



Kiwi Group Holdings Ltd

ANNUAL RESULTS

for the year ended 30 June 2017

A wide landscape photograph showing a range of rugged mountains with snow-capped peaks under a clear blue sky. In the foreground, there are dense green and yellow trees, and a calm body of water reflects the scene.

Investor Relations Presentation

1 September 2017

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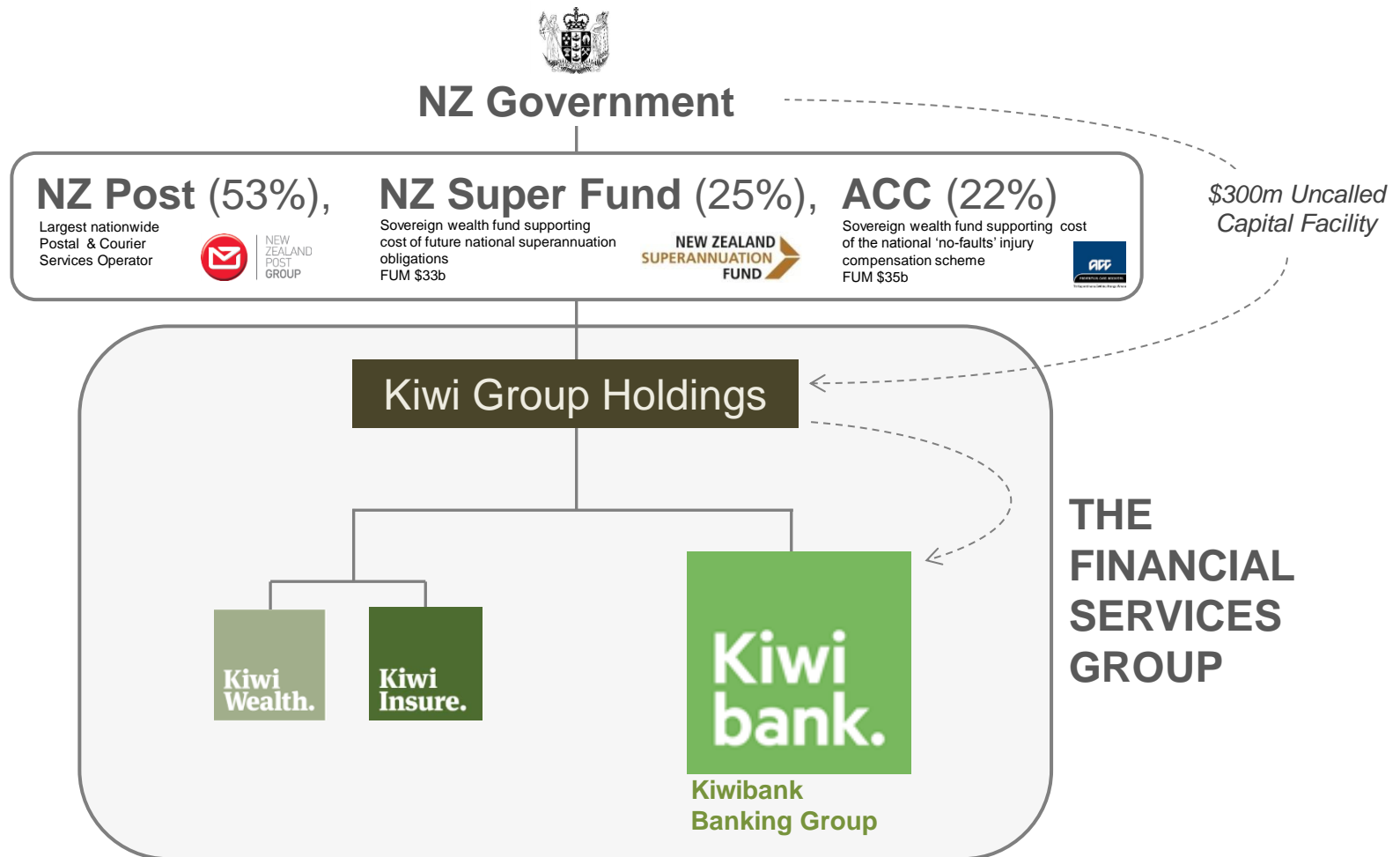
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KIWI GROUP HOLDINGS

THE FINANCIAL SERVICES GROUP

Kiwi Group Holdings (KGH)



* key operating subsidiaries only

KGH headline financial results

\$m	2016	2017	change	classification change ³
Unaudited Results				
Income statement (extract)				
Net interest income	378	375	▼0.8%	
Net fee & other income	150	180	▲20.0%	▲ 8.7%
Operating expenses	(328)	(384)	▲17.1%	▲11.9%
Net profit after tax	131	58	▼55.7%	
<i>Reconciliation of net profit after tax to underlying profit:</i>				
Net profit after tax	131	58		
Reconciling items (net of tax):				
<i>Impairment of intangible IT assets¹</i>	-	65		
<i>Earthquake costs²</i>	-	6		
Underlying profit	131	129	▼1.5%	
 Total assets	 19,454	 20,739	 ▲6.6%	
Total equity	1,045	1,453	▲39.0%	

1. Impairment loss recognised in relation to computer software

2. 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

3. 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

Business highlights

- **Partial sale** of KGH to ACC and New Zealand Superannuation Fund (NZ Post retains majority share) completed in October 2016
- **Healthy balance sheet growth** – customer loans grew by **\$1.13b** and customer deposits increased by **\$1.20b** (up 6.8% and 8.1% respectively on 2016)
- **Underlying profit** affected by lower margins resulting from an extended blackout period preventing access to wholesale funding markets and a higher level of one-off costs
- **Revenue diversification continues:** *Kiwi Wealth* revenue up 12%; *Kiwi Insure* operating income climbed **16%** on the previous year
- **Continued improvement in risk** across the mortgage portfolio (resulted in a collective provisioning release as well as removing provisioning raised in relation to the Kaikoura Earthquake)
- **Highest** Net Promoter Score of the Main Banks
- Consumer NZ 2017 **People's Choice award for banking**

