Disclosure Statement.

For the six months ended 31 December 2013.

Kiwibank.

Number 50

Contents.

General matters

Details of incorporation

Kiwibank Limited ("**Kiwibank**") is a company domiciled in New Zealand and was incorporated in New Zealand under the Companies Act 1993 on 4 May 2001. 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 ("**RBNZ**") from that date onwards.

This Disclosure Statement has been issued by Kiwibank for the six months ended 31 December 2013, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2013 (the "**Order**"). Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

In this Disclosure Statement, "**Banking Group**" means Kiwibank's financial reporting group, which consists of Kiwibank, all of its wholly owned entities and all other entities consolidated for financial reporting purposes.

Address for service

The registered office and address for service is: Kiwibank Limited, New Zealand Post House, Level 12, 7 Waterloo Quay, Wellington 6011, New Zealand.

Ultimate holding company

The ultimate holding company of Kiwibank is New Zealand Post Limited ("**NZP**") whose address for service is: New Zealand Post House, Level 12, 7 Waterloo Quay, Wellington 6011, New Zealand.

Voting securities and power to appoint directors

There are 360 million voting shares in Kiwibank. Kiwi Group Holdings Limited ("**KGHL**") is the registered and beneficial holder of all voting shares. KGHL, NZP and the New Zealand Crown (being those ministers who hold shares in NZP on behalf of the New Zealand Crown) are the only holders of a direct or indirect qualifying interest in the voting shares of Kiwibank.

KGHL has the ability to directly appoint the Board of Directors of Kiwibank (the "**Board**"). NZP, as the immediate parent of KGHL and the ultimate holding company of Kiwibank, has the ability to indirectly appoint the Board. 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 RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee; and
2. the RBNZ has advised that it has no objection to that appointment.

Other material matters

The Board are of the opinion that, other than outlined below, there are no matters relating to the business or affairs of Kiwibank or the Banking Group, which would, if disclosed in this Disclosure Statement, materially affect the decision of a person to subscribe for debt securities of which Kiwibank or any member of the Banking Group is the issuer.

Kiwibank has determined that it is appropriate to modernise its core banking system over the next 3-5 years. Therefore, there will be a higher level of investment during this period which will be actively managed to minimise the risk of unplanned costs or operational risk from a significant change programme.

Pending proceedings or arbitration

The Board are of the opinion that, other than outlined below, there are no pending legal proceedings or arbitration concerning Kiwibank or any member of the Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on Kiwibank or the Banking Group.

A group called Fair Play on Fees announced in June 2013 its intention to launch a representative action against New Zealand banks in relation to certain default fees, and proceedings were subsequently issued against one bank. In November 2013 the group issued proceedings against Kiwibank. The potential outcome of the proceedings cannot yet be determined.

Directorate

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

Robert William Bentley Morrison	Hon. Sir Michael John Cullen
Alison Rosemary Gerry	Brian Joseph Roche
Catherine Maria Savage	David Stephen Willis

Mark David Yeoman
(as alternate director for Brian Joseph Roche)

Murray Ian David Gribben resigned as a director on 30 November 2013.

Auditors

The auditor whose review opinion is referred to in this Disclosure Statement is Chris Barber assisted by PricewaterhouseCoopers, acting as agent on behalf of the Office of the Auditor-General. His address for service is PricewaterhouseCoopers, 113-119 The Terrace, Wellington, New Zealand.

Credit ratings

On 12 November 2013, Standard & Poor's (Australia) Pty Limited ("**S&P**") affirmed Kiwibank's credit rating of A+ with a negative outlook. On 21 May 2013 they revised the outlook to negative from stable. On 30 October 2012, S&P granted Kiwibank a credit rating of A+, with a stable outlook, for long-term senior unsecured obligations payable in New Zealand, in New Zealand dollars. This credit rating is a one notch downgrade from Kiwibank's previous rating of AA-, which was granted on 29 November 2001 and reaffirmed on 31 January 2012 with the outlook revised to negative from stable.

On 12 November 2010, Moody's Investors Service granted Kiwibank a credit rating of Aa3 for long-term senior unsecured obligations payable in New Zealand in New Zealand dollars. There have been no changes made to this rating in the two years preceding 31 December 2013.

On 13 June 2012, Fitch Ratings granted Kiwibank a credit rating of AA+ for senior unsecured debt obligations payable in New Zealand dollars and a credit rating of AA for unsecured debt obligations payable in other currencies.

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	CC to C
Obligations currently in default	D	–	RD to D

Credit ratings between AA – CCC by S&P and Fitch Ratings may be modified by the addition of a plus or minus sign (signalling higher and lower ends of the scale respectively). Moody's Investor Services applies numeric modifiers 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.

Guarantees

As at the date the Board approved this Disclosure Statement, the payment obligations of Kiwibank have the benefit of certain guarantees: a deed poll guarantee by NZP (the "**NZP Guarantee**") and (in relation to the fixed rate bonds issued by Kiwibank on 20 October 2009) a New Zealand Crown deed of guarantee entered into by the New Zealand Government under the New Zealand wholesale funding guarantee scheme (the "**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 (excluding any payment obligations, the terms of which expressly provide in writing that they do not have the benefit of the NZP Guarantee) of Kiwibank are guaranteed pursuant to the NZP Guarantee. The following is a summary of the features of the NZP Guarantee as at 31 December 2013:

i. The address for service of NZP is: New Zealand Post House, Level 12, 7 Waterloo Quay, Wellington 6011, New Zealand.

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

Guarantees continued

iii. The NZP Guarantee is an unsecured guarantee of the payment obligations (excluding any payment obligations, the terms of which expressly provide in writing that they do not have the benefit of the NZP Guarantee) of Kiwibank. The NZP Guarantee can be terminated on not less than three months' notice being given 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.

