kiwibank It's ours

General Short Form Disclosure Statement

Number 31
For the nine months ended 31 March 2009

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 2009, in accordance with the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008 (the "Order") and with the Registered Bank Disclosure Statement (Off-Quarter – New Zealand Incorporated Registered Banks) Order 2008 (Government Guarantee) Amendment Order 2008. 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 275 million 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(B) (2) of the Securities Markets Act 1988.

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.

Directorate

There has been one change in the composition of the board of directors since the publication date of the previous General Disclosure Statement. On 30 April 2009 Prof. Ralph Heberley Ngatata Love resigned as a director of Kiwibank Limited.

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

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

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 2009. On 21 August 2008, this credit rating was reaffirmed as AA- and the outlook was revised from negative (27 April 2007) to stable. This credit rating was reaffirmed on 10 March 2009 as AA- stable.

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

As at the date the directors signed this General Disclosure Statement, the payment obligations of Kiwibank have the benefit of certain guarantees: a deed poll guarantee by Kiwibank's parent company NZP (the "NZP Guarantee"), a Crown deed of guarantee entered into by the New Zealand Government and Kiwibank under the New Zealand retail deposit guarantee scheme (the "Crown Retail Guarantee") and a Crown Wholesale guarantee. Details of each guarantee are set out below.

NZP Guarantee

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.

All payment obligations of Kiwibank are guaranteed pursuant to the NZP Guarantee, excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the NZP Guarantee. The following is a summary of the features of the NZP 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 NZP Guarantee is an unsecured guarantee of the payment obligations of Kiwibank. The NZP Guarantee can be terminated on not less than three month's notice by NZP to creditors (as that term is defined in the NZP Guarantee). Any such termination does not affect any existing payment obligations owed under the NZP Guarantee at the termination date. The NZP Guarantee has no expiry date.

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

e. There are no material conditions applying to the NZP 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 NZP 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 $604m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2008. 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 2009. On 21 August 2008, this credit rating was reaffirmed as AA- and the outlook was revised from negative (10 April 2007) to stable. This credit rating was reaffirmed on 10 March 2009 as AA- stable. For an explanation of Standard & Poor's (Australia) Pty Limited's credit rating scale see the Crown Retail Guarantee section below.

Crown Retail Guarantee

The following is a summary of the features of the Crown Retail Guarantee:

a. The Crown's address for service is 1 The Terrace, Wellington 6011, New Zealand.

b. The Crown guarantees the payment by Kiwibank of money owing under "debt securities" to "creditors" (as those terms are defined in the Crown Retail Guarantee). This includes retail deposits held by Kiwibank plus deposits held on behalf of the Kiwibank PIE Unit Trust. Debt securities issued to (including retail deposits held by) related parties of Kiwibank and financial institutions are excluded. Related parties of Kiwibank include Kiwibank's subsidiaries and its parent, NZP.

c. The Crown Retail Guarantee expires at 12:01am on 12 October 2010 and there is currently no option to roll over or renew the Crown Retail Guarantee.

d. The maximum liability of the Crown under the Crown Retail Guarantee is one million New Zealand dollars ($1,000,000) in aggregate to each creditor or such other amount as may, in respect of a "nominated beneficiary" (as defined in the Crown Retail Guarantee), be specified in or determined in accordance with the relevant nomination.

e. The Crown Retail Guarantee provides that in the event Kiwibank defaults on its payment obligations, Kiwibank must use all reasonable endeavours to ensure that all creditors claim under any other applicable guarantee before the Crown Retail Guarantee.

Guarantors continued

f. Other than this provision, there are no material conditions applying to the Crown Retail Guarantee other than non-performance by the principal obligor.

g. Additional information on the Crown Retail Guarantee scheme and the Crown's most recent audited financial statements are available, free of charge and at all reasonable times, on New Zealand Treasury's website:/www.treasury.govt.nz.

h. The Crown has the following credit ratings applicable to its long term obligations payable in New Zealand dollars:

Standard & Poor's (Australia) Pty Limited: AAA

Fitch Ratings Limited AAA

Moody's Investors Services: Aaa

There have been no changes made to the rating in the two years preceding 31 March 2009. The following table describes the steps in the applicable rating scales for each rating agency:

	Standard & Poor's	Moody's Investors Services	Fitch Ratings
Highest credit quality – ability to repay debt obligations is extremely strong	AAA	Aaa	AAA
High quality, low credit risk – ability to repay debt obligations is very strong	AA	Aa	AA
High quality – ability to repay is strong although may be susceptible to adverse changes in circumstances or in economic conditions	A	A	A
Low credit risk – satisfactory ability to repay debt obligations though changes in circumstances or in economic conditions are likely to impair this capacity	BBB	Baa	BBB
Ability to repay debt obligations is only adequate and likely to be affected by adverse economic change which might affect timeliness of repayment	BB	Ba	BB
Risk of default due to greater vulnerability	B	B	B
Significant risk of default. Repayment of debt obligations requires favourable financial conditions	CCC	Caa	CCC
Poor protection, highest risk of default	CC to C	Ca to C	CCto C
Obligations currently in default	D	–	RD to D

Credit ratings between AA – CCC by Standard & Poor's and Fitch Ratings may be modified by the addition of a plus or minus sign (signalling higher and lower end of the scale respectively). Moody's Investor Services applies numeric modifies 1, 2 and 3 to each generic rating classification with a 1 indicating a higher rating and a 3 indicating a lower rating within that generic rating category.

Guarantors continued

Crown Wholesale Guarantee

On 1 November 2008 the New Zealand Government announced details of a wholesale funding guarantee facility (the Facility) to investment-grade financial institutions that have substantial New Zealand borrowing and lending operations, giving institutions the ability to opt-in to the guarantee either by institution or by instrument. The credit ratings applicable to the Crown are set out in part h above.

On 24 March 2009, Kiwibank was accepted into the scheme by the New Zealand Government by the issue of a Guarantee Eligibility Certificate.

A guarantee fee is charged for each guarantee issued under the Facility, differentiated by the credit rating of the issuer and the term of the security being guaranteed. The maximum term of securities guaranteed is five years.

As at the date this General Short Form Disclosure Statement is signed, the banking group has taken no action in relation to the Facility.

The following is a summary of the features of the Crown Wholesale Guarantee:

a. The Crown's address for service is 1 The Terrace, Wellington 6011, New Zealand.

b. The Crown guarantees the payment by Kiwibank of any liability of Kiwibank to pay principal and interest in respect of the debt securities for which the Crown has issued a Guarantee Eligibility Certificate and

c. Undertakes that if Kiwibank does not pay any such liability on the date on which it becomes due, the Crown shall within 5 business days of a demand being made in accordance with the Wholesale Deed and following the expiry of any applicable grace period, pay such liability.

d. The Crown Wholesale Guarantee does not extend to debt securities held by related parties.

e. Additional information on the Crown Wholesale Guarantee scheme and the Crown's most recent audited financial statements are available, free of charge and at all reasonable times, on New Zealand Treasury's website:/www.treasury.govt.nz.

f. The Crown has the following credit ratings applicable to its long term obligations payable in New Zealand dollars:

Standard & Poor's (Australia) Pty Limited:	AAA
Fitch Ratings Limited	AAA
Moody's Investors Services:	Aaa

There have been no changes made to the rating in the two years preceding 31 March 2009. The table on page 4 above describes the steps in the applicable rating scales for each rating agency.

A copy of Kiwibank's most recent Supplemental Disclosure Statement, containing a copy of the full guarantee contracts for the NZP Guarantee, the Crown Retail Guarantee and the Crown Wholesale Guarantee 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 or 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 15 October 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) 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$30 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 Assessment 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;

      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.

Conditions of registration continued

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 March 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

The directors of Kiwibank state that each director believes, after due enquiry, 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. 2. During the nine months ended 31 March 2009:
    - 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, operational risk and other business risks, and that those systems were being properly applied.

