

# **MEDIA BRIEFING PACK**

for the year ended 30 June 2016

# AGENDA

The Financial Services Group  
Business Highlights  
Key Financial Metrics  
Business Unit Results  
Strategic Update  
Appendices

# The Financial Services Group

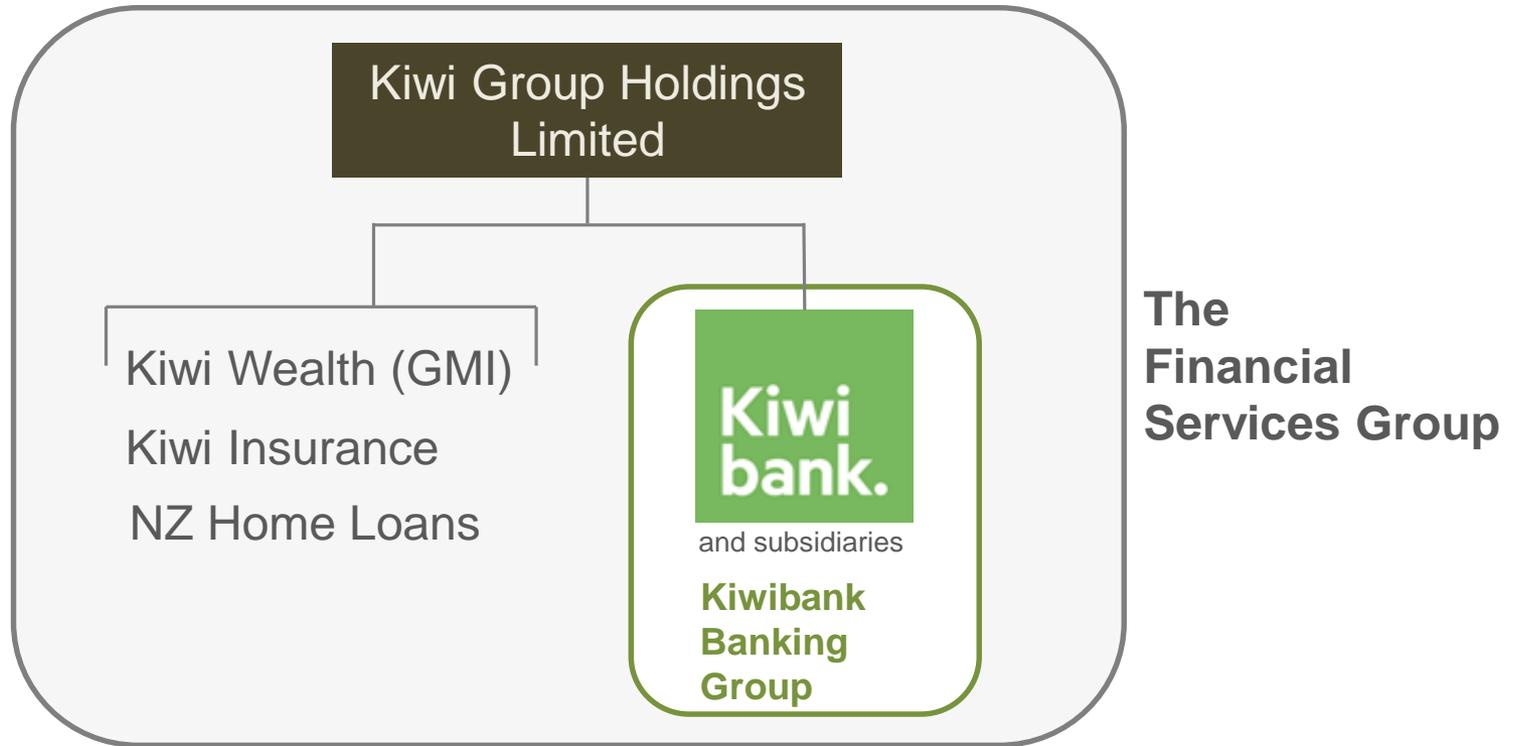


Diagram shows the key business entities for the Group, including the Kiwibank Banking Group as described in Registered Bank Disclosure Statements.

