General Short Form Disclosure Statement

Number 27

For the nine months ended 31 March 2008

Contents

General matters

Details of incorporation

Kiwibank Limited ("Kiwibank") 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 from that date onwards.

This General Short Form Disclosure Statement has been issued by Kiwibank for the nine months ended 31 March 2008, in accordance with the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008 (the "Order"). Words and phrases defined by the Order have the same meanings when used in this General Short Form Disclosure Statement.

Address for service

The address for service is: Kiwibank Limited, Level 6, Radio New Zealand House, 155 The Terrace, Wellington, 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, New Zealand.

Voting securities and power to appoint directors

There are 260,000,000 voting securities of Kiwibank and NZP 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(2)(a) of the Securities Markets Act 1988. The Crown does not, expressly or impliedly, guarantee the obligations of Kiwibank.

NZP has the power under Kiwibank's constitution to appoint any person as a director of Kiwibank either to fill a casual vacancy or as an additional director or to remove any person from the office of director by giving written notice to 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 General Short Form 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, with the exception of the proceedings disclosed in note 20 (Contingent Liabilities), there are no pending proceedings or arbitration concerning Kiwibank, whether in New Zealand or elsewhere, that may have a material adverse effect on Kiwibank.

General matters continued

Directorate

There have been no changes in the composition of the board of directors since the publication date of the previous General Disclosure Statement.

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

Rt. Hon. James Brendan Bolger	Richard Gordon Alexander Westlake
Ian Robert Fitzgerald	James Harold Ogden
John Richard Allen	Alison Rosemary Gerry
Prof. Ralph Heberley Ngatata Love	

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. There have been no changes made to the rating in the two years preceding 31 March 2008. On 27 April 2007, this credit rating was reaffirmed as AA- but the outlook was revised from stable to negative.

NZP has a credit rating of AA- and has given Kiwibank a deed poll guarantee.

Standard & Poor's (Australia) Pty Limited credit rating scale definitions

AAA rated corporations have an extremely strong capacity for timely repayment of debt obligations.

AA rated corporations have a very strong capacity for timely repayment of debt obligations. They differ only from AAA status because margins of protection may not be as large or because protection elements may be subject to greater fluctuation.

A rated corporations have a strong capacity to meet debt obligations in a timely manner. Such corporations may be somewhat more susceptible to adverse changes in their environment, or margins of protection for the lender may be lower than for more highly rated corporations.

BBB rated corporations have a satisfactory capacity to meet debt obligations. Protection levels are more likely to be weakened by adverse changes in circumstances and economic conditions than for borrowers in more highly rated categories.

BB rated corporations' ability to pay interest and repay principal is only adequate and is likely to be affected over time by adverse economic changes.

B rated corporations are not highly protected as to their ability to pay interest and repay principal when due.

CCC rated corporations have poor protection levels. There is uncertainty with regard to the corporation's industry or some other feature of its business. Speculative characteristics exist and debt is not well safe guarded.

CC is typically applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating.

C is assigned where there is a high risk of default, or where default may have occurred.

D rated corporations are in default.

The ratings from **AA** to **CCC** may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Guarantors

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 parent company, NZP.

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.

The following are features of the Guarantee:

a. The address for service of NZP is New Zealand Post House, Level 12, 7-27 Waterloo Quay, Wellington, New Zealand.

b. NZP is not a member of the Kiwibank Banking Group (as that term is defined in the Order).

c. The Guarantee is an unsecured guarantee of the payment obligations of Kiwibank. The Guarantee can be terminated on not less than three month's notice by NZP to creditors (as that term is defined in the Guarantee). Any such termination does not affect any existing payment obligations owed under the Guarantee at the termination date.

d. There are no limits on the amount of the undisputed payment obligations guaranteed.

e. There are no material conditions applying to the Guarantee other than non-performance by the principal obligor.

f. There are no material legislative or regulatory restrictions, which would have the effect of subordinating the claims under the Guarantee of any of the creditors of Kiwibank on the assets of NZP, to other claims on NZP, in a winding up of NZP.

g. The net tangible assets of NZP were $643m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2007. There were no qualifications in the audit report accompanying the Annual Report.

h. 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-. There have been no changes made to the rating in the two years preceding 31 March 2008. On 10 April 2007 this credit rating was reaffirmed as AA- but the outlook was revised from stable to negative. Standard & Poor's (Australia) Pty Limited's credit rating scale definitions are listed on page 3 of this Disclosure Statement.

A copy of Kiwibank's most recent Supplemental Disclosure Statement, containing a copy of the full guarantee contract (from NZP), will be provided immediately at no charge to any person requesting a copy from Kiwibank's Head Office at Level 6, Radio New Zealand House, 155 The Terrace, Wellington, New Zealand. Copies of Kiwibank's most recent Supplemental Disclosure Statement, containing a copy of the full guarantee contract (from NZP), will be provided at any branch of Kiwibank at no charge to any person within five working days of a request for a copy having been made.

Conditions of registration

The conditions of registration imposed on Kiwibank by the Reserve Bank of New Zealand ("RBNZ") applicable from 31 March 2008 (and which apply as at the date on which this General Short Form Disclosure Statement is signed by or on behalf of all directors) differ from those conditions of registration applicable as at 31 December 2007. The conditions of registration have been updated for the introduction of the Basel 2 framework for the calculation of capital adequacy in November 2007. The conditions to have changed are: 1, 1a and 4. The conditions of registration imposed on Kiwibank by the Reserve Bank of New Zealand ("RBNZ") applicable from 31 March 2008 are:

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$15 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 RBNZ document entitled "Capital Adequacy Framework (Standardised Approach" (BS2A) dated November 2007.

1a. That:
   (i) 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 Process ("ICAAP")" (BS12) dated December 2007;
   (ii) 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 November 2007; and
   (iii) 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, where the term material is based on generally accepted accounting practice, as defined in the Financial Reporting Act 1993.
3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition:
   (i) Insurance business means any business of the nature referred to in section 4 of the Insurance Companies (Ratings and Inspections) Act 1994 (including those to which the Act is disapplied by sections 4(1)(a) and (b) and 9 of that Act), or any business of the nature referred to in section 3(1) of the Life Insurance Act 1908;
   (ii) In measuring the size of the Banking Group's insurance business:
      a. where insurance business is conducted by any entity whose business predominantly consists of insurance business, the size of that insurance business shall be:
         - the total consolidated assets of the group headed by that entity;
         - or if the entity is a subsidiary of another entity whose business predominantly consists of insurance business, the total consolidated assets of the group headed by the latter entity;
      b. otherwise, the size of each insurance business conducted by any entity within the Banking Group shall equal the total liabilities relating to that insurance business, plus the equity retained by the entity to meet the solvency or financial soundness needs of the insurance business;
      c. the amounts measured in relation to parts (a) and (b) shall be summed and compared to the total consolidated assets of the Banking Group. All amounts in parts (a) and (b) shall relate to on balance sheet items only, and shall be determined in accordance with generally accepted accounting practice, as defined in the Financial Reporting Act 1993;

Conditions of registration continued

d. where products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets shall be considered part of the insurance business.

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	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

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 RBNZ document entitled "Connected Exposure Policy" (BS8) dated February 2008.

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.
6. That the board of the registered bank contains at least two independent directors. In this context an independent director is a director who is not an employee of the registered bank, and who is not a director, trustee or employee of any holding company of the registered bank, or any other entity capable of controlling or significantly influencing the registered bank.
7. That the chairperson of the bank's board is not an employee of the registered bank.
8. That the bank's constitution does 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).
9. That 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 the bank unless:

(i) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

(ii) the Reserve Bank has advised that it has no objection to that appointment.

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

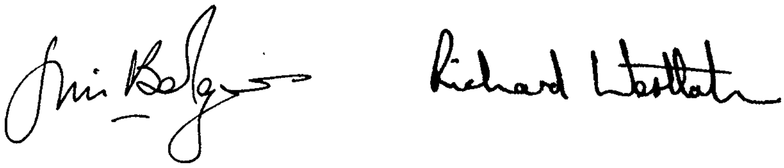
For the purposes of these conditions of registration, the term "Banking Group" means Kiwibank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993).

Directors' statement

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

1. As at the date on which the Short Form Disclosure Statement is signed:
   - (i) the Short Form Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statement (Off Quarter – New Zealand Incorporated Registered Banks) Order 2008;
   - (ii) the Short Form Disclosure Statement is not false or misleading.
2. During the nine months ended 31 March 2008:
   - (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 and other business risks, and that those systems were being properly applied.

Signed by the Rt Hon. James Bolger and Richard Westlake as directors and responsible persons on behalf of all the directors listed on pages 2 of this Short Form Disclosure Statement:



22 May 2008

Interim financial statements for The Banking Group

Interim financial statements for The Banking Group

Consolidated income statement

For nine months ended 31 March 2008

Dollars in thousands	Note	**Unaudited 9 months ended 31/03/08**	Unaudited 9 months ended 31/03/07	Unaudited 12 months ended 30/06/07
Interest income		**385,122**	223,135	316,382
Interest expense		**(299,723)**	(168,880)	(239,965)
Net interest income		**85,399**	54,255	76,417
Gains/(losses) on financial instruments at fair value		**(5,858)**	17,136	6,744
Other income		**98,228**	93,038	120,395
Total operating income		**177,769**	164,429	203,556
Operating expenses		**(133,528)**	(118,869)	(158,414)
Impairment losses on loans and advances	14	**(1,157)**	(460)	(460)
Net profit before taxation		**43,084**	45,100	44,682
Income tax expense		**(13,008)**	(14,710)	(13,830)
Net profit after taxation		**30,076**	30,390	30,852

Consolidated statement of changes in equity

For nine months ended 31 March 2008

Dollars in thousands	Note	**Unaudited 9 months ended 31/03/08**	Unaudited 9 months ended 31/03/07	Unaudited 12 months ended 30/06/07
Equity at beginning of the period		**249,356**	172,423	172,423
Effect of transition to NZ IFRS	23	**-**	(5,345)	(5,345)
Adjusted opening balance		**249,356**	167,078	167,078
Net profit after taxation		**30,076**	30,390	30,852
Movement in items recognised directly in equity				
Net change in available-for-sale reserve (net of tax)	13	**(6,161)**	(825)	(1,450)
Net change in cash flow hedge reserve (net of tax)	13	**302**	(2,047)	(2,124)
Total recognised income and expense for the period		**24,217**	27,518	27,278
Share capital issued	13	**35,000**	55,000	55,000
Equity at end of the period		**308,573**	249,596	249,356

The notes on pages 12 to 50 form part of these interim financial statements.

Interim financial statements for The Banking Group continued

Consolidated balance sheet

As at 31 March 2008

Dollars in thousands	Note	**Unaudited 31/03/08**	Unaudited 31/03/07	Unaudited 30/06/07
Assets				
Cash and cash equivalents		**210,954**	170,324	289,490
Financial assets held for trading	2	**378,511**	374,764	245,120
Available-for-sale assets	3	**796,629**	455,984	527,831
Loans and advances	4	**5,107,029**	3,299,901	3,560,641
Derivative financial instruments	8	**44,372**	35,190	76,031
Intangible assets	7	**49,911**	36,299	36,974
Property, plant and equipment		**19,451**	14,077	17,611
Deferred taxation		**(4,483)**	(4,065)	(1,187)
Other assets		**15,838**	5,878	5,967
Total assets		**6,618,212**	4,388,352	4,758,478
Financed by:				
Liabilities				
Due to other financial institutions		**519,322**	84,723	66,795
Balances with NZP related parties		**(10,057)**	10,297	6,116
Deposits and other borrowings	6	**5,139,718**	3,588,450	3,903,882
Derivative financial instruments	8	**22,583**	7,898	7,565
Debt securities issued		**537,634**	343,110	419,954
Current taxation		**(6,858)**	1,144	(625)
Other liabilities		**27,696**	23,801	24,529
Deferred settlement liability	9	**5,068**	4,542	4,663
Term subordinated debt	10	**74,533**	74,791	76,243
Total liabilities		**6,309,639**	4,138,756	4,509,122
Equity				
Share capital	13	**260,000**	225,000	225,000
Reserves	13	**48,573**	24,596	24,356
Total equity		**308,573**	249,596	249,356
Total liabilities and shareholder's equity		**6,618,212**	4,388,352	4,758,478

The notes on pages 12 to 50 form part of these interim financial statements.

