kiwibank

# Disclosure Statement

Number 42

For the six months ended 31 December 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 six months ended 31 December 2011, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No. 4) 2011 (the "Order"). Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

## Address for service

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

## Ultimate holding company

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

## Voting securities and power to appoint directors

There are 360 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. On 31 January 2012, this credit rating was reaffirmed as AA- and the outlook was revised to negative from stable.

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 31 December 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 months 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-. On 31 January 2012, this credit rating was reaffirmed as AA- and the outlook was revised to negative from stable. For an explanation of Standard & Poor's (Australia) Pty Limited's credit rating scale see the Crown Wholesale Guarantee section below.

**Crown Retail Guarantee**

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

## Guarantees continued

**Crown Wholesale Guarantee**

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

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

On 30 April 2010 the Crown wholesale funding guarantee scheme was withdrawn by the New Zealand Government.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

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

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

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

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

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

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 applicable to its long term obligations payable in New Zealand dollars:

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

## Guarantees continued

The following table describes the steps in the applicable rating scales for each rating agency:

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

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

## Conditions of registration

These conditions apply on and after 31 December 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 Reserve Bank of New Zealand document entitled "Capital Adequacy Framework (Standardised Approach" (BS2A) dated October 2010.

1A. That:

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

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities. In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.
3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

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

   a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
   b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.
   c) In determining the total amount of the Banking Group's insurance business:
      (i) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
      (ii) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,

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

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[1] | 75 |
| AA-/Aa3 | 70 |
| A+/A1 | 60 |
| A/A2 | 40 |
| A-/A3 | 30 |
| BBB+/Baa1 and below | 15 |

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

## Conditions of registration continued

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 Reserve Bank of New Zealand document entitled "Connected Exposure Policy" (BS8) dated June 2011.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

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

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

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

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

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

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

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

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

   d) an alternate director

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

      (ii) for an independent director must be independent;

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

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

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

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

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 Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

## Conditions of registration continued

10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

11. That by 1 August 2012 the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure by the Bank or other service provider to the Bank, the following outcomes:

    a) that the Bank's clearing and settlement obligations due on a day can be met on that day;

    b) that the Bank's financial risk positions on a day can be identified on that day;

    c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

    d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

    For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006.

12. That:

    a) the business and affairs of the bank are managed by, or under the direction or supervision of, the board of the Bank;

    b) the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the Bank; and

    c) all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.

13. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:

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

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

    c) the one-year core funding ratio of the Banking Group is not less than 70 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

14. 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.

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

    For the purposes of this condition, -

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

    "SPV" means a person -

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

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

## Conditions of registration continued

16. That:

a) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless;

(i) the registered Bank the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the registered Bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

b) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

(i) the registered Bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the registered Bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

(iii) the Reserve Bank has given the registered Bank a notice of non-objection to the signification acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

This condition of registration applies to acquisitions and business combinations to which a member of the Banking Group intends to give effect on or after 1 April 2012.

In these conditions of registration, -

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

Amendments to conditions of registration

The ratios which must be calculated for condition of registration no.13 are calculated in accordance with RBNZ documents BS13 and BS13A. It is noted that BS13A ("Liquidity Policy Annex: Liquid Assets") was changed in December 2011. The revised conditions of registration above also introduce new conditions in paragraphs 11, 12 and 16 in relation to the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated January 2006, oversight of employment conditions, and the Reserve Bank of New Zealand Significant Acquisitions Policy (BS15) respectively.

### Directorate

Richard Gordon Alexander Westlake resigned as director on 31 October 2011. Catherine Maria Savage has been appointed director effective 20 December 2011. There have been no other changes to the composition of the Bank's Board of Directors since 30 June 2011.

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

| | |
|---|---|
| Robert William Bentley Morrison | Hon. Dr. Michael John Cullen |
| Alison Rosemary Gerry | Murray Ian David Gribben |
| Brian Joseph Roche | Catherine Maria Savage |
| David Stephen Willis | Mark David Yeoman (as alternate director for Brian Joseph Roche) |

### Auditors

The auditor whose report is referred to in this Disclosure Statement is Chris Barber assisted by PricewaterhouseCoopers ("PwC"), acting as agent on behalf of the Auditor-General. His address for service is PwC, 113-119 The Terrace, Wellington, New Zealand.

## Directors' statement

Each director of Kiwibank after due enquiry by them, believes that:

1. As at the date on which this Disclosure Statement is signed:

   i. this Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No.4) 2011; and

   ii. this Disclosure Statement is not false or misleading.

2. During the six months ended 31 December 2011:

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

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

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

Signed by Rob Morrison and Alison Gerry as directors and responsible persons on behalf of all the other directors listed in the Directorate section of this Disclosure Statement:

22 February 2012

## Interim financial statements

# Interim financial statements
# Statement of comprehensive income
## For six months ended 31 December 2011

| Dollars in millions | Note | The Banking Group<br>**Unaudited 6 months ended 31/12/11** | Unaudited 6 months ended 31/12/10 | Audited 12 months ended 30/06/11 |
|---|---|---|---|---|
| Interest income | | **381** | 348 | 720 |
| Interest expense | | **(258)** | (259) | (529) |
| **Net interest income** | | **123** | 89 | 191 |
| Gains on financial instruments at fair value | 2 | **2** | 7 | 16 |
| Other income | | **79** | 73 | 146 |
| **Total operating income** | | **204** | 169 | 353 |
| Operating expenses | | **(133)** | (118) | (242) |
| Impairment losses on loans and advances | 12 | **(18)** | (31) | (79) |
| **Profit before taxation** | | **53** | 20 | 32 |
| Income tax expense | | **(15)** | (6) | (11) |
| **Profit after taxation** | | **38** | 14 | 21 |
| **Attributable to:** | | | | |
| Owners of the parent | | **38** | 14 | 21 |
| Non controlling interest | | **-** | - | - |
| | | | | |
| **Other comprehensive income** | | | | |
| **Available-for-sale reserve** | | | | |
| Gross gain/(loss) from changes in reserve | | **7** | (4) | 4 |
| **Cash flow hedge reserve** | | | | |
| Gross gain from changes in reserve | | **4** | 7 | 5 |
| Tax expense relating to components of other comprehensive income | | **(3)** | (1) | (2) |
| **Other comprehensive income for the period** | | **8** | 2 | 7 |
| **Total comprehensive income for the period** | | **46** | 16 | 28 |
| **Attributable to:** | | | | |
| Owners of the parent | | **46** | 16 | 28 |
| Non controlling interest | | **-** | - | - |

The notes on pages 16 to 31 form part of these interim financial statements.

