

1 September 2017

MEDIA RELEASE

Financial results of Kiwi Group Holdings (including Kiwibank) for the year ended 30 June 2017

Kiwi Group Holdings ('Group'), which includes Kiwibank, has reported an unaudited net profit after tax for the year ended 30 June 2017 of \$58 million. The result has been significantly impacted by an impairment of \$90 million (\$65 million after tax) relating to the work in progress on the IT project known as CoreMod. The decision to make the impairment is a result of a strategic review to ensure the Bank's future IT systems meet rapidly-changing technology and customer requirements.

The Group's unaudited underlying profit¹ of \$129 million was down \$2 million (1.5%) compared with \$131 million in the prior comparative period.

The Kiwibank Banking Group ('Kiwibank'), which provides the bulk of the Group's earnings, achieved an unaudited net profit after tax¹ for the year ended 30 June 2017 of \$53 million. Kiwibank's unaudited underlying profit was \$122 million.

Group Chief Executive Paul Brock said that maintaining similar levels of underlying profitability to last year's performance, without full flexibility to optimise funding costs, is very pleasing – all the more so despite a number of external disruptions, notably the impact of last November's earthquake as well as regulatory challenges.

During the year to 30 June 2017, the Group:

All comparisons are with the previous year unless otherwise noted

- Grew lending and advances to customers by 6.8% from \$16.7 billion to \$17.8 billion
- Grew customer deposits by 8.1% from \$14.8 billion to \$16.0 billion
- Continued to build presence in the SME sector, having 8.0% market share at the end of June
- Increased KiwiSaver membership by 13%

Mr Brock said the past year was a remarkable one for the Group with New Zealand Post divesting 47 per cent of its shareholding to ACC and the New Zealand Super Fund last October, as well as issues with the Reserve Bank relating to capital in March (prompting a \$247 million shareholder capital injection) – recently resolved in favour of Kiwibank on 10 August.

Governance changes to the Kiwibank Board were also made with the appointment of a new chair and new directors.

Overall, Mr Brock said profitability across the Group was commensurate with the operating environment, levels of investment and work underway to deliver on our ambitions. 'We're positioning ourselves to take full advantage of the opportunities in front of us, predominantly with a digital focus – we're committed to our customers and long term value creation for our shareholders'.

¹ Unaudited net profit after tax has been adjusted to exclude non-core items to arrive at underlying profit, the result for the ongoing business activities of Kiwibank and the Group. Refer to Summary of Key Financial Information for details of reconciling items between underlying profit and net profit.

Strategic Review

Mr Brock said that to accelerate and achieve the best long term outcomes for the Group, a shareholder initiated strategic review is focusing on a number of options for how best to deliver a digital future. 'The way customers interact with Kiwibank is changing almost as rapidly as the technology required to support their increasing preference for digital banking experiences. In the past year over 40% of sales, for example, were completed through a digital channel. More than 57% of customers digitally connect with Kiwibank, collectively over 27 million times each month'.

Mr Brock said these numbers are expected to climb along with advances in the technology that enable this trend. As a consequence, a review of the project underway to modernise Kiwibank's core banking system (known as CoreMod) is being conducted to assess the value of some of the work completed so far.

While this review is being completed, a decision has been made to impair the value of the work in progress which currently sits on the balance sheet as an intangible asset. The assets associated with the successful migration of our batch payments to a SAP solution are unaffected.

There is no impact on the current core banking system which is stable and functioning.

Mr Brock said the decision to impair at this time is prudent and reflects the challenges and changing nature of banking since Kiwibank first contemplated the upgrade four years ago. 'We need to ensure that our broader IT infrastructure (not just the core system) doesn't limit delivery of our long term strategy'.

Operational highlights

Operationally, Mr Brock said the Group had made improvements to the retail network including upgrades and another new stand-alone Kiwibank branch (in central Auckland), as well as some strategic closures.

Kiwibank has more than 1 million customer relationships. Market share in the highly competitive mortgage market has been maintained at around 7.0%, while the business banking team is cementing its presence in the SME sector, commanding 8.0% market share at the end of June.