Interim financial statements for The Banking Group continued

Consolidated statement of cash flows

For the nine months ended 31 March 2008

Dollars in thousands	Note	**Unaudited 9 months ended 31/03/08**	Unaudited 9 months ended 31/03/07	Unaudited 12 months ended 30/06/07
Cash flows from operating activities				
Interest received		**377,789**	220,749	309,887
Related party purchase of tax losses		**-**	-	94
Fees and other income, including related parties		**88,358**	100,938	118,453
Operating expenses paid		**(122,849)**	(108,777)	(143,908)
Interest paid		**(252,421)**	(161,657)	(225,111)
Taxes paid		**(12,624)**	(9,015)	(13,520)
Net cash flows from operating activities before changes in operating assets and liabilities		**78,253**	42,238	45,895
Net changes in operating assets and liabilities:				
Increase in financial assets held for trading		**(148,000)**	(262,890)	(119,000)
Increase in available-for-sale assets		**(268,231)**	(192,614)	(279,778)
Increase in loans and advances		**(1,521,657)**	(729,951)	(1,021,947)
Increase in deposits and other borrowings		**1,205,789**	1,204,578	1,515,899
Increase in balances due to other financial institutions		**456,464**	39,639	8,373
Net cash flows provided by operating activities	18	**(197,382)**	101,000	149,442
Cash flows from investing activities				
Cash from acquisition of subsidiary		**-**	480	480
Net intercompany loans and advances		**(13,300)**	(25,000)	(25,000)
Purchase of subsidiary		**-**	(8,409)	(8,409)
Purchase of property, plant and equipment		**(5,089)**	(4,301)	(6,693)
Purchase of intangible software assets		**(9,106)**	(7,017)	(10,950)
Purchase of customer relationships		**(11,452)**	-	-
Net cash flows from investing activities		**(38,947)**	(44,247)	(50,572)
Cash flows from financing activities				
Issue of ordinary shares		**35,000**	55,000	55,000
Proceeds from term subordinated debt		**-**	75,000	75,000
Increase/(decrease) in debt securities issued		**123,430**	(66,201)	11,094
Dividends paid		**(637)**	(344)	(590)
Net cash flows from financing activities		**157,793**	63,455	140,504
Increase in cash and cash equivalents		**(78,536)**	120,208	239,374
Cash and cash equivalents at beginning of the period		**289,490**	50,116	50,116
Cash and cash equivalents at the end of the period		**210,954**	170,324	289,490

The notes on pages 12 to 50 form part of these interim financial statements.

Notes to the interim financial statements

1. Statement of accounting policies

Reporting entity and statutory base

The interim financial statements of the Banking Group have been prepared in accordance with the New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with New Zealand Equivalents to International Accounting Standard 34: Interim Financial Reporting (NZ IAS 34), as appropriate for profit oriented entities, and the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008.

NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS 1) has been applied in preparing these interim financial statements. These financial statements also comply with IFRS.

In preparing these financial statements in accordance with NZ IFRS 1, the Banking Group has applied the mandatory exemptions and certain of the optional exemptions from full retrospective application of NZ IFRS.

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.

The following optional exemptions from full retrospective application have been applied.

(a) Designation of financial assets and financial liabilities exemption

The Banking Group and Kiwibank Limited reclassified various securities as available-for-sale assets and designated certain financial assets and liabilities at fair value through profit and loss. These adjustments at the opening balance sheet date of 1 July 2006 are detailed in Note 23.

(b) Insurance contracts

The transitional provisions in NZ IFRS 4 – Insurance Contracts have been applied.

Interpretations issued but not yet effective

The following new standard has been issued and is not yet effective and has not been applied in the preparation of these financial statements:

NZ IFRS 8 – Operating segments. NZ IFRS 8 replaces NZ IAS 14 - Segment Reporting. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes.

Reconciliations and descriptions of the impact of the transition from previous New Zealand Financial Reporting Standards (NZ FRS) to NZ IFRS on the Banking Group's reported Balance Sheet, Income Statement and Cash Flow Statements are provided in note 23.

The interim financial statements of the Banking Group have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The reporting entity is an issuer under the Financial Reporting Act 1993 and the Securities Act 1978.

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified.

The Banking Group comprises Kiwibank Limited (Kiwibank), the Registered Bank, and its subsidiaries, Kiwi Insurance Limited, Kiwibank Nominees Limited, New Zealand Home Lending Limited, AMP Home Loans Limited and The New Zealand Home Loan Company Limited. All of the subsidiaries are 100% owned by Kiwibank apart from The New Zealand Home Loan Company Limited. On 1 July 2006 Kiwibank purchased 51% of The New Zealand Home Loan Company Limited and is required to purchase the remaining shares in it by 1 July 2012 (or earlier at the option of either Kiwibank or The New Zealand Home Loan Company Limited).

Notes to the interim financial statements continued

1. Statement of accounting policies continued

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although Kiwibank has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material.

Measurement base

These 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.

Currency of presentation

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

Specific accounting policies

Basis of consolidation

The Banking Group's financial statements consolidate the financial statements of Kiwibank Limited and its subsidiaries, using the purchase method. Subsidiaries are entities that are controlled, either directly or indirectly, by Kiwibank. Control exists where the Banking Group has the power to govern the financial and operating policies of an entity. The results and financial position of subsidiaries are included in the consolidated financial statements, from the date control is gained up to the date control ceases. At the time of acquisition of a subsidiary, identifiable assets and liabilities acquired are initially measured at fair value on acquisition date. The excess of the cost of acquisition over the fair value of the Banking Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Banking Group's share of the net assets acquired the difference is recognised directly in the income statement.

Transactions between subsidiaries or between Kiwibank and subsidiaries are eliminated on consolidation.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment, that are subject to risks and returns that are different from those of segments operating in other economic environments.

Shares in entities

Shares in entities are stated at original cost less any necessary provision for diminution in value, or at directors' valuation. Unrealised losses relating to diminution in the value of shares in entities are recognised in the income statement.

Foreign currency translation

The functional currency and presentation currency of Kiwibank and the Banking Group is New Zealand Dollars.

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement. At balance date, foreign denominated monetary assets and liabilities are translated at the closing exchange rate, with exchange variations arising from these translations being recognised in the income statement.

Financial instruments

Designation of financial assets and financial liabilities into instrument categories is determined by the business purpose of the financial instruments, policies and practices for their management, their relationship with other instruments and the reporting costs and benefits associated with each designation.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Financial assets

The Banking Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

Financial assets at fair value through profit or loss (FVTPL)

- This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Management designated all retail fixed rate loans originated by the Banking Group from the date of transition to NZ IFRS to 31 December 2007 as financial assets at fair value through profit or loss, as this significantly reduced an accounting mismatch, which arises when such loans are carried at amortised cost, and the derivatives, which are entered into to offset the interest rate risk on the retail fixed rate loans are held for trading. Derivatives are categorised as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss are recognised initially at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses exclude interest and dividends.

Loans and receivables

- Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Banking Group designates as at "fair value through profit or loss". Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Loans and receivables issued with duration less than 12 months are recognised at cost less impairment. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the income statement.

Held to maturity

- Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Available-for-sale financial assets

- Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are initially recorded at fair value plus transaction costs. They are subsequently recorded at fair value with any resultant fair value gains or losses recognised directly in equity except for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses which are all recognised in the income statement. For non-monetary available-for-sale financial assets (e.g. equity instruments) the fair value movements recognised in equity include any related foreign exchange component. On derecognition the cumulative fair value gain or loss previously recognised directly in equity is recognised in the income statement.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised on trade-date – the date on which the Banking Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Banking Group has transferred substantially all risks and rewards of ownership. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Banking Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Financial instruments continued

Financial liabilities

The Banking Group classifies its financial liabilities held for trading as either fair value through profit or loss or at amortised cost. Financial liabilities held for trading and financial liabilities designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the income statement. Transactions costs are expensed as they are incurred.

Other financial liabilities, including borrowings, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with a duration less than 12 months are initially recognised at fair value plus transaction costs and subsequently at amortised cost or fair value. Amortisation and foreign exchange gains and losses, are recognised in the income statement as is any gain or loss when the liability is derecognised.

Derivative financial instruments and hedge accounting

Kiwibank uses derivatives as part of its asset and liability management activities to manage exposures to interest rate and foreign currency, including exposures arising from forecast transactions. These derivatives include swaps, futures, forwards, options and other contingent or exchange traded contracts in the interest rate and foreign exchange markets.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Kiwibank designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

Kiwibank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Kiwibank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Financial instruments continued

Derivatives at fair value through profit or loss

Certain derivative instruments do not qualify for hedge accounting. These include derivatives transacted as part of the trading activity of the Banking Group, as well as derivatives transacted as economic hedges but not qualifying for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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. Changes in the fair value, other than the imputed interest, of a deferred settlement liability in a business combination are charged to goodwill where settlement is contingent.

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase are retained within the relevant financial asset category and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement. Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement.

Impairment of financial assets

The Banking Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Assets carried at fair value

Financial assets at fair value through profit or loss, including the Kiwibank's retail fixed rate loan portfolio originated prior to 31 December 2007, are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in fair value are recognised in the income statement.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Impairment of financial assets continued

Assets classified as available-for-sale

In the case of financial assets classified as available-for-sale, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Assets carried at amortised cost

The Banking Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Banking Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Banking Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Banking Group and historical loss experience for assets with credit risk characteristics similar to those in the Banking Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Banking Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal, not exceeding what the amortised cost would have been had the impairment not been recognised, is recognised in the income statement.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Asset quality

Impaired assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

"Restructured asset" means any credit exposure for which:

a) The original terms have been changed to grant the counterparty a concession that would not have otherwise been available, due to the counterparty's difficulties in complying with the original terms;

b) The revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and

c) The yield on the asset following restructuring is equal to, or greater than, the institution's average cost of funds, or that a loss is not otherwise expected to be incurred.

Assets acquired through security enforcement are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of a debt.

Other impaired assets refers to any credit exposure for which an impairment loss is recognised in accordance with NZ IAS 39.

A 90 day past due asset is any loan which has not been operated by the borrower within its key terms for at least 90 days and which is not an impaired asset.

Although not classified as impaired assets or past due assets, assets in which the counter-party is in receivership, liquidation, bankruptcy, statutory management or any form of administration are reported separately. These are classified as "other assets under administration".

Property, plant and equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Property, plant and equipment is carried at the lower of cost less accumulated depreciation, and recoverable amount.

Depreciation on plant and equipment is calculated on a straight-line basis so as to expense the cost of the assets, less any estimated residual values, over their estimated useful lives:

Asset classes	**Estimated useful lives**
Furniture and fittings	10 years
Motor vehicles	5 to 10 years
Computer hardware	3 to 5 years
Other data processing equipment	3 to 7 years

Profit or loss on sale of property, plant and equipment which is determined as the difference between the carrying amount of property, plant and equipment at the time of disposal and the sale proceeds, is treated as other income or expense.

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount which is the higher of the asset's fair value less selling costs or the asset's value in use.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the acquisition over the fair value of the Banking Group's share of the net identifiable assets acquired, at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purposes of impairment testing, goodwill is allocated to cash-generating units. Any impairment is recognised as an expense in the income statement. Impairment losses on goodwill are not reversed.