# Interim financial statements
## Statement of changes in equity
### For the six months ended 31 December 2011

| Banking Group | Fully Paid Ordinary Shares | Retained Earnings | Available For Sale Reserve | Cash Flow Hedge Reserve | Non controlling interest | Total |
|---|---|---|---|---|---|---|
| Dollars in millions | | | | | | |
| Balance at 1 July 2010 | 310 | 174 | - | (46) | 150 | 588 |
| **Six months ended 31 December 2010** | | | | | | |
| Profit for the period | - | 14 | - | - | - | 14 |
| **Other comprehensive income** | | | | | | |
| Available for sale financial assets (net of tax) | - | - | (3) | - | - | (3) |
| Cash flow hedges (net of tax) | - | - | - | 5 | - | 5 |
| **Total other comprehensive income** | - | - | (3) | 5 | - | 2 |
| **Total comprehensive income** | - | 14 | (3) | 5 | - | 16 |
| **Transactions with owners** | | | | | | |
| Dividends paid to non-controlling interest | - | (4) | - | - | - | (4) |
| **Balance at 31 December 2010 (unaudited)** | 310 | 184 | (3) | (41) | 150 | 600 |
| **Year ended 30 June 2011** | | | | | | |
| Profit for the period | - | 21 | - | - | - | 21 |
| **Other comprehensive income** | | | | | | |
| Available for sale financial assets (net of tax) | - | - | 3 | - | - | 3 |
| Cash flow hedges (net of tax) | - | - | - | 4 | - | 4 |
| **Total other comprehensive income** | - | - | 3 | 4 | - | 7 |
| **Total comprehensive income** | - | 21 | 3 | 4 | - | 28 |
| **Transactions with owners** | | | | | | |
| Dividends paid to non-controlling interest | - | (8) | - | - | - | (8) |
| **Balance at 30 June 2011 (audited)** | 310 | 187 | 3 | (42) | 150 | 608 |
| **Comprehensive income** | | | | | | |
| **Six months ended 31 December 2011** | | | | | | |
| Profit for the period | **-** | **38** | **-** | **-** | **-** | **38** |
| **Other comprehensive income** | | | | | | |
| Available for sale financial assets (net of tax) | **-** | **-** | **5** | **-** | **-** | **5** |
| Cash flow hedges (net of tax) | **-** | **-** | **-** | **3** | **-** | **3** |
| **Total other comprehensive income** | **-** | **-** | **5** | **3** | **-** | **8** |
| **Total comprehensive income** | **-** | **38** | **5** | **3** | **-** | **46** |
| **Transactions with owners** | | | | | | |
| Dividends paid to non-controlling interest | **-** | **(4)** | **-** | **-** | **-** | **(4)** |
| Issue of share capital | **50** | **-** | **-** | **-** | **-** | **50** |
| Transaction with non-controlling interest | **-** | **-** | **-** | **-** | **(1)** | **(1)** |
| **Balance at 31 December 2011 (unaudited)** | **360** | **221** | **8** | **(39)** | **149** | **699** |

The notes on pages 16 to 31 form part of these interim financial statements.

# Interim financial statements

## Statement of financial position

### As at 31 December 2011

| | | The Banking Group | | |
|---|---|---|---|---|
| Dollars in millions | Note | **Unaudited 31/12/11** | Unaudited 31/12/10 | Audited 30/06/11 |
| **Assets** | | | | |
| Cash and cash equivalents | 3 | **321** | 335 | 296 |
| Due from NZP related parties | 13 | **-** | - | 4 |
| Due from other financial institutions | 4 | **172** | 78 | 440 |
| Financial assets held for trading | 5 | **396** | 700 | 325 |
| Available-for-sale assets | 6 | **1,179** | 757 | 1,123 |
| Loans and advances | 7 | **12,068** | 10,933 | 11,495 |
| Derivative financial instruments | | **132** | 58 | 74 |
| Property, plant and equipment | | **23** | 19 | 25 |
| Intangible assets | | **48** | 48 | 48 |
| Deferred taxation | | **35** | 27 | 36 |
| Other assets | | **12** | 14 | 9 |
| **Total assets** | | **14,386** | 12,969 | 13,875 |
| *Interest earning and discount bearing assets* | | ***14,277*** | *12,908* | *13,840* |
| **Liabilities** | | | | |
| Due to other financial institutions | 8 | **231** | 25 | 796 |
| Due to NZP related parties | 13 | **3** | 21 | - |
| Deposits and other borrowings | 9 | **11,716** | 11,141 | 10,586 |
| Derivative financial instruments | | **174** | 155 | 183 |
| Debt securities issued | 10 | **1,357** | 839 | 1,510 |
| Current taxation | | **14** | 3 | 8 |
| Other liabilities | | **50** | 42 | 41 |
| Term subordinated debt | | **142** | 143 | 143 |
| **Total liabilities** | | **13,687** | 12,369 | 13,267 |
| *Interest and discount bearing liabilities* | | ***13,653*** | *12,324* | *13,218* |
| **Equity attributable to owners of the parent** | | | | |
| Share capital | | **360** | 310 | 310 |
| Reserves | | **190** | 140 | 148 |
| **Total equity attributable to owners of the parent** | | **550** | 450 | 458 |
| **Non controlling interest** | | **149** | 150 | 150 |
| **Total equity** | | **699** | 600 | 608 |
| **Total liabilities and shareholder's equity** | | **14,386** | 12,969 | 13,875 |

The notes on pages 16 to 31 form part of these interim financial statements.

The board of directors of Kiwibank Limited authorised these financial statements for issue on 22 February 2012.

