,872**	**1,510**
	22,554	**100%**	**22,554**	**1,804**
Residential mortgages	**8,608,785**	**35%**	**3,013,075**	**241,046**
	1,536,208	**50%**	**768,104**	**61,448**
	461,970	**75%**	**346,478**	**27,718**
	23,796	**100%**	**23,796**	**1,904**
Impaired assets	**106,007**	**100%**	**106,007**	**8,481**
Past due residential mortgages > 90 days	**28,930**	**100%**	**28,930**	**2,314**
Other past due assets > 90 days	**3,845**	**100%**	**3,845**	**308**
Other assets	**880,399**	**100%**	**880,399**	**70,432**
Non risk weighted assets	**34,090**	**-**	**-**	**-**
Total balance sheet exposures	**13,875,337**	**-**	**5,491,479**	**439,318**

Capital adequacy continued

Dollars in thousands	Total exposure 30/06/11	Credit conversion factor 30/06/11	Credit equivalent amount 30/06/11	Average risk weighting 30/06/11	Risk weighted exposure 30/06/11	Minimum Pillar One Capital Requirement 30/06/11
	The Banking Group					
Off-balance sheet exposures and market related contracts						
Direct credit substitutes	**2,788**	**100%**	**2,788**	**100%**	**2,788**	**223**
Asset sale with recourse	**-**	**100%**	**-**	**0%**	**-**	**-**
Commitments with certain drawdown	**37,018**	**100%**	**37,018**	**100%**	**37,018**	**2,961**
Note issuance facility	**-**	**50%**	**-**	**0%**	**-**	**-**
Revolving credit facilities	**91,524**	**0%**	**-**	**40.4%**	**-**	**-**
Revolving credit facilities	**313,739**	**20%**	**62,748**	**40.4%**	**25,350**	**2,028**
Revolving credit facilities	**399,430**	**50%**	**199,715**	**40.4%**	**80,685**	**6,455**
Performance related contingency	**2,783**	**50%**	**1,391**	**100%**	**1,391**	**111**
Trade related contingency	**-**	**20%**	**-**	**0%**	**-**	**-**
Other commitments greater than one year	**193,441**	**50%**	**96,720**	**40.4%**	**39,075**	**3,126**
Other commitments less than or equal to one year	**65,750**	**20%**	**13,150**	**100%**	**13,150**	**1,052**
Other commitments less than or equal to one year	**1,500**	**20%**	**300**	**20%**	**60**	**5**
Other commitments that cancel automatically	**400,798**	**0%**	**-**	**0%**	**-**	**-**
Market related contracts:❶	**-**	**-**	**-**	**0%**	**-**	**-**
Interest rate contracts	**10,244,663**	**-**	**80,666**	**20%**	**16,133**	**1,291**
Foreign exchange contracts	**1,162,546**	**-**	**48,122**	**20%**	**9,624**	**770**
Total off-balance sheet exposures	**12,915,980**		**542,618**		**225,274**	**18,022**
Total value of on- and off- balance sheet residential exposures covered by eligible collateral (after haircutting)	**(6,492)**	**-**	**-**	**-**	**(6,492)**	**(519)**
Total value of on- and off- balance sheet exposures covered by guarantees or credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Operational Risk	**n/a**	**-**	**-**	**-**	**768,348**	**61,468**
Market Risk						
Interest rate risk	**n/a**	**-**	**-**	**-**	**236,131**	**18,890**
Foreign currency risk	**n/a**	**-**	**-**	**-**	**5,621**	**450**
Equity risk	**n/a**	**-**	**-**	**-**	**-**	**-**
Total risk weighted exposures	**26,784,825**	**-**	**-**	**-**	**6,720,361**	**537,629**
Other material risk (Pillar II)	**n/a**				**323,076**	**25,846**

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

Capital adequacy continued

	Kiwibank Limited			
Dollars in thousands	**Principal amount 30/06/11**	**Risk weighting 30/06/11**	**Risk weighted exposure 30/06/11**	**Minimum Pillar One Capital Requirement 30/06/11**
On-balance sheet exposures				
Cash and gold bullion	**47,470**	**0%**	**-**	**-**
Sovereigns and central banks	**867,235**	**0%**	**-**	**-**
Multilateral development banks	**33,574**	**0%**	**-**	**-**
Claims on public sector entities	**189,381**	**20%**	**37,876**	**3,030**
Claims on other banks	**735,702**	**20%**	**147,140**	**11,771**
	142,905	**50%**	**71,452**	**5,716**
Corporate	**699,684**	**20%**	**139,937**	**11,195**
	37,743	**50%**	**18,872**	**1,510**
	37,554	**100%**	**37,554**	**3,004**
Residential mortgages	**8,608,785**	**35%**	**3,013,075**	**241,046**
	1,536,208	**50%**	**768,104**	**61,448**
	461,970	**75%**	**346,478**	**27,718**
	23,796	**100%**	**23,796**	**1,904**
Impaired assets	**106,007**	**100%**	**106,007**	**8,481**
Past due residential mortgages > 90 days	**28,930**	**100%**	**28,930**	**2,314**
Other past due assets > 90 days	**3,845**	**100%**	**3,845**	**308**
Other assets	**881,067**	**100%**	**881,067**	**70,485**
Non risk weighted assets	**34,107**	**-**	**-**	**-**
Total balance sheet exposures	**14,475,963**	**-**	**5,624,133**	**449,930**