Signed by Rt Hon. James Bolger and Richard Westlake as directors and responsible persons on behalf of all the directors listed on page 1 of this Short Form Disclosure Statement:

26 May 2009

Interim financial statements for The Banking Group

Consolidated income statement

For the nine months ended 31 March 2009

Dollars in thousands	Note	**Unaudited 9 months ended 31/03/09**	Unaudited 9 months ended 31/03/08	Audited 12 months ended 30/06/08
Interest income		**512,585**	385,122	558,917
Interest expense		**(394,620)**	(299,723)	(444,004)
Net interest income		**117,965**	85,399	114,913
Losses on financial instruments at fair value	2	**(20)**	(5,858)	(6,116)
Other income		**112,661**	98,228	129,301
Total operating income		**230,606**	177,769	238,098
Operating expenses		**(162,345)**	(133,528)	(179,432)
Impairment of loans and advances	15	**(9,741)**	(1,157)	(4,097)
Net profit before taxation		**58,520**	43,084	54,569
Income tax expense		**(18,375)**	(13,008)	(17,748)
Net profit after taxation		**40,145**	30,076	36,821

Consolidated statement of movements in equity

For the nine months ended 31 March 2009

Dollars in thousands	Note	**Unaudited 9 months ended 31/03/09**	Unaudited 9 months ended 31/03/08	Audited 12 months ended 30/06/08
Equity at beginning of the period		**325,977**	249,356	249,056
Net profit after taxation		**40,145**	30,076	36,821
Movement in items recognised directly in equity:		**–**	–	–
Net change in available-for-sale reserve (net of tax)	14	**9,798**	(6,161)	(2,333)
Net change in cash flow hedge reserve (net of tax)	14	**(71,527)**	302	(7,867)
Total recognised income and expense for the period		**(21,584)**	24,217	26,621
Share capital issued	14	**–**	35,000	50,000
Equity at end of the period		**304,393**	308,573	325,977

The notes on pages 12 to 43 form part of these interim financial statements.

Interim financial statements for The Banking Group continued

Consolidated balance sheet

As at 31 March 2009

Dollars in thousands	Note	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
Assets				
Cash and cash equivalents		**284,659**	210,954	257,235
Balances with NZP related parties		**10,017**	13,411	–
Due from other financial institutions		**51,282**	–	150,910
Financial assets held for trading	3	**859,735**	378,511	420,311
Available-for-sale assets	4	**675,844**	796,629	697,359
Loans and advances	5	**7,686,681**	5,107,029	5,580,580
Derivative financial instruments	9	**53,801**	44,372	31,831
Intangible assets	8	**58,063**	49,911	47,114
Property, plant and equipment		**22,554**	19,451	19,184
Deferred taxation		**31,484**	(4,483)	(4,879)
Other assets		**24,448**	15,838	19,583
Total assets		**9,758,568**	6,631,623	7,219,228
Financed by:				
Liabilities				
Due to other financial institutions		**442,040**	519,322	485,680
Balances with NZP related parties		**2,795**	3,354	3,801
Deposits and other borrowings	7	**7,634,112**	5,139,718	5,748,297
Derivative financial instruments	9	**314,540**	22,583	61,641
Debt securities issued		**854,088**	537,634	482,312
Current taxation		**1,370**	(6,858)	(6,052)
Other liabilities		**46,783**	27,696	36,132
Deferred settlement liability	10	**17,184**	5,068	5,203
Term subordinated debt	11	**141,263**	74,533	76,237
Total liabilities		**9,454,175**	6,323,050	6,893,251
Equity				
Share capital	14	**275,000**	260,000	275,000
Reserves	14	**29,393**	48,573	50,977
Total equity		**304,393**	308,573	325,977
Total liabilities and shareholder's equity		**9,758,568**	6,631,623	7,219,228

The notes on pages 12 to 43 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 2009

Dollars in thousands	Note	**Unaudited 9 months ended 31/03/09**	Unaudited 9 months ended 31/03/08	Audited 12 months ended 30/06/08
Cash flows from operating activities				
Interest received		**510,160**	377,789	550,667
Fees and other income, including related parties		**112,661**	88,358	129,301
Operating expenses paid		**(151,965)**	(122,849)	(158,054)
Interest paid		**(412,013)**	(252,421)	(359,803)
Taxes paid		**(20,902)**	(12,624)	(16,612)
Net cash flows from operating activities before changes in operating assets and liabilities		**37,941**	78,253	145,499
Net changes in operating assets and liabilities:				
Increase in financial assets held for trading		**(441,781)**	(148,000)	(185,000)
Decrease/(increase) in available-for-sale assets		**39,374**	(268,231)	(161,913)
Increase in loans and advances		**(1,971,399)**	(1,971,399)	(1,981,752)
Increase in loans to related parties		**(10,000)**	–	–
Decrease/(increase) in balances due from other financial institutions		**99,627**	–	(141,432)
Increase in deposits and other borrowings		**1,896,866**	1,205,789	1,792,612
(Decrease)/increase in balances due to other financial institutions		**(33,277)**	456,464	419,598
Net cash flows provided by operating activities	19	**(382,649)**	(197,382)	(112,388)
Cash flows from investing activities				
Net intercompany loans and advances		**–**	(13,300)	–
Purchase of property, plant and equipment		**(7,734)**	(5,089)	(6,049)
Purchase of intangible software assets		**(9,329)**	(9,106)	(13,263)
Purchase of customer relationships		**–**	(11,452)	(11,718)
Net cash flows from investing activities		**(17,063)**	(19,942)	(31,030)
Cash flows from financing activities				
Issue of ordinary shares		**–**	35,000	50,000
Proceeds from issue of term subordinated debt		**60,000**	–	–
Increase in debt securities issued		**368,082**	123,430	61,998
Dividends paid		**(946)**	(637)	(835)
Net cash flows from financing activities		**427,136**	157,793	111,163
Increase/(decrease) in cash and cash equivalents		**27,424**	(78,536)	(32,255)
Cash and cash equivalents at beginning of the period		**257,235**	289,490	289,490
Cash and cash equivalents at the end of the period		**284,659**	210,954	257,235

The notes on pages 12 to 43 form part of these interim financial statements.

Notes to the interim financial statements

1. Statement of accounting policies

Reporting entity and statutory base

In these interim financial statements, the reporting entity is The "Banking Group", consisting of Kiwibank Limited ("Kiwibank") and its subsidiaries. Kiwibank is registered under the Companies Act 1993 and is registered as a bank under the Reserve Bank of New Zealand Act 1989.

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.

These interim financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. 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. The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2008.

These interim financial statements have been approved for issue by the Board of Directors on 26 May 2009.

The preparation of these interim 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 the Banking Group 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 interim 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. The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2008.

Currency of presentation

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

Specific accounting policies

Basis of consolidation

The Banking Group's interim financial statements consolidate the interim 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.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

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 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.

Financial assets

Financial assets are classified 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-classes: 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 has designated the Kiwibank retail fixed rate loan portfolio, originated prior to 1 January 2008, as financial assets at fair value through profit or loss, as this significantly reduces an accounting mismatch, which would arise if such loans were 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. 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. Transactions costs are expensed as they are incurred.

1. Statement of accounting policies continued

Financial instruments continued

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. Loans and receivables include loans and advances not at fair value through profit or loss, current taxation, amounts due from other financial institutions and other assets.

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), fair value is established 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.

Financial liabilities

Financial liabilities held for trading are classified 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.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Financial liabilities continued

Financial liabilities designated at fair value through profit or loss are registered certificates of deposits, repurchase agreements and a portion of the term subordinated debt.

Financial liabilities designated at held for trading are derivatives and the deferred settlement liability. All other financial liabilities are at amortised cost.