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

v. There are no material conditions applying to the NZP Guarantee.

vi. There are no material legislative or regulatory restrictions in New Zealand, 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.

The net tangible assets of NZP were $960m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2013. There were no qualifications in the audit report accompanying the Annual Report.

NZP has a credit rating applicable to its long term unsecured obligations payable in New Zealand, in New Zealand dollars, from S&P of A+, granted on 30 October 2012. On 21 May 2013 the outlook was revised to negative from stable. This credit rating is a one notch downgrade from NZP's previous rating of AA- granted on 29 November 2001. The AA- rating was reaffirmed on 29 June 2012 with the outlook negative.

For an explanation of S&P's credit rating scale see page 2.

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 New Zealand Crown are set out below.

On 24 March 2009, Kiwibank was accepted into the scheme by the New Zealand Government.

On 30 April 2010 the Facility was withdrawn by the New Zealand Government. However, the Facility still applies in relation to fixed rate bonds with a face value of AUD$250m issued by Kiwibank on 20 October 2009.

A guarantee fee was 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.

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

i. The guarantor under the Crown Wholesale Guarantee is Her Majesty the Queen in right of New Zealand acting by and through the Minister of Finance (the "**Crown**").

ii. Any demand under the guarantee must be delivered by hand to the Minister of Finance, Parliament Buildings, Wellington, New Zealand with a copy to The Treasurer, The New Zealand Debt Management Office, 1 The Terrace, Wellington 6011, New Zealand.

iii. 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 (being the fixed rate bonds issued by Kiwibank on 20 October 2009 and maturing on 20 October 2014); and

iv. 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 Crown Wholesale Guarantee and following the expiry of any applicable grace period, pay such liability.

v. The Crown Wholesale Guarantee does not extend to debt securities held by related parties. Related parties of Kiwibank include KGHL's subsidiaries and NZP.

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

vii. There are no material conditions applicable to the Crown Wholesale Guarantee.

viii. The minimum Tier 1 capital ratio under the Crown Wholesale Guarantee is 6% of risk weighted exposures.

ix. As at 31 December 2013 the Crown has the following credit ratings applicable to its long term obligations payable in New Zealand dollars:

– Standard & Poor's (Australia) Pty Limited	AA+
– Fitch Ratings Limited	AA+
– Moody's Investors Services	Aaa

During the two year period ended 31 December 2013 there were no changes in the above credit ratings. For an explanation of each agency's credit rating scale see page 2.

Covered Bond Guarantee

Certain debt securities ("**Covered Bonds**") issued by Kiwibank are guaranteed by Kiwi Covered Bond Trustee Limited (the "**Covered Bond Guarantor**"), solely in its capacity as Trustee of Kiwibank Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds, pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 35, Vero Centre, 48 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively.

Directors' statement

The directors of Kiwibank state that each director believes, after due enquiry, that:

1. As at the date on which the Disclosure Statement is signed:
   i. the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2013 ; and
   ii. the Disclosure Statement is not false or misleading.
2. During the period ended 31 December 2013:
   i. Kiwibank has complied with the conditions of registration applicable during the period, except as stated below;
   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.

Following the resignation of Grant Paterson as a director on 18 June 2013, Kiwibank did not comply with condition 6(c) of its conditions of registration, which requires at least half of the board to be independent. This was rectified on 30 November 2013 with the resignation of Murray Gribben.

Signed by Rob Morrison and Alison Gerry as directors and responsible persons on behalf of all the directors listed in the Directorate of this Disclosure Statement:

19 February 2014

Interim Financial Statements

Interim financial statements

Consolidated income statement

For the six months ended 31 December 2013

		The Banking Group		
Dollars in millions	Note	**Unaudited 6 months ended 31/12/13**	Unaudited 6 months ended 31/12/12	Audited 12 months ended 30/06/13
Interest income		**387**	400	790
Interest expense		**(247)**	(260)	(514)
Net interest income		**140**	140	276
Net gains/(losses) on financial instruments at fair value	2	**2**	1	-
Other income		**89**	86	170
Total operating income		**231**	227	446
Operating expenses		**(160)**	(147)	(304)
Impairment reversals/(losses) on loans and advances	9	**1**	-	(7)
Profit before taxation		**72**	80	135
Income tax expense		**(20)**	(22)	(38)
Profit after taxation		**52**	58	97
Attributable to:				
Owners of the parent		**52**	58	97
Non controlling interest		**-**	-	-

Consolidated statement of comprehensive income

For the six months ended 31 December 2013

	The Banking Group		
Dollars in millions	**Unaudited 6 months ended 31/12/13**	Unaudited 6 months ended 31/12/12	Audited 12 months ended 30/06/13
Profit after taxation	**52**	58	97
Other comprehensive income			
Net gain/(loss) from changes in reserves that may subsequently be reclassified to profit or loss			
Available-for-sale reserve (net of tax)	**(4)**	(2)	(6)
Cash flow hedge reserve (net of tax)	**19**	9	29
Other comprehensive income for the period/year	**15**	7	23
Total comprehensive income for the period/year	**67**	65	120
Attributable to:			
Owners of the parent	**67**	65	120
Non-controlling interest	**-**	-	-

The notes on pages 10 to 25 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of changes in equity