Rob Morrison

Alison Gerry

# Interim financial statements

## Statement of Cash Flows

### For six months ended 31 December 2011

| Dollars in millions | Note | The Banking Group<br>**Unaudited 6 months ended 31/12/11** | <br>Unaudited 6 months ended 31/12/10 | <br>Audited 12 months ended 30/06/11 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Interest income | | **375** | 348 | 718 |
| Fees and other income | | **79** | 76 | 156 |
| Operating expenses paid | | **(110)** | (104) | (216) |
| Interest paid | | **(259)** | (234) | (536) |
| Taxes paid | | **(11)** | (14) | (27) |
| **Net cash flows from operating activities before changes in operating assets and liabilities** | | **74** | 72 | 95 |
| **Net changes in operating assets and liabilities:** | | | | |
| (Increase)/decrease in financial assets held for trading | | **(68)** | (29) | 353 |
| Increase in available-for-sale assets | | **(48)** | (208) | (575) |
| Increase in loans and advances | | **(649)** | (602) | (1,194) |
| Decrease/(increase) in balances due from other financial institutions | | **268** | 79 | (284) |
| Increase in deposits and other borrowings | | **1,130** | 820 | 298 |
| Increase/(decrease) in balances due to related parties - term | | **-** | 10 | (10) |
| (Decrease)/increase in balances due to other financial institutions | | **(565)** | (139) | 632 |
| **Net cash flows provided by operating activities** | | **142** | 3 | (685) |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment | | **(2)** | (3) | (13) |
| Purchase of intangible software assets | | **(9)** | (9) | (16) |
| **Net cash flows from investing activities** | | **(11)** | (12) | (29) |
| **Cash flows from financing activities** | | | | |
| Issue of ordinary shares | | **50** | - | - |
| Issue of shares to non-controlling interest | | **1** | - | - |
| Issuance costs of perpetual preference shares | | **-** | - | - |
| (Decrease)/Increase in debt securities issued | | **(153)** | 44 | 715 |
| Dividend paid to non-controlling interest | | **(4)** | (4) | (9) |
| **Net cash flows from financing activities** | | **(106)** | 40 | 706 |
| **Increase in cash and cash equivalents** | | **25** | 31 | (8) |
| Cash and cash equivalents at beginning of the period | 3 | **296** | 304 | 304 |
| **Cash and cash equivalents at end of the period** | 3 | **321** | 335 | 296 |

The notes on pages 16 to 31 form part of these interim financial statements.

# Notes to the interim financial statements

## 1. Statement of accounting policies

### Reporting entity and statutory base

In these interim financial statements, the reporting entity is Kiwibank Limited ("Kiwibank"). The Banking Group consists of Kiwibank and its subsidiaries. Kiwibank is registered under the Companies Act 1993 and is registered as a bank under the Reserve Bank of New Zealand Act 1989.

The principal activity of the Banking Group is the provision of retail and banking products and services to individuals and small to medium-sized businesses.

These financial statements are for the Banking Group for the six months ended 31 December 2011. They have been prepared in accordance with the requirements of NZ IAS 34 *Interim Financial Reporting*, and the Order, and should be read in conjunction with the Banking Group's financial statements for the year ended 30 June 2011. These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

### Accounting Policies

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the previous full year General Disclosure Statement with the following new accounting policy for deferred settlement liabilities.

Deferred settlement liabilities are recognised in the balance sheet at fair value and are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Measurement base

These interim financial statements are based on the general principles of historic cost accounting, modified by the application of fair value measurements for available-for-sale financial assets, financial instruments held at fair value through profit or loss and all derivative contracts. The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2011.

### Currency of presentation

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

### Reclassification of financial information

Certain comparative balances have been reclassified to align with the current periods presentation. These reclassifications have no impact on the overall financial performance or financial position of the comparative reporting periods.

## 2. Gains on financial instruments at fair value

| | The Banking Group | | |
|---|---|---|---|
| Dollars in millions | **Unaudited 6 months ended 31/12/11** | Unaudited 6 months ended 31/12/10 | Audited 12 months ended 30/06/11 |
| Financial assets designated at fair value through profit or loss upon initial recognition | **(6)** | (9) | (12) |
| Derivative financial instruments held for trading | **5** | 16 | 22 |
| Financial liabilities designated at fair value through profit or loss upon initial recognition | **-** | - | - |
| Financial assets held for trading | **3** | 1 | 6 |
| Cumulative gain transferred from the available-for-sale reserve | **1** | 4 | 6 |
| Cumulative loss transferred from the cash flow hedge reserve | **(1)** | (5) | (6) |
| Net foreign exchange gains | **-** | - | - |
| **Total gains on financial instruments** | **2** | 7 | 16 |

Net ineffectiveness on qualifying cash flow hedges is $0.1m (31 December 2010: $0.1m; 30 June 2011: $0.1m). Net ineffectiveness on qualifying fair value hedges is ($0.05m) (31 December 2010: $0.0m; 30 June 2011: $0.2m).

## Notes to the interim financial statements continued

| Dollars in millions | The Banking Group<br>**Unaudited as at 31/12/11** | <br>Unaudited as at 31/12/10 | <br>Audited as at 30/06/11 |
|---|---|---|---|
| **3. Cash and cash equivalents** | | | |
| Cash in hand | **76** | 79 | 47 |
| Cash with central banks | **191** | 219 | 193 |
| Foreign currency accounts on hand | **54** | 37 | 56 |
| **Total cash and cash equivalents – current** | **321** | 335 | 296 |
| **4. Due from other financial institutions** | | | |
| Unsettled receivables | **1** | 1 | 210 |
| Short term advances due from other financial institutions | **133** | 35 | 175 |
| Collateralised loans | **38** | 42 | 55 |
| **Total amount due from other financial institutions** | **172** | 78 | 440 |
| **Current** | **172** | 78 | 440 |

As at 31 December 2011, included within the balance above, is $38.0m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties. (31 December 2010: $41.8m; 30 June 2011: $55.1m).

| | | | |
|---|---|---|---|
| **5. Financial assets held for trading** | | | |
| Bank bills | **279** | 209 | 179 |
| Other securities | **117** | 491 | 146 |
| **Total financial assets held for trading** | **396** | 700 | 325 |
| **Current** | **289** | 240 | 204 |
| **Non-current** | **107** | 460 | 121 |
| **6. Available-for-sale assets** | | | |
| Government stock and multilateral development banks | **718** | 572 | 661 |
| Local authority securities | **133** | 72 | 142 |
| Other debt securities | **328** | 113 | 320 |
| **Total available-for-sale assets** | **1,179** | 757 | 1,123 |
| **Current** | **564** | 304 | 472 |
| **Non-current** | **615** | 453 | 651 |
| **7. Loans and advances** | | | |
| Loans and advances designated upon initial recognition at fair value through profit or loss | **294** | 542 | 448 |
| Loans and advances at amortised cost | **11,866** | 10,436 | 11,134 |
| Allowance for impairment losses (note 12) | **(92)** | (45) | (87) |
| **Total net loans and advances** | **12,068** | 10,933 | 11,495 |
| **Current** | **1,044** | 1,002 | 1,028 |
| **Non-current** | **11,024** | 9,931 | 10,467 |
| The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value through profit or loss | **0.2** | 0.3 | 0.3 |

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.

Loans and advances include $101m of New Zealand Earthquake Commission payments relating to the Canterbury and Christchurch earthquakes. These payments have been applied to outstanding customer balances.