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

Derivative financial instruments and hedge accounting 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 Kiwibank, 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

At each balance sheet date an assessment is made as to 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 Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008, are assessed for impairment by reference to the remaining maturities on the loan portfolio. The risk associated with this particular portfolio is mitigated by the fact that it contains only secured retail home loans and therefore excludes commercial lending.

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

Management 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 no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included 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, 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. Kiwibank uses loan mortgage insurance on origination of loans where the loan to value ratio is > 80%. Kiwibank assesses the maturity of a loan against current credit spreads and revalues credit spreads on new business.

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 and historical loss experience for assets with similar credit risk characteristics. 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 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 – Financial Instruments: Recognition and Measurement.

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.

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.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

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.

Trailing commissions

The Banking Group receives trailing commissions from lenders on loans they have settled that were originated by the Banking Group. The trailing commissions are received over the life of the loans based on loan book balance outstanding. The Banking Group also makes trailing commission payments to Franchisees based on the loan book balance outstanding.

On initial recognition, trailing commission revenue and receivables are recognised at fair value, being the expected future trailing commission receivables discounted to their net present value. In addition, an associated payable and expense to the Franchisee are also recognised, initially measured at fair value being the future trailing commission payable to Franchisees discounted to their net present value.

Subsequent to initial recognition and measurement, both the trailing commission asset and trailing commission payable are measured at amortised cost. The carrying amount of the trail commission asset and trailing commission payable are adjusted to reflect actual and revised estimated cash flows by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in the profit and loss account.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

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.

Superannuation and employee entitlements

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. The Banking Group makes employer contributions to the KiwiSaver scheme.

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 is 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 2009.

Notes to the interim financial statements continued

1. Statement of accounting policies continued

Comparative amounts

Comparative amounts are from the audited financial statements for the year ended 30 June 2008 and the unaudited interim financial statements for the nine months ended 31 March 2008. Certain comparatives have been restated where appropriate to ensure consistency with the current period.

Critical estimates and judgements used in applying accounting policies

There are a number of critical accounting treatments which include subjective judgements and estimates that may affect the reported assets and liabilities in the interim 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 interim financial statements are set out below.

Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

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 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 Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008, and over-the-counter derivatives, is determined by using valuation techniques. Kiwibank uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Expected cash flows are after allowance for prepayment risk and are discounted at current market rates including an adjustment for credit risk.

The fair value of Kiwibank's retail fixed term loan portfolio originated prior to 1 January 2008 is determined by discounting estimated cash flows expected to be received. An amortisation rate 3.5% is applied (31 March 2008: 2.8%; 30 June 2008: 3.0%).

Only scheduled repayments or contractual lump sum repayments are taken into account in calculating the amortisation rate. Prepayment risk associated with unscheduled repayments or loan terminations have been disregarded as application of Kiwibank's break fees ensures that no Mark-to-Market impact needs to be considered. The curve against which each loan is discounted is constructed using the end of period NZ Wholesale curve as the benchmark rate to develop a zero curve which is then adjusted by an assessed market credit spread component. The credit spread component is determined by applying the current fixed retail margin for that maturity to the outstanding loan balance.

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.

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

Loan portfolios are assessed for impairment on at least a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, judgements are made 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

Critical estimates and judgements used in applying 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 2009 was $17.3m (31 March 2008: $7.7m; 30 June 2008: $7.8m).

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 goodwill was not impaired.

Goodwill is allocated to a single cash generating unit (The NZ Home Loan Company Limited "NZHL"). The recoverable amount of a CGU is determined based on a value in use calculation. These calculations use pre-tax cash flow projections based on financial budgets approved by the Board covering a five year period. Cash flows beyond the five year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long term average growth rate for the New Zealand economy.

The key assumptions used for value in use calculations are as follows:

Short term growth rate	10%
Long term growth rate	2%
Discount rate	11.59%

The short term growth rate was calculated by management based on actual growth achieved in the immediately preceding years, adjusted for extraordinary items then extrapolated forward for five years.

Management determined the long term average growth rate with reference to standard inflation rates in New Zealand. The discount rate used is NZHL's post tax weighted average cost of capital.

Fair value of contingent deferred settlement liabilities

The Banking Group has recognised the fair value of contingent 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 (31 March 2008; 11.59%: 30 June 2008; 11.59%).

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 9 months ended 31/03/09**	Unaudited 9 months ended 31/03/08	Audited 12 months ended 30/06/08
2. Net gains/(losses) on financial instruments at fair value			
Financial assets designated at fair value through profit or loss upon initial recognition	**122,900**	19,949	38,014
Derivative financial instruments held for trading	**(118,139)**	(31,807)	(42,039)
Financial liabilities designated at fair value through profit or loss upon initial recognition	**(7,386)**	(174)	(358)
Financial assets held for trading	**3,175**	300	212
Net ineffectiveness on qualifying cash flow hedges	**(464)**	(153)	(674)
Net ineffectiveness on qualifying fair value hedges	**45**	28	37
Cumulative gain/(loss) transferred from the available-for-sale reserve	**3,114**	(1,785)	(3,409)
Cumulative (loss)/gain transferred from the cash flow hedge reserve	**(3,219)**	5,079	(1,104)
Net foreign exchange (losses)/gains	**(46)**	2,705	3,205
Total losses on financial instruments	**(20)**	(5,858)	(6,116)

	Unaudited 31/03/09	Unaudited 31/03/08	Audited 30/06/08
3. Financial assets held for trading			
Bank bills	**403,553**	333,131	367,957
Other securities	**456,182**	45,380	52,354
Total financial assets held for trading	**859,735**	378,511	420,311
Current	**772,396**	378,511	420,311
Non-current	**87,339**	–	–
4. Available-for-sale assets			
Government stock and multilateral development banks	**264,028**	180,805	179,449
Local authority securities	**2,462**	29,434	5,006
Other debt securities	**409,354**	586,390	512,904
Total available-for-sale assets	**675,844**	796,629	697,359
Current	**163,164**	165,564	144,933
Non-current	**512,680**	631,065	552,426

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
5. Loans and advances			
Loans and advances designated upon initial recognition at fair value through profit or loss	**2,732,667**	3,768,823	3,154,159
Loans and advances at amortised cost	**4,963,705**	1,340,083	2,429,332
Allowance for impairment losses (note 15)	**(9,691)**	(1,877)	(2,911)
Total net loans and advances	**7,686,681**	5,107,029	5,580,580
Current	**922,402**	432,934	618,996
Non-current	**6,674,095**	4,674,095	4,961,584
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	**2,459**	3,392	2,879

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.

Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
6. Total interest earning and discount bearing assets			
Total interest earning and discount bearing assets	**9,593,656**	6,505,695	7,110,848
Current	**2,194,316**	1,157,166	1,596,838
Non-current	**7,399,340**	5,348,529	5,514,010

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
7. Deposits and other borrowings			
Retail deposits	**5,577,089**	4,229,868	4,708,322
Deposits with PIE Unit Trust	**823,641**	–	119,465
Wholesale deposits	**1,233,382**	909,850	920,510
Total	**7,634,112**	5,139,718	5,748,297
New Zealand	**7,431,569**	5,058,296	5,647,416
Overseas	**202,543**	81,422	100,881
Total deposits and other borrowings at amortised cost	**7,634,112**	5,139,718	5,748,297
Current	**7,411,546**	5,067,131	5,651,867
Non-current	**222,566**	72,587	96,430

In the event of liquidation of Kiwibank, deposit holders will rank equally with all other creditors but ahead of subordinated debt holders and share holders. In addition, 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.

In addition to the deed poll guarantee, Kiwibank has also subscribed to the New Zealand deposit guarantee scheme (the "Government Guarantee"). The details of this scheme are set out on page 4 of this General Disclosure Statement.

The Kiwibank PIE Unit Trust, established under the Unit Trusts Act 1960 in May 2008, operates two funds; the PIE Term Deposit Fund and PIE Online Call Fund. Kiwibank Investment Management Limited is the issuer and manager of the Unit Trust. Trustees Executors Limited is the trustee of the Unit Trust. Kiwibank is the promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Unit Trust is invested exclusively in term and call deposits with Kiwibank.