For the six months ended 31 December 2013

	The Banking Group						
Dollars in millions	**Fully Paid Ordinary Shares**	**Retained Earnings**	**Available-For-Sale Reserve**	**Cash Flow Hedge Reserve**	**Total Equity Attributable to Owners of the Parent**	**Non Controlling Interest**	**Total**
Balance at 1 July 2012	360	257	8	(27)	598	149	747
Unaudited 6 months ended 31 December 2012							
Unaudited profit for the period	-	58	-	-	58	-	58
Other comprehensive income							
Available-for-sale financial assets (net of tax)	-	-	(2)	-	(2)	-	(2)
Cash flow hedges (net of tax)	-	-	-	9	9	-	9
Total other comprehensive income	-	-	(2)	9	7	-	7
Total comprehensive income	-	58	(2)	9	65	-	65
Transactions with owners							
Transaction with non-controlling interest	-	-	-	-	-	1	1
Dividends paid to non-controlling interest	-	(4)	-	-	(4)	-	(4)
Unaudited balance at 31 December 2012	360	311	6	(18)	659	150	809
Audited year ended 30 June 2013							
Audited profit for the year	-	97	-	-	97	-	97
Other comprehensive income							
Available-for-sale financial assets (net of tax)	-	-	(6)	-	(6)	-	(6)
Cash flow hedges (net of tax)	-	-	-	29	29	-	29
Total other comprehensive income	-	-	(6)	29	23	-	23
Total comprehensive income	-	97	(6)	29	120	-	120
Transactions with owners							
Transaction with non-controlling interest	-	-	-	-	-	-	-
Dividends paid to non-controlling interest	-	(9)	-	-	(9)	-	(9)
Audited balance at 30 June 2013	360	345	2	2	709	149	858
Unaudited 6 months ended 31 December 2013							
Unaudited profit for the period	**-**	**52**	**-**	**-**	**52**	**-**	**52**
Other comprehensive income							
Available-for-sale financial assets (net of tax)	**-**	**-**	**(4)**	**-**	**(4)**	**-**	**(4)**
Cash flow hedges (net of tax)	**-**	**-**	**-**	**19**	**19**	**-**	**19**
Total other comprehensive income	**-**	**-**	**(4)**	**19**	**15**	**-**	**15**
Total comprehensive income	**-**	**52**	**(4)**	**19**	**67**	**-**	**67**
Transactions with owners							
Transaction with non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends paid to non-controlling interest	**-**	**(4)**	**-**	**-**	**(4)**	**-**	**(4)**
Unaudited balance at 31 December 2013	**360**	**393**	**(2)**	**21**	**772**	**149**	**921**

The notes on pages 10 to 25 form part of these interim financial statements.

Interim financial statements continued

Consolidated balance sheet

As at 31 December 2013

		The Banking Group		
Dollars in millions	Note	**Unaudited 31/12/13**	Unaudited 31/12/12	Audited 30/06/13
Assets				
Cash and cash equivalents		**561**	343	415
Due from NZP related parties	3	**76**	63	77
Due from other financial institutions	4	**164**	151	158
Financial assets held for trading		**44**	363	153
Available-for-sale assets		**1,051**	1,261	966
Loans and advances	5	**13,952**	12,842	13,202
Derivative financial instruments		**150**	101	129
Property, plant and equipment		**14**	17	15
Intangible assets		**80**	56	64
Deferred taxation		**7**	23	16
Other assets		**13**	12	14
Total assets		**16,112**	15,232	15,209
Liabilities				
Due to other financial institutions		**171**	230	270
Due to NZP related parties	3	**14**	9	14
Deposits and other borrowings	6	**12,412**	12,286	12,120
Derivative financial instruments		**208**	134	150
Debt securities issued	7	**2,152**	1,479	1,508
Current tax liability		**10**	17	12
Other liabilities		**75**	57	67
Term subordinated debt	8	**149**	211	210
Total liabilities		**15,191**	14,423	14,351
Equity attributable to owners of the parent				
Share capital		**360**	360	360
Reserves		**412**	299	349
Total equity attributable to owners of the parent		**772**	659	709
Non controlling interest		**149**	150	149
Total equity		**921**	809	858
Total liabilities and shareholders equity		**16,112**	15,232	15,209

The notes on pages 10 to 25 form part of these interim financial statements.

Interim financial statements continued

Consolidated cash flow statement

For the six months ended 31 December 2013

Dollars in millions	The Banking Group **Unaudited 6 months ended 31/12/13**	Unaudited 6 months ended 31/12/12	Audited 12 months ended 30/06/13
Cash flows from operating activities			
Interest received	**391**	411	794
Interest paid	**(247)**	(251)	(518)
Fees and other income	**89**	86	171
Operating expenses paid	**(151)**	(124)	(269)
Taxes paid	**(19)**	(16)	(35)
Net cash flows from operating activities before changes in operating assets and liabilities	**63**	106	143
Net changes in operating assets and liabilities			
Decrease/(increase) in financial assets held for trading	**109**	(259)	(49)
(Increase)/decrease in available-for-sale assets	**(92)**	141	429
Increase in loans and advances	**(685)**	(383)	(722)
Increase in amounts due from related parties	**-**	(4)	(7)
(Increase)/decrease in balances due from other financial institutions	**(5)**	20	13
Increase in deposits and other borrowing	**294**	709	550
Decrease in balances due to other financial institutions	**(99)**	(104)	(64)
Net cash flows from operating activities	**(415)**	226	293
Cash flows from investing activities			
Purchase of property, plant and equipment	**(1)**	(2)	(3)
Purchase of intangible assets	**(17)**	(15)	(34)
Net cash flows from investing activities	**(18)**	(17)	(37)
Cash flows from financing activities			
Increase/(decrease) in debt securities held	**643**	(327)	(297)
(Redemption)/issue of subordinated debt	**(60)**	150	150
Dividends paid to non-controlling interest	**(4)**	(4)	(9)
Net cash flows from financing activities	**579**	(181)	(156)
Increase in cash and cash equivalents	**146**	28	100
Cash and cash equivalents at beginning of the period/year	**415**	315	315
Cash and cash equivalents at end of the period/year	**561**	343	415

The notes on pages 10 to 25 form part of these interim financial statements.