Background:

- *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 were completed through a digital channel and more than 57% of customers digitally connect with Kiwibank, collectively over 27 million times each month. These numbers are expected to climb along with advances in the technology that enable them*
- *Kiwibank has been working with the shareholders of the Group to respond to changes in the very nature of what it means to be a financial services provider*
- *To accelerate towards and achieve the best long term outcomes, a strategic review is underway focusing on a number of options for how best to deliver a digital future*

Implication for CoreMod:

- *Although the strategic review has not yet concluded, a potential change to how we build the core 'back end' IT system (CoreMod) to match the demands of the 'future front end' has prompted a re-assessment of the value of the **work in progress** since successfully migrating our batch payments to SAP*

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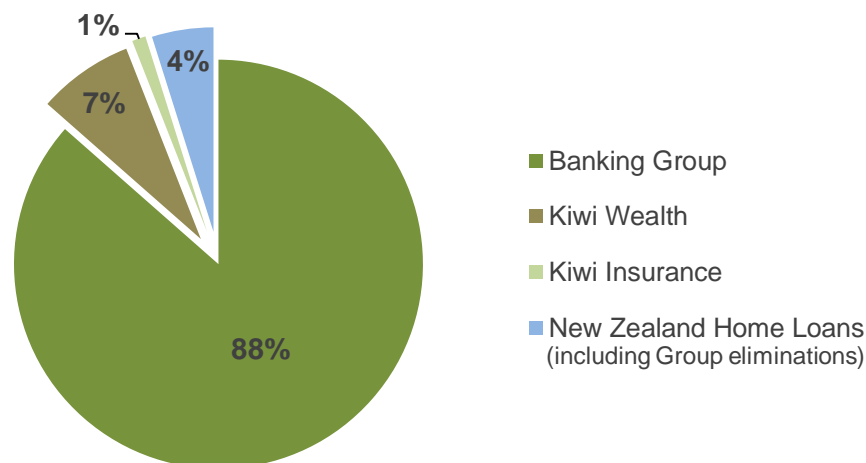


EARNINGS & PERFORMANCE

KGH earnings mix*

- **KGH Group** underlying profit ¹ of **\$129m** for the year ending 30 June 2017 (down \$2m or 1.5% on 2016)
- **Kiwibank Banking Group** (Kiwibank) net profit after tax was \$53m for the year ended 30 June 2017. The bulk of the Group's underlying profit was again provided by the Kiwibank (\$122m²) in a year dominated by external disruption, most notably the impact of last November's earthquake as well as regulatory challenges
- Earnings diversification remains a major strategy – the relative mix has remained steady over the past year

KGH operating income mix
**Jun 2017 unaudited*



1. See reconciliation to net profit after tax on page 5
2. See reconciliation to net profit after tax on page 25

Kiwibank Banking Group (Kiwibank)

- Total lending **↑ 6.8% YOY**
- Customer deposits **↑ 8.1% YOY**
- Main bank share **11.6%**
- Foreign Currency Credit ratings:

Agency	Rating	Outlook
S&P	A	Stable
Moody's	A1	Stable
Fitch	AA-	Stable

	<i>FY17</i>	<i>FY16</i>	<i>FY15</i>	<i>FY14</i>
Net profit after tax	\$53m	\$124m	\$127m	\$100m
Underlying profit [†]	\$122m	\$124m	\$127m	\$100m
Cost to income ratio	69%	63%	60%	66%
Net interest margin ^{††}	1.92%	2.05%	2.12%	1.86%
Total equity	\$1,380m	\$1,129m	\$1,033m	\$1,003m
Return on equity ^{†††}	10.1%	12.1%	13.4%	11.7%
Tier 1 Capital Ratio	12.3%	10.7%	11.0%	10.4%
CET1 Capital Ratio	12.3%	9.1%	9.3%	9.0%
Customer deposits	\$15,983m	\$14,782m	\$13,740m	\$12,751m
Loans & advances	\$17,815m	\$16,689m	\$15,598m	\$14,630m
Impaired assets ^{††††}	0.07%	0.09%	0.15%	0.30%

All data as at 30 June of the respective Disclosure Statement (FY17 unaudited)