Other intangible assets comprise computer software and customer relationships acquired.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use. These costs are amortised over the estimated useful lives of the licences (being 3 to 5 years). Developed software assets expected to generate net economic benefits beyond 12 months are recognised as intangible assets. The cost of developed software assets includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overheads. Developed software intangible assets are amortised over their estimated useful lives (being 3 to 5 years).

Customer relationships

Acquired customer relationships that are expected to generate net economic benefits beyond 12 months are recognised as intangible assets. Acquired customer relationships have finite lives and are amortised to the income statement on a straight-line basis over their estimated useful lives (being from 21 months to 10 years).

Impairment of non-financial assets

Intangible assets with indefinite useful lives (including all goodwill) are impairment tested at least annually at balance date, and whenever there are indicators of impairment. Where the asset's recoverable amount is less than its carrying amount an impairment loss is recognised in the income statement for the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The carrying amounts of all other non-financial assets, including intangible assets with finite useful lives, are reviewed at least annually to determine if there is any indication of impairment. Where such an indication exists the asset is impairment tested, with any impairment losses being recognised in the income statement. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Taxation

The income tax expense charged to the income statement includes both current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at balance date after taking advantage of all allowable deductions under current taxation legislation and any adjustment to tax payable in previous years.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Taxation continued

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at balance date. A deferred taxation benefit is recognised only to the extent that it is probable that a future taxable profit will be available against which the temporary differences can be utilised.

Leased assets

Finance leases

Finance leases transfer to the lessee substantially all the risks and rewards incident to the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the lessee expects to receive benefits from their use.

Operating leases

Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in the income statement in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that revenue can be reliably measured. The principal sources of revenue are interest income and fees.

For financial instruments measured at amortised cost, the effective interest method is used to measure the interest income or expense recognised in the income statement.

For financial instruments measured at fair value, interest income or expense is recognised on an accrual basis on a yield to maturity basis.

Fees are generally recognised on an accrual basis when the service has been provided.

Recognition of loan related fees and costs for loans not at fair value through profit or loss

Loan origination fees, if material, are recognised as income over the life of the loan as an adjustment of yield. Commitment fees are deferred, and if the commitment is exercised, recognised in income over the life of the loan as an adjustment of yield or, if unexercised, recognised in income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised in income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised in income over the commitment period. If material, loan related administration and service fees are recognised in income over the period of service.

Direct loan origination costs, if material, are netted against loan origination fees and the net amount recognised in income over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Superannuation and employee entitlements

Banking Group employees are not entitled to any superannuation or long service entitlements. Annual leave is accrued and provided for based on an employee's base remuneration package.

Equity

Ordinary shares are recognised in the balance sheet at the amount of consideration received, net of issue costs.

Life insurance business

The Banking Group conducts life insurance business through its subsidiary Kiwi Insurance Limited. The operating results have been determined in accordance with the "Margin on Services" methodology for the valuation of policy liabilities.

Cash flow statements

The following are definitions of the terms used in the cash flow statements:

a) Cash and cash equivalents are considered to be cash on hand, current accounts in banks, overnight bank deposits, net of bank overdrafts and inter-bank balances arising from the daily RBNZ settlement process.

b) Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment, intangibles, equity or debt instruments of other entities and other long-term assets.

c) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Banking Group. This includes both equity and debt not falling within the definition of cash.

d) Operating activities include all transactions and other events that are not investing or financing activities.

e) Certain cash flows have been netted to provide more meaningful disclosure, including changes in loans and advances to customers, deposits held by customers, balances with other banks, debt securities issued, available-for-sale assets and financial assets held for trading. Many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group.

Accounting period

The unaudited interim financial statements are for the nine months ended 31 March 2008.

Comparative amounts

Comparative amounts are from the unaudited interim financial statements for the nine months ended 31 March 2007 and the audited financial statements for the financial year ended 30 June 2007 and then adjusted for the transition to NZ IFRS. Certain comparatives have been restated where appropriate to ensure consistency with the current year.

Changes in accounting policies

There have been no changes in accounting policies during the period.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Critical estimates and judgements used in applying accounting policies

These financial statements are prepared in accordance with NZ IFRS. There are a number of critical accounting treatments which include subjective judgements and estimates that may affect the reported assets and liabilities in the financial statements. An explanation of the judgements and estimates made by the Banking Group having the most significant effect on the amounts recognised in the financial statements are set out below.

Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Banking Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not quoted in an active market, including the Banking Group's retail fixed rate loan portfolio and over-the-counter derivatives, is determined by using valuation techniques. The Banking Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of the Banking Group's retail fixed rate loan portfolio originated prior to 31 December 2007 is determined by discounting estimated cash flows expected to be received. Expected cash flows are after allowance for prepayment risk and are discounted at current market rates including an adjustment for credit risk. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

Asset backed securities not traded in active markets are valued by deriving an implied spread, having taken into consideration observable market credit spreads on securities with similar collateral characteristics. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Banking Group for similar financial instruments.

Impairment losses on loans and advances not held at fair value through profit or loss

The Banking Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Banking Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Goodwill

Goodwill represents the excess of purchase consideration, including incidental expenses, over the fair value of the Banking Group's share of the identified net assets of acquired businesses. Goodwill is tested for impairment at least annually. The carrying value of goodwill as at 31 March 2008 was $7.7 million (31 March 2007: $6.8m; 30 June 2007: $7.1m).

The determination of the fair value of assets and liabilities of the acquired businesses requires the exercise of management judgement. Different fair values would result in changes to the goodwill and to the post-acquisition performance of the acquired business.

To determine if goodwill is impaired the carrying value of the identified Cash Generating Unit ("CGU") to which the goodwill is allocated, including the allocated goodwill, is compared to its recoverable amount. Recoverable amount is the higher of the CGU's fair value less cost to sell and its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Determination of appropriate cash flows and discount rates for the calculation of value-in-use is subjective. Fair value is the amount obtainable for the sale of the CGU in an arm's length transaction between knowledgeable, willing parties.

Goodwill impairment testing at each reporting date indicated that the Banking Group's goodwill was not impaired.

Fair value of contingent deferred settlement liabilities

The Banking Group has recognised the fair value of deferred settlement in relation to a put option held by minority shareholders of a non-wholly owned subsidiary. The Banking Group has determined the fair value of the option by discounting the expected future cash flows at a rate that reflects current assessments of the time value of money and risks specific to the liability. The Banking Group has also made judgements about the future profitability of the entity, contractual earnings multiples, and likely exercise date of the option. The Banking Group has applied a discount rate of 11.59% after tax.

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/08**	Unaudited 31/03/07	Unaudited 30/06/07
2. Financial assets held for trading			
Bank bills	**333,131**	231,539	204,233
Other securities	**45,380**	143,225	40,887
Total financial assets held for trading	**378,511**	374,764	245,120
3. Available-for-sale assets			
Government stock and multilateral development banks	**180,805**	86,547	74,922
Local authority securities	**29,434**	-	-
Other debt securities	**586,390**	369,437	452,909
Total available-for-sale assets	**796,629**	455,984	527,831
4. Loans and advances			
Loans and advances designated upon initial recognition at fair value through profit or loss	**3,768,823**	2,533,472	2,676,363
Loans and advances at amortised cost	**1,340,083**	767,149	884,998
Allowance for impairment losses	**(1,877)**	(720)	(720)
Total net loans and advances	**5,107,029**	3,299,901	3,560,641
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	**(10,210)**	6,736	(3,264)

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.

5. Total interest earning and discount bearing assets			
Total interest earning and discount bearing assets	**6,505,695**	4,313,356	4,699,212
6. Deposits and other borrowings			
Retail deposits	**4,229,868**	3,151,530	3,317,587
Wholesale deposits	**909,850**	436,920	586,295
Total	**5,139,718**	3,588,450	3,903,882
New Zealand	**5,058,296**	3,530,766	3,846,207
Overseas	**81,422**	57,684	57,675
Total deposits and other borrowings at amortised cost	**5,139,718**	3,588,450	3,903,882

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/08**	Unaudited 31/03/07	Unaudited 30/06/07
7. Intangible assets			
Goodwill	**7,716**	6,834	7,080
Computer software	**25,043**	19,885	20,658
Other intangible assets – customer relationships	**17,152**	9,580	9,236
Total intangible assets	**49,911**	36,299	36,974
Goodwill			
Balance at beginning of period	**7,080**	-	-
Additions	**636**	6,834	7,080
Balance at end of period	**7,716**	6,834	7,080
Computer software			
Cost brought forward	**40,660**	29,710	29,710
Accumulated amortisation brought forward	**(20,002)**	(14,197)	(14,197)
Opening net book value	**20,658**	15,513	15,513
Additions	**9,106**	8,730	10,950
Amortisation	**(4,721)**	(4,358)	(5,805)
Closing net book value	**25,043**	19,885	20,658
Cost	**49,766**	38,440	40,660
Accumulated amortisation	**(24,723)**	(18,555)	(20,002)
Closing net book value	**25,043**	19,885	20,658
Acquired customer relationships			
Cost brought forward	**10,498**	-	-
Accumulated amortisation brought forward	**(1,262)**	-	-
Opening net book value	**9,236**	-	-
Additions	**11,452**	10,498	10,498
Amortisation	**(3,536)**	(918)	(1,262)
Closing net book value	**17,152**	9,580	9,236
Cost	**21,950**	10,498	10,498
Accumulated amortisation	**(4,798)**	(918)	(1,262)
Closing net book value	**17,152**	9,580	9,236

Notes to the interim financial statements continued

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Fair values Liabilities
8. Derivative financial instruments				
Unaudited 31/03/08				
Derivatives held for trading				
Foreign exchange derivatives				
Forward contracts	129,023	1,683	389	(746)
Swap agreements	277,383	11,151	1,606	(3,391)
Total	406,406	12,834	1,995	(4,137)
Interest rate derivatives				
Forward contracts	490,000	119	119	(50)
Swap agreements	4,636,000	59,061	41,882	(15,082)
Futures contracts	351,000	-	-	(5)
Total	5,477,000	59,180	42,001	(15,137)
Total derivatives held for trading	5,883,406	72,014	43,996	(19,274)
Derivatives held for hedging				
Designated as cash flow hedges				
Interest rate derivatives				
Swap agreements	450,000	1,890	-	(2,965)
Total derivatives designated as cash flow hedges	450,000	1,890	-	(2,965)
Designated as fair value hedges				
Interest rate derivatives				
Swap agreements	67,000	711	376	(344)
Total derivatives designated as fair value hedges	67,000	711	376	(344)
Total derivatives held for hedging	517,000	2,601	376	(3,309)
Total derivative financial instruments	6,400,406	74,615	44,372	(22,583)

Notes to the interim financial statements continued

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Fair values Liabilities
8. Derivative financial instruments continued				
Unaudited 31/03/07				
Derivatives held for trading				
Foreign exchange derivatives				
Forward contracts	141,706	2,137	706	(196)
Swap agreements	-	-	-	-
Total	141,706	2,137	706	(196)
Interest rate derivatives				
Forward contracts	1,160,000	29	29	(518)
Swap agreements	3,622,000	46,968	34,162	(3,430)
Futures contracts	50,000	2	2	-
Options	100,000	22	22	-
Total	4,932,000	47,021	34,215	(3,948)
Total derivatives held for trading	5,073,706	49,158	34,921	(4,144)
Derivatives held for hedging				
Designated as cash flow hedges				
Interest rate derivatives				
Swap agreements	300,000	1,500	-	(3,602)
Total derivatives designated as cash flow hedges	300,000	1,500	-	(3,602)
Designated as fair value hedges				
Interest rate derivatives				
Swap agreements	42,000	479	269	(152)
Total derivatives designated as fair value hedges	42,000	479	269	(152)
Total derivatives held for hedging	342,000	1,979	269	(3,754)
Total derivative financial instruments	5,415,706	51,137	35,190	(7,898)