Capital adequacy continued

	Kiwibank Limited					
Dollars in thousands	Total exposure 30/06/11	Credit conversion factor 30/06/11	Credit equivalent amount 30/06/11	Average risk weighting 30/06/11	Risk weighted exposure 30/06/11	Minimum Pillar One Capital Requirement 30/06/11
Off-balance sheet exposures and market related contracts						
Direct credit substitutes	**2,788**	**100%**	**2,788**	**100%**	**2,788**	**223**
Asset sale with recourse	**-**	**100%**	**-**	**0%**	**-**	**-**
Commitments with certain drawdown	**37,018**	**100%**	**37,018**	**100%**	**37,018**	**2,961**
Note issuance facility	**-**	**50%**	**-**	**0%**	**-**	**-**
Revolving credit facilities	**91,524**	**0%**	**-**	**40.4%**	**-**	**-**
Revolving credit facilities	**313,739**	**20%**	**62,748**	**40.4%**	**25,350**	**2,028**
Revolving credit facilities	**399,430**	**50%**	**199,715**	**40.4%**	**80,685**	**6,455**
Performance related contingency	**2,783**	**50%**	**1,391**	**100%**	**1,391**	**111**
Trade related contingency	**-**	**20%**	**-**	**0%**	**-**	**-**
Other commitments greater than one year	**193,441**	**50%**	**96,720**	**40.4%**	**39,075**	**3,126**
Other commitments less than or equal to one year	**65,750**	**20%**	**13,150**	**100%**	**13,150**	**1,052**
Other commitments less than or equal to one year	**1,500**	**20%**	**300**	**20%**	**60**	**5**
Other commitments that cancel automatically	**400,798**	**0%**	**-**	**0%**	**-**	**-**
Market related contracts:❶	**-**	**-**	**-**	**0%**	**-**	**-**
Interest rate contracts	**10,244,663**	**-**	**80,666**	**20%**	**16,133**	**1,291**
Foreign exchange contracts	**1,162,546**	**-**	**48,122**	**20%**	**9,624**	**770**
Total off-balance sheet exposures	**12,915,980**		**542,618**		**225,274**	**18,022**
Total value of on- and off- balance sheet residential exposures covered by eligible collateral (after haircutting)	**(6,492)**	**-**	**-**	**-**	**(6,492)**	**(519)**
Total value of on- and off- balance sheet exposures covered by guarantees or credit derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Operational Risk	**n/a**	**-**	**-**	**-**	**768,348**	**61,468**
Market Risk						
Interest rate risk	**n/a**	**-**	**-**	**-**	**236,131**	**18,890**
Foreign currency risk	**n/a**	**-**	**-**	**-**	**5,621**	**450**
Equity risk	**n/a**	**-**	**-**	**-**	**-**	**-**
Total risk weighted exposures	**27,385,451**	**-**	**-**	**-**	**6,853,015**	**548,241**
Other material risk (Pillar II)	**n/a**				**323,076**	**25,846**

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

Capital adequacy continued

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

Capital adequacy continued

	The Banking Group					
Dollars in thousands	**Total exposure 30/06/10**	**Credit conversion factor 30/06/10**	**Credit equivalent amount 30/06/10**	**Average risk weighting 30/06/10**	**Risk weighted exposure 30/06/10**	**Minimum Pillar One Capital Requirement 30/06/10**
Off-balance sheet exposures and market related contracts						
Direct credit substitutes	1,473	100%	1,473	100%	1,473	118
Asset sale with recourse	-	100%	-	0%	-	-
Commitments with certain drawdown	9,494	100%	9,494	100%	9,494	760
Note issuance facility	-	50%	-	0%	-	-
Revolving credit facilities	55,950	0%	-	40.5%	-	-
Revolving credit facilities	271,466	20%	54,293	40.5%	21,989	1,759
Revolving credit facilities	333,013	50%	166,507	40.5%	67,435	5,395
Performance related contingency	2,236	50%	1,118	100%	1,118	89
Trade related contingency	-	20%	-	0%	-	-
Other commitments greater than one year	139,007	50%	69,504	40.5%	28,149	2,252
Other commitments less than or equal to one year	31,722	20%	6,344	100%	6,344	508
Other commitments less than or equal to one year	21,000	20%	4,200	20%	840	67
Other commitments that cancel automatically	331,757	0%	-	0%	-	-
Market related contracts: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 residential 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

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

Capital adequacy continued

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

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

Residential mortgages by loan-to-value ratio

The Banking Group Dollars in thousands	**30/06/11**	30/06/10
LVR 0%-80%	**8,608,785**	7,650,017
LVR 80%-90%	**1,536,208**	1,297,099
LVR 90% +	**485,766**	656,587

At 30 June 2011, of the LVR 90%+ balance above, $389m 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 **a**ccordance with the methodology detailed in Part 10 of the RBNZ’s BS2A Capital Adequacy Framework, and Schedule 9 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No.2) 2011. Peak exposures are calculated using the Banking Group’s shareholder’s equity at the end of the period.

	The Banking Group			
Dollars in thousands	As at 30/06/11	As at 30/06/10	Peak for 6 months ended 30/06/11	Peak for 6 months ended 30/06/10
Interest rate exposures				
Aggregate interest rate exposures	**18,891**	20,379	**19,637**	22,202
Implied interest rate risk weighted exposure	**236,138**	254,738	**245,463**	277,525
Foreign currency exposures				
Aggregate foreign currency exposures	**450**	524	**2,926**	654
Implied foreign currency risk weighted exposure	**5,625**	6,550	**36,575**	8,175

The Banking Group holds no equity instruments.