[†] See reconciliation to net profit after tax on page 25

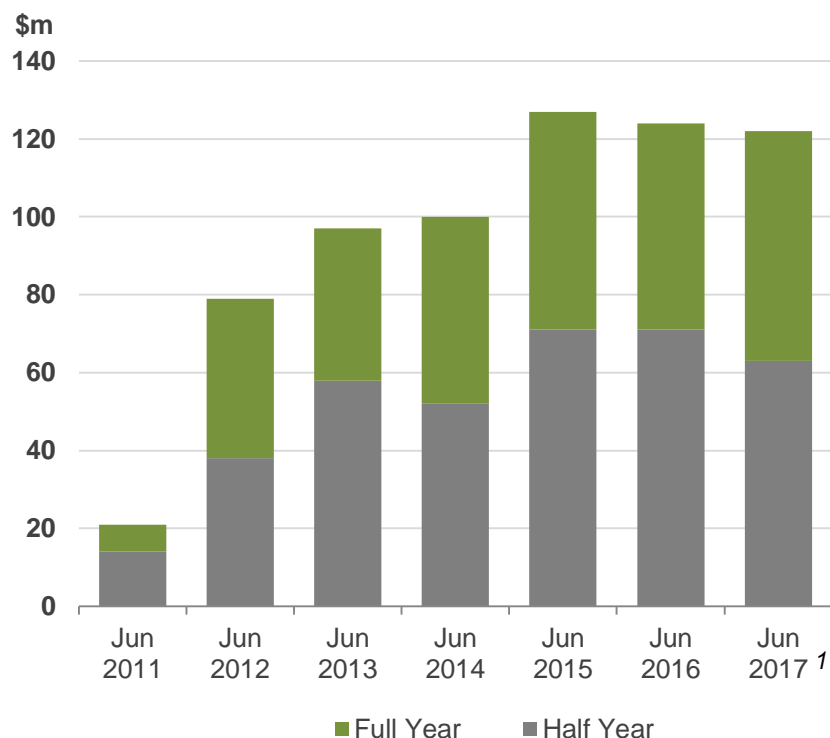
^{††} Source: Kiwibank

^{†††} As a percentage of total equity attributable to owners of the parent – FY17 adjusted for underlying profit after tax reconciling items

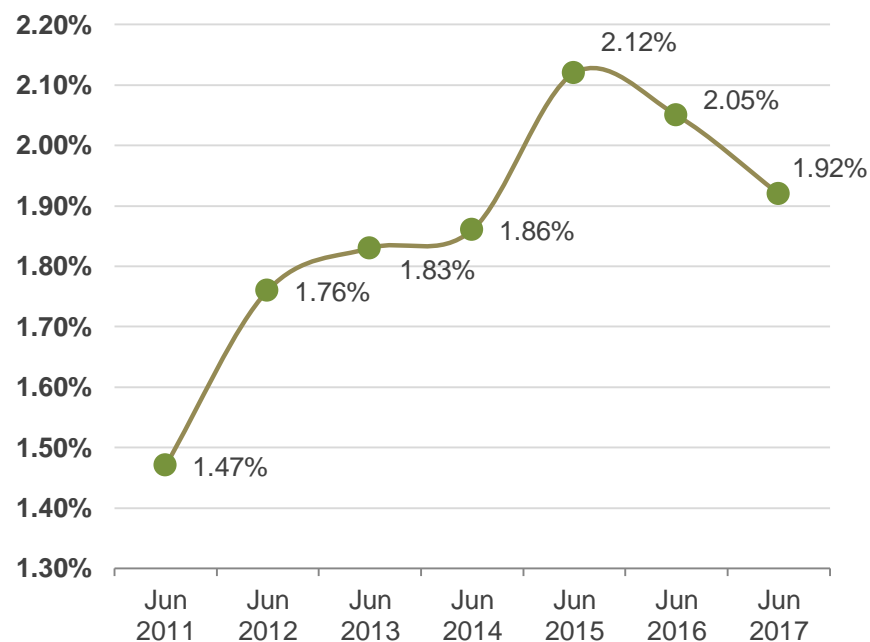
^{††††} Gross impaired assets as a percentage of gross loans and advances