Notes to the interim financial statements continued

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Fair values Liabilities
8. Derivative financial instruments continued				
Unaudited 30/06/07				
Derivatives held for trading				
Foreign exchange derivatives				
Forward contracts	179,355	5,012	3,249	(306)
Swap agreements	25,545	1,402	188	(11)
Total	204,900	6,414	3,437	(317)
Interest rate derivatives				
Forward contracts	1,045,000	73	73	(195)
Swap agreements	4,077,000	85,539	72,326	(3,696)
Futures contracts	110,000	-	5	(3)
Options	300,000	19	9	-
Total	5,532,000	85,631	72,413	(3,894)
Total derivatives held for trading	5,736,900	92,045	75,850	(4,211)
Derivatives held for hedging				
Designated as cash flow hedges				
Interest rate derivatives				
Swap agreements	200,000	1,000	-	(3,270)
Total derivatives designated as cash flow hedges	200,000	1,000	-	(3,270)
Designated as fair value hedges				
Interest rate derivatives				
Swap agreements	42,000	624	181	(84)
Total derivatives designated as fair value hedges	42,000	624	181	(84)
Total derivatives held for hedging	242,000	1,624	181	(3,354)
Total derivative financial instruments	5,978,900	93,669	76,031	(7,565)

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/08**	Unaudited 31/03/07	Unaudited 30/06/07
9. Deferred settlement liability			
Opening balance	**4,663**	-	-
Fair value of deferred settlement on acquisition	**-**	4,178	4,178
Finance costs	**405**	364	485
Closing balance – non current	**5,068**	4,542	4,663

In 2006, Kiwibank acquired a 51% shareholding in The New Zealand Home Loan Company Limited and is required to purchase the remaining shares in the company by 1 July 2012 (or earlier at the option of either Kiwibank or The New Zealand Home Loan Company Limited). The Banking Group has recognised a deferred settlement liability for this option. The fair value of the option is shown above and is calculated by applying discounted cash flows analysis and a rate of 11.59% per annum.

Dollars in thousands	**Unaudited 31/03/08**	Unaudited 31/03/07	Unaudited 30/06/07
10. Term subordinated debt			
Face value	**75,000**	75,000	75,000
Interest accrued	**189**	189	1,620
Premium	**(333)**	(398)	(377)
Fair value hedge adjustment	**(323)**	-	-
Total term subordinated debt	**74,533**	74,791	76,243

On 20 March 2007 Kiwibank issued term subordinated debt with a face value of $75m and a coupon rate of 7.72%. The term subordinated debt is subordinate to all other general liabilities of the Banking Group and is denominated in New Zealand dollars. It carried an A+ credit rating from Standard and Poor's Pty Limited as at balance date.

All the term subordinated debt qualifies as lower tier two capital for Capital Adequacy calculation purposes. The contractual terms of the term subordinated debt expressly provide that they do not have the benefit of the deed poll guarantee ("the Guarantee") provided by the Banking Group's parent company, New Zealand Post Limited (NZP).

The term subordinated debt is callable on 20 March 2012 and the maturity date is 20 March 2017.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period, (periods ended 31 March 2007 and 30 June 2007; same).

Dollars in thousands	**Unaudited 31/03/08**	Unaudited 31/03/07	Unaudited 30/06/07
11. Total interest and discount bearing liabilities			
Total interest earning and discount bearing liabilities	**6,289,688**	4,095,464	4,469,888
12. Assets used to secure deposit obligations			
Assets used to secure deposit obligations	**521,584**	75,672	53,779

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/08**	Unaudited 31/03/07	Unaudited 30/06/07
13. Equity			
Issued and paid up capital			
260,000,000 shares fully paid	**260,000**	225,000	225,000
Retained earnings	**58,006**	27,468	27,930
Cash flow hedge reserve	**(1,822)**	(2,047)	(2,124)
Available-for-sale reserve	**(7,611)**	(825)	(1,450)
Total equity	**308,573**	249,596	249,356
Share capital			
Balance at beginning of the period	**225,000**	170,000	170,000
Issues in period	**35,000**	55,000	55,000
Balance at end of the period	**260,000**	225,000	225,000
Retained earnings			
Balance at beginning of the period	**27,930**	(2,922)	(2,922)
Net profit for the period	**30,076**	30,390	30,852
Balance at end of the period	**58,006**	27,468	27,930
Cash flow hedge reserve			
Balance at beginning of the period	**(2,124)**	-	-
Net gain/(loss) from changes in fair value after tax	**3,705**	(2,539)	(3,820)
Cumulative loss transferred to the income statement on disposal of financial assets	**(3,403)**	492	1,696
Balance at end of the period	**(1,822)**	(2,047)	(2,124)
Available-for-sale reserve			
Balance at beginning of the period	**(1,450)**	-	-
Net loss from changes in fair value after tax	**(7,357)**	(823)	(2,551)
Cumulative loss transferred to the income statement on disposal of financial assets	**1,196**	(2)	1,101
Balance at end of the period	**(7,611)**	(825)	(1,450)

The total authorised number of ordinary shares at period end was 260 million (31 March 2007: 225 million; 30 June 2007: 225 million). All issued shares are fully paid. All ordinary shares have equal voting rights and share equally in dividends and surpluses on winding up. Ordinary shares do not have a par value. The whole of the issued share capital is owned by NZP, which is incorporated in New Zealand. On 2 July 2007 10,000,000 ordinary shares were issued for cash at $1 per share to NZP. On 25 October 2007 5,000,000 ordinary shares were issued for cash at $1 per share to NZP. On 23 November 2007 5,000,000 ordinary shares were issued for cash at $1 per share to NZP. On 20 December 2007 5,000,000 ordinary shares were issued for cash at $1 per share to NZP. On 28 March 2008 10,000,000 ordinary shares were issued for cash at $1 per share to NZP.

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/08**	Unaudited 31/03/07	Unaudited 30/06/07
14. Asset quality			
Impaired assets – other retail			
Balance at beginning of the period	**64**	60	60
Net additions	**103**	66	64
Returned to performing or repaid	**(38)**	(36)	(36)
Amounts written off	**(26)**	(24)	(24)
Balance at end of period**	**103**	66	64
**There are no other classes of impaired assets			
Collective allowance for impairment losses			
Balance at beginning of the period	**(720)**	(260)	(260)
Impairment losses on loans not at fair value through profit or loss	**(1,157)**	(460)	(460)
Advances written off	**-**	-	-
Total collective allowance for impairment losses	**(1,877)**	(720)	(720)
90 day past due assets			
Balance at beginning of period	**298**	253	253
Net additions	**464**	242	298
Deletions	**(134)**	(114)	(114)
Amounts written off	**(164)**	(139)	(139)
Gross balance at end of period	**464**	242	298
Less individual credit impairment allowance	**-**	-	-
Net balance at end of period	**464**	242	298
Interest revenue foregone on impaired assets	**2**	0	2

Interest revenue foregone on impaired assets has been calculated using actual interest written off and interest suspended during the interim financial period. This amounts to $2k (31 March 2007: nil; 30 June 2007: $2k). There are no real estate or other assets acquired through the enforcement of security held at 31 March 2008 (31 March 2007: nil; 30 June 2007: nil). There are no restructured assets at 31 March 2008 (31 March 2007: nil; 30 June 2007: nil). There are no assets under administration as at 31 March 2008 (31 March 2007: nil; 30 June 2007: nil). There are no unrecognised impaired assets as at 31 March 2008 (31 March 2007: nil; 30 June 2007: 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 March 2008 (31 March 2007: nil; 30 June 2007: nil)

Notes to the interim financial statements continued

15. Related party transactions

Related parties comprise companies within the NZP group. In addition to the NZP group, the ultimate shareholder of Kiwibank is the Crown. Kiwibank undertakes some transactions with other State-Owned Enterprises and Government departments, which are carried out on an arm's length basis and in the normal course of business.

Included in Kiwibank's operating expenditure are commission payments totalling $2,246k (31 March 2007: $105k;30 June 2007: $490k) made to its subsidiary The New Zealand Home Loan Company Limited in consideration for the origination of new mortgage lending. There were no balances outstanding at 31 March 2008 (31 March 2007: nil; 30 June 2007: nil). All commission payments were calculated on an arm's length basis. These payments are eliminated on consolidation in the Banking Group's financial statements.

Kiwibank settles transactions with other New Zealand registered banks by way of the payment and settlement system operated by the Reserve Bank of New Zealand in its capacity as the central bank of New Zealand.

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 parent company, NZP. No consideration is paid to the parent company for the guarantee.

Drawn loans to directors of Kiwibank and NZP total $nil (31 March 2007: $247k; 30 June 2007: $245k). Undrawn loan facilities total $nil (31 March 2007: nil; 30 June 2007: nil).

There are drawn credit card facilities of $13k (31 March 2007: $16k; 30 June 2007: $34k) and undrawn credit card facilities of $56k (31 March 2007: $62k; 30 June 2007: $44k) to directors of Kiwibank and NZP. All loans and credit facilities to directors are made in the ordinary course of business on normal banking terms and conditions.

Payment Services' fee revenue and expenditure of $31.6m are included in Kiwibank under a management agreement whereby Kiwibank manages the Payment Services activity of NZP (31 March 2007: $30.1m; 30 June 2007: $40.1m). Payment Services' activity consists of collection agency business.

Kiwibank received remuneration of $234k for the period (31 March 2007: $228k; 30 June 2007: $270k) from NZP for Treasury services provided to the group under a service level agreement.

NZP holds a number of property leases on behalf of Kiwibank. Kiwibank reimburses NZP for the lease charges but has no contractual lease commitments for property charges.

Kiwibank received deposits from the New Zealand Post Superannuation Plan and the New Zealand Post Electoral Enrolment Centre (a division of NZP) during the period. As at 31 March 2008, the New Zealand Post Superannuation Plan was holding $12.4m on deposit with Kiwibank (31 March 2007: $11.9m; 30 June 2007: $12.1m) and the New Zealand Post Electoral Enrolment Centre was holding $2.5m on deposit with Kiwibank (31 March 2007: $3.0m; 30 June 2007: $2.2m). All deposits in the year were accepted at market rates and on an arm's length basis.

Included in Kiwibank's operating expenditure are related party amounts paid for data processing, IT support, and marketing logistics. These amounts have been paid to Datamail Limited and Communication Arts Limited, fellow subsidiary companies and Datacom Systems (Wgtn) Limited and Express Couriers Limited, NZP associate companies.

Certain shared service activities have been provided to Kiwibank in common with other NZP group companies. The remuneration for these services has been agreed in service level agreements and is consistent with amounts charged to other group companies. Kiwibank utilises NZP's retail network in its provision of retail banking services to customers. Remuneration is paid for this service based upon activity and a mutually agreed service level agreement.

As at 31 March 2008, Kiwibank had provided a 93 day term loan to NZP of $13.3m. Interest was receivable on maturity at a rate of 8.95% with maturity on 30 May 2008. The loan was repaid in full on 30 April 2008.

At balance date 32.2% of Kiwibank's total operating expenditure was paid to NZP group companies (31 March 2007, 35.2%; 30 June 2007, 34.5%). Part of this amount relates to the reimbursement of Payment Services expenditure, which includes personnel, property, IT support, marketing and other administrative costs.