Notes to the interim financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

In these interim financial statements, the reporting entity is Kiwibank Limited ("**Kiwibank**" or the "**Bank**"). The "**Banking Group**" consists of Kiwibank and its subsidiaries. Kiwibank is a profit oriented entity incorporated and domiciled in New Zealand 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.

Kiwibank's immediate parent company is Kiwi Group Holdings Limited ("**KGHL**"), its ultimate parent company is New Zealand Post Limited ("**NZP**") and the ultimate shareholder of Kiwibank is the New Zealand Crown (the "**Crown**").

1.2 Basis of preparation

These interim financial statements are for the Banking Group for the six months ended 31 December 2013 and have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for profit oriented entities. They comply with NZ IAS 34 *Interim Financial Reporting*, IAS 34 *Interim Financial Reporting* and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2013 (the "**Order**"). These interim financial statements should be read in conjunction with the Banking Group's financial statements for the year ended 30 June 2013, which comply with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

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 carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

1.3 Accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Banking Group's annual financial statements for the year ended 30 June 2013, except for the adoption of new standards and interpretations effective as of 1 July 2013.

The Banking Group has applied, for the first time, the following new standards and amendments:

NZ IFRS 7 (Amendment) – *Financial Instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities;

NZ IFRS 10 – *Consolidated Financial Statements;*

NZ IFRS 11 – *Joint Arrangements;*

NZ IFRS 12 – *Disclosure of Interests in Other Entities;*

NZ IFRS 13 – *Fair Value Measurement;*

NZ IAS 27 – *Separate Financial Statements;* and

NZ IAS 28 – *Investments in Associates and Joint Ventures.*

The application of the above standards does not have a material effect on the financial results of the Banking Group.

1.4 Basis of consolidation

The consolidated interim financial statements of the Banking Group comprise the interim financial statements of Kiwibank and its subsidiaries for the period ended 31 December 2013, using the acquisition method. Subsidiaries are entities that are controlled by Kiwibank.

1.5 Functional and presentation currency

The functional and presentation currency of Kiwibank and the Banking Group is New Zealand dollars. All amounts are expressed in millions of New Zealand dollars, unless otherwise stated.

Notes to the interim financial statements continued

2. Net gains/(losses) on financial instruments at fair value

	The Banking Group		
Dollars in millions	**Unaudited 6 months ended 31/12/13**	Unaudited 6 months ended 31/12/12	Audited 12 months ended 30/06/13
Financial assets designated at fair value through profit or loss upon initial recognition	**-**	-	(1)
Derivative financial instruments held for trading	**(1)**	-	2
Financial assets held for trading	**1**	-	-
Cumulative gain transferred from available-for-sale reserve	**1**	3	2
Cumulative loss transferred from cash flow hedge reserve	**-**	(2)	(2)
Net foreign exchange gains/(losses)	**1**	-	(1)
Total gains on financial instruments	**2**	1	-

Net ineffectiveness on qualifying cash flow hedges is $0.1m (31 December 2012: $0.1m; 30 June 2013: $0.1m). Net ineffectiveness on qualifying fair value hedges is $0.2m (31 December 2012: $0.1m; 30 June 2013: $0.3m).

3. Related parties

	The Banking Group
Dollars in millions	**Unaudited as at 31/12/13**
Outstanding balances	
Due to NZP related parties	**14**
Included in deposits and other borrowings	**69**
Included in term subordinated debt	**1**
Included in debt securities issued	**4**
Included in non-controlling interest	**1**
Total balances due to related parties	**89**
Receivables	
Due from NZP related parties	**76**
Included in loans and advances	**3**
Total balances due from related parties	**79**

NZP has a credit facility with the Banking Group, allowing NZP to draw down to the extent that the Banking Group does not exceed credit exposure to connected persons of 15% of Tier 1 capital, as required in its banking conditions of registration. When loans are drawn down the transaction is undertaken at market interest rates. As at 31 December 2013 the amount owed by NZP to the Banking Group was $76m (31 December 2012: $62m; 30 June 2013: $76m). This does not exceed the 15% of Tier 1 capital requirement.

The Crown has entered into a $300m uncalled capital facility with NZP where NZP can drawdown capital for contingent events around Kiwibank's conditions of registration. The annualised cost of this facility on charged to Kiwibank by NZP is $3.6m.

Notes to the interim financial statements continued

4. Due from other financial institutions

	The Banking Group		
Dollars in millions	**Unaudited as at 31/12/13**	Unaudited as at 31/12/12	Audited as at 30/06/13
Unsettled receivables	**98**	-	2
Short term advances due from other financial institutions	**1**	122	118
Collateralised loans	**65**	29	38
Total – current	**164**	151	158

As at 31 December 2013, included within the balance above, is $64.9m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (31 December 2012: $28.5m; June 2013: $38.2m).

5. Loans and advances

	The Banking Group		
Dollars in millions	**Unaudited as at 31/12/13**	Unaudited as at 31/12/12	Audited as at 30/06/13
Loans and advances at amortised cost	**14,019**	12,916	13,274
Allowance for impairment losses (note 9)	**(67)**	(74)	(72)
Total net loans and advances	**13,952**	12,842	13,202
Current	**1,088**	1,011	1,071
Non-current	**12,864**	11,831	12,131

6. Deposits and other borrowings

	The Banking Group		
Dollars in millions	**Unaudited as at 31/12/13**	Unaudited as at 31/12/12	Audited as at 30/06/13
Demand deposits non-interest bearing	**1,101**	929	894
Demand deposits bearing interest	**2,491**	2,208	2,336
Term deposits	**8,820**	9,149	8,890
Total deposits from customers	**12,412**	12,286	12,120
Current	**12,075**	11,904	11,778
Non current	**337**	382	342

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

The Kiwibank PIE Unit Trust (the "**Trust**"), established under the Unit Trusts Act 1960 in May 2008, operates three funds; the PIE Term Deposit Fund, the Notice Saver and PIE Online Call Fund. Kiwibank Investment Management Limited is the Issuer and Manager (the "**Manager**"), Trustees Executors Limited is the Trustee and Kiwibank is the Promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Trust is invested exclusively in term and call deposits with Kiwibank. At 31 December 2013, $3,632m of the Trust's funds were invested in Kiwibank products or securities (31 December 2012: $3,327m; 30 June 2013: $3,469m).