Kiwibank profitability

Net Profit After Tax



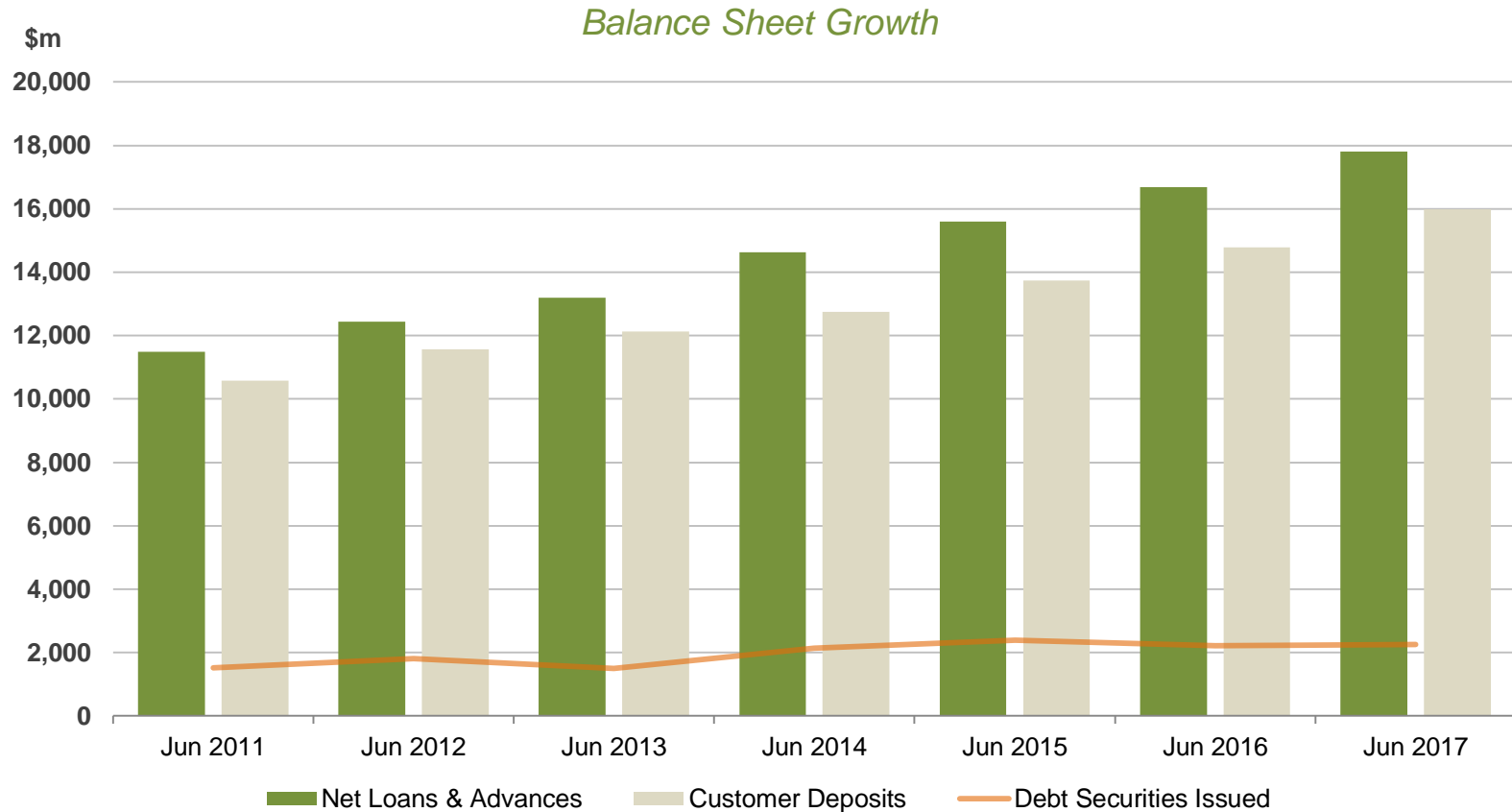
NIM Kiwibank Banking Group



Source: Kiwibank Disclosure Statements (Jun 2017 unaudited)

1. Unaudited underlying profit. See reconciliation to net profit after tax on page 25

Kiwibank balance sheet growth



Source: Kiwibank Disclosure Statements (Jun 2017 unaudited)

Kiwibank performance

- Lending up 6.8%
- Deposits up 8.1%
- Margins softer, finishing the year at 1.92% (2.05% in 2016), reflective of higher funding costs and heightened competition for both funding and lending
- Highest Net Promoter score of the Main Banks



We won the **CANSTAR** Bank of the Year award for Term Deposits for the fourth year running

Kiwibank customer base

- Kiwibank has more than 1 million customer relationships (including 800,000 individuals)
- 434,000 customers now identifying Kiwibank as their main financial institution
- Market share in the highly competitive mortgage market has been maintained at 7.0%
- Our Business Banking team is cementing its presence in the SME sector, commanding 8.0% market share at the end of June



Kiwibank's core market segments

Personal:

- Customer Net Promoter Scores surged to highest in more than two years - the leading main bank
- Successful new advertising campaign *"It's Ours Is It Yours"* supporting our ownership change, followed up with highly successful *Mind Over Money* series
- Over \$1b balance sheet growth for loans and deposits



Business markets: *banking local to help customers think global*

- Operating in our chosen segment of small and medium enterprises (SMEs) to offer a full range of products supported by specialists, including asset finance services through subsidiary *Kiwi Asset Finance*
- Customer growth & advocacy increased year on year
- Greater focus on cash-flow backed lending (rather than pure property)



- *KiwiSaver* sales growth remains strong
- *Kiwi Wealth KiwiSaver* members at 179k, up 13% year on year
- Flagship *KiwiSaver Growth Fund* ranks first from a 1-year return perspective*
- Revenue up 12% year on year
- Funds Under Management now at \$4.6b, up \$714m (*KiwiSaver* up \$625m, *Private Portfolio* up \$82m)
- Implemented a new funds management system
- Delivered award winning *Future You* on-line calculation tool, allowing customers to see how their *KiwiSaver* investment might help them achieve their retirement lifestyle
- Updated our *Responsible Investment* policy and introduced a new investment fund that ensures none of our members' money is directly or indirectly invested in a range of controversial products, while giving us the flexibility to adapt

*15.3% for the year - MJW Investment Survey – June 2017

Key products

House, Car & Contents

Life & Living Insurance

Credit Card & Travel



- Operating income **increased 16%** principally as a result of premium growth
- The in-force book has risen by 11% to **\$15.6m**
- The overall business strategy is on track with a focus on distribution and sales especially as via cross-sell to the wider Kiwibank customer base

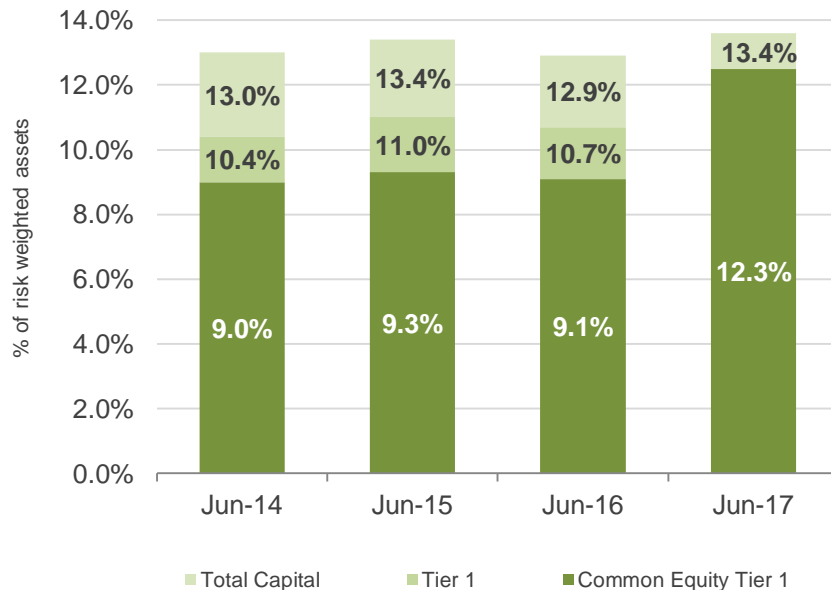
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APPENDICES

Kiwibank capital ratios

Regulatory Capital Ratios



Regulatory Minimum (including 2.5% buffer ratio)

Kiwibank

Common Equity Tier 1 ratio	7.0%	12.30%
Tier 1 capital ratio	8.5%	12.30%
Total capital ratio	10.5%	13.40%