# Notes to the interim financial statements continued

## 8. Due to other financial institutions

| Dollars in millions | The Banking Group<br>**Unaudited as at 31/12/11** | Unaudited as at 31/12/10 | Audited as at 30/06/11 |
|---|---|---|---|
| Repurchase agreements | **182** | - | 737 |
| Cash collateral pledged | **28** | 22 | 14 |
| Unsettled payables | **-** | - | 43 |
| ATM cash at other banks | **21** | 3 | 2 |
| **Total due to other financial institutions - current** | **231** | 25 | 796 |

## 9. Deposits and other borrowings

| | | | |
|---|---|---|---|
| Retail deposits | **8,585** | 7,621 | 7,902 |
| Wholesale deposits | **3,131** | 3,520 | 2,684 |
| **Total** | **11,716** | 11,141 | 10,586 |
| New Zealand | **11,466** | 10,905 | 10,352 |
| Overseas | **250** | 236 | 234 |
| **Total deposits and other borrowings at amortised cost** | **11,716** | 11,141 | 10,586 |
| **Current** | **11,363** | 10,931 | 10,267 |
| **Non-current** | **353** | 210 | 319 |

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

The Kiwibank PIE Unit Trust, established under the Unit Trusts Act 1960 in May 2008, operates three funds; the PIE Term Deposit Fund, the PIE Notice Call account and PIE Online Call Fund. Kiwibank Investment Management Limited is the issuer and manager of the Unit Trust. Trustees Executors Limited is the trustee of the Unit Trust. Kiwibank is the promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Unit Trust is invested exclusively in term and call deposits with Kiwibank.

At 31 December 2011, $3.1bn of PIE funds were invested in Kiwibank's own products or securities (31 December 2010: $1.8bn; 30 June 2011: $2.6bn). 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.

## 10. Debt securities issued

| | | | |
|---|---|---|---|
| Commercial paper | **385** | 53 | 549 |
| Certificates of deposit – amortised cost | **91** | 137 | 117 |
| Certificates of deposit – held for trading | **199** | 189 | 209 |
| **Long term debt** | | | |
| Medium term notes | **682** | 460 | 635 |
| **Total debt securities issued** | **1,357** | 839 | 1,510 |
| **Current** | **690** | 392 | 901 |
| **Non-current** | **667** | 447 | 609 |

## Notes to the interim financial statements continued

### 10. Debt securities issued continued

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 shareholders. In addition, all payment obligations of Kiwibank, excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the guarantee, are guaranteed under a deed poll guarantee (the "Guarantee") provided by Kiwibank's ultimate parent company, NZP. Kiwibank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the year.

### 11. Deferred settlement liability

In October 2011, Kiwibank disposed of a 20% shareholding in Kiwi Asset Finance Limited ("KAFL"), however it is required to purchase the non-controlling shares in KAFL back between July 2016 and 2018. The Banking Group has recognised a deferred settlement liability for this obligation. The fair value of the liability is $1.8m and is calculated by applying discounted cash flows analysis at a discount rate of 11.59% per annum.

### 12. Asset quality

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the interim financial period. There are no real estate or other assets acquired through the enforcement of security held at 31 December 2011 (31 December 2010: nil; 30 June 2011: nil). There are no assets under administration as at 31 December 2011 (31 December 2010: nil; 30 June 2011: nil). There are no unrecognised impaired assets as at 31 December 2011 (31 December 2010: nil; 30 June 2011: nil). The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are 90 days past due is nil at 31 December 2011 (31 December 2010: nil; 30 June 2011: nil).

### Allowance for impairment losses

| | The Banking Group | | |
|---|---|---|---|
| Dollars in millions | **Unaudited as at 31/12/11** | Unaudited as at 31/12/10 | Audited as at 30/06/11 |
| **Allowance for impairment losses in statement of financial position** | | | |
| Collective allowance for impairment losses | **44** | 14 | 37 |
| Individually impaired assets | **48** | 31 | 50 |
| Allowance for impairment losses | **92** | 45 | 87 |
| The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value | **-** | - | - |
| **Total allowance for impairment losses** | **92** | 45 | 87 |
| **Impairment losses per statement of comprehensive income** | | | |
| Collective impairment losses on loans not at fair value through profit or loss | **9** | 6 | 31 |
| Charge to statement of comprehensive income for individually impaired assets | **9** | 25 | 48 |
| **Total impairment losses per statement of comprehensive income** | **18** | 31 | 79 |

# Notes to the interim financial statements continued

## 12. Asset quality continued

### Summary of lending

| Unaudited as at 31 December 2011<br>Dollars in millions | The Banking Group<br>Loans and advances to retail customers | Loans and advances to corporate and institutional customers | Total |
|---|---|---|---|
| Neither past due nor impaired | 10,288 | 1,563 | 11,851 |
| Past due but not impaired (a) | 190 | 19 | 209 |
| Impaired (b) | 36 | 64 | 100 |
| **Gross loans and advances** | **10,514** | **1,646** | **12,160** |
| Collective allowance for impairment (c) | (24) | (20) | (44) |
| Individual allowance for impairment (d) | (17) | (31) | (48) |
| **Net loans and advances** | **10,473** | **1,595** | **12,068** |

### a: Loans and advances past due but not impaired

| Loans and advances to customers<br>Dollars in millions | The Banking Group<br>Retail unsecured lending | Residential mortgage loans | Corporate Exposures | Total |
|---|---|---|---|---|
| **Unaudited as at 31 December 2011** | | | | |
| Past due up to 30 days | 31 | 100 | 13 | 144 |
| Past due 31 – 60 days | 6 | 21 | 2 | 29 |
| Past due 61 – 90 days | 3 | 5 | 3 | 11 |
| Past due > 90 days | 4 | 20 | 1 | 25 |
| **Total** | **44** | **146** | **19** | **209** |
| **Fair value of collateral** | **-** | **162** | **22** | **184** |

# Notes to the interim financial statements continued

## 12 Asset quality continued

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

### b: Impaired assets

| | The Banking Group | | | |
|---|---|---|---|---|
| Dollars in millions | Retail unsecured lending | Residential mortgage loans | Corporate exposures | Total |
| Unaudited 6 months ended 31/12/11 | | | | |
| **Gross impaired** | | | | |
| Balance at beginning of the period | - | 41 | 65 | 106 |
| Transfers from performing | - | 11 | 9 | 20 |
| Transfers to performing | - | - | - | - |
| Recoveries of amounts previously written off | - | (10) | (4) | (14) |
| Amounts written off | - | (6) | (6) | (12) |
| **Balance at end of period** | **-** | **36** | **64** | **100** |
| Individual allowance for impairment | | | | (48) |
| Total net impaired assets | | | | **52** |