# Business Highlights

- **Revenue diversification continues:** Wealth revenue up 23% and now contributes over **9%** of KGH total earnings. Insurance operating income also climbed, **17%** on the previous year
- **Healthy balance sheet growth** – customer loans grew by **\$1.09b** and customer deposits increased by **\$1.04b** (up 7.0% and 7.6% respectively on 2015)
- **Bad debt losses down** year on year to **0.07%** of total loans and advances
- Impairment provisioning also **reduced to 0.31%** of loans
- **Dividends of \$29m** paid to NZ Post
- **Highest** Net Promoter score of the Main Banks
- **Highest** KiwiSaver Net Promoter score
- **Core banking system:** Stage 1 completed on time and budget, with Stage 2 built and currently under testing. Data migration planned for later this financial year

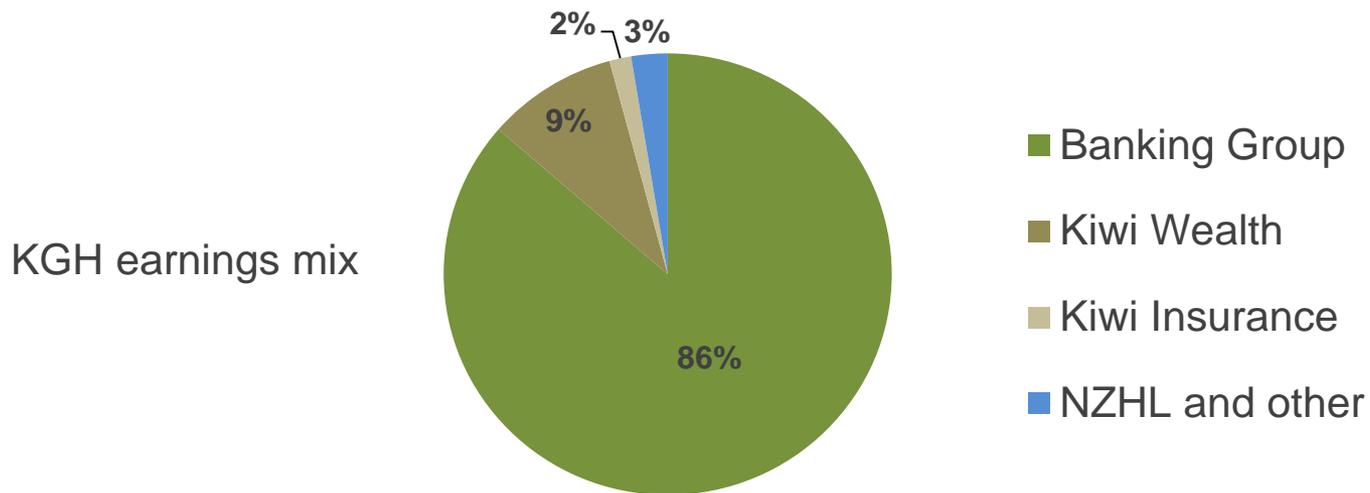
# Key financial metrics\*

\$m	2016	2015	change
Net interest income	378	365	▲ 3.5%
Net fee & other income	153	150	▲ 2.0%
Operating expenses	(329)	(311)	▲ 5.7%
<b>Net profit after tax</b>	<b>131</b>	<b>132</b>	▼ 0.8%
Total assets	19,771	18,749	▲ 5.5%
Total equity	1,362	1,260	▲ 8.1%

\*Underlying, unaudited results of the KGH Group

# Kiwi Group Holdings

- KGH NPAT of **\$131m** for the year ending 30 June 2016 (down \$1m or 0.8% on 2015, but \$3m ahead of plan)\*
- The relatively flat result builds on the solid profitable growth of the past few years in an increasingly competitive and volatile environment
- Earnings diversification remains a major strategy: Wealth and Insurance now comprise 25% of fee-based income (11% of total earnings), up from 7% five years ago



# Kiwibank Banking Group

- Lending **up 7.0%**
- Deposits **up 7.6%**
- **Margins held up** better than expected, despite passing on OCR cuts to customers where possible
- Considerable **investment in infrastructure**
- **Highest** Net Promoter score of the Main Banks

Kiwibank was awarded the Roy Morgan Major Bank of the Year, *Customer Satisfaction Award* for the 5<sup>th</sup> time in a row