Kiwibank guarantees the payment obligations of the Manager and any amounts owing to Unitholders under the Trust Deed in respect of their Units and agrees to pay to Unitholders 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.

Notes to the interim financial statements continued

7. Debt securities issued

	The Banking Group		
Dollars in millions	**Unaudited as at 31/12/13**	Unaudited as at 31/12/12	Audited as at 30/06/13
Short term debt			
Commercial paper at fair value through profit or loss	**903**	601	387
Certificates of deposit - amortised cost	**340**	33	162
Certificates of deposit - held for trading	**-**	129	90
Long term debt			
Medium term notes	**705**	699	663
Covered bonds	**204**	-	201
Fair value hedge adjustment	**-**	17	5
Total debt securities issued	**2,152**	**1,479**	**1,508**
Current	**1,600**	856	787
Non current	**552**	623	721

In the event of the liquidation of Kiwibank, holders of these debt securities, with the exception of covered bonds, will rank equally with all other creditors but ahead of subordinated debt holders and shareholders. 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 the NZP Guarantee.

The guarantee arrangements and other details relating to covered bonds are disclosed in note 17.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to debt securities issued during the period (six months ended 31 December 2012: none; year ended 30 June 2013: none).

8. Term subordinated debt

	The Banking Group		
Dollars in millions	**Unaudited as at 31/12/13**	Unaudited as at 31/12/12	Audited as at 30/06/13
Face value	**150**	210	210
Interest accrued	**1**	2	2
Transaction costs	**(2)**	(2)	(2)
Fair value hedge adjustment	**-**	1	-
Total term subordinated debt	**149**	211	210
Current	**1**	2	2
Non-current	**148**	209	208

During the period $nil of term subordinated debt was issued and $60m of term subordinated debt was called by the Banking Group (period ended 31 December 2012: $nil was issued and $nil was called; year ended 30 June 2013: $150m was issued and $nil was called). The terms and conditions of the term subordinated debt on issue are as follows.

Issue date	Amount $m's	Coupon rate	Call date	Maturity date
10 December 2012	150	5.80% p.a.	15 December 2017	15 December 2022

Notes to the interim financial statements continued

8. Term subordinated debt continued

The term subordinated debt issue is subordinate to all other general liabilities of the Banking Group and is denominated in New Zealand dollars. The issue carries a BB+ credit rating from S&P as at the reporting date.

As at 31 December 2013, $108m of the term subordinated debt qualified as Tier 2 capital (at 31 December 2012: $210m qualified as lower tier two capital; at 30 June 2013: $168m qualified as Tier 2 capital) for Capital Adequacy calculation purposes.

The contractual terms of the term subordinated debt issue expressly provide that it does not have the benefit of a deed poll guarantee (the "**NZP Guarantee**") provided by 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 these liabilities during the period (period ended 31 December 2012: none; year ended 30 June 2013: none).

9. Asset quality

	The Banking Group		
Dollars in millions	**Unaudited as at 31/12/13**	Unaudited as at 31/12/12	Audited as at 30/06/13
Allowance for impairment losses in balance sheet			
Collective allowance for impairment losses	**42**	46	44
Allowance for individually impaired assets	**25**	28	28
Total allowance for impairment losses	**67**	74	72

	The Banking Group		
Dollars in millions	**Unaudited 6 months ended 31/12/13**	Unaudited 6 months ended 31/12/12	Audited 12 months ended 30/06/13
Impairment losses per income statement			
Collective impairment (reversals)/losses on loans not at fair value through profit or loss	**(2)**	(3)	(4)
Charge to income statement for individually impaired assets	**1**	3	11
Total impairment (reversals)/losses per income statement	**(1)**	-	7

Summary of lending

Unaudited as at 31 December 2013	The Banking Group		
Dollars in millions	**Loans and advances to retail customers**	**Loans and advances to corporate and institutional customers**	**Total**
Neither past due nor impaired	**12,397**	**1,426**	**13,823**
Past due but not impaired (a)	**151**	**6**	**157**
Impaired (b)	**14**	**25**	**39**
Gross	**12,562**	**1,457**	**14,019**
Collective allowance for impairment (c)	**(26)**	**(16)**	**(42)**
Individual allowance for impairment (d)	**(10)**	**(15)**	**(25)**
Net loans and advances	**12,526**	**1,426**	**13,952**

Notes to the interim financial statements continued

9. Asset quality continued

a: Loans and advances past due but not impaired

	The Banking Group			
Unaudited as at 31 December 2013 Dollars in millions	**Residential unsecured lending**	**Residential mortgage loans**	**Corporate exposures**	**Total**
Past due less than 30 days	**28**	**78**	**3**	**109**
Past due 30 – 59 days	**6**	**15**	**1**	**22**
Past due 60 – 89 days	**3**	**6**	**2**	**11**
Past due 90 days or greater	**3**	**12**	**-**	**15**
Total past due but not impaired	**40**	**111**	**6**	**157**

b: Impaired assets

The breakdown of the gross amount of individually impaired loans and advances by class is as follows:

	The Banking Group			
Unaudited 6 months ended 31 December 2013 Dollars in millions	**Residential unsecured lending**	**Residential mortgage loans**	**Corporate exposures**	**Total**
Gross impaired				
Balance at beginning of the period	**1**	**22**	**31**	**54**
Transfers from performing	**1**	**4**	**3**	**8**
Transfers to performing	**-**	**(3)**	**(3)**	**(6)**
Asset realisations and loans repaid	**-**	**(7)**	**(5)**	**(12)**
Amounts written off	**(1)**	**(3)**	**(1)**	**(5)**
Balance at end of the period	**1**	**13**	**25**	**39**
Individual allowance for impairment	**(1)**	**(9)**	**(15)**	**(25)**
Total net impaired assets	**-**	**4**	**10**	**14**

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

	The Banking Group			
Unaudited 6 months ended 31 December 2013 Dollars in millions	**Residential unsecured lending**	**Residential mortgage loans**	**Corporate exposures**	**Total**
Balance at beginning of the period	**9**	**15**	**20**	**44**
Impairment losses on loans not at fair value through profit or loss	**1**	**1**	**(4)**	**(2)**
Amounts written off	**-**	**-**	**-**	**-**
Total collective allowance for impairment losses	**10**	**16**	**16**	**42**

d: Reconciliation of the individual allowance for impairment

	The Banking Group			
Unaudited 6 months ended 31 December 2013 Dollars in millions	**Residential unsecured lending**	**Residential mortgage loans**	**Corporate exposures**	**Total**
Balance at beginning of the period	**1**	**10**	**17**	**28**
Impairment losses on loans not at fair value through profit or loss	**1**	**3**	**2**	**6**
Amounts written off	**(1)**	**(3)**	**(1)**	**(5)**
Reversals of previously recognised impaired assets	**-**	**(1)**	**(3)**	**(4)**
Total individual allowance for impairment losses	**1**	**9**	**15**	**25**

Notes to the interim financial statements continued

9. Asset quality continued

e: The reconciliation of loans and advances at fair value through profit or loss is as follows:

The credit risk unwind for the six months ended 31 December 2013 is $nil (six months ended 31 December 2012: $0.03m; year ended 30 June 2013: $0.03m).

f: Asset quality of loans and advances:

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the period. There are no real estate or other assets acquired through the enforcement of security/collateral held at 31 December 2013 (as at 31 December 2012: nil; as at 30 June 2013: nil). There are no assets under administration as at 31 December 2013 (as at 31 December 2012: nil; as at 30 June 2013: nil). There are no unrecognised impaired assets as at 31 December 2013 (as at 31 December 2012: nil; as at 30 June 2013: nil). The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired is $0.3m at 31 December 2013 (as at 31 December 2012: $0.4m; as at 30 June 2013: $0.4m). There are no restructured loans (six months ended 31 December 2012: nil; year ended 30 June 2013: nil).

g: Credit quality of financial assets neither past due nor impaired

A large portion of the credit exposures, such as residential mortgages, are secured. That is, the fair value of associated security is sufficient to ensure that the Banking Group will recover the entire amount owing over the life of the facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

The credit quality of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the Bank's credit scoring systems. At the origination of loans and advances to Customers, retail advances are credit scored based on a combination of debt servicing ability, behavioural loan characteristics and loan-to-valuation ("**LVR**") ratios. Non-retail advances are individually risk graded against similar characteristics. These credit scoring characteristics are reviewed periodically for adverse changes during the loan's life. Interest continues to be accrued on all loans. No interest has been foregone.

10. Segment analysis

	The Banking Group			
Dollars in millions	Personal markets	Business markets	Payment services	Total
Unaudited 6 months ended 31 December 2013				
External revenues	**212**	**(14)**	**33**	**231**
Intersegment revenues	**(74)**	**74**	**-**	**-**
Total revenues	**138**	**60**	**33**	**231**
Profit before taxation	**35**	**32**	**5**	**72**
Unaudited 6 months ended 31 December 2012				
External revenues	199	(5)	33	227
Intersegment revenues	(64)	64	-	-
Total revenues	135	59	33	227
Profit before taxation	44	28	8	80
Audited year ended 30 June 2013				
External revenues	397	(16)	65	446
Intersegment revenues	(129)	129	-	-
Total revenues	268	113	65	446
Profit before taxation	80	41	14	135

There have been no changes to the segments as defined in the Banking Group's annual financial statements for the year ended 30 June 2013.

Notes to the interim financial statements continued

11. Concentration of credit risk

	The Banking Group
Dollars in millions	Unaudited as at 31/12/13
New Zealand	
Government, local authorities and services	**1,053**
Finance, investment and insurance	**861**
Households	**12,560**
Transport and storage	**47**
Communications	**9**
Electricity, gas and water	**24**
Construction	**110**
Property and business services	**870**
Agriculture	**27**
Health and community services	**70**
Personal and other services	**45**
Retail and wholesale trade	**82**
Food & other manufacturing	**148**
Overseas	
Finance, investment and insurance	**159**
	16,065
Less allowance for impairment losses	**(67)**
Other financial assets	**8**
Total	**16,006**

Notes to the interim financial statements continued

11. Concentration of credit risk continued

	The Banking Group		
Unaudited as at 31 December 2013 Dollars in millions	**Maximum exposure**	**Collateral**	**Net exposure**
Credit risk relating to balance sheet assets			
Fixed rate lending at amortised cost	**8,151**	**(8,136)**	**15**
Variable rate lending	**5,540**	**(5,530)**	**10**
Unsecured lending	**328**	**-**	**328**
Due from other financial institutions	**76**	**-**	**76**
Balances with related parties	**164**	**-**	**164**
Derivative financial instruments	**150**	**(6)**	**144**
Financial assets held for trading	**44**	**-**	**44**
Available-for-sale assets	**1,051**	**-**	**1,051**
Cash and cash equivalents	**561**	**-**	**561**
Other financial assets	**8**	**-**	**8**
	16,073	**(13,672)**	**2,401**
Less allowance for impairment	**(67)**	**-**	**(67)**
Total	**16,006**	**(13,672)**	**2,334**

The table above represents a worst case scenario of credit risk exposure to the Banking Group at 31 December 2013. The exposures set out are based on net carrying amounts as reported in the balance sheet.