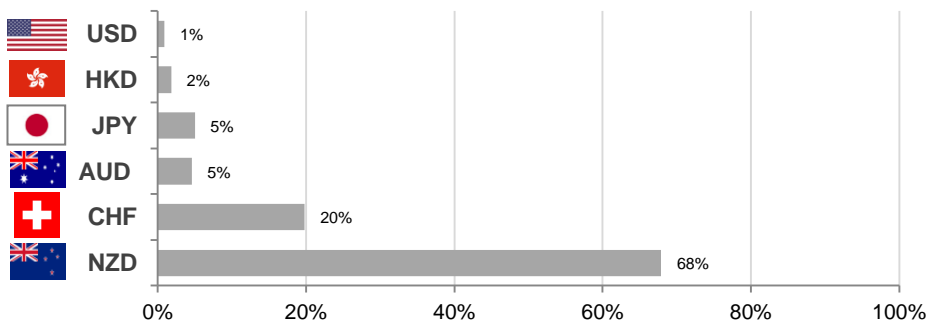
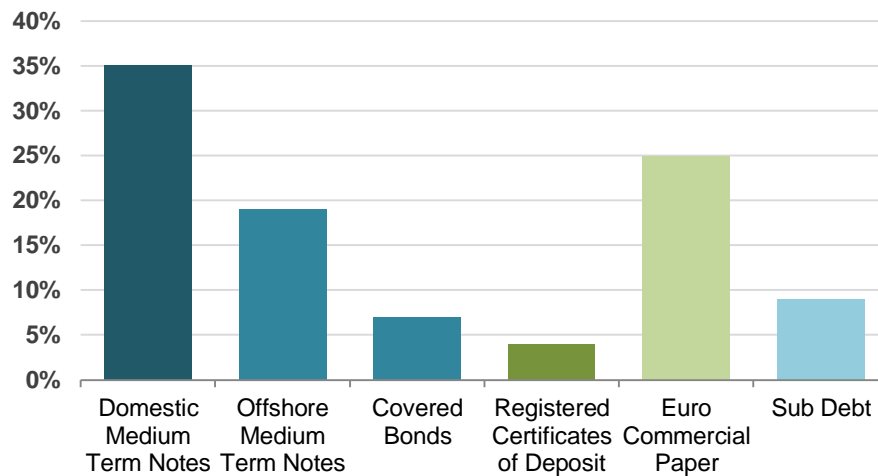
Uncalled Capital Facility

Under an uncalled capital facility with the Crown, KGH can drawdown up to \$300m to enable KGH to provide liquidity or capital support to Kiwibank if certain external stress events occur.

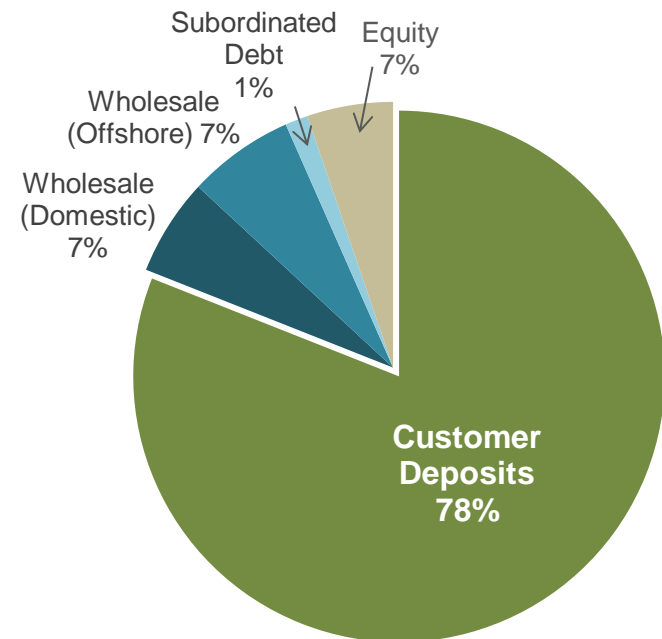
Kiwibank funding mix

- Strong customer deposit funding franchise creates a modest wholesale funding task
- Diversified wholesale funding mix

Wholesale funding breakdown & exposure



Balance Sheet funding sources



Debt Funding Programmes

<i>Programme</i>	<i>Market</i>	<i>Term</i>	<i>Size</i>	<i>As at 30 June 2017</i>
RCD	NZ	Short	Unlimited	NZ\$41m
RMBS	NZ	Short	NZ\$1,100m	-
ECP	Offshore	Short	US\$2,000m	NZ\$647m
MTN	NZ	Long	Unlimited	NZ\$820m
Sub Bond (Dec 2022)	NZ	Long	Unlimited	NZ\$150m
Capital Note (Jul 2024)	NZ	Long	Unlimited	NZ\$100m
Perpetual Capital Note (Jul 2024)	NZ	Perpetual	Unlimited	NZ\$150m
Covered Bond (Dec 2020)	NZ/Offshore	Long	NZ\$3b	CHF150m
Kangaroo	Australia	Long	A\$1,500m	A\$252m
Senior Bond (Apr 2019)	Switzerland	Long	Stand Alone	CHF175m

Regulatory backdrop

- Registered banks are governed by the Reserve Bank of New Zealand (RBNZ)
- RBNZ has been proactively implementing the **Basel III capital framework**
- RBNZ is currently conducting a review of the **Capital Adequacy Framework** for locally incorporated banks

	<i>Regulatory Minimum</i> (including 2.5% buffer ratio)	Kiwibank *
Common Equity Tier 1 ratio	7.0%	12.30%
Tier 1 capital ratio	8.5%	12.30%
Total capital ratio	10.5%	13.40%

