

MEDIA BRIEFING PACK

for the year ended 30 June 2016

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The Financial Services Group

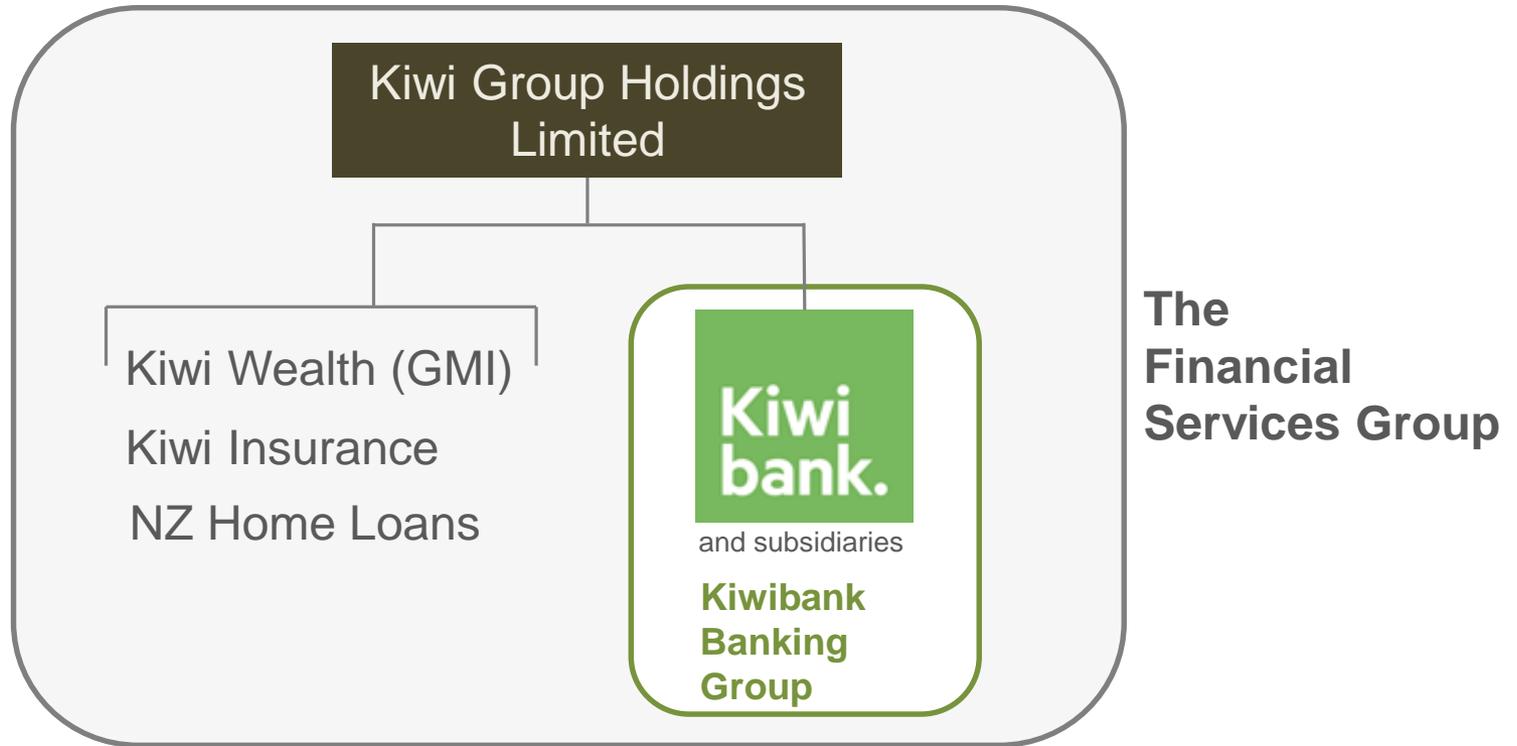


Diagram shows the key business entities for the Group, including the Kiwibank Banking Group as described in Registered Bank Disclosure Statements.

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

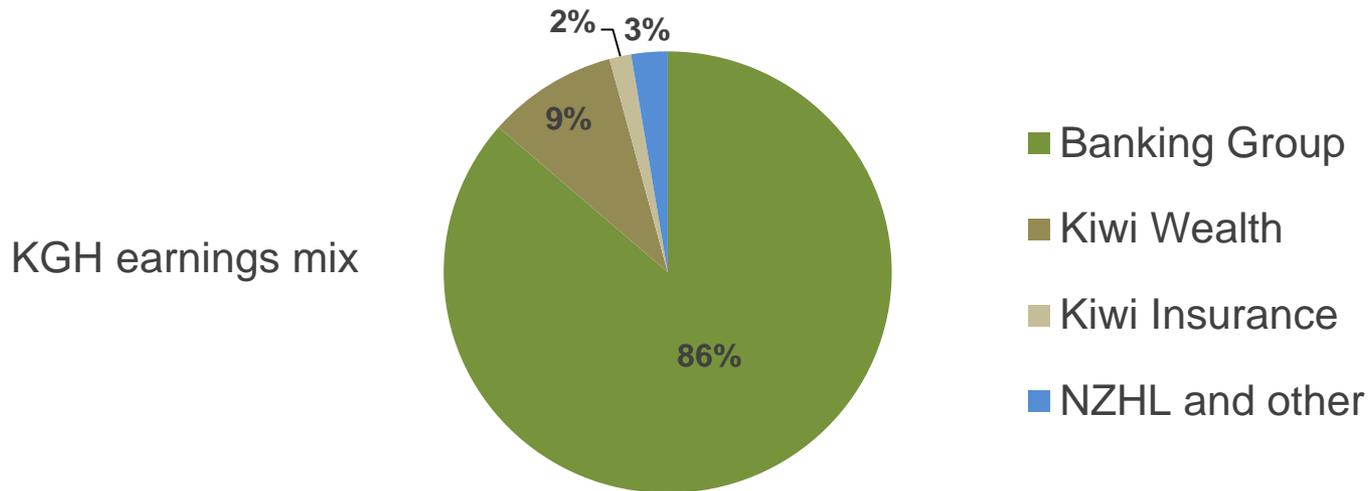
Key financial metrics*

| \$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% |
| Net profit after tax | 131 | 132 | ▼ 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 5th 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 |
|-----------------------------------|--------------|--------------|---------------|
| Net interest income | 373 | 361 | 3.3% |
| Other income | 104 | 112 | (7.1%) |
| Total operating revenue | 477 | 473 | 0.8% |
| Operating expenses | (301) | (284) | 6.0% |
| Net profit before taxation | 165 | 176 | (6.3%) |
| Income tax expense | (41) | (49) | (16.3%) |
| Net profit after taxation | 124 | 127 | (2.4%) |

Banking Group – Balance Sheet

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

Banking Group – Key Ratios

| | Year to 30 June 2016 | Year to 30 June 2015 |
|---|-------------------------|-------------------------|
| Profitability measures | | |
| Net interest margin | 2.05% | 2.12% |
| Rolling annual return on equity | 12.1% | 13.4% |
| Efficiency measures | | |
| 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 |
| Capital ratios | | |
| 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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