# Kiwibank Customer Base

- Kiwibank continues to **grow market share**
- A key measure is Main Financial Institution (MFI) (income and main banking transactions):
  - 419,000 MFI customers (380,000 in 2015)
  - 12% of total market\* (11.6% in 2015)
- Kiwibank now operates accounts for:
  - **Over 1.02 million** Personal, Businesses, Trusts, Clubs & Societies
  - **26%** of total market\*

Kiwibank was awarded the Canstar Best value – *Term Deposit Award* for the 3rd year in a row

\* based on a total New Zealand banking market of 3.6 million customers

# Kiwi Wealth



- Funds Under Management increased **9% to \$3.9b**
- Kiwi Wealth KiwiSaver Scheme membership increased **13% to 158,000**
- Operating after tax profit contribution to KGH Group increased **38% to \$12.6m**
- **‘Future You’** digital initiative launched – shows members how much they may have in their KiwiSaver by the time they retire or make a first home withdrawal
- Core Wealth IT system replaced – supporting schemes and PIE funds

The Kiwi Wealth KiwiSaver Scheme was awarded the inaugural Consumer New Zealand People’s choice award for 2015

# Kiwi Insurance



- **Operating income** increased **17%** principally as a result of greater sales of credit card repayment insurance and home loan products
- Annual in-force premiums have **risen by 14%** to \$12.4m
- Policy **sales up 60%**
- Operating profit after tax of **\$2.5m**
- The overall business strategy is on track with a focus on distribution and sales

# Strategic Update

## Core Modernisation

- Multi year project to replace our core systems
- Successful implementation of Phase 1 (SAP Payments Engine) in August 2015
- Phase 2 (including the migration of the majority of our savings and transaction accounts):
  - Build is complete
  - Currently testing
  - Data migration planned for later in FY17

## The Digital Business

- Customer behaviours changing: 90% of servicing transactions now done digitally
- **c.31%** of sales to existing customers and **c.8%** to new customers were via digital
- Launched Digital On-boarding for customers
- New native app for Android and Apple enhancing the customer experience of mobile banking
- Kiwi Wealth Retirement Income calculator launched ('Future You')

# APPENDICES

# Banking Group – Profit & Loss

Dollars in millions	30 June 2016	30 June 2015	% Growth
<b>Net interest income</b>	<b>373</b>	<b>361</b>	<b>3.3%</b>
Other income	104	112	(7.1%)
<b>Total operating revenue</b>	<b>477</b>	<b>473</b>	<b>0.8%</b>
Operating expenses	(301)	(284)	6.0%
<b>Net profit before taxation</b>	<b>165</b>	<b>176</b>	<b>(6.3%)</b>
Income tax expense	(41)	(49)	(16.3%)
<b>Net profit after taxation</b>	<b>124</b>	<b>127</b>	<b>(2.4%)</b>

# Banking Group – Balance Sheet

Dollars in millions	30 June 2016	30 June 2015	% Growth
<b>Banking Group</b>			
<b>Assets</b>			
Loans and advances	16,689	15,598	7.0%
Wholesale & other assets	2,668	2,746	(2.9%)
<b>Total assets</b>	<b>19,357</b>	<b>18,344</b>	<b>5.5%</b>
Financed by:			
<b>Liabilities</b>			
Customer deposits	14,782	13,740	7.6%
Securities issued & other liabilities	3,446	3,571	(3.5%)
<b>Total liabilities</b>	<b>18,228</b>	<b>17,311</b>	<b>5.3%</b>
Shareholder's equity	1,129	1,033	9.2%
<b>Total liabilities &amp; shareholder's equity</b>	<b>19,357</b>	<b>18,344</b>	<b>5.5%</b>

# Banking Group – Key Ratios

	Year to 30 June 2016	Year to 30 June 2015
<b>Profitability measures</b>		
Net interest margin	2.05%	2.12%
Rolling annual return on equity	12.1%	13.4%
<b>Efficiency measures</b>		
Cost to income ratio	63.0%	60.4%
Operating expenses / average total assets	1.6%	1.6%
	As at 30 June 2016	As at 30 June 2015
<b>Capital ratios</b>		
Common Equity Tier 1 capital ratio	9.1%	9.3%
Capital adequacy ratio - Tier 1 Capital	10.7%	11.0%
Capital adequacy ratio - Total Capital	12.9%	13.4%

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