Kiwibank guarantees the payment obligations of the manager and any amounts owing to Unit Holders under the Trust Deed in respect of their Units and agrees to pay to Unit Holders any shortfall between the amount they may receive on redeeming their Units or in the winding up of the Trust and the balance of their Unit Accounts. The deposits held by the Unit Holders are also guaranteed under the Government Guarantee scheme.

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
8. Intangible assets			
Goodwill	**17,288**	7,716	7,825
Computer software	**23,226**	18,012	19,814
Other intangible assets	**8,700**	17,152	11,868
Computer software work in progress	**8,849**	7,031	7,607
Total intangible assets	**58,063**	49,911	47,114
Goodwill			
Balance at beginning of period	**7,825**	7,080	7,080
Additions	**9,463**	636	745
Balance at end of period	**17,288**	7,716	7,825
Computer software			
Cost brought forward	**46,316**	37,911	37,911
Accumulated amortisation brought forward	**(26,502)**	(20,001)	(20,001)
Opening net book value	**19,814**	17,910	17,910
Additions	**9,329**	4,824	8,405
Amortisation	**(5,917)**	(4,722)	(6,501)
Closing net book value	**23,226**	18,012	19,814
Cost	**55,645**	42,735	46,316
Accumulated amortisation	**(32,419)**	(24,723)	(26,502)
Closing net book value	**23,226**	18,012	19,814
Acquired customer relationships			
Cost brought forward	**17,388**	10,498	10,498
Accumulated amortisation brought forward	**(5,520)**	(1,262)	(1,262)
Opening net book value	**11,868**	9,236	9,236
Additions	**–**	11,452	11,718
Disposals	**–**	–	(4,828)
Amortisation	**(3,168)**	(3,536)	(4,258)
Closing net book value	**8,700**	17,152	11,868
Cost	**17,388**	21,950	17,388
Accumulated amortisation	**(8,688)**	(4,798)	(5,520)
Closing net book value	**8,700**	17,152	11,868
Computer software work in progress	**8,849**	7,031	7,607

Notes to the interim financial statements continued

9. Derivative financial instruments

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Fair values Liabilities
Unaudited 31/03/09				
Derivatives held for trading				
Foreign exchange derivatives				
Forward contracts	68,926	3,262	2,515	(54)
Swap agreements	193,848	7,657	954	(9,374)
Total	262,774	10,919	3,469	(9,428)
Interest rate derivatives				
Forward contracts	1,530,000	1,973	1,973	(191)
Swap agreements	3,516,530	48,792	36,635	(170,013)
Futures contracts	345,000	–	6	(282)
Total	5,391,530	50,765	38,614	(170,486)
Total derivatives held for trading	5,654,304	61,684	42,083	(179,914)
Derivatives held for hedging				
Designated as cash flow hedges				
Interest rate derivatives				
Swap agreements	2,575,000	12,985	5,105	(133,656)
Total derivatives designated as cash flow hedges	2,575,000	12,985	5,105	(133,656)
Designated as fair value hedges				
Interest rate derivatives				
Swap agreements	97,000	7,098	6,613	(970)
Total derivatives designated as fair value hedges	97,000	7,098	6,613	(970)
Total derivatives held for hedging	2,672,000	20,083	11,718	(134,626)
Total derivative financial instruments	8,326,304	81,767	53,801	(314,540)
Current	4,085,963	19,354	18,759	(51,993)
Non-current	4,240,341	62,413	35,042	(262,547)

Notes to the interim financial statements continued

9. Derivative financial instruments continued

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Fair values Liabilities
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)
Current	129,023	763,354	1,003	(1,106)
Non-current	6,271,383	(688,739)	43,369	(21,477)

Notes to the interim financial statements continued

9. Derivative financial instruments continued

Dollars in thousands	Notional Principal Amount	Credit Equivalent Amount	Fair values Assets	Fair values Liabilities
Audited 30/06/08				
Derivatives held for trading				
Foreign exchange derivatives				
Forward contracts	99,712	1,096	63	(782)
Swap agreements	114,824	2,745	-	(10,947)
Total	214,536	3,841	63	(11,729)
Interest rate derivatives				
Forward contracts	725,000	175	175	(157)
Swap agreements	4,491,000	46,236	30,979	(31,764)
Futures contracts	300,000	-	28	(5)
Total	5,516,000	46,411	31,182	(31,926)
Total derivatives held for trading	5,730,536	50,252	31,245	(43,655)
Derivatives held for hedging				
Designated as cash flow hedges				
Interest rate derivatives				
Swap agreements	1,013,000	5,241	176	(17,839)
Total derivatives designated as cash flow hedges	1,013,000	5,241	176	(17,839)
Designated as fair value hedges				
Interest rate derivatives				
Swap agreements	42,000	620	410	(147)
Total derivatives designated as fair value hedges	42,000	620	410	(147)
Total derivatives held for hedging	1,055,000	5,861	586	(17,986)
Total derivative financial instruments	6,785,536	56,113	31,831	(61,641)
Current	2,659,843	15,757	14,173	(10,650)
Non-current	4,125,693	40,356	17,658	(50,991)

Notes to the interim financial statements continued

Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
10. Deferred settlement liability			
Opening balance	**5,203**	4,663	4,663
Finance costs	**3,464**	405	540
Fair value movement	**8,517**	–	–
Closing balance – non current	**17,184**	5,068	5,203

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.

11. Term subordinated debt			
Face value	**135,000**	75,000	75,000
Interest accrued	**217**	189	1,621
Premium	**(462)**	(333)	(326)
Fair value hedge adjustment	**6,508**	(323)	(58)
Total term subordinated debt	**141,263**	74,533	76,237

The terms and conditions of these term subordinated debt issues are as follows:

Issue date	Amount $000's	Coupon rate	Call date	Maturity date
20 March 2007	75,000	7.72%	20 March 2012	20 March 2017
30 September 2008	60,000	8.75%	30 September 2013	30 September 2018

The term subordinated debt issues are subordinate to all other general liabilities of the Banking Group and are denominated in New Zealand dollars. The debt 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, NZP. The debt is also not covered by the Crown Guarantee scheme.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period, (periods ended 31 March 2008 and 30 June 2008; same).

12. Total interest and discount bearing liabilities			
Total interest earning and discount bearing liabilities	**9,402,504**	6,289,688	6,865,658
Current	**8,758,944**	6,116,023	6,623,912
Non-current	**643,560**	173,665	241,746

13. Assets used to secure deposit obligations			
Assets used to secure deposit obligations	**441,308**	521,584	153,710

Notes to the interim financial statements continued

14. Equity	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
Issued and paid up capital			
275,000,000 shares fully paid	**275,000**	260,000	275,000
Retained earnings	**104,896**	58,006	64,751
Cash flow hedge reserve	**(81,518)**	(1,822)	(9,991)
Available-for-sale reserve	**6,015**	(7,611)	(3,783)
Total equity	**304,393**	308,573	325,977
Share capital			
Balance at beginning of the period	**275,000**	225,000	225,000
Issues in period	**-**	10,000	50,000
Balance at end of the period	**275,000**	235,000	275,000
Retained earnings			
Balance at beginning of the period	**64,751**	27,930	27,930
Net profit for the period	**40,145**	30,076	36,821
Balance at end of the period	**104,896**	58,006	64,751
Cash flow hedge reserve			
Balance at beginning of the period	**(9,991)**	(2,124)	(2,124)
Net loss from changes in fair value after tax	**(73,780)**	3,705	(8,607)
Cumulative loss transferred to the income statement	**3,219**	(5,079)	1,104
Tax effect of items transferred to income statement	**(966)**	1,676	(364)
Balance at end of the period	**(81,518)**	(1,822)	(9,991)
Available-for-sale reserve			
Balance at beginning of the period	**(3,783)**	(1,450)	(1,450)
Net gain/(loss) from changes in fair value after tax	**11,978**	(7,357)	(4,617)
Cumulative (gain)/loss transferred to the income statement on disposal of financial assets	**(3,114)**	1,785	3,409
Tax effect of items transferred to income statement	**934**	(589)	(1,125)
Balance at end of the period	**6,015**	(7,611)	(3,783)

The total authorised number of ordinary shares at period end was 275 million (31 March 2008: 260 million; 30 June 2008: 275 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 30 April 2009 20,000,000 ordinary shares were issued for cash at $1 per share to NZP.