* At 30 June 2017. Does not include the \$300m Uncalled Capital Facility

RBNZ: regulatory capital changes

- On the **29 May 2017**, the Reserve Bank of New Zealand (RBNZ) determined that two capital instruments issued by Kiwibank no longer qualify as regulatory capital under Document BS2A of the RBNZ's Capital Adequacy Framework (Standardised Approach)
- The \$100m Tier 2 bond and the \$150m AT1 bonds are the related bonds for, respectively, Capital Notes and Perpetual Capital Notes issued by Kiwi Capital Funding Limited (KCFL) to investors
- Kiwibank's shareholders (NZ Post, ACC and NZ Super Fund) pre-emptively injected, through Kiwi Group Holdings Limited, \$247m of common equity into Kiwibank to ensure the **capital position of the Bank would be maintained** despite the actions taken by the RBNZ
- There was **no change to Kiwibank's credit rating** as a result of these events

RBNZ: capital changes continued

Capital requalifies

- On **10 August 2017**, having given due consideration to the changes made by Kiwibank in March (including deconsolidating KCFL from the Banking Group), the RBNZ issued **new notices of non-objection** in relation to the Kiwibank Bonds
- **This means that from this date, Kiwibank can again treat the Kiwibank Bonds as regulatory capital**
- In relation to options for what will happen to the \$247m injection from shareholders, any decision on capital composition are a matter for our shareholders and the Kiwibank Board

Kiwibank performance history

\$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 after tax 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)

1. Impairment loss recognised in relation to computer software

2. Earthquake costs are operating expenses incurred by Kiwibank as a result of the November 2016 Kaikoura earthquake net of insurance payments received to date.

* Source: Kiwibank Disclosure Statement at 30 June full year (Jun-17 unaudited)

Kiwibank balance sheet history

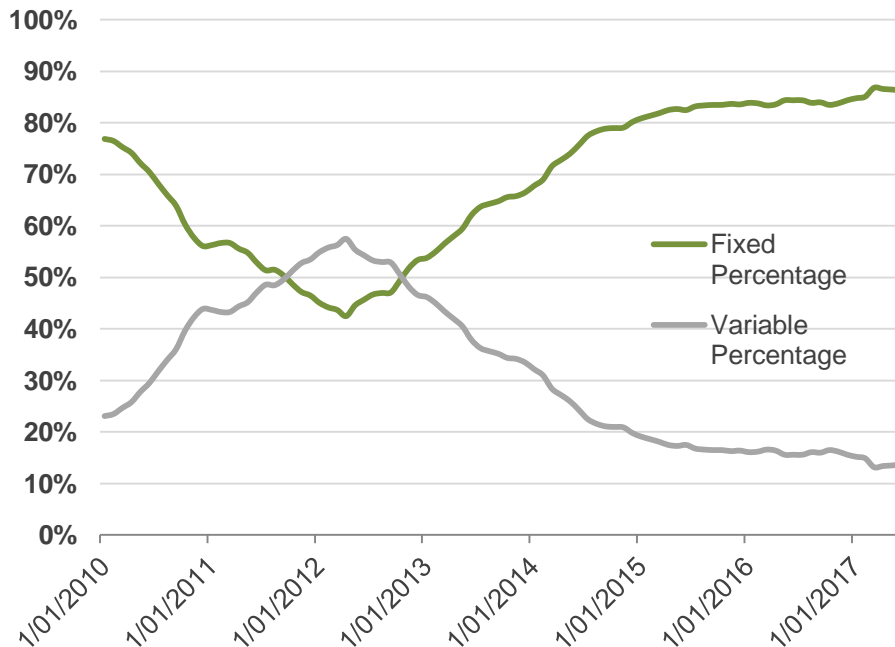
\$m*	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
Assets					
Loans and advances	13,202	14,630	15,598	16,689	17,815
Other assets	2,007	2,046	2,746	2,668	2,801
Total Assets	15,209	16,676	18,344	19,357	20,616
Liabilities					
Deposits and other borrowings	12,120	12,751	13,740	14,782	15,983
Debt securities issued	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

* Source: Kiwibank Disclosure Statement at 30 June full year (Jun-17 unaudited)

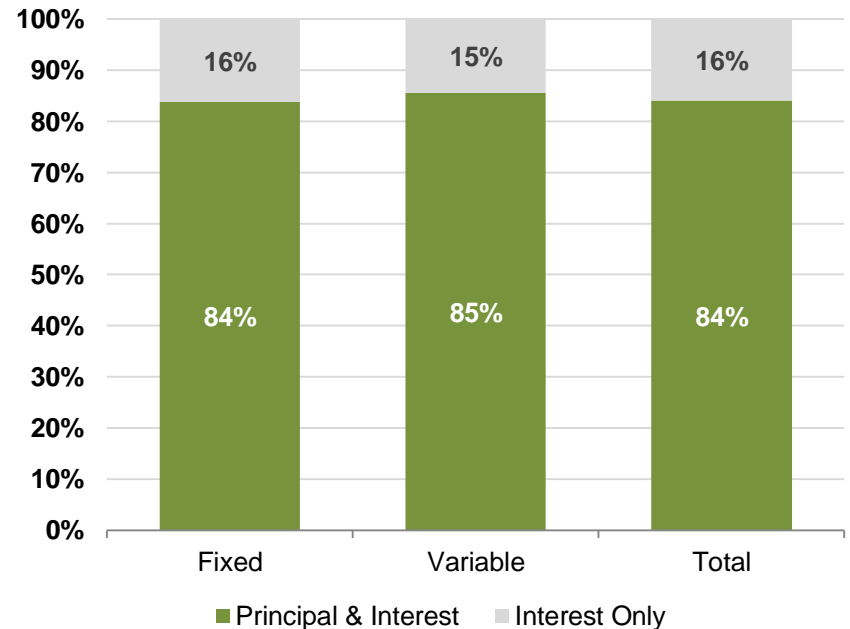
Kiwibank's mortgage portfolio

- Well seasoned portfolio with low exposure to interest only loans
- The current interest rate environment is encouraging customers to fix the interest rate of their home loan: 86% **fixed**, 14% **variable**