Notes to the interim financial statements continued

16. Credit exposure concentrations

Credit exposure to individual counterparties

Credit exposure concentrations are disclosed on the basis of actual exposures and gross of set-offs. The number of individual counterparties, excluding connected persons 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), equalled or exceeded 10% of the Banking Group's shareholder's equity as at balance date are:

	Unaudited 3 months ended 31/03/08		Unaudited 3 months ended 31/03/07		Unaudited 3 months ended 30/06/07	
	Non-Bank	**Bank**	Non-Bank	Bank	Non-Bank	Bank
As at balance date						
10% - 19%	**-**	**4**	1	3	-	6
20% – 29%	**1**	**2**	-	4	-	1
30% - 39%	**-**	**-**	-	2	-	1
40% - 49%	**-**	**1**	-	-	-	-
50% - 59%	**-**	**1**	-	-	-	-
60% - 69%	**-**	**1**	-	-	-	1
70% - 79%	**-**	**-**	-	-	-	-
80% - 89%	**-**	**-**	-	-	-	-
Peak exposure						
10% - 19%	**-**	**5**	1	2	1	4
20% - 29%	**1**	**4**	-	2	-	2
30% - 39%	**-**	**-**	-	5	-	2
40% - 49%	**-**	**1**	-	-	-	-
50% - 59%	**-**	**-**	-	-	-	1
60% - 69%	**-**	**1**	-	-	-	1
70% - 79%	**-**	**-**	-	-	-	-
80% - 89%	**-**	**1**	-	-	-	-

Notes to the interim financial statements continued

16. Credit exposure concentrations continued

Credit exposure by credit rating

The following table presents the Banking Group's credit exposure based on the credit rating of the issuer. Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of individual credit impairment allowance and excluding advances of a capital nature). An investment grade credit rating means a credit rating of BBB- or Baa3 or above, or its equivalent. The amount and percentage of the Banking Group's credit exposure, excluding connected persons and central government of any country with a long-term credit rating of A- or A3 above, or its equivalent, where the period end aggregate exposure equalled or exceeded 10% of the Banking Group's shareholder's equity, as at balance date are:

	Unaudited 3 months ended 31/03/08		Unaudited 3 months ended 31/03/07		Unaudited 3 months ended 30/06/07	
Dollars in thousands	**Amount**	**% of total credit exposure**	**Amount**	**% of total credit exposure**	**Amount**	**% of total credit exposure**
Bank counterparties						
Investment grade credit rating	**791,193**	**100%**	502,077	100%	525,899	100%
Below investment grade credit rating	**-**	**-**	-	-	-	-
Not rated	**-**	**-**	-	-	-	-
Total credit exposure	**791,193**	**100%**	502,077	100%	525,899	100%
Non-bank counterparties						
Investment grade credit rating	**65,000**	**100%**	25,000	100%	-	-
Below investment grade credit rating	**-**	**-**	-	-	-	-
Not rated	**-**	**-**	-	-	-	-
Total credit exposure	**65,000**	**100%**	25,000	100%	-	-

Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of individual credit impairment allowance and excluding advances of a capital nature). The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end-of-day credit exposures to non-bank connected persons have been calculated using the Banking Group's tier one capital at the end of the period. The rating-contingent limit, which is applicable to the Banking Group as at balance date, is 70%. There have been no rating-contingent limit changes during the period. Within the rating-contingent limit there is a sub-limit of 15%, which applies to non-bank connected persons. All limits on aggregate credit exposures to all connected persons and non-bank connected persons in the Banking Group's Conditions of Registration have been complied with at all times over the last quarter. There are no individual credit impairment allowances against credit exposures to non-bank connected persons as at 31 March 2008 (31 March 2007: nil; 30 June 2007: nil).

Dollars in thousands	**Unaudited 3 months ended 31/03/08**	Unaudited 3 months ended 31/03/07	Unaudited 3 months ended 30/06/07
Credit exposures to non-bank connected persons at period end	**13,313**	263	279
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	**5.3%**	0.1%	0.1%
Peak credit exposures to non-bank connected persons during the period	**13,320**	279	283
Peak credit exposures to non-bank connected persons during the period expressed as a percentage of total tier one capital	**5.3%**	0.1%	0.1%

Notes to the interim financial statements continued

17. Fiduciary activities and insurance

Funds management

As at 31 March 2008, 31 March 2007 and 30 June 2007, the Banking Group did not administer unit trusts, superannuation bonds or superannuation plans.

Custodial services

Kiwibank's subsidiary, Kiwibank Nominees Limited provides custodial services to customers in respect of assets that are beneficially owned by those customers.

Securitised assets

As at balance date, the Banking Group was not involved in the origination of securitised assets.

Insurance business

The Banking Group markets and distributes its life insurance products using its wholly owned subsidiary, Kiwi Insurance Limited. An external, third party insurance company underwrites the life insurance.

The total assets of Kiwi Insurance Limited as at 31 March 2008 are $3.2m (31 March 2007: $1.2m, 30 June 2007: $1.6m), which is 0.05% of the total assets of the Banking Group (31 March 2007: 0.03%; 30 June 2007: 0.03%). This complies with Kiwibank's Conditions of Registration, which allows a maximum of 1% of the total consolidated assets of the Banking Group to be represented by insurance business assets.

Policies and procedures exist to ensure that the insurance activities of the Banking Group are conducted in an appropriate manner.

These include regular reviews of the operations of the insurance business by management and a qualified actuary. Should adverse conditions arise, these policies and procedures are expected to mitigate the impact of the conditions on the Banking Group.

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 9 months ended 31/03/08**	Unaudited 9 months ended 31/03/07	Unaudited 12 months ended 30/06/07
18. Reconciliation of net profit after taxation to net cash flows from operating activities			
Net profit after taxation	**30,076**	30,390	30,852
Non cash movements:			
Fair value adjustments	**5,858**	(17,137)	(6,744)
Depreciation	**3,250**	2,571	3,403
Amortisation of intangibles	**8,257**	5,276	7,067
Increase in collective allowance for impairment losses	**1,157**	460	460
Decrease/(increase) in deferred expenditure	**-**	38	(346)
Bad debts written off	**1,706**	909	1,021
Increase in deferred taxation	**3,296**	6,772	494
(Decrease) / Increase in operating assets and liabilities			
(Decrease)/Increase in financial assets held for trading	**(148,000)**	(262,890)	(119,000)
Increase in available-for-sale assets	**(268,231)**	(192,614)	(279,778)
Increase in loans and advances	**(1,521,658)**	(729,951)	(1,021,947)
Increase in balances due to other financial institutions	**456,464**	39,639	8,373
Increase in deposits	**1,205,789**	1,204,578	1,515,899
Increase in accrued operating expenses	**3,662**	8,928	5,457
Increase in interest payable	**47,302**	7,223	14,969
Increase in interest receivable	**(7,333)**	(3,511)	(6,149)
Increase/(decrease) in balances with related parties	**(2,873)**	1,030	(3,158)
Increase in current taxation	**(6,233)**	1,381	511
Increase in other assets	**(9,871)**	(2,092)	(1,942)
Net cash flows from operating activities	**(197,382)**	101,000	149,442

Notes to the interim financial statements continued

19. Risk management policies

Risk management

In June 2004 the Basel Committee on Banking Supervision released a revised framework for the calculation of capital adequacy for banks, commonly known as Basel 2. This framework reflects the advances in risk management practices since the introduction of the 1988 Basel Accord. The objective of the Basel 2 framework is to develop capital adequacy guidelines that are more accurately aligned with the individual risk profile of banks by improving the sensitivity of prudential capital calculations through a broader array of risk classes and enhanced measurement processes.

The Basel 2 framework introduces a capital requirement for both credit and operational risk, while the Reserve Bank of New Zealand (RBNZ) has also introduced a requirement to calculate a capital charge for Interest Rate Risk in the Banking Book (IRRBB). Additionally, the RBNZ recently released new guidelines establishing new criteria for undertaking banking in a prudent manner. These guidelines are now part of Kiwibank's conditions of registration, and include the requirement for an Internal Capital Adequacy Assessment Process (ICAAP), a supporting risk management framework, as well as enhanced risk monitoring and measurement disciplines.

These new requirements have seen Kiwibank i) adopt the Standardised Approach for calculating capital requirements; and ii) re-engineer the Bank's risk management framework to logically integrate ICAAP requirements, while preserving the Bank's investment in existing decision making structures and functional policies (which include elements of risk management policy).

A broad array of changes to risk management practices are being implemented across all risk classes, which recognises that embedding these principles and practices into the day-to-day activities of the Bank's business units is an ongoing facet of risk management.

20. Contingent liabilities

The New Zealand Commerce Commission has undertaken an industry wide investigation into interchange fees on credit card transactions. As a result of this investigation, the Commission has brought civil proceedings under the Commerce Act 1986 against a number of banks, including Kiwibank, for alleged price-fixing. The Commission seeks a declaration that particular aspects of the credit card rules are unenforceable, an injunction from giving effect to those aspects of the rules, and unquantified pecuniary penalties. A group of retailers has subsequently commenced similar proceedings seeking unquantified civil damages for the same conduct if Kiwibank is found to have breached the Act.

As at the date of signing this General Short Form Disclosure Statement, the possible liability faced by Kiwibank (if any) cannot be reliably estimated.

There are no other material contingent liabilities as at 31 March 2008 other than as separately disclosed in these interim financial statements. (31 March 2007: nil; 30 June 2007: nil).

21. Subsequent events

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

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 9 months ended 31/03/08**	Unaudited 9 months ended 31/03/07	Unaudited 12 months ended 30/06/07
22. Segment analysis			
Primary reporting – business segments			
Retail banking			
External revenue	**324,506**	221,974	301,727
Intersegmental revenue	**-**	8,154	14,492
Segmental revenue	**324,506**	230,128	316,219
Segment result	**28,711**	33,408	26,988
Corporate and institutional banking			
External revenue	**158,844**	94,199	135,050
Intersegmental revenue	**3,381**	-	-
Segmental revenue	**162,225**	94,199	135,050
Segment result	**14,373**	11,692	17,694
Total			
External revenue	**483,350**	316,173	436,777
Intersegmental revenue	**3,381**	8,154	14,492
Elimination	**(3,381)**	(8,154)	(14,492)
Total revenue	**483,350**	316,173	436,777
Segment result	**43,084**	45,100	44,682
Income tax expense	**(13,008)**	(14,710)	(13,830)
Profit for the period	**30,076**	30,390	30,852

For the purposes of this note, a segment is a distinguishable part of the Banking Group, engaged in providing products and services which are subject to risks and returns that are different from those of other business segments. The business segments are defined by the customers that they service and the services they provide.

A summarised description of each business unit is shown below:

Retail banking – Provides banking products and services to the personal banking segment via the Banking Group and NZP distribution channels.

Corporate and institutional banking – Provides banking products and services to the corporate and institutional banking segment, including Treasury services, via the Banking Group and NZP distribution channels.

Transactions between the business segments are on normal commercial terms and conditions. Internal charges and transfer pricing adjustments have been reflected in the performance of each business segment.

Secondary reporting – geographic segments

The Banking Group operates predominantly within New Zealand.

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS

The Banking Group has prepared these interim financial statements using NZ IAS 34. As these financial statements are for the third quarter reported in accordance with NZ IFRS, note 23 provides an explanation of how the transition from previous New Zealand Financial Reporting Standards (NZ FRS) to NZ IFRS has affected the previously reported financial position, financial performance and the cash flows of the Banking Group.

In accordance with NZ IFRS, the comparative information has been restated using the accounting policies set out on pages 12 to 23 from 1 July 2006. Changes in accounting policies have been retrospectively applied against opening reserves.

All amounts are stated after tax unless otherwise stated.