Notes to the interim financial statements continued

15. Asset quality

	The Banking Group		
Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
Past due assets > 90 days – retail unsecured lending			
Balance at beginning of the period	**1,309**	480	480
Net additions	**4,532**	911	1,309
Deletions	**(525)**	(245)	(245)
Amounts written off	**(2,883)**	(235)	(235)
Gross balance at end of period	**2,433**	911	1,309
Past due > 90 days – retail secured			
Balance at beginning of the period	**5,872**	1,531	1,531
Net additions	**29,190**	6,841	5,872
Deletions	**(13,880)**	(781)	(781)
Amounts written off	**(140)**	(750)	(750)
Gross balance at end of period	**21,042**	6,841	5,872
Past due assets > 90 days – corporate and institutional lending			
Balance at beginning of the period	**1,579**	–	–
Net additions	**863**	2,247	1,579
Deletions	**(433)**	–	–
Advances written off	**(875)**	–	–
Gross balance at end of period	**1,134**	2,247	1,579
Total past due assets > 90 days	**24,609**	9,999	8,760

Notes to the interim financial statements continued

15. Asset quality continued

	The Banking Group		
Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
Impaired assets – retail unsecured lending			
Balance at beginning of the period	**202**	64	64
Net additions	**186**	103	202
Deletions	**(196)**	(38)	(38)
Amounts written off	**(6)**	(26)	(26)
Gross balance at end of period	**186**	103	202
Impaired assets – retail secured lending			
Balance at beginning of the period	**3,612**	–	–
Net additions	**9,272**	–	3,612
Deletions	**(3,164)**	–	–
Amounts written off	**(885)**	–	–
Gross balance at end of period	**8,835**	–	3,612
Impaired assets – corporate and institutional lending			
Balance at beginning of the period	**253**	–	–
Net additions	–	–	253
Deletions	**(198)**	–	–
Advances written off	**(55)**	–	–
Gross balance at end of period	–	–	253
Total gross impaired assets	**9,021**	103	4,067
Individual allowance for impairment	**(2,683)**	–	**(840)**
Total net impaired assets	**6,338**	**103**	**3,227**

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the interim financial period. This amounts to $150k (31 March 2008: $2k; 30 June 2008; $28k).There are no real estate or other assets acquired through the enforcement of security held at 31 March 2009 (31 March 2008: nil; 30 June 2008: nil). There are no assets under administration as at 31 March 2009 (31 March 2008: nil; 30 June 2008: nil). There are no unrecognised impaired assets as at 31 March 2009 (31 March 2008: nil; 30 June 2008: nil).

Restructuring activities include extended payment plans, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

There are no restructured assets as at 31 March 2009 (31 March 2008: nil; 30 June 2008: 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 2009 (31 March 2008: nil; 30 June 2008: nil).

Notes to the interim financial statements continued

15. Asset quality continued

Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
Allowance for impairment losses in balance sheet			
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	**2,459**	3,392	2,879
Collective allowance for impairment losses	**7,008**	1,877	2,071
Individually impaired assets	**2,683**	–	840
Total allowance for impairment losses	**12,150**	5,269	5,790

Dollars in thousands	**Unaudited 9 months ended 31/03/09**	Unaudited 9 months ended 31/03/08	Audited 12 months ended 30/06/08
Impairment losses per income statement			
Impairment losses on loans not at fair value through profit or loss	**6,952**	1,157	3,257
Charge to income statement for individually impaired assets	**2,789**	–	840
Total impairment losses per income statement	**9,741**	1,157	4,097

Notes to the interim financial statements continued

15. Asset quality continued

The reconciliation of the collective allowance account for losses on loans and advances by class is as follows:

	The Banking Group			
Banking Group and Kiwibank	Retail unsecured lending	Retail mortgage lending	Corporate and institutional	Total
Collective allowance for impairment losses				
Unaudited 9 months ended 31/03/09				
Balance at beginning of the period	**1,349**	**403**	**319**	**2,071**
Impairment losses on loans not at fair value through profit or loss	**3,537**	**1,098**	**2,317**	**6,952**
Amounts written off	**(2,015)**	**–**	**–**	**(2,015)**
Total collective allowance for impairment losses	**2,871**	**1,501**	**2,636**	**7,008**
Unaudited 9 months ended 31/03/08				
Balance at beginning of the period	720	–	–	720
Impairment losses on loans not at fair value through profit or loss	1,157	–	–	1,157
Amounts written off	–	–	–	–
Total collective allowance for impairment losses	1,877	–	–	1,877
Audited 12 months ended 30/06/08				
Balance at beginning of the period	720	–	–	720
Impairment losses on loans not at fair value through profit or loss	2,535	403	319	3,257
Advances written off	(1,906)	–	–	(1,906)
Total collective allowance for impairment losses	1,349	403	319	2,071

Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
Individual allowance for impairment losses			
Balance at beginning of the period	**840**	–	–
Charge to income statement	**2,789**	–	840
Bad debts written off	**(946)**	–	-
Balance at the end of the period	**2,683**	–	840

Notes to the interim financial statements continued

16. 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.

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.

Payment Services' fee revenue and expenditure of $31.7m are included in Kiwibank under a management agreement whereby Kiwibank manages the Payment Services activity of NZP (31 March 2008: $31.6m; 30 June 2008: $41.4m). Payment Services' activity consists of collection agency business.

Kiwibank received remuneration of $234k for the period (31 March 2008: $234k; 30 June 2008: $312k) 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 2009, the New Zealand Post Superannuation Plan was holding $17.0m on deposit with Kiwibank (31 March 2008: $13.2m; 30 June 2008: $13.2m) and the New Zealand Post Electoral Enrolment Centre was holding $2.7m on deposit with Kiwibank (31 March 2008: $2.5m; 30 June 2008: $2.6m). 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.

At balance date 26.5% of Kiwibank's total operating expenditure was paid to NZP group companies (31 March 2008, 36.0%; 30 June 2008, 34.6%). Part of this amount relates to the reimbursement of Payment Services expenditure, which includes personnel, property, IT support, marketing and other administrative costs.

The NZP Group has a credit facility with the Banking Group allowing it to drawdown up to $35m at any one time. When loans are drawn down the transaction is undertaken on an arm's length basis at market interest rates. As at 31 March 2009 the amount owed by the NZP Group to the Banking Group was $10.0m (31 March 2008; $13.4m: 30 June 2008; $nil). The table below shows amounts due to individual subsidiaries within the NZP group as at balance date.

Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
NZP Parent	**2,174**	2,806	3,289
Datamail	**319**	242	258
CommArts	**288**	271	274
Other subsidiaries within the NZP Group	**14**	35	(20)
Total	**2,795**	3,354	3,801

Notes to the financial statements continued

17. Credit exposure concentrations

Credit exposure to individual counterparties

Credit exposure concentrations are disclosed on the basis of actual exposures and gross of set-offs. Peak end-of-day aggregate credit exposures have been calculated using the Banking Group's tier one capital at the end of the period.