The Kiwi Wealth, Kiwi Insure, and New Zealand Home Loans businesses have also experienced growth, particularly the Wealth division, which now manages nearly \$4 billion of invested funds and serves over 158,000 KiwiSaver customers.

Mr Brock said the value of establishing the Hastings office to provide cover for essential banking operations was confirmed following last year's mid-November earthquake which displaced around 1200 people from the Wellington Head Office. 'We immediately dispatched about 100 staff from Wellington to Hastings to ensure banking services were not interrupted. It is a tribute to our people that we were able to conduct business as usual at a time of considerable upheaval'.

Those displaced have been operating from seven offices in the Hutt Valley, Porirua and central Wellington but Kiwibank has plans to consolidate the head office later next year.

Bruce Thompson, Communications Manager (04) 460 6831

Summary of Key Financial Information – Kiwi Group Holdings

\$m	Jun-16	Jun-17*	change	classification change ³
Unaudited results				
Income statement (extract)				
Net interest income	378	375	(0.8%)	
Net fee and other income	150	180	20.0%	8.7%
Operating expenses	(328)	(384)	17.1%	11.9%
Net profit after tax	131	58	(55.7%)	
Reconciliation of net profit to underlying profit				
Net profit after tax	131	58		
Reconciling items (net of tax):				
Other impairment losses ¹	-	65		
Earthquake costs ²	-	6		
Underlying profit	131	129	(1.5%)	
CTI	62%	68%		
Total Assets	19,454	20,739	6.6%	
Total Equity	1,045	1,453	39.0%	

- Other impairment losses:** Impairment loss recognised in relation to computer software
- Earthquake costs:** Earthquake costs are operating expenses incurred by the Group as a result of the November 2016 Kaikoura earthquake net of insurance payments received to date
- The classification change includes an unaudited adjustment to reflect the impact of the \$17m of retail network costs in the period ended 30 June 2017 that were formerly classified as direct expenses and are now classified as operating expenses due to changes in the agreements governing the operation of the corporate retail network

* Jun-17 unaudited

Summary of Key Financial Information – Kiwibank Banking Group

\$m	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17*
Interest income	790	798	957	898	831
Interest expense	(514)	(505)	(596)	(525)	(463)
Net Interest Income	276	293	361	373	368
Gains/(losses) on financial instruments at fair value	-	3	5	3	8
Net fee income	106	104	107	101	118
Operating expenses	(240)	(265)	(284)	(301)	(339)
Impairment losses on loans and advances	(7)	4	(13)	(11)	6
Other impairment losses	-	-	-	-	(90)
Profit before taxation	135	139	176	165	71
Income tax expense	(38)	(39)	(49)	(41)	(18)
Net profit after tax	97	100	127	124	53
Reconciliation of net profit to underlying profit					
Net profit after tax	97	100	127	124	53
Reconciling items (net of tax):					
Other impairment losses ¹	-	-	-	-	65
Earthquake costs ²	-	-	-	-	4
Underlying profit	97	100	127	124	122
CTI	63%	66%	60%	63%	69%
Dividends paid on ordinary shares			(22)	(29)	(5)
Other distributions paid	(9)	(9)	(9)	(11)	(13)

- Other impairment losses:** Impairment loss recognised in relation to computer software
- Earthquake costs:** Earthquake costs are operating expenses incurred by Kiwibank as a result of the November 2016 Kaikoura earthquake net of insurance payments received to date

* Jun-17 unaudited

\$m	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17*
Assets					
Loans and advances	13,202	14,630	15,598	16,689	17,815
Other assets	2,007	2,046	2,746	2,668	2,801
Total Assets	15,209	16,676	18,344	19,357	20,616
Liabilities					
Deposits and other borrowings	12,120	12,751	13,740	14,782	15,983
Debt securities issued	1,508	2,143	2,397	2,207	2,258
Other liabilities	723	779	1,174	1,239	995
Total Liabilities	14,351	15,673	17,311	18,228	19,236
Equity					
Share Capital	360	400	400	400	737
Reserves	349	454	633	729	643
Non-controlling interest	149	149	-	-	-
Total equity	858	1,003	1,033	1,129	1,380
Total liabilities and shareholders' equity	15,209	16,676	18,344	19,357	20,616

* Jun-17 unaudited