Reconciliation of Income Statement (consolidated)

For the nine months ended 31 March 2007

Dollars in thousands	Note	Previous NZ FRS Audited	Effects of transition to NZ IFRS	Restated NZ IFRS Unaudited
Interest income ❶	e	224,260	(1,125)	223,135
Interest expense ❶		(168,880)	-	(168,880)
Net interest income		55,380	(1,125)	54,255
Gains/(losses) on financial instruments at fair value	a	-	17,136	17,136
Other income		93,038	-	93,038
Total operating income		148,418	16,011	164,429
Operating expenses	b,e	(117,376)	(1,493)	(118,869)
Provisions credit/(expense)	f	312	(772)	(460)
Net profit before taxation		31,354	13,746	45,100
Income tax expense	g	(10,383)	(4,327)	(14,710)
Net profit after taxation	k	20,971	9,419	30,390
Net profit attributable to minority interest	d	(651)	651	-
Net profit attributable to parent shareholders		**20,320**	**10,070**	**30,390**

❶ To be consistent with other periods reported, interest income and interest expense have been grossed up rather than reported on a net basis through interest income

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS continued

Reconciliation of Income Statement (consolidated)

For the twelve months ended 30 June 2007

Dollars in thousands	Note	Previous NZ FRS Audited	Effects of transition to NZ IFRS	Restated NZ IFRS Unaudited
Interest income	e	315,189	1,193	316,382
Interest expense		(239,965)	-	(239,965)
Net interest income		75,224	1,193	76,417
Gains/(losses) on financial instruments at fair value	a	-	6,744	6,744
Other income		120,395	-	120,395
Total operating income		195,619	7,937	203,556
Operating expenses	b,e	(156,388)	(2,026)	(158,414)
Provisions credit/(expense)	f	(115)	(345)	(460)
Net profit before taxation		39,116	5,566	44,682
Income tax expense	g	(12,852)	(978)	(13,830)
Net profit after taxation	k	26,264	4,588	30,852
Net profit attributable to minority interest	d	(808)	808	-
Net profit attributable to parent shareholders		25,456	5,396	30,852

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS continued

Reconciliation of consolidated Balance Sheet and consolidated Equity between previous NZ FRS and NZ IFRS

Dollars in thousands	Note	Previous NZ FRS Audited 30/06/06	Effects of transition to NZ IFRS	Restated NZ IFRS Unaudited 01/07/06
Assets				
Cash and cash equivalents		50,116	-	50,116
Investment securities	a	378,474	(378,474)	-
Financial assets held for trading	a	-	116,411	116,411
Available-for-sale assets	a	-	261,364	261,364
Loans and advances	a,f	2,608,569	(14,725)	2,593,844
Derivative financial instruments	h	-	7,393	7,393
Intangible assets	c	-	15,513	15,513
Property, plant and equipment	c	29,902	(15,513)	14,389
Deferred tax assets	g	74	2,633	2,707
Other assets	e	5,689	(1,661)	4,028
Total assets		3,072,824	(7,059)	3,065,765
Liabilities				
Due to other financial institutions	a	65,496	(1,864)	63,632
Current taxation		(158)	-	(158)
Balances with NZP related parties - current		34,274	-	34,274
Deposits and other borrowings	a	2,376,648	-	2,376,648
Debt securities issued		408,964	-	408,964
Derivative financial instruments	h	-	123	123
Other liabilities	i	15,177	27	15,204
Total liabilities		2,900,401	(1,714)	2,898,687
Shareholder's equity				
Share capital		170,000	-	170,000
Retained earnings	k	2,423	(5,345)	(2,922)
Total shareholder's equity		172,423	(5,345)	167,078
Total liabilities and shareholder's equity		3,072,824	(7,059)	3,065,765

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS continued

Reconciliation of consolidated Balance Sheet and consolidated Equity between previous NZ FRS and NZ IFRS

Dollars in thousands	Note	Previous NZ FRS Audited 31/03/07	Effects of transition to NZ IFRS	Restated NZ IFRS Unaudited 31/03/07
Assets				
Cash and cash equivalents		170,324	-	170,324
Investment securities	a	833,978	(833,978)	-
Financial assets held for trading	a	-	374,764	374,764
Available-for-sale assets	a	-	455,984	455,984
Loans and advances	a,f	3,340,315	(40,414)	3,299,901
Derivative financial instruments	h	-	35,190	35,190
Intangible assets	c	8,940	27,359	36,299
Property, plant and equipment	c	33,962	(19,885)	14,077
Deferred tax assets	g	(586)	(3,479)	(4,065)
Other assets	e	7,682	(1,804)	5,878
Total assets		4,394,615	(6,263)	4,388,352
Liabilities				
Due to other financial institutions	a	105,135	(20,412)	84,723
Current taxation		1,144	-	1,144
Balances with NZP related parties - current		10,297	-	10,297
Deposits and other borrowings	a	3,588,450	-	3,588,450
Derivative financial instruments	h	-	7,898	7,898
Debt securities issued	a	342,763	347	343,110
Other liabilities	i	23,776	25	23,801
Term subordinated debt		75,000	(209)	74,791
Deferred settlement liability	b	-	4,542	4,542
Total liabilities		4,146,565	(7,809)	4,138,756
Shareholder's equity				
Share capital		225,000	-	225,000
Retained earnings	k	22,743	4,725	27,468
Available-for-sale reserve	a,g	-	(825)	(825)
Cash flow hedge reserve	a,g	-	(2,047)	(2,047)
Minority interest	d	307	(307)	-
Total shareholder's equity		248,050	1,546	249,596
Total liabilities and shareholder's equity		4,394,615	(6,263)	4,388,352

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS continued

Reconciliation of consolidated Balance Sheet and consolidated Equity between previous NZ FRS and NZ IFRS

Dollars in thousands	Note	Previous NZ FRS Audited 30/06/07	Effects of transition to NZ IFRS	Restated NZ IFRS Unaudited 30/06/07
Assets				
Cash and cash equivalents		289,490	-	289,490
Investment securities	a	779,926	(779,926)	-
Financial assets held for trading	a	-	245,120	245,120
Available-for-sale assets	a	-	527,831	527,831
Loans and advances	a,f	3,631,662	(71,021)	3,560,641
Derivative financial instruments	h	-	76,031	76,031
Intangible assets	c	8,613	28,361	36,974
Property, plant and equipment	c	38,268	(20,657)	17,611
Deferred tax assets	g	(419)	(768)	(1,187)
Other assets	e	7,907	(1,940)	5,967
Total assets		4,755,447	3,031	4,758,478
Liabilities				
Due to other financial institutions	a	73,869	(7,074)	66,795
Current taxation		(625)	-	(625)
Balances with NZP related parties - current		6,116	-	6,116
Deposits and other borrowings	a	3,903,882	-	3,903,882
Derivative financial instruments	h	-	7,565	7,565
Debt securities issued	a	420,058	(104)	419,954
Other liabilities	a,i	22,807	1,722	24,529
Deferred settlement liability	b	-	4,663	4,663
Term subordinated debt		76,243	-	76,243
Total liabilities		4,502,350	6,772	4,509,122
Shareholder's equity				
Share capital		225,000	-	225,000
Retained earnings	k	27,879	51	27,930
Available-for-sale reserve	a,g	-	(1,450)	(1,450)
Cash flow hedge reserve	a,g	-	(2,124)	(2,124)
Minority interest	d	218	(218)	-
Total shareholder's equity		253,097	(3,741)	249,356
Total liabilities and shareholder's equity		4,755,447	3,031	4,758,478

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS continued

Reconciliation of consolidated Cash Flow Statement between previous NZ FRS and NZ IFRS
For the nine months ended 31 March 2007 (unaudited)

Dollars in thousands	Note	Previous NZ FRS 9 months ended 31/03/07 Unaudited	Effects of transition to NZ IFRS	Restated NZ IFRS 31/03/07 Unaudited
Cash flows from operating activities				
Interest received		220,749	-	220,749
Fees and other income		100,938	-	100,938
Operating expenses paid		(108,777)	-	(108,777)
Interest paid		(161,657)	-	(161,657)
Taxes paid		(9,015)	-	(9,015)
Net cash flows from operating activities before changes in operating assets and liabilities		42,238	-	42,238
Net changes in operating assets and liabilities:				
Increase in financial assets held for trading		-	(262,890)	(262,890)
Increase in available-for-sale assets		-	(192,614)	(192,614)
Increase in loans and advances	j	-	(729,951)	(729,951)
Increase in deposits and other borrowings	j	-	1,204,578	1,204,578
Increase in balances due to other financial institutions		-	39,639	39,639
Net cash flows from operating activities		42,238	58,762	101,000
Cash flows from investing activities				
Cash from acquisition of subsidiary		480	-	480
Increase in investment securities		(455,504)	455,504	-
Increase in loans and advances	j	(729,951)	729,951	-
Repayment of intercompany loan		(25,000)	-	(25,000)
Investment in subsidiary		(8,409)	-	(8,409)
Purchase of property, plant and equipment		(11,318)	7,017	(4,301)
Purchase software intangible assets		-	(7,017)	(7,017)
Net cash flows from investing activities		(1,229,702)	1,185,455	(44,247)
Cash flows from financing activities				
Issue of ordinary shares		55,000	-	55,000
Term subordinated debt		75,000	-	75,000
Increase/(decrease) in balances due to other financial institutions		39,639	(39,639)	-
(Decrease)/increase in debt securities issued		(66,201)	-	(66,201)
Dividend paid to minority interest		(344)	-	(344)
Increase in deposits and other borrowings	j	1,204,578	(1,204,578)	-
Net cash flows from financing activities		1,307,672	(1,244,217)	63,455
Increase in cash and cash equivalents		120,208	-	120,208
Cash and cash equivalents at beginning of the period		50,116	-	50,116
Cash and cash equivalents at the end of the period		170,324	-	170,324

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS continued

Reconciliation of Cash Flow Statement between previous NZ FRS and NZ IFRS
For the twelve months ended 30 June 2007

Dollars in thousands	Note	Previous NZ FRS ended 30/06/07 Audited	Effects of transition to NZ IFRS	Restated NZ IFRS 30/06/07 Unaudited
Cash flows from operating activities				
Interest received		309,887	-	309,887
Related party purchase of tax losses		94	-	94
Fees and other income, including related parties		118,453	-	118,453
Operating expenses paid		(143,908)	-	(143,908)
Interest paid		(225,111)	-	(225,111)
Taxes paid		(13,520)	-	(13,520)
Net cash flows from operating activities before changes in operating assets and liabilities		45,895	-	45,895
Net changes in operating assets and liabilities:				
Increase in financial assets held for trading		-	(119,000)	(119,000)
Increase in available-for-sale assets		-	(279,778)	(279,778)
Increase in loans and advances	j	-	(1,021,947)	(1,021,947)
Increase in deposits and other borrowings	j	-	1,515,899	1,515,899
Increase in balances due to other financial institutions	j	-	8,373	8,373
Net cash flows from operating activities		45,895	103,547	149,442
Cash flows from investing activities				
Cash from acquisition of subsidiary		480	-	480
Increase in financial assets		(398,778)	398,778	-
Increase in lending to customers	j	(1,021,947)	1,021,947	-
Repayment of intercompany loan		(25,000)	-	(25,000)
Purchase of subsidiary		(8,409)	-	(8,409)
Purchase of property, plant and equipment		(17,643)	10,950	(6,693)
Purchase software intangible assets		-	(10,950)	(10,950)
Net cash flows from investing activities		(1,471,297)	1,420,725	(50,572)

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS continued

Reconciliation of Cash Flow Statement between previous NZ FRS and NZ IFRS
For the twelve months ended 30 June 2007 continued

Dollars in thousands	Note	Previous NZ FRS 12 months ended 30/06/07 Audited	Effects of transition to NZ IFRS	Restated NZ IFRS 30/06/07 Unaudited
Cash flows from financing activities				
Issue of ordinary shares		55,000	-	55,000
Proceeds from term subordinated debt		75,000	-	75,000
Increase/(decrease) in balances due to other financial institutions		8,373	(8,373)	-
(Decrease)/increase in debt securities issued		11,094	-	11,094
Increase in deposits and other borrowings	j	1,515,899	(1,515,899)	-
Dividends paid		(590)	-	(590)
Net cash flows from financing activities		1,664,776	(1,524,272)	140,504
Increase in cash and cash equivalents		239,374	-	239,374
Cash and cash equivalents at beginning of the period		50,116	-	50,116
Cash and cash equivalents at the end of the period		289,490	-	289,490

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS continued

Notes on reconciliation between previous NZ FRS and NZ IFRS

NZ IFRS adjustments with effect from 1 July 2006

a) Financial assets and liabilities recognition and measurement

Financial assets and liabilities were previously accounted for under New Zealand Financial Reporting Standards (NZ FRS). Under NZ IFRS all financial assets and liabilities are required to be designated into one of the following four categories: Fair Value through Profit or Loss (FVTPL), Available-for-Sale, Held-to-Maturity or Loans and Receivables. Financial liabilities are required to be designated either at FVTPL or at amortised cost.