Australian and New Zealand Standard Industrial Classification ("**ANZIC**") codes have been used as the basis for disclosing customer industry sectors.

The exposure of the Banking Group derived from loans and advances to retail and corporate customers is 87% of the total maximum exposure (31 December 2012; 85%; 30 June 2013: 87%).

The table above provides a quantification of the value of the financial charges the Banking Group holds over a borrower's specific asset (or assets) where the Banking Group is able to enforce the collateral in satisfying the debt in the event of the borrower failing to meet its contractual obligations. For the purposes of this disclosure, where collateral held is valued at more than the corresponding credit exposure, coverage is capped at the value of the credit exposure less amounts for which an individual impairment allowance has been recognised. The most common type of collateral is over real estate including residential, commercial, industrial and rural property.

The Banking Group is potentially exposed to credit risk for undrawn loan commitments (note 14) for an amount equal to the undrawn balance.

Notes to the interim financial statements continued

12. Concentration of funding

	The Banking Group
Dollars in millions	Unaudited as at 31/12/13
Analysis by industry sector	
New Zealand	
Transport and storage	**69**
Finance, investment and insurance	**2,833**
Electricity, gas and water	**46**
Food & other manufacturing	**58**
Construction	**53**
Communications	**11**
Government, local authorities and services	**408**
Agriculture	**22**
Health and community services	**118**
Personal and other services	**212**
Property and business services	**316**
Education	**87**
Retail and wholesale trade	**56**
Households	**9,040**
Overseas	
Finance, investment and insurance - Australia	**346**
Finance, investment and insurance - rest of world	**1,182**
Households - Australia	**31**
Households - rest of world	**214**
	15,102
Other financial liabilities	**58**
Total	**15,160**

ANZIC codes have been used as the basis for disclosing industry sectors.

Notes to the interim financial statements continued

13. Interest repricing

The table below summarises the Banking Group's exposure to interest rate risk. It includes financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

The fair value adjustment on the revaluation of financial assets and liabilities is categorised in the applicable repricing category below.

	The Banking Group						
	Unaudited as at 31/12/13						
Dollars in millions	Total	Non-interest bearing	Up to 3 months	3 to 6 months	6 months to 1 year	Between 1 & 2 years	Over 2 years
Financial assets							
Cash and cash equivalents	561	67	494	-	-	-	-
Due from other financial institutions	164	-	164	-	-	-	-
Financial assets held for trading	44	-	9	4	-	12	19
Available-for-sale assets	1,051	-	281	2	73	471	224
Loans and advances	13,952	(45)	6,196	993	3,193	2,632	983
Derivative financial instruments	150	150	-	-	-	-	-
Due from NZP related parties	76	1	45	-	-	-	30
Other financial assets	8	8	-	-	-	-	-
Total financial assets	16,006	181	7,189	999	3,266	3,115	1,256
Financial liabilities							
Due to other financial institutions	(171)	(5)	(166)	-	-	-	-
Deposits and other borrowings	(12,412)	(1,101)	(7,513)	(1,675)	(1,796)	(185)	(142)
Derivative financial instruments	(208)	(208)	-	-	-	-	-
Debt securities issued	(2,152)	-	(1,469)	(25)	(282)	-	(376)
Term subordinated debt	(149)	-	-	-	-	-	(149)
Due to NZP related parties	(14)	(4)	(10)	-	-	-	-
Other financial liabilities	(54)	(54)	-	-	-	-	-
Total financial liabilities	(15,160)	(1,372)	(9,158)	(1,700)	(2,078)	(185)	(667)
On-balance sheet gap	846	(1,191)	(1,969)	(701)	1,188	2,930	589
Net derivative notional principals	-	-	4,706	(389)	(347)	(2,963)	(1,007)
Net effective interest rate gap	846	(1,191)	2,737	(1,090)	841	(33)	(418)

14. Liquidity

The table on page 21 summarises the cash flows of the Banking Group by remaining contractual maturities as at the reporting date. The amounts disclosed are the contractual undiscounted cash flows and include principal and future interest cash flows and therefore may not agree to the carrying values on the balance sheet. Actual cash flows may differ significantly from the contractual cash flows disclosed below as a result of future actions of the Banking Group and/or its counterparties, such as early repayments or refinancing of term loans.

The majority of the longer term Loans and advances are housing loans which are likely to be repaid earlier than their contractual terms. Deposits and other borrowings include substantial customer savings deposits and cheque accounts, which are at call. History demonstrates that such accounts provide a stable source of long term funding for the Bank.

The Banking Group does not manage its liquidity risk on the basis of the information provided on page 21.