Fixed-Variable Trend



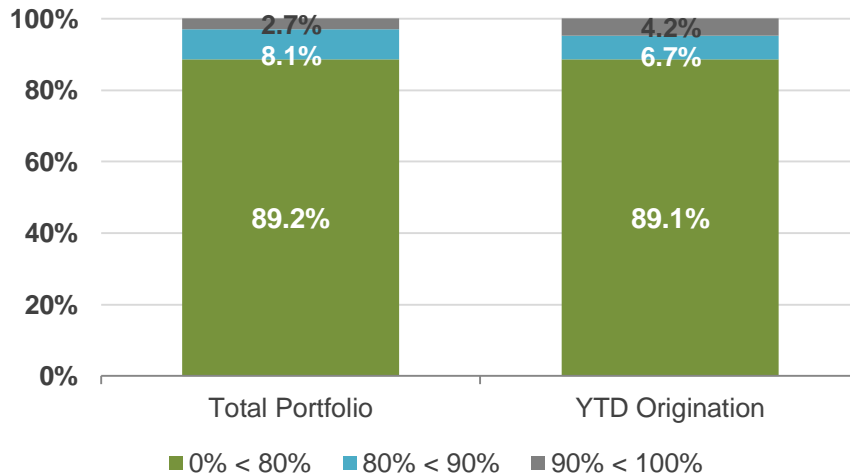
Payment Type



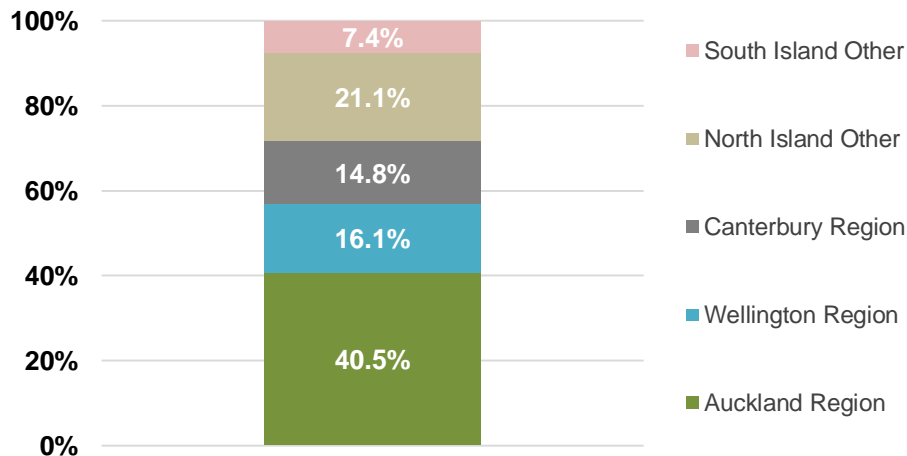
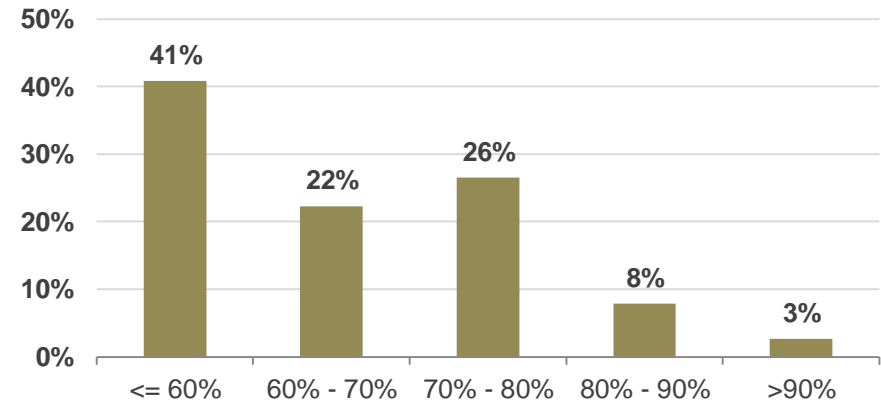
Owner occupied	81.5%
Residential investment	18.5%