### c: Collective allowance for impairment losses

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

| | The Banking Group | | | |
|---|---|---|---|---|
| Dollars in millions | Retail unsecured lending | Residential mortgage loans | Corporate exposures | Total |
| Unaudited 6 months ended 31/12/11 | | | | |
| Balance at beginning of the period | 4 | 18 | 15 | 37 |
| Impairment losses on loans not at fair value through profit or loss | 2 | 2 | 5 | 9 |
| Advances written off | (2) | - | - | (2) |
| **Total collective allowance for impairment losses** | **4** | **20** | **20** | **44** |

# Notes to the interim financial statements continued

## 12 Asset quality continued

### d: Individual allowance for impairment losses

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

| | The Banking Group | | | |
|---|---|---|---|---|
| Dollars in millions | Retail unsecured lending | Residential mortgage loans | Corporate exposures | Total |
| Unaudited 6 months ended 31/12/11 | | | | |
| Balance at beginning of the period | - | 17 | 33 | 50 |
| Impairment losses on loans not at fair value through profit or loss | - | 9 | 5 | 14 |
| Advances written off | - | (6) | (6) | (12) |
| Reversals of previously recognised impaired assets | - | (3) | (1) | (4) |
| **Total individual allowance for impairment losses** | - | 17 | 31 | 48 |

### e: Loans and advances at fair value through profit or loss

The total credit risk adjustment on residential mortgage loans at FVTPL is $0.2m as at 31 December 2011 and $0.3m as at 30 June 2011. The credit risk unwind in the 6 months to 31 December 2011 is $0.1m.

### f: Total loans and advances

| | The Banking Group |
|---|---|
| Dollars in millions | Unaudited 6 months ended 31/12/11 |
| Retail unsecured lending | 285 |
| Residential mortgage loans | 10,188 |
| Corporate exposures | 1,595 |
| **Balance at end of period** | 12,068 |

- 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 interim financial statements continued

## 13. Related party transactions

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

| | The Banking Group | | |
|---|---|---|---|
| Dollars in millions | **Unaudited 31/12/11** | Unaudited 31/12/10 | Audited 30/06/11 |
| 6 months ended 31/12/11 | | | |
| **Revenue** | | | |
| NZP | **20** | 21 | 41 |
| Other subsidiaries within the NZP Group | **1** | 1 | 1 |
| **Expenditure** | | | |
| NZP | **32** | 27 | 53 |
| Other subsidiaries within the NZP Group | **7** | 6 | 12 |
| Associates of the NZP Group | **4** | 4 | 7 |
| As at 31/12/11 | | | |
| **Outstanding balances** | | | |
| Outstanding balance per statement of financial position | **3** | 21 | - |
| Related party deposits (note 9) | **46** | 19 | 15 |
| **Total balances due to related parties** | **49** | 40 | 15 |
| **Receivables** | | | |
| Receivable per statement of financial position | **-** | - | 4 |
| Loans to related parties (note 7) | **3** | 3 | 2 |
| **Held for Trading** | | | |
| NZP bond | **1** | - | - |
| **Total related party receivables** | **4** | 3 | 6 |

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 31 December 2011 the amount owed by NZP to Kiwibank was $nil (31 December 2011:$ nil; 30 June 2011: $nil).

# Notes to the interim financial statements continued

## 14. Concentration of credit risk

Concentrations of credit risk arise where the Banking Group is 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 |
|---|---|
| Dollars in millions | **Unaudited as at 31/12/11** |
| **New Zealand** | |
| Government, local authorities and services | **1,051** |
| Finance, investment and insurance | **433** |
| Households | **10,514** |
| Transport and storage | **42** |
| Communications | **20** |
| Electricity, gas and water | **5** |
| Construction | **66** |
| Property services | **1,012** |
| Agriculture | **35** |
| Health and community services | **50** |
| Personal and other services | **238** |
| Retail and wholesale trade | **82** |
| Food & other manufacturing | **130** |
| **Overseas** | |
| Finance, investment and insurance | **682** |
| **Total financial assets (interest earning)** | **14,360** |
| Less allowance for impairment losses | **(92)** |
| Other financial assets | **9** |
| **Total financial assets** | **14,277** |

# Notes to the interim financial statements continued

## 14. Concentration of credit risk continued

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

| Dollars in millions | The Banking Group<br>**Unaudited as at 31/12/11** |
|---|---|
| **Credit risk relating to statement of financial position assets** | |
| Fixed rate mortgages at fair value through profit or loss | 294 |
| Fixed rate mortgages at amortised cost | 4,399 |
| Variable rate mortgages | 7,177 |
| Unsecured lending | 290 |
| Due from other financial institutions | 172 |
| Related party receivables | - |
| Derivative financial instruments | 132 |
| Financial assets held for trading | 396 |
| Available-for-sale assets | 1,179 |
| Cash and cash equivalents | 321 |
| Other assets | 9 |
| **Total gross financial assets** | 14,369 |
| Allowance for impairment losses | (92) |
| **Total net financial assets** | 14,277 |

The above table represents a worst case scenario of credit risk exposure to the Banking Group at 31 December 2011, 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, 85% of the total maximum exposure is derived from loans and advances to retail and corporate customers.

# Notes to the interim financial statements continued

## 15. Concentration of funding

Concentrations of funding arise where the Banking Group is 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 |
|---|---|
| Dollars in millions | **Unaudited as at 31/12/11** |
| **Analysis by industry sector** | |
| **New Zealand** | |
| Transport and storage | **17** |
| Financing, investment and insurance | **3,390** |
| Electricity, gas and water | **5** |
| Food & other manufacturing | **77** |
| Construction | **28** |
| Communications | **6** |
| Government, local authorities and services | **703** |
| Agriculture | **39** |
| Health and community services | **109** |
| Personal and other services | **181** |
| Property and business services | **268** |
| Education | **91** |
| Retail and wholesale trade | **51** |
| Households | **7,666** |
| **Overseas** | |
| Financing, investment and insurance - Australia | **356** |
| Financing, investment and insurance - rest of world | **385** |
| Households - Australia | **39** |
| Households - rest of world | **210** |
| **Total financial liabilities (interest bearing)** | **13,621** |
| Other financial liabilities | **32** |
| **Total financial liabilities** | **13,653** |

## Notes to the interim financial statements continued

### 16. Segment analysis

| Dollars in millions | Personal banking | Corporate and institutional banking | Payment Services | Total |
|---|---|---|---|---|
| **Unaudited 6 months ended 31/12/11** | | | | |
| External revenues | **198** | **(26)** | **32** | **204** |
| Intersegment revenues | **(76)** | **76** | **-** | **-** |
| Total revenues | **122** | **50** | **32** | **204** |
| Profit before taxation | **33** | **12** | **8** | **53** |
| **Unaudited 6 months ended 31/12/10** | | | | |
| External revenues | 192 | (52) | 29 | 169 |
| Intersegment revenues | (88) | 88 | - | - |
| Total revenues | 104 | 36 | 29 | 169 |
| Profit/(loss) before taxation | 20 | (8) | 8 | 20 |
| **Audited 12 months ended 30/06/11** | | | | |
| External revenues | 376 | (82) | 59 | 353 |
| Intersegment revenues | (163) | 163 | - | - |
| Total revenues | 213 | 81 | 59 | 353 |
| Profit/(loss) before taxation | 34 | (17) | 15 | 32 |

There have been no changes to the segments as defined in the annual financial statements for the year ended 30 June 2011.