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 31/03/09		Unaudited 3 months ended 31/03/08		Audited 3 months ended 30/06/08	
	Non-Bank	**Bank**	Non-Bank	Bank	Non-Bank	Bank
As at balance date						
10% - 19%	**2**	**6**	–	4	1	4
20% - 29%	**1**	**–**	1	2	–	–
30% - 39%	**–**	**–**	–	–	–	1
40% - 49%	**–**	**3**	–	1	–	1
50% - 59%	**–**	**1**	–	1	–	–
60% - 69%	**–**	**–**	–	1	–	–
80% - 89%	**–**	**–**	–	–	–	1
Peak exposure						
10% - 19%	**4**	**8**	–	5	1	4
20% - 29%	**–**	**–**	1	4	1	–
30% - 39%	**1**	**–**	–	–	–	1
40% - 49%	**–**	**1**	–	1	–	1
50% - 59%	**–**	**–**	–	–	–	1
60% - 69%	**–**	**–**	–	1	–	–
80% - 89%	**–**	**1**	–	1	–	2
90% - 99%	**–**	**2**	–	1	–	2
100% - 109%	**–**	**1**	–	1	–	2

Notes to the financial statements continued

17. 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. 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 or above, or its equivalent, where the peak end-of-day aggregate actual credit exposures, net of individual credit impairment allowance (which was nil), equalled or exceeded 10% of the Banking Group's shareholder's equity as at balance date are:

Dollars in thousands	**Unaudited 3 months ended 31/03/09** Amount	**Unaudited 3 months ended 31/03/09** % of total credit exposure	Unaudited 3 months ended 31/03/08 Amount	Unaudited 3 months ended 31/03/08 % of total credit exposure	Audited 3 months ended 30/06/08 Amount	Audited 3 months ended 30/06/08 % of total credit exposure
Bank counterparties						
Investment grade credit rating	**840,752**	**100%**	791,193	100%	691,151	100%
Below investment grade credit rating	**-**	**-**	-	-	-	-
Not rated	**-**	**-**	-	-	-	-
Total credit exposure	**840,752**	**100%**	791,193	100%	691,151	100%
Non-bank counterparties						
Investment grade credit rating	**166,575**	**100%**	65,000	-	60,000	100%
Below investment grade credit rating	**-**	**-**	-	-	-	-
Not rated	**-**	**-**	-	-	-	-
Total credit exposure	**166,575**	**100%**	65,000	-	60,000	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 information on credit exposure to connected persons has been derived in accordance with the Banking Group's Conditions of Registration. 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 last quarter. 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. The limit is 125% of the Banking Group's Tier One Capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure. There are no individual impairment credit allowances against credit exposures to non-bank connected persons nor are there any contingent exposures arising from risk lay-off arrangements to connected persons as at 31 March 2009 (31 March 2008: nil; 30 June 2008: nil).

Dollars in thousands	**Unaudited 3 months ended 31/03/09**	Unaudited 3 months ended 31/03/08	Audited 3 months ended 30/06/08
Credit exposures to non-bank connected persons at period end	**10,032**	13,313	26
Credit exposures to non-bank connected persons at period end expressed as a percentage of total tier one capital	**3.2%**	5.3%	0.0%
Peak credit exposures to non-bank connected persons during the period	**20,112**	13,320	13,320
Peak credit exposures to non-bank connected persons during the period expressed as a percentage of total tier one capital	**6.4%**	5.3%	4.6%

Notes to the interim financial statements continued

18. Fiduciary activities and insurance

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, Kiwibank was not involved in the origination of securitised assets.

Insurance business

The Banking Group markets and distributes its life insurance products through the Banking Group's distribution channels using its wholly owned subsidiary, Kiwi Insurance Limited. An external, third party insurance company underwrites some of the insurance business.

The total assets of Kiwi Insurance Limited as at 31 March 2009 are $2.9m (31 March 2008: $3.2m; 30 June 2008: $2.6m), which is 0.03% of the total assets of the Banking Group (31 March 2008: 0.05%; 30 June 2008: 0.04%). 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 an independent actuary who is a Fellow of the New Zealand Society of Actuaries. Should adverse conditions arise, these policies and procedures are expected to mitigate the impact of the conditions on the Banking Group.

Funds Management

As at 31 March 2009, 31 March 2008 and 30 June 2008, Kiwibank did not administer superannuation bonds or superannuation plans.

A subsidiary of Kiwibank acts as the manager for a unit trust. The Banking Group is not responsible for any decline in performance of the underlying assets of the investors due to market forces.

Some funds under management are invested in products of Kiwibank and are recorded as liabilities in the balance sheet. At 31 March 2009, $824m of funds under management were invested in Kiwibank's own products or securities (31 March 2008: $nil; 30 June 2008: $119m)

Provision of financial services

Financial services provided by Kiwibank to entities which are involved in trust, custodial, funds management and other fiduciary activities, are provided on arm's length terms and conditions and at fair value, except that Kiwibank does not charge Kiwibank Investment Management Limited, the Manager of the Kiwibank PIE Unit Trust, any bank fees. Further, the Kiwibank PIE Unit Trust bank account used for tax payments does not earn interest. Any assets purchased from such entities have been purchased on an arm's length basis and at fair value.

The Banking Group has not provided any funding to entities which conduct any of the following activities: trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group; origination of securitised assets; marketing or servicing of securitisation schemes; marketing and distribution of insurance products during the periods ended 31 March 2009, 31 March 2008 and 30 June 2008.

Risk Management

With regards to the activities identified above, the Banking Group has in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors.

Notes to the interim financial statements continued

19. Reconciliation of net profit after taxation to net cash flows from operating activities

Dollars in thousands	**Unaudited 9 months ended 31/03/09**	Unaudited 9 months ended 31/03/08	Audited 12 months ended 30/06/08
Net profit after taxation	**40,145**	30,076	36,821
Non cash movements:			
Unrealised fair value adjustments	**1,424**	5,858	1,124
Depreciation	**4,008**	3,250	4,438
Amortisation of intangibles	**9,085**	8,257	10,759
Increase in collective allowance for impairment losses	**4,937**	1,157	2,191
Increase in individual allowance for impairment losses	**1,843**	–	–
Decrease/(increase) in deferred expenditure	**5,186**	–	(2,017)
Unsecured lending losses	**2,015**	1,706	1,906
(Increase)/decrease in deferred taxation	**(36,363)**	3,296	3,692
(Decrease) / increase in operating assets and liabilities			
Increase in financial assets held for trading	**(441,781)**	(148,000)	(185,000)
Decrease/(increase) in available-for-sale assets	**39,374**	(268,231)	(161,913)
Increase in loans and advances	**(1,971,399)**	(1,521,658)	(1,981,752)
Increase in loans to related parties	**(10,000)**	–	–
(Decrease)/increase in balances due from other financial institutions	**99,627**	–	(141,432)
Increase in deposits and other borrowings	**1,896,866**	1,205,789	1,792,612
(Decrease)/increase in balances due to other financial institutions	**(33,277)**	456,464	419,598
Increase in accrued operating expenses	**20,830**	3,662	14,776
(Decrease)/increase in interest payable	**(17,393)**	47,302	84,201
Increase in interest receivable	**(3,766)**	(7,333)	(8,251)
Decrease in balances with related parties	**(1,006)**	(2,873)	(2,315)
Increase/(decrease) in current taxation	**7,422**	(6,233)	(5,427)
(Increase)/decrease in other assets	**(426)**	(9,871)	3,601
Net cash flows from operating activities	**(382,649)**	(197,382)	(112,388)

Notes to the interim financial statements continued

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 restraining Kiwibank 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 2009 other than as separately disclosed in these interim financial statements. (31 March 2008: nil; 30 June 2008: nil).

21. Subsequent events

On 30 April 2009 20,000,000 ordinary shares were issued for cash at $1 per share to NZP. No other material events occurred subsequent to balance date, that require recognition of, or additional disclosure in these interim financial statements.

22. Capital expenditure commitments

Capital expenditure commitments contracted for as at 31 March 2009, but not provided for in these interim financial statements, total $0.3m; (31 March 2008: $0.2m; 30 June 2008: $0.3m). All such commitments are due no later than one year from balance date.