Kiwibank's mortgage portfolio

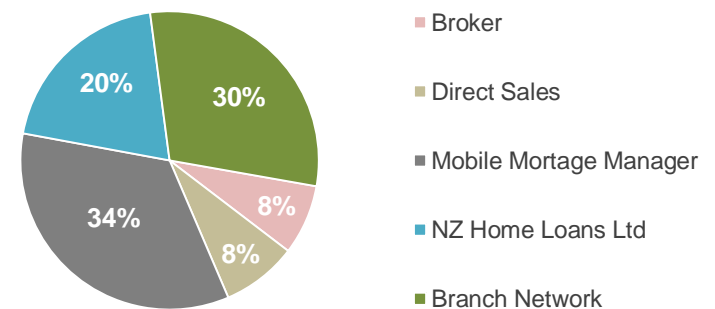
LVR Distribution



Mortgage Portfolio - LVR Profile

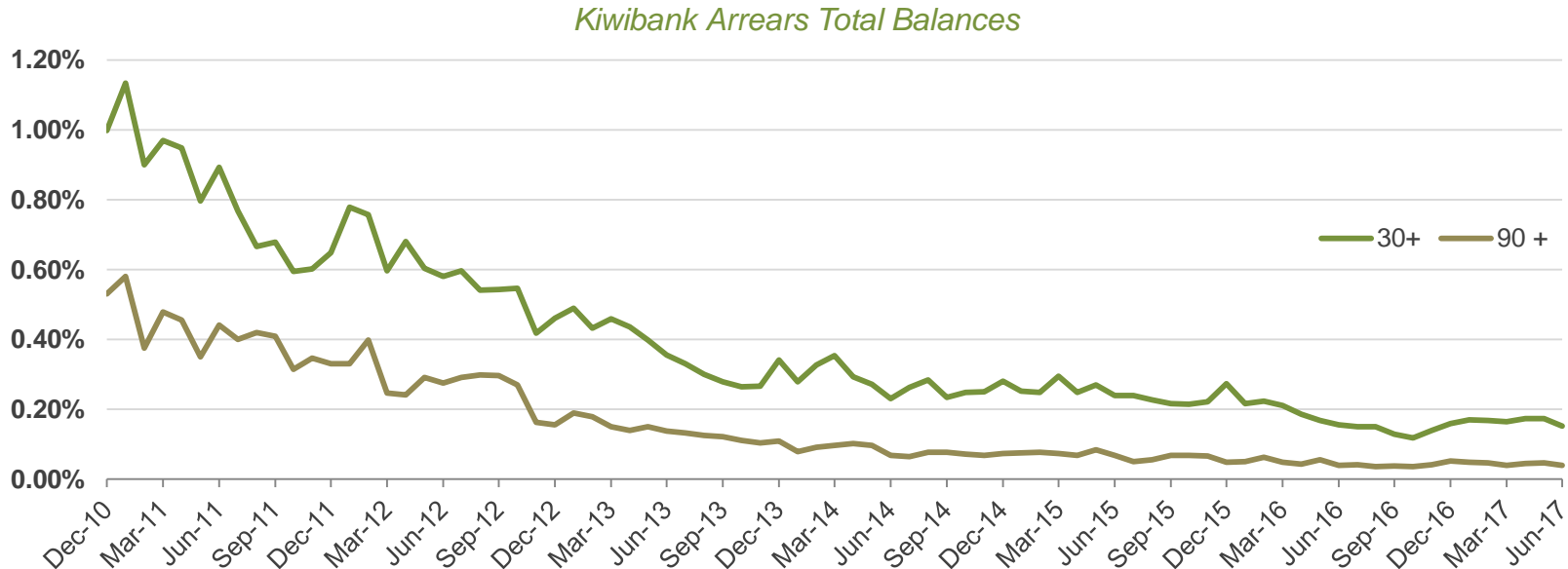


Mortgage Portfolio Origination Channels



Kiwibank's mortgage arrears

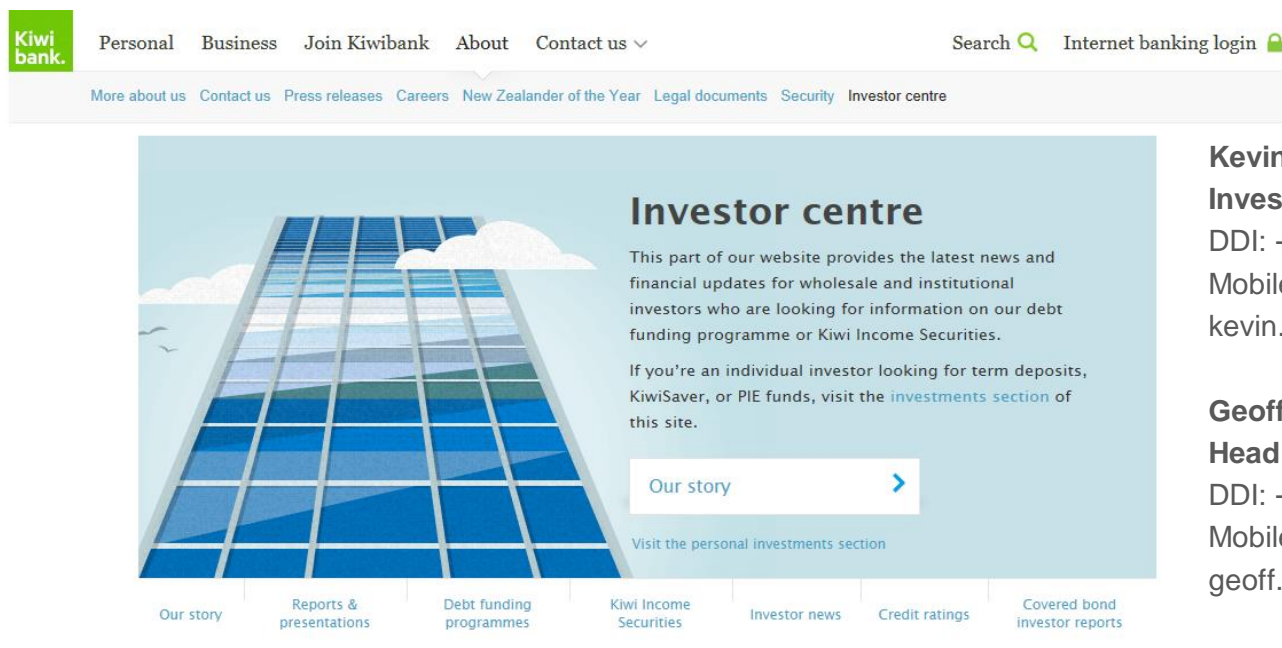
- Arrears have fallen steadily over the past seven years in response to greater credit management controls and a benign credit environment



Investor Relations

Kiwibank Investor Relations:

www.kiwibank.co.nz/about-us/investor-centre



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Sustainability and Corporate Responsibility:

<https://www.kiwibank.co.nz/about-us/more-about-us/sustainability-and-corporate-responsibility/>

Awards:

<https://www.kiwibank.co.nz/about-us/more-about-us/awards.asp>

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