### 17. Capital expenditure commitments

Capital expenditure commitments contracted for as at 31 December 2011, but not provided for in these financial statements, total $2.6m (31 December 2010: $1.5m; 30 June 2011: $0.4m). All such commitments are due no later than one year from reporting date.

### 18. Contingent liabilities

There are no material contingent liabilities as at 31 December 2011 (31 December 2010: nil; 30 June 2011:nil).

### 19. Events subsequent to reporting date

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

# Notes to the interim financial statements continued

## 20. Interest repricing

The tables below summarises the Banking Group's exposure to interest rate risk. It includes the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

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

| | The Banking Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | Unaudited as at 31/12/11 | | | | | | |
| Dollars in millions | Total | Non-interest bearing | 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 | **321** | **321** | **-** | **-** | **-** | **-** | **-** |
| Due from other financial institutions | **172** | **57** | **75** | **40** | **-** | **-** | **-** |
| Financial assets held for trading | **396** | **-** | **278** | **-** | **11** | **53** | **54** |
| Available-for-sale assets | **1,179** | **-** | **595** | **30** | **86** | **235** | **233** |
| Loans and advances | **12,068** | **(72)** | **7,961** | **827** | **1,307** | **1,469** | **576** |
| Derivative financial instruments | **132** | **132** | **-** | **-** | **-** | **-** | **-** |
| Balances with related parties | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Other financial assets | **9** | **9** | **-** | **-** | **-** | **-** | **-** |
| **Total financial assets** | **14,277** | **447** | **8,909** | **897** | **1,404** | **1,757** | **863** |
| **Financial liabilities** | | | | | | | |
| Due to other financial institutions | **231** | **49** | **182** | **-** | **-** | **-** | **-** |
| Deposits and other borrowings | **11,716** | **751** | **7,537** | **2,332** | **746** | **171** | **179** |
| Derivative financial instruments | **174** | **174** | **-** | **-** | **-** | **-** | **-** |
| Debt securities issued | **1,357** | **-** | **973** | **-** | **26** | **20** | **338** |
| Term subordinated debt | **142** | **-** | **77** | **-** | **-** | **65** | **-** |
| Balances with related parties | **3** | **3** | **-** | **-** | **-** | **-** | **-** |
| Other financial liabilities | **30** | **30** | **-** | **-** | **-** | **-** | **-** |
| **Total financial liabilities** | **13,653** | **1,007** | **8,769** | **2,332** | **772** | **256** | **517** |
| **On-balance sheet gap** | **624** | **(560)** | **140** | **(1,435)** | **632** | **1,501** | **346** |
| **Net derivative notional principals** | **-** | **-** | **2,453** | **(537)** | **(575)** | **(1,283)** | **(58)** |
| **Net effective interest rate gap** | **624** | **(560)** | **2,593** | **(1,972)** | **57** | **218** | **288** |

# Notes to the interim financial statements continued

## 21. Liquidity risk

The Banking Group Liquidity Policy is approved by the Board and defines the core principles for measuring, managing and monitoring liquidity risk across the Banking Group.

### 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-off risk.
- Securing an appropriately matched profile of future cash flows from maturing assets and liabilities.
- Implementing the Banking Group's funding plan which includes the development of sustainable wholesale funding capacity.
- Stress testing the Banking Group's funding and liquidity position with a range of adverse events covering:
  - A Kiwibank name crisis
  - An international credit crisis
  - A macro economic event
  - A significant earning loss.

**Non-derivative cash flows**

The tables below summarise the cash flows payable by the Banking Group under non-derivative financial liabilities by remaining contractual maturities at the reporting 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 derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

(b) Derivatives settled on a gross basis

The table below analyses the Banking Group's derivative financial instruments that will be settled on a gross 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.

## Notes to the interim financial statements continued

### 21. Liquidity risk continued

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | Unaudited as at 31/12/11 | | | | | |
| Dollars in millions | On demand | Up to 3 months | 3 to 12 months | Between 1 & 5 years | More than 5 years | Total |
| **Non derivative cash flows** | | | | | | |
| **Liabilities** | | | | | | |
| Deposits and other borrowings | 5,845 | 2,557 | 3,265 | 501 | - | 12,168 |
| Due to other financial institutions | 231 | - | - | - | - | 231 |
| Debt securities issued | 240 | 430 | 56 | 707 | - | 1,433 |
| Term subordinated debt | - | 81 | 3 | 65 | - | 149 |
| Balances with related parties | 3 | - | - | - | - | 3 |
| Other financial liabilities | 30 | - | - | - | - | 30 |
| **Total financial liabilities** | 6,349 | 3,068 | 3,324 | 1,273 | - | 14,014 |
| **Assets** | | | | | | |
| Cash and cash equivalents | 321 | - | - | - | - | 321 |
| Due from other financial institutions | 172 | - | - | - | - | 172 |
| Financial assets held for trading | 32 | 250 | 16 | 94 | 15 | 407 |
| Available-for-sale assets | 67 | 275 | 259 | 629 | 5 | 1,235 |
| Loans and advances | 200 | 270 | 799 | 2,961 | 22,188 | 26,418 |
| Other financial assets | 9 | - | - | - | - | 9 |
| **Total financial assets** | 801 | 795 | 1,074 | 3,684 | 22,208 | 28,562 |
| **Net non derivative cash flows** | (5,548) | (2,273) | (2,250) | 2,411 | 22,208 | 14,548 |
| **Derivative cash flows - net** | | | | | | |
| Interest rate derivatives | (7) | (14) | (29) | (19) | - | (69) |
| Total | (7) | (14) | (29) | (19) | - | (69) |
| **Derivative cash flows - gross** | | | | | | |
| Foreign exchange derivatives | | | | | | |
| Inflow | 312 | 249 | 133 | 397 | - | 1,091 |
| Outflow | (305) | (247) | (130) | (372) | - | (1,054) |
| Total | 7 | 2 | 3 | 25 | - | 37 |
| **Off balance sheet cash flows** | | | | | | |
| Capital commitments | 3 | - | - | - | - | 3 |
| Loan commitments | 1,114 | - | - | - | - | 1,114 |
| Lease commitments | - | 1 | 3 | 18 | 15 | 37 |
| Total | 1,117 | 1 | 3 | 18 | 15 | 1,154 |
| **Net cash flows** | (4,431) | (2,284) | (2,273) | 2,435 | 22,223 | 15,670 |
| **Cumulative net cash flows** | (4,431) | (6,715) | (8,988) | (6,553) | 15,670 | 15,670 |