Notes to the interim financial statements continued

23. Segment analysis

Dollars in thousands	**Unaudited 9 months ended 31/03/09**	Unaudited 9 months ended 31/03/08	Audited 12 months ended 30/06/08
Primary reporting – business segments			
Personal banking			
External revenue	**418,619**	324,506	436,382
Intersegmental revenue	**–**	–	926
Segmental revenue	**418,619**	324,506	437,308
Segment result	**24,556**	28,711	44,795
Corporate and institutional banking			
External revenue	**206,627**	158,844	251,836
Intersegmental revenue	**2,035**	3,381	–
Segmental revenue	**208,662**	162,225	251,836
Segment result	**33,964**	14,373	9,774
Total			
External revenue	**625,246**	483,350	688,218
Intersegmental revenue	**2,035**	3,381	926
Elimination	**(2,035)**	(3,381)	(926)
Total revenue	**625,246**	483,350	688,218
Segment result	**58,520**	43,084	54,569
Income tax expense	**(18,375)**	(13,008)	(17,748)
Profit for the period	**40,145**	30,076	36,821

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:

Personal banking – Provides banking products and services to the personal banking segment via the Banking Group and NZP distribution channels and the bank's funding reserves.

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.

Capital adequacy

Kiwibank is subject to the capital adequacy requirements for registered banks as specified by the Reserve Bank of New Zealand (RBNZ). Following an internationally agreed framework (commonly known as Basel 2) developed by the Basel committee on Banking supervision, the RBNZ has set minimum acceptable regulatory capital requirements and provided methods for estimating or measuring the risks incurred by the Bank. As a bank adopting a standardised approach under the Basel 2 regime, Kiwibank applies the RBNZ's BS12 – Guidelines on Internal Capital Adequacy Assessment Process (ICAAP) as a basis for estimating adequate prudential capital and BS2A – Capital Adequacy Framework, Standardised Approach for calculating regulatory capital requirements.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. As a condition of registration, the Bank must comply with the following minimum capital requirements set by the RBNZ:

- Total regulatory capital must not be less than 8% of risk weighted exposures.
- Tier One capital must not be less than 4% of risk weighted exposures.
- Capital must not be less than NZ$30m.

Regulatory capital

Regulatory capital consists of Tier One and Tier Two capital. Tier One capital consists primarily of Shareholder's Equity less prescribed deductions such as intangible assets. Tier Two Capital is comprised primarily of unsubordinated debt.

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.

Risk exposures

Risk weighted exposures are derived by assigning risk weight percentages to certain material risk categories of exposures. These exposures are measured or estimated from i) selected balance sheet assets; ii) off balance sheet exposures and market contracts; and iii) business unit net income.

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

Material risks with capital allocations (commonly referred to as "Pillar 1" risk classes under Basel 2):

- Credit risk – The vulnerability of the Banking Group's lending and investment portfolios to systemic counterparty default. The risk based capital allocation is computed based on RBNZ standardised approach Credit Risk methodology (BS2A).
- Interest rate risk in the banking book – 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).

Capital adequacy continued

The Basel 2 capital adequacy regime intends to ensure that banks have adequate capital to support all material risk inherent in their business activities. Consequently, banks are required to maintain an ICAAP for assessing overall capital adequacy in relation to their risk profile. Kiwibank's ICAAP methodology requires it to hold capital against the following "other material risks" (Pillar 2 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 Banking Group'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.

Kiwibank's Board is ultimately responsible for capital adequacy and approves capital plans and establishes minimum internal capital levels and limits. These are typically higher than the regulatory minimum.

The capital adequacy tables set out below summarise the composition of regulatory capital and capital adequacy ratios for the period ended 31 March 2009. The Banking Group transitioned to the new BS2A capital adequacy calculation method during the first quarter of 2008. Throughout the period Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

Capital adequacy continued

Dollars in thousands	The Banking Group **Unaudited 31/03/09**	 Unaudited 31/03/08	 Audited 30/06/08
Tier one capital			
Issued and fully paid up share capital	**275,000**	260,000	275,000
Revenue and similar reserves	**(10,752)**	18,497	14,156
Current period's retained earnings	**25,802**	22,655	36,821
Less deductions from tier one capital			
Intangible assets	**(58,063)**	(49,911)	(47,114)
Cash flow hedge reserve	**81,518**	1,822	9,991
Total tier one capital	**313,505**	253,063	288,854
Tier two capital – upper level tier two capital			
Unaudited retained profits	**14,343**	7,421	–
Tier two capital – lower level tier two capital			
Term subordinated debt	**135,000**	75,000	75,000
Total tier two capital	**149,343**	82,421	75,000
Total tier one and tier two capital	**462,848**	335,484	363,854
Less deductions from capital	**-**	-	-
Capital	**462,848**	335,484	363,854
Capital adequacy ratios			
Total tier one capital expressed as a percentage of total risk weighted exposures	**6.8%**	7.6%	8.6%
Total capital (Pillar 1) expressed as a percentage of total risk weighted exposures	**10.0%**	10.1%	10.8%
Capital ratio (Pillar I and II) expressed as a percentage of total risk weighted exposures	**9.6%**	9.5%	10.4%

Dollars in thousands	Kiwibank Limited **Unaudited 31/03/09**	 Unaudited 31/03/08	 Audited 30/06/08
Capital	**461,377**	307,685	360,174
Capital adequacy ratios			
Total tier one capital expressed as a percentage of total risk weighted exposures	**7.2%**	7.6%	8.5%
Total capital (Pillar 1) expressed as a percentage of total risk weighted exposures	**10.0%**	10.0%	10.7%

Capital adequacy continued

Dollars in thousands	The Banking Group			
	Principal amount Unaudited 31/03/09	Risk weighting Unaudited 31/03/09	Risk weighted exposure Unaudited 31/03/09	Minimum Pillar One Capital Requirement Unaudited 31/03/09
On-balance sheet exposures				
Cash and gold bullion	**32,632**	**0%**	**–**	**–**
Sovereigns and central banks	**561,737**	**0%**	**–**	**–**
Multilateral development banks	**239,924**	**0%**	**–**	**–**
Claims on public sector entities	**53,295**	**20%**	**10,659**	**853**
Claims on other banks	**648,633**	**20%**	**129,726**	**10,378**
	93,003	**50%**	**46,502**	**3,720**
Corporate	**213,301**	**20%**	**42,660**	**3,413**
	75,381	**50%**	**37,691**	**3,015**
Residential mortgages	**5,765,146**	**35%**	**2,017,801**	**161,424**
	686,021	**50%**	**343,010**	**27,441**
	447,110	**75%**	**335,333**	**26,827**
	74,103	**100%**	**74,103**	**5,928**
Impaired Assets	**9,021**	**100%**	**9,021**	**722**
Past due residential mortgages	**21,042**	**100%**	**21,042**	**1,683**
Other past due assets	**3,567**	**100%**	**3,567**	**285**
Equity holdings (not deducted from capital) that are publicly traded	**–**	**300%**	**–**	**–**
All other equity holdings (not deducted from capital)	**–**	**400%**	**–**	**–**
Other assets	**732,479**	**100%**	**732,479**	**58,598**
Non risk weighted assets	**102,173**	**–**	**–**	**–**
Total balance sheet exposures	**9,758,568**		**3,803,594**	**304,287**