(i) **Fair Value through Profit or Loss**

All financial assets and liabilities held for trading have been designated as FVTPL. Kiwibank has also elected to adopt FVTPL for the retail fixed rate loan portfolio originated by the Banking Group prior to 31 December 2007, thus avoiding an accounting mismatch which arises if such loans are carried at amortised cost and the derivatives, which have been entered into to offset the interest rate risk on the retail fixed rate loans, are held-for-trading. Under NZ FRS these loans were recorded at amortised cost. The revaluation of the retail fixed rate loans will give rise to unrealised mark-to-market gains and losses, which will be largely offset by the fair value movement of the derivatives. As a result of this change in accounting policy, at 1 July 2006, the Banking Group recorded a decrease in the carrying value of the retail fixed rate loan portfolio of $20.2m (31 March 2007: $44.9m; 30 June 2007: $75.9m).

The impact on the income statement for the Banking Group was to recognise a credit of $17.1m for the nine months ended 31 March 2007 and a credit of $6.7m for the twelve months ended 30 June 2007.

(ii) **Available-for-sale**

On transition to NZ IFRS the Banking Group designated certain investment securities as available-for-sale assets. The amount transferred from investment securities to available-for-sale was $261m on transition (31 March 2007; $456m: 30 June 2007; $528m). These assets will be recognised at their fair value with any unrealised gains and losses recognised in an Available-for-sale reserve within equity. Under NZ FRS investment securities were recorded at amortised cost. The change to fair value measurement resulted in a $0.6m decrease in investment securities. At 31 March 2007 a gain of $2.5m before tax was taken to the available-for-sale reserve and at 30 June 2007 a gain of $3.8m before tax was taken to the available-for-sale reserve.

(iii) **Held-to-Maturity**

The Banking Group has not designated any financial assets as Held-to-Maturity.

(iv) **Loans and Receivables**

All other Loans and Receivables will continue to be carried at their amortised cost.

(v) **Investment Securities**

These were re-classified as either available-for-sale financial assets (ii above) or financial assets held for trading. The amount transferred from investment securities to financial assets held for trading was $116m on transition (31 March 2007; $375m: 30 June 2007; $245m).

(vi) **Settlement expense**

Net interest expense payable on interest rate swap derivatives, previously included in "due to other financial institutions", and has been re-classified to derivative financial instruments.

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS continued

Notes on reconciliation of Balance Sheet and Equity between previous NZ FRS and NZ IFRS

NZ IFRS adjustments with effect from 1 July 2006

b) Deferred settlement liability

On 1 July 2006, Kiwibank purchased 51% of The New Zealand Home Company Limited and is required to purchase the remaining shares in it by 1 July 2012 (or earlier at the option of either Kiwibank or The New Zealand Home Loan Company Limited). As the option was granted on 1 July 2006, it does not impact the NZ IFRS opening balance sheet as at 1 July 2006. Under NZ IFRS all financial instruments, including options, are recognised on the balance sheet at fair value. The Banking Group has elected to derecognise the minority interest recorded under NZ FRS and establish a liability for the settlement of the option. Kiwibank has also allocated the purchase price to identifiable tangible and intangible assets, such as the ongoing trail commissions receivable on existing mortgages and risk products. The unallocated purchase price has been recognised as goodwill. The liability established is $4.5m as at 31 March 2007 and $4.6m as at 30 June 2007. The cost of financing the option has been charged to the income statement and amounts to $0.4m for the nine months ended 31 March 2007 and $0.5m for the twelve months ended 30 June 2007.

c) Intangible assets

(i) **Goodwill**

Under NZ FRS, goodwill was recognised on the acquisition of The New Zealand Home Loan Company Limited (NZHL) which occurred on 1 July 2006. The goodwill was being amortised on a straight line basis over a period of 10 years. Upon transition to NZ IFRS, goodwill is no longer amortised. Goodwill is tested for impairment annually to ensure its carrying amount does not exceed its recoverable amount. The goodwill amortisation recognised under NZ FRS for the comparative year of $0.84m has been reversed under NZ IFRS.

As part of the transition to NZ IFRS, the accounting treatment of the acquisition of NZHL was re-determined. As a consequence of the requirement in NZ IAS 38: Intangible Assets, other identifiable intangible assets relating to customer relationships were identified. This reduced the goodwill previously recognised under NZ FRS by $1.4m.

(ii) **Acquired customer relationships**

As part of the acquisition of NZHL, Kiwibank has allocated the purchase price to identifiable tangible and intangible assets. This included recognition as an intangible of the customer relationships, embodied in the ongoing trail commissions receivable on existing mortgages and risk products of $9.1m.

(iii) **Computer software**

Under NZ FRS all software was classified as Property, Plant and Equipment. Under NZ IAS 38: Intangible Assets, software, which is separately identifiable from hardware, is recognised as an intangible asset. On transition to NZ IFRS software previously recognised as property, plant and equipment was reclassified as an intangible asset. This amounted to $15.5m, (31 March 2007: $19.9m; 30 June 2007: $20.7m).

d) Minority interest

As discussed in point b the recognition of a deferred settlement liability for the remaining portion of NZHL has resulted in the minority interest within equity being derecognised. This treatment has resulted in a credit to the income statement of the Banking Group for the periods ended 31 March 2007 and 30 June 2007 of $0.7m and $0.8m respectively.

23. Explanation of transition to NZ IFRS continued

Notes on reconciliation of Balance Sheet and Equity between previous NZ FRS and NZ IFRS

NZ IFRS adjustments with effect from 1 July 2006

e) Loan origination costs

Under NZ FRS, the Banking Group capitalised loan origination costs as a deferred asset and wrote off the cost over the average life of a loan (estimated to be three years) to net interest income. Under NZ IFRS, loan origination costs are expensed immediately in the income statement as part of operating expenses. At 1 July 2006, this resulted in a decrease in other assets of $1.6m, (31 March 2007; $0.2m, 30 June 2007; $0.3m).

This treatment has resulted in a credit to the interest income in the income statement for the periods ended 31 March 2007 and 30 June 2007 of $0.9m and $1.2m respectively. It has also resulted in a debit to the operating expenses in the income statement for the periods ended 31 March 2007 and 30 June 2007 of $1.1m and $1.5m respectively.

f) Loan impairment

Under NZ FRS loan impairment provisions were recognised on loans where losses were expected to be incurred. Loans not found to be individually impaired were collectively assessed for impairment in pools of similar assets with similar risk characteristics. The size of the provision was estimated on the basis of historical loss experience for assets with credit characteristics similar to those in the collective pool. Under NZ IFRS the Banking Group is required to apply an incurred loss approach for provisioning and follow individual rules on the measurement of incurred losses.

As the Banking Group has designated all retail fixed rate loans originated prior to 31 December 2007 as FVTPL, the assessment of fair value reflects the credit quality of the instrument and as such a separate loan impairment provision is not necessary.

As a result of this change in accounting policy, at 1 July 2006, the Banking Group reversed the general provision for bad debts, which amounts to $5.5m and established a individual provision for unsecured lending of $0.3m, with a corresponding net increase in equity. The reversal of the general provision for bad debts for the periods ending 31 March 2007 and 30 June 2007 was a debit of $0.8m and a debit of $0.3m respectively.

g) Deferred taxation

On transition to NZ IFRS, the Banking Group has adopted a balance sheet approach to determining deferred tax balances. Deferred tax has been recognised when there is a difference between the carrying value of an asset or liability and its tax base. As a result of the adoption of NZ IFRS, the Banking Group has been required to recognise additional levels of deferred tax assets and liabilities for the impacts of the restatements required under NZ IFRS set out in this note. This treatment has resulted in a debit to the income tax expense in the income statement for the periods ended 31 March 2007 and 30 June 2007 of $4.3m and $1.0m respectively for the Banking Group.

h) Derivative financial instruments

Under NZ FRS derivatives were recorded off-balance sheet. NZ IFRS requires all derivative financial instruments, whether designated as hedging instruments or otherwise, to be recognised at fair value on the balance sheet. The Banking Group did not designate any existing derivatives as hedging instruments as per NZ IAS 39 – Financial Instruments: Recognition and Measurement, with the exception of derivatives used to hedge its variable rate loan portfolio. As a result of this change in accounting policy, at 1 July 2006, a $7.4m derivative asset and a $0.1m derivative liability were recognised in the balance sheet, with a corresponding increase in equity at that date. As at 31 March 2007 the derivatives recognised were an asset of $35.2m and a liability of $7.9m. As at 30 June 2007 the derivatives recognised were an asset of $76.0m and a liability of $7.6m.

Under NZ FRS, derivatives used to hedge Kiwibank's variable rate loan portfolio were recorded outside the Statement of Financial Position. Under NZ IFRS these derivatives have been designated as cash flow hedges and a cash flow hedge reserve has been established in equity for the fair value movements of the underlying variable rate loan portfolio and the associated derivative. This results in a cash-flow reserve of $2.0m at 31 March 2007 and a $2.1m cash-flow reserve at 30 June 2007.

Notes to the interim financial statements continued

23. Explanation of transition to NZ IFRS continued

Notes on reconciliation of Balance Sheet and Equity between previous NZ FRS and NZ IFRS

NZ IFRS adjustments with effect from 1 July 2006

i) Employee benefits

On transition to NZ IFRS, employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the income statement when they accrue to employees. Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is recognised as the present value of the estimated future cash outflows. Leave entitlements which can be carried forward (ie. sick leave) but are unused at balance date are accrued based on the additional cost expected to be paid as a result of the accumulated balance. At 1 July 2006 a liability of $0.026m was established. This liability has remained unchanged as at 31 March 2007 and 30 June 2007.

j) Cash-flow statement

On transition to NZ IFRS, cash-flow movements in operating assets and liabilities have been treated as operating activities as they relate to the main revenue producing activity of the Banking Group. Previously these items would have been classified as investing or financing activities. New lines have been added and certain reclassifications have been made to align with the new items presented in the income statement and balance sheet.

k) Reconciliation of retained profits.