## Notes to the interim financial statements continued

### 21. Liquidity risk continued

| Dollars in millions | The Banking Group Unaudited as at 31/12/11 |
|---|---|
| The Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy. | |
| Cash on hand and with central banks | 275 |
| Certificates of deposit | 280 |
| Government, local body stock and bonds | 368 |
| Government treasury bills | 277 |
| Other bonds | 945 |
| **Total** | **2,145** |

### 22. 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), equaled or exceeded 10% of the Banking Group's shareholder's equity as at reporting date are:

| | The Banking Group Unaudited 6 months ended 31/12/11 | |
|---|---|---|
| | **Non-Bank** | **Bank** |
| **As at reporting period date** | | |
| 10% - 14% | - | - |
| 15% - 19% | - | - |
| 20% - 24% | - | - |
| 24% - 29% | - | - |
| 30% - 34% | - | - |
| **Peak exposure** | | |
| 10% - 14% | 1 | - |
| 15% - 19% | - | - |
| 20% - 24% | - | - |
| 25% - 29% | - | - |
| 30% - 34% | - | - |
| 35% - 39% | - | - |

There are no individual counterparties, excluding connected persons, bank counterparties and the central government of any country with a long-term credit rating below 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), equaled or exceeded 10% of the Banking Group's shareholder's equity as at reporting date.

### 23. Risk management policies

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 30 June 2011.

## 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 ratio must not be less than 4% of risk weighted exposures.
- Capital must not be less than NZ$30m.

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

### 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. Their material terms and conditions 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) no provision has been made for a variation or suspension of dividend payments; and
f) there are no options to be granted pursuant to any agreement.

**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 period ended 31 December 2011. Throughout the period Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

| | The Banking Group | | |
|---|---|---|---|
| Dollars in millions | **Unaudited as at 31/12/11** | Unaudited as at 31/12/10 | Audited as at 30/06/11 |
| **Tier One capital** | | | |
| Issued and fully paid up share capital | **360** | 310 | 310 |
| Perpetual fully paid up non-cumulative preference shares | **147** | 147 | 147 |
| Revenue and similar reserves | **151** | 126 | 127 |
| Current period's retained earnings | **38** | 14 | 21 |
| Tier one minority interest | **2** | 3 | 3 |
| **Less: Deductions from Tier One capital** | | | |
| Intangible assets | **(48)** | (48) | (48) |
| Cash-flow hedge reserve | **39** | 41 | 42 |
| **Total Tier One capital** | **689** | 593 | 602 |
| **Tier two capital - upper level tier two capital** | **-** | - | - |
| **Tier Two capital - lower level Tier Two capital** | | | |
| Term subordinated debt | 135 | 135 | 135 |
| **Total Tier Two capital** | **135** | 135 | 135 |
| **Total tier one and tier two capital** | **824** | 728 | 737 |
| **Less deductions from capital** | **-** | - | - |
| **Capital** | **824** | 728 | 737 |

| | The Banking Group | | | Kiwibank Limited | | |
|---|---|---|---|---|---|---|
| **Capital adequacy ratios** | **Unaudited as at 31/12/11** | Unaudited as at 31/12/10 | Audited as at 30/06/11 | **Unaudited as at 31/12/11** | Unaudited as at 31/12/10 | Audited as at 30/06/11 |
| Total Tier One capital expressed as a percentage of total risk weighted exposures | **10.1%** | 9.5% | 9.0% | **9.9%** | 9.3% | 8.8% |
| Total Capital (Pillar 1) expressed as a percentage of total risk weighted exposures | **12.1%** | 11.7% | 11.0% | **11.8%** | 11.5% | 10.8% |
| Capital ratio (Pillar I and II) expressed as a percentage of total risk weighted exposures | **11.5%** | 11.4% | 10.5% | **11.3%** | 11.2% | 10.3% |

# Capital adequacy continued

| Dollars in millions<br>Unaudited as at 31/12/11 | Principal amount 31/12/11 | Risk weighting 31/12/11 | Risk weighted exposure 31/12/11 | Minimum Pillar One Capital Requirement 31/12/11 |
|---|---|---|---|---|
| | The Banking Group | | | |
| **On- balance sheet exposures** | | | | |
| Cash and gold bullion | **76** | **0%** | **-** | **-** |
| Sovereigns and central banks | **899** | **0%** | **-** | **-** |
| Multilateral development banks | **34** | **0%** | **-** | **-** |
| | **-** | **20%** | **-** | **-** |
| Claims on public sector entities | **128** | **20%** | **26** | **2** |
| | **-** | **50%** | **-** | **-** |
| Claims on other banks | **734** | **20%** | **146** | **12** |
| | **71** | **50%** | **35** | **3** |
| Corporate | **124** | **20%** | **25** | **2** |
| | **8** | **50%** | **4** | **-** |
| | **22** | **100%** | **22** | **2** |
| Residential mortgages – not past due | **9,167** | **35%** | **3,209** | **257** |
| | **1,614** | **50%** | **807** | **65** |
| | **396** | **75%** | **297** | **24** |
| | **11** | **100%** | **11** | **1** |
| Impaired assets | **100** | **100%** | **100** | **8** |
| Past due residential mortgages > 90 days | **21** | **100%** | **21** | **2** |
| Other past due assets > 90 days | **4** | **100%** | **4** | **-** |
| Other assets | **881** | **100%** | **881** | **70** |
| Non risk weighted assets | **96** | **-** | **-** | **-** |
| **Total balance sheet exposures** | **14,386** | **-** | **5,588** | **448** |