Capital adequacy continued

	The Banking Group					
Dollars in thousands	Total exposure Unaudited 31/03/09	Credit conversion factor Unaudited 31/03/09	Credit equivalent amount Unaudited 31/03/09	Average risk weighting Unaudited 31/03/09	Risk weighted exposure Unaudited 31/03/09	Minimum Pillar One Capital Requirement Unaudited 31/03/09
Off-balance sheet exposures and market related contracts						
Commitments with certain drawdown	**10,336**	**100%**	**10,336**	**100%**	**10,336**	**827**
Note issuance facility	**–**	**50%**	**–**	**0%**	**–**	**–**
Revolving credit facilities	**251,473**	**50%**	**125,736**	**39%**	**49,037**	**3,923**
Revolving credit facilities	**251,473**	**20%**	**50,295**	**39%**	**19,615**	**1,569**
Revolving credit facilities	**49,845**	**0%**	**–**	**0%**	**–**	**–**
Other commitments greater than one year	**238,018**	**50%**	**119,009**	**40%**	**47,604**	**3,808**
Other commitments less than or equal to one year	**109,493**	**20%**	**21,899**	**100%**	**21,899**	**1,752**
Other commitments that cancel automatically	**235,938**	**0%**	**–**	**0%**	**–**	**–**
Market related contracts: ❶						
Interest rate contracts	**8,063,530**	**–**	**70,848**	**20%**	**14,170**	**1,133**
Foreign exchange contracts	**262,774**	**–**	**10,919**	**20%**	**2,184**	**175**
Total off-balance sheet exposures	**9,472,880**		**409,042**		**164,845**	**13,187**
Credit Risk Mitigation						
Total value of on- and off- balance sheet exposures covered by eligible collateral (after haircutting)	**(5,931)**	**–**	**–**	**–**	**(5,931)**	**(474)**
Other	**–**	**–**	**–**	**–**	**–**	**–**
Total value of on- and off- balance sheet exposures covered by guarantees or credit derivatives	**–**	**–**	**–**	**–**	**–**	**–**
Operational Risk	**n/a**	**–**	**–**	**–**	**434,014**	**34,721**
Market Risk						
Interest rate risk	**n/a**	**–**	**–**	**–**	**239,150**	**19,132**
Foreign currency risk	**n/a**	**–**	**–**	**–**	**3,480**	**278**
Equity risk	**n/a**	**–**	**–**	**–**	**–**	**–**
Total risk weighted exposures	**19,225,517**	**–**	**–**	**–**	**4,639,152**	**371,131**
Other material risks	**n/a**	**–**	**–**	**–**	**163,611**	**13,089**

❶ 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 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%	143,623	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	86,964	–	–	–
Total balance sheet exposures	6,631,623	–	2,679,818	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%	222,622	48%	106,859	8,549
Short term, self liquidating trade related contingents	–	–	–	–	–	–
Other commitments greater than one year	89,130	50%	44,565	46%	20,500	1,640
Other commitments less than or equal to one year	–	20%	–	–	–	–
Market related contracts: ❶	–	–	–	–	–	–
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	–	394,456	–	194,936	15,594
Total credit risk	13,619,056	–	–	–	2,874,754	229,980
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	–	–	–	–	–
Total risk weighted exposures	13,619,056	–	–	–	3,315,232	265,218
Other material risk	n/a	–	–	–	202,267	16,181

❶ 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 Audited 30/06/08	Risk weighting Audited 30/06/08	Risk weighted exposure Audited 30/06/08	Minimum Pillar One Capital Requirement Audited 30/06/08
On-balance sheet exposures				
Cash and gold bullion	26,892	0%	–	–
Sovereigns and central banks	265,522	0%	–	–
Multilateral development banks	165,233	0%	–	–
Claims on public sector entities	44,936	20%	8,987	719
Claims on other banks	852,767	20%	170,553	13,644
	17,405	50%	8,703	696
Corporate	192,770	20%	38,554	3,084
	9,509	50%	4,755	380
Residential mortgages	4,195,646	35%	1,468,476	117,478
	400,000	50%	200,000	16,000
	399,773	75%	299,830	23,986
	103,651	100%	103,651	8,292
Impaired assets	3,612	100%	3,612	289
Past due residential mortgages	5,872	100%	5,872	470
Other past due assets	3,090	100%	3,090	247
Other assets	467,447	100%	467,447	37,396
Non risk weighted assets	65,103	–	–	–
Total balance sheet exposures	7,219,228	–	2,783,530	222,681

Capital adequacy continued

Dollars in thousands	Total exposure Audited 30/06/08	Credit conversion factor Audited 30/06/08	Credit equivalent amount Audited 30/06/08	Average risk weighting Audited 30/06/08	Risk weighted exposure Audited 30/06/08	Minimum Pillar One Capital Requirement Audited 30/06/08
	The Banking Group					
Off-balance sheet exposures and market related contracts						
Commitments with certain drawdown	61,337	100%	61,337	100%	61,337	4,907
Note issuance facility	–	50%	–	0%	–	–
Revolving credit facilities	39,295	20%	7,859	43%	3,379	270
Revolving credit facilities	83,028	50%	41,514	43%	17,851	1,428
Performance related contingency	–	50%	–	0%	–	–
Trade related contingency	–	20%	–	0%	–	–
Placements of forward deposits	–	100%	–	0%	–	–
Other commitments greater than one year	86,244	50%	43,122	41%	17,880	1,430
Other commitments less than or equal to one year	–	20%	–	100%	–	–
Other commitments that cancel automatically	–	0%	–	0%	–	–
Market related contracts: ❶	–	–	–	0%	–	–
Interest rate contracts	6,571,000	–	52,272	20%	10,454	837
Foreign exchange contracts	214,536	–	3,841	20%	768	62
Total off-balance sheet exposures	7,055,440	–	209,945	–	111,469	8,934
Credit Risk Mitigation						
Total value of on- and off- balance sheet exposures covered by eligible collateral (after haircutting)	(9,802)	–	–	–	(9,802)	(784)
Total value of on- and off- balance sheet exposures covered by guarantees or credit derivatives	–	–	–	–	–	–
Operational Risk	n/a	–	–	–	321,152	25,692
Market Risk						
Interest rate risk	n/a	–	–	–	164,475	13,158
Foreign currency risk	n/a	–	–	–	6,678	535
Equity risk	n/a	–	–	–	–	–
Total risk weighted exposures	14,264,866	–	–	–	3,377,502	270,216
Other material risk	n/a	–	–	–	118,963	9,517

❶ Kiwibank uses the current exposure method to calculate the credit risk on these contracts.

Capital adequacy continued

Residential mortgages by loan-to-value ratio

Dollars in thousands	**Unaudited 31/03/09**	Unaudited 31/03/08	Audited 30/06/08
LVR 0%-80%	**5,765,146**	3,713,698	4,195,646
LVR 80%-90%	**686,021**	287,245	400,000
LVR 90% +	**521,213**	845,958	503,424

At 31 March 2009, of the LVR 90% + balance above, $132,292k relates to "Welcome Home" loans, whose credit risk is mitigated by the Crown. Of the other loans > LVR 80% and LVR 90%+, loan mortgage insurance is used to mitigate credit risk.

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.

	The Banking Group					
Dollars in thousands	**Unaudited as at 31/03/09**	Unaudited as at 31/03/08	Audited as at 30/06/08	**Unaudited Peak for 3 months ended 31/03/09**	Unaudited Peak for 3 months ended 31/03/08	Audited Peak for 3 months ended 30/06/08
Interest rate exposures						
Aggregate interest rate exposures	**19,133**	11,277	13,158	**19,578**	13,314	14,474
Aggregate interest rate exposures expressed as a percentage of the Banking Group's shareholder's equity	**6.3%**	3.7%	4.0%	**6.4%**	4.3%	4.4%
Implied interest rate risk weighted exposure	**239,163**	140,963	164,475	**244,725**	166,425	180,925
Foreign currency exposures						
Aggregate foreign currency exposures	**49**	657	534	**686**	716	954
Aggregate foreign currency exposures expressed as a percentage of the Banking Group's shareholder's equity	**0.0%**	0.2%	0.2%	**0.2%**	0.2%	0.3%
Implied foreign currency risk weighted exposure	**613**	8,213	6,675	**8,575**	8,950	11,925

The Banking Group holds no equity instruments.