Dollars in thousands	Note	Transition 01/07/06	9 months ended 31/03/07	12 months ended 30/06/07
Opening retained earnings		2,423	(2,922)	(2,922)
Net operating profit after tax per NZ FRS		-	20,320	25,456
FVTPL on retail fixed rate loans	a	(20,218)	(24,654)	(55,691)
Fair value adjustment on derivatives and financial instruments	a	9,681	39,732	62,435
Fair value adjustment on available-for-sale assets	a	(986)	-	-
Loan impairment	f	5,233	(772)	(348)
Loan origination costs	e	(1,661)	(143)	(277)
Provision for employee benefits	i	(27)	-	-
Amortisation of intangibles	c	-	(683)	(910)
Goodwill amortisation	c	-	631	841
Minority interest	d	-	651	808
Finance charges on deferred settlement liability	b	-	(363)	(484)
Deferred tax	g	2,633	(4,329)	(978)
Retained earnings carried forward		(2,922)	27,468	27,930

Capital adequacy

Kiwibank is registered as a bank under the Reserve Bank of New Zealand Act 1989. The Bank is subject to the capital adequacy requirements for registered banks as specified by the Reserve Bank of New Zealand (RBNZ). In accordance with the global Basel 2 initiative (also see note 19) the RBNZ recently introduced new criteria (namely BS12 - Guidelines on Internal Capital Adequacy Assessment Process (ICAAP) and BS2A - Capital Adequacy Framework – for banks adopting a Standardised Approach) for undertaking banking in a prudent manner. The framework also requires the calculation and disclosure of capital adequacy ratios. Capital adequacy ratios are calculated as a percentage of capital to total risk weighted assets. The RBNZ conditions of registration require the Banking Group to maintain a total capital ratio of not less than 8% and a tier one capital ratio of not less than 4%. The 31 March 2007 and 30 June 2007 capital adequacy calculations below are in accordance with the previous RBNZ Capital Adequacy Framework (Registered Bank Disclosure Statement (Full and Half Year – New Zealand Incorporated Registered Banks) Order 2007).

Risk weighted exposures

The risk weighted exposures are derived in accordance with the RBNZ's Capital Adequacy Framework (the "Framework") as required by the Registered Bank Disclosure Statement (Off Quarter – New Zealand Incorporated Registered Banks) Order 2008. On-balance sheet "non-risk weighted assets" comprise the collective provision for doubtful debts, market related contracts (derivatives) and intangible assets. In accordance with the Framework, these items above have been excluded from the calculation of on-balance sheet exposures. Derivatives have been included in the table of off-balance sheet exposures for the purposes of risk weighting.

The Bank's current prudential capital requirements based on assessment of its material risk classes can be summarised as follows:

Pillar 1 – material risks with capital allocations:

- Credit risk – The vulnerability of the Bank's lending and investment portfolios to counterparty default. The risk based capital allocation is computed based on RBNZ standardised approach Credit Risk methodology (BS2A).
- Market risk – 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).

Pillar 2 – material risks with capital allocations:

- The Bank's ICAAP methodology also requires the Bank to hold capital against the following "other material 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 Bank'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.

Share capital

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.

Capital adequacy continued

Dollars in thousands	The Banking Group **Unaudited 31/03/08**	 Unaudited 31/03/07	 Unaudited 30/06/07
Tier one capital			
Issued and fully paid up share capital	**260,000**	225,000	225,000
Revenue and similar reserves	**18,497**	(5,794)	(6,496)
Current period's revised retained earnings	**22,655**	17,246	30,852
Less deductions from tier one capital			
Intangible assets	**(49,911)**	(36,299)	(36,974)
Cash flow hedge reserve	**1,822**	2,047	2,124
Total tier one capital	**253,063**	202,200	214,506
Tier two capital – upper level tier two capital			
Unaudited retained profits	**7,421**	13,144	-
Tier two capital – lower level tier two capital			
Term subordinated debt	**75,000**	75,000	75,000
Total tier two capital	**82,421**	88,144	75,000
Total tier one and tier two capital	**335,484**	290,344	289,506
Less deductions from capital	**-**	-	-
Capital	**335,484**	290,344	289,506
Capital adequacy ratios			
Total tier one capital expressed as a percentage of total risk weighted exposures	**7.2%**	9.2%	9.2%
Capital expressed as a percentage of total risk weighted exposures	**9.5%**	13.2%	12.4%

Dollars in thousands	Kiwibank Limited **Unaudited 31/03/08**	 Unaudited 31/03/07	 Unaudited 30/06/07
Capital	**348,379**	305,745	304,797
Capital adequacy ratios			
Total tier one capital expressed as a percentage of total risk weighted exposures	**7.6%**	9.9%	9.8%
Capital expressed as a percentage of total risk weighted exposures	**10.0%**	13.9%	13.0%

Capital adequacy continued

	The Banking Group			
Dollars in thousands	**Principal amount Unaudited 31/03/08**	**Risk weighting Unaudited 31/03/08**	**Risk weighted exposure Unaudited 31/03/08**	**Minimum Pillar One Capital Requirement Unaudited 31/03/08**
On-balance sheet exposures				
Cash and gold bullion	32,124	0%	-	-
Sovereigns and central banks	217,108	0%	-	-
Multilateral development banks	114,616	0%	-	-
Claims on public sector entities	29,434	20%	5,887	471
Claims on other banks	789,659	20%	157,932	12,635
	10,460	50%	5,230	418
Corporate	196,707	20%	39,341	3,147
	8,850	50%	4,425	354
Residential mortgages	3,713,697	35%	1,299,794	103,984
	287,245	50%	143,622	11,490
	484,692	75%	363,519	29,082
	361,266	100%	361,266	28,901
Other assets	298,801	100%	298,801	23,904
Non risk weighted assets	92,406	-	-	-
Total balance sheet exposures	6,637,065		2,679,817	214,386

Capital adequacy continued

Dollars in thousands	Total exposure Unaudited 31/03/08	Credit conversion factor Unaudited 31/03/08	Credit equivalent amount Unaudited 31/03/08	Average risk weighting Unaudited 31/03/08	Risk weighted exposure Unaudited 31/03/08	Minimum Pillar One Capital Requirement Unaudited 31/03/08
	The Banking Group					
Off-balance sheet exposures and market related contracts						
Direct credit substitutes						
Commitments with certain drawdown	52,654	100%	52,654	100%	52,654	4,212
Revolving credit facilities	445,243	50%	222,621	48.1%	107,166	8,573
Short term, self liquidating trade related contingents						
Other commitments greater than one year	89,130	50%	44,565	45.8%	20,402	1,632
Other commitments less than or equal to one year	-	20%	-	-	-	-
Market related contracts:[1]						
Interest rate contracts	5,994,000		61,781	20%	12,356	988
Foreign exchange contracts	406,406		12,834	20%	2,567	205
Total off-balance sheet exposures	6,987,433		394,455		195,145	15,610
Total credit risk	13,624,498				2,874,962	229,996
Credit Risk Mitigation						
Total value of on- and off- balance sheet exposures covered by eligible collateral (after haircutting)	-				-	-
Total value of on- and off- balance sheet exposures covered by guarantees or credit derivatives	-				-	-
Operational Risk	n/a				291,306	23,304
Market Risk						
Interest rate risk	n/a				140,963	11,277
Foreign currency risk	n/a				8,209	657
Equity risk	n/a				-	-
Other material risks	n/a				202,267	16,181
Total risk weighted exposures	**13,624,498**				**3,517,707**	**281,415**

[1] Kiwibank uses the current exposure method to calculate the credit risk on these contracts.

Capital adequacy continued

Dollars in thousands	The Banking Group Principal amount Unaudited 31/03/07	Risk weighting Unaudited 31/03/07	Risk weighted exposure Unaudited 31/03/07
On-balance sheet exposures			
Cash and short term claims on the government	166,076	0%	-
Long term claims on the government	84,720	10%	8,472
Claims on banks	507,725	20%	101,545
Claims on public sector entities	-	20%	-
Residential mortgages	3,099,161	50%	1,549,581
Other	463,402	100%	463,402
Non risk weighted assets	67,268	-	-
Total balance sheet exposures	4,388,352		2,123,000

Dollars in thousands	Principal amount Unaudited 31/03/07	Credit conversion factor Unaudited 31/03/07	Credit equivalent amount Unaudited 31/03/07	Risk weighting Unaudited 31/03/07	Risk weighted Exposure Unaudited 31/03/07
Off-balance sheet exposures and market related contracts					
Direct credit substitutes	-	100%	-	0%	-
Asset sales with recourse	-	100%	-	0%	-
Commitments with certain drawdown	97,380	100%	97,380	60%	58,428
Underwriting and sub-underwriting facilities	-	50%	-	0%	-
Transaction related contingent items	-	50%	-	0%	-
Short term, self liquidating trade related contingents	-	20%	-	0%	-
Other commitments greater than one year	-	50%	-	0%	-
Other commitments less than or equal to one year	-	0%	-	0%	-
Market related contracts: [1]					
Interest rate contracts	5,274,000	N/a	49,000	20%	9,800
Foreign exchange contracts	141,706	N/a	2,137	20%	427
Total off-balance sheet exposures					68,655
Total risk weighted exposures					2,191,655

[1] Kiwibank uses the current exposure method to calculate the credit risk on these contracts.

Capital adequacy continued

	The Banking Group		
Dollars in thousands	**Principal amount Unaudited 30/06/07**	**Risk weighting Unaudited 30/06/07**	**Risk weighted exposure Unaudited 30/06/07**
On-balance sheet exposures			
Cash and short term claims on the government	280,067	0%	-
Long term claims on the government	73,497	10%	7,350
Claims on banks	431,420	20%	86,284
Claims on public sector entities	7,973	20%	1,595
Residential mortgages	3,401,156	50%	1,700,578
Other	453,267	100%	453,267
Non risk weighted assets	111,098	-	-
Total balance sheet exposures	4,758,478		2,249,074

Dollars in thousands	**Principal amount Unaudited 30/06/07**	**Credit conversion factor Unaudited 30/06/07**	**Credit equivalent amount Unaudited 30/06/07**	**Risk weighting Unaudited 30/06/07**	**Risk weighted Exposure Unaudited 30/06/07**
Off-balance sheet exposures and market related contracts					
Direct credit substitutes	-	100%	-	0%	-
Asset sales with recourse	-	100%	-	0%	-
Commitments with certain drawdown	92,195	100%	92,195	64.5%	59,466
Underwriting and sub-underwriting facilities	-	50%	-	0%	-
Transaction related contingent items	-	50%	-	0%	-
Short term, self liquidating trade related contingents	-	20%	-	0%	-
Other commitments greater than one year	-	50%	-	0%	-
Other commitments less than or equal to one year	-	0%	-	0%	-
Market related contracts: [1]					
Interest rate contracts	5,774,000	N/a	87,255	20%	17,451
Foreign exchange contracts	204,900	N/a	6,414	20%	1,283
Total off-balance sheet exposures					78,200
Total risk weighted exposures					2,327,274

[1] Kiwibank uses the current exposure method to calculate the credit risk on these contracts.

Residential Mortgages by loan-to-value ratio

Dollars in thousands	**Unaudited 31/03/08**	Unaudited 31/03/07	Unaudited 30/06/07
LVR 0%-80%	**3,713,698**	2,459,812	2,744,380
LVR 80%-90%	**287,245**	160,851	175,158
LVR 90% +	**845,958**	473,174	553,161

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 4A of the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008. Peak exposures are calculated using the Banking Group's shareholder's equity at the end of the quarter.

Dollars in thousands	**Unaudited as at 31/03/08**	Unaudited as at 31/03/07	Unaudited as at 30/06/07	**Unaudited Peak for 3 months ended 31/03/08**	Unaudited Peak for 3 months ended 31/03/07	Unaudited Peak for 3 months ended 30/06/07
Interest rate capital charges						
Aggregate interest rate risk capital charge	**11,277**	13,358	9,359	**13,314**	14,253	15,165
Aggregate interest rate risk capital charge expressed as a percentage of the Banking Group's shareholder's equity	**3.7%**	5.4%	3.8%	**4.3%**	5.7%	6.1%
Implied interest rate risk weighted exposure	**140,963**	166,975	116,988	**166,425**	178,163	189,563
Foreign currency capital charges						
Aggregate foreign currency risk capital charge	**657**	203	169	**716**	493	855
Aggregate foreign currency risk capital charge expressed as a percentage of the Banking Group's shareholder's equity	**0.2%**	0.1%	0.1%	**0.2%**	0.2%	0.3%
Implied foreign currency risk weighted exposure	**8,209**	2,538	2,113	**8,950**	6,163	10,688

The Banking Group holds no equity instruments.