## Capital adequacy continued

| Dollars in millions<br>Unaudited as at 31/12/11 | Total exposure 31/12/11 | Credit conversion factor 31/12/11 | Credit equivalent amount 31/12/11 | Average risk weighting 31/12/11 | Risk weighted exposure 31/12/11 | Minimum Pillar One Capital Requirement 31/12/11 |
|---|---|---|---|---|---|---|
| | The Banking Group | | | | | |
| **Off-balance sheet exposures and market related contracts** | | | | | | |
| Direct credit substitutes | 2 | 100% | 2 | 100% | 2 | - |
| Asset sale with recourse | - | 100% | - | 0% | - | - |
| Commitments with certain drawdown | 8 | 100% | 8 | 100% | 8 | 1 |
| Note issuance facility | - | 50% | - | 0% | - | - |
| Revolving credit facilities | 72 | 0% | - | 40.1% | - | - |
| Revolving credit facilities | 338 | 20% | 68 | 40.1% | 27 | 2 |
| Revolving credit facilities | 450 | 50% | 225 | 40.1% | 90 | 7 |
| Performance related contingency | 2 | 50% | 1 | 100% | 1 | - |
| Trade related contingency | - | 20% | - | 0% | - | - |
| Other commitments greater than one year | 150 | 50% | 75 | 40.1% | 30 | 2 |
| Other commitments less than or equal to one year | 2 | 20% | - | 20% | - | - |
| Other commitments less than or equal to one year | 92 | 20% | 18 | 100% | 18 | 2 |
| Other commitments that cancel automatically | 414 | 0% | - | 0% | - | - |
| Market related contracts:o | | | | | | |
| Interest rate contracts | 11,643 | - | 134 | 20% | 27 | 2 |
| Foreign exchange contracts | 1,045 | - | 59 | 20% | 12 | 1 |
| **Total off-balance sheet exposures** | 14,218 | | 590 | | 215 | 17 |
| Total value of on- and off- balance sheet residential exposures covered by eligible collateral (after haircutting) | (9) | - | - | - | (9) | (1) |
| Total value of on- and off- balance sheet exposures covered by guarantees or credit derivatives | - | - | - | - | - | - |
| **Operational Risk** | n/a | - | - | - | 826 | 66 |
| **Market Risk** | | | | | | |
| Interest rate risk | n/a | - | - | - | 221 | 18 |
| Foreign currency risk | n/a | - | - | - | 1 | - |
| Equity risk | n/a | - | - | - | - | - |
| **Total risk weighted exposures** | 28,595 | - | - | - | 6,842 | 548 |
| **Other material risk (Pillar II)** | n/a | | | | 323 | 26 |

As at 31 December 2010, the Banking Group had an internal capital allocation for other material risk (Pillar II) of $13m (30 June 2011:$26m)

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

## Residential mortgages by loan-to-value ratio

| The Banking Group<br>Dollars in millions | Unaudited as at 31/12/11 |
|---|---|
| LVR 0%-80% | 9,167 |
| LVR >80%-90% | 1,614 |
| LVR 90% + | 428 |

The LVR classification above is consistent with that used to calculate the Bank's Pillar 1 Capital requirement.
At 31 December 2011, of the LVR 80% + balance above, $469m relates to "Welcome Home" loans, whose credit risk is mitigated by the Crown. Of the other loans > LVR 80% and LVR 90%+, third party lenders mortgage insurance is used to mitigate credit risk.

## Market risk exposures

Market risk exposures have been calculated in accordance with the methodology detailed in Part 10 of the RBNZ's BS2A Capital Adequacy Framework, and Schedule 9 of the Registered Bank Disclosure Statement (New Zealand Incorporated Registered Banks) Order (No.4) 2011. Peak exposures are calculated using the Banking Group's shareholder's equity at the end of the period.

| | The Banking Group | |
|---|---|---|
| Dollars in millions | Unaudited as at 31/12/11 | Unaudited Peak for 6 months ended 31/12/11 |
| **Interest rate exposures** | | |
| Aggregate interest rate exposures | 18 | 21 |
| Implied interest rate risk weighted exposure | 221 | 260 |
| **Foreign currency exposures** | | |
| Aggregate foreign currency exposures | - | 1 |
| Implied interest rate risk weighted exposure | 1 | 7 |

The Banking Group holds no equity instruments.

pwc

# *Auditor's Review Report*

To the readers of Kiwibank Limited and Banking Group's Disclosure Statement for the six months ended 31 December 2011

The Auditor-General is the auditor of Kiwibank Limited (the "Bank") and the Banking Group comprising the Bank and its subsidiaries. The Auditor-General has appointed me, Chris Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the annual audit and six monthly review of the Bank and the Banking Group, on her behalf.

In our capacity as auditor, we have carried out a review of the:

- interim financial statements on pages 12 to 31 of the Disclosure Statement of the Banking Group for the six months ended 31 December 2011; and
- supplementary information on pages 32 to 36 of the Disclosure Statement as required by Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 4) 2011 ("the Order") for the six months ended 31 December 2011.

### *Review Opinion*

Based on our review nothing has come to our attention that causes us to believe that:

- the interim financial statements on pages 12 to 31 (excluding supplementary information included in notes 12, 14, 15, 20, 21, 22 and 23), which have been prepared in all material respects in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting, do not present fairly the financial position of the Banking Group as at 31 December 2011 and its performance and cash flows for the six months ended on that date;
- the supplementary information included in notes 12, 14, 15, 20, 21, 22 and 23 prescribed by Schedules 5, 7, 13, 16 and 18 of the Order is not fairly stated in accordance with those Schedules; and
- the supplementary information relating to Capital Adequacy disclosed on pages 32 to 36 has not been prepared in accordance with Schedule 9 of the Order.

The review was completed on 22 February 2012, and is the date at which our unmodified review opinion is expressed.

The scope of the review engagement and basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our role in completing the review engagement, and explain our independence.

### *Basis of Review Statement*

Our review engagement was completed in accordance with review engagement statement RS-1 Statement of Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants. A review is limited primarily to enquiries of the Banking Group personnel and analytical procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

pwc

# *Auditor's Review Report*
Kiwibank Limited and Banking Group

***Responsibilities of the Board of Directors and our role in completing the review engagement***

The Board of Directors are responsible for the half year Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and that present fairly the financial position of the Banking Group as at 31 December 2011, and its financial performance and cash flows for the period ended on that date.

The Board of Directors is also responsible for including supplementary information in the Disclosure Statement that complies with schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

These responsibilities are specified in the Order issued pursuant to the Reserve Bank of New Zealand Act 1989.

We are responsible for completing a review of the interim financial statements and supplementary information (as required by Clause 25, Schedules 5, 7, 9, 13, 16 and 18 of the Order) contained in the Disclosure Statement and reporting our findings to you. This responsibility is specified in Schedule 1 of the Order.

***Independence***

In completing our review engagement we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants. In addition to the review we have carried out assignments in the areas of taxation and accounting advice and other assurance services, which are compatible with those independence requirements. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. Other than in our capacity as auditor acting on behalf of the Auditor-General and these assignments we have no relationship with or interests in the Banking Group.

Chris Barber

Chris Barber
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

PricewaterhouseCoopers