Notes to the interim financial statements continued

14. Liquidity continued

	The Banking Group						
	Unaudited as at 31/12/13						
Dollars in millions	On demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Gross nominal inflow/ outflow	Carrying amount
Non derivative cash flows							
Liabilities							
Due to other financial institutions	(5)	(166)	-	-	-	(171)	(171)
Deposits and other borrowings	(6,057)	(2,503)	(3,636)	(398)	-	(12,594)	(12,412)
Debt securities issued	-	(1,181)	(443)	(347)	(271)	(2,242)	(2,152)
Term subordinated debt	-	-	(9)	(176)	-	(185)	(149)
Due to NZP related parties	(4)	(10)	-	-	-	(14)	(14)
Other financial liabilities	(54)	-	-	-	-	(54)	(54)
Total financial liabilities	(6,120)	(3,860)	(4,088)	(921)	(271)	(15,260)	(14,952)
Assets							
Cash and cash equivalents	561	-	-	-	-	561	561
Due from other financial institutions	98	66	-	-	-	164	164
Financial assets held for trading	-	3	6	31	11	51	44
Available-for-sale assets	-	133	117	878	-	1,128	1,051
Loans and advances	-	487	830	3,142	24,725	29,184	13,952
Due from NZP related parties	-	30	18	34	-	82	76
Other financial assets	8	-	-	-	-	8	8
Total financial assets	667	719	971	4,085	24,736	31,178	15,856
Net non-derivative cash flows	(5,453)	(3,141)	(3,117)	3,164	24,465	15,918	904
Derivative cash flows - net							
Interest rate derivatives	-	(9)	13	13	(5)	12	
Total	-	(9)	13	13	(5)	12	
Derivative cash flows - gross							
Foreign exchange derivatives							
Inflow	-	959	430	203	469	2,061	
Outflow		(958)	(481)	(251)	(479)	(2,169)	
Total	-	1	(51)	(48)	(10)	(108)	
Off balance sheet cash flows							
Capital commitments	-	(1)	(1)	(4)	-	(6)	
Undrawn loan commitments	(1,993)	-	-	-	-	(1,993)	
Lease commitments	-	(1)	(4)	(18)	(6)	(29)	
Total	(1,993)	(2)	(5)	(22)	(6)	(2,028)	
Net cash flows	(7,446)	(3,151)	(3,160)	3,107	24,444	13,794	
Cumulative net cash flows	(7,446)	(10,597)	(13,757)	(10,650)	13,794	13,794	

Notes to the interim financial statements continued

14. Liquidity continued

The Banking Group held the following financial assets for the purpose of managing liquidity risk.

Dollars in millions	The Banking Group Unaudited as at 31/12/13
The Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy.	
Cash on hand and with central banks	**498**
Certificates of deposit	**50**
Government bonds and treasury bills	**494**
Local body stock and bonds	**25**
Other bonds	**772**
Total	**1,839**

15. Fair value of financial instruments

Fair value estimation

Quoted market prices, when available, are used as the measure of fair value for financial instruments. However, for some of Kiwibank's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using present value or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair values.

The fair value estimates were determined by application of the methods and assumptions described below.

Cash and cash equivalents

For cash assets, the carrying amount is equivalent to the fair value. For short term liquid assets, estimated fair values are based on quoted market prices.

Held for trading and available-for-sale securities

Estimates of fair value for both held for trading and available-for-sale securities are based on quoted market prices or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. These techniques address factors such as interest rates, credit risk and liquidity.

Debt securities issued

Debt securities issued classified at fair value through profit or loss are short term in nature. For such liabilities the carrying amounts approximate their fair value or it has been determined using discounted cash flow models as appropriate.

Loans and advances

For variable rate loans and advances, the carrying amount is a reasonable estimate of fair value. For fixed rate loans and advances, fair values have been estimated using a discounted cash flow model with reference to market interest rates, prepayment rates and rates of estimated credit losses.

Other financial assets and liabilities

For other financial assets and liabilities, the carrying amount is approximately equal to the fair value.

Deposits by customers

For fixed term deposits by customers, fair values have been estimated using a discounted cash flow model with reference to market interest rates. For other deposits by customers, the carrying amount is a reasonable estimate of fair value.

Impaired and past due assets

For non-accrual and restructured impaired assets as well as past due loans, fair value is estimated by discounting the expected future cash flows using current market interest rates incorporating an appropriate risk factor or, where such loans are collateralised and have been written down to the current market value of the collateral, the estimated fair value is based on the written down carrying value.

Derivative financial instruments

The fair values of exchange rate or interest rate contracts are obtained from observable market prices as at the reporting date, discounted cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate, a cash basis has been adopted.

Notes to the interim financial statements continued

15. Fair value of financial instruments continued

Fair value hierarchy

The Banking Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: Techniques using inputs which have a significant effect on the recorded fair value and which are not based on observable market data.

	The Banking Group			
Dollars in millions	Level 1	Level 2	Level 3	Total
Unaudited as at 31 December 2013				
Financial assets				
Derivative financial assets	-	150	-	150
Financial assets held for trading	-	44	-	44
Available-for-sale financial assets	590	461	-	1,051
Total financial assets at fair value	590	655	-	1,245
Financial liabilities				
Derivative financial liabilities	-	208	-	208
Debt securities issued	-	903	-	903
Total financial liabilities at fair value	-	1,111	-	1,111

There have been no transfers between levels 1 and 2 during the period ended 31 December 2013. There were also no transfers into/out of level 3 during the period ended 31 December 2013.

Notes to the interim financial statements continued

15. Fair value of financial instruments continued

Dollars in millions	The Banking Group Carrying amount	The Banking Group Estimated fair value
Unaudited as at 31 December 2013		
Assets		
Cash and cash equivalents	**561**	**561**
Due from other financial institutions	**164**	**164**
Financial assets held for trading	**44**	**44**
Available-for-sale assets	**1,051**	**1,051**
Loans and advances	**13,952**	**13,920**
Derivative financial instruments	**150**	**150**
Due from NZP related parties	**76**	**76**
Other financial assets	**8**	**8**
Total financial assets	**16,006**	**15,974**
Liabilities		
Due to other financial institutions	**171**	**171**
Deposits and other borrowings	**12,412**	**12,420**
Derivative financial instruments	**208**	**208**
Debt securities issued	**2,152**	**2,158**
Term subordinated debt	**149**	**148**
Due to NZP related parties	**14**	**14**
Other financial liabilities	**54**	**54**
Total financial liabilities	**15,160**	**15,173**

16. Credit exposure concentrations

Credit exposures to individual counterparties

Credit exposure concentrations are disclosed on the basis of actual credit exposures and gross of set-offs. Peak end-of-day aggregate credit exposures have been calculated using the Banking Group's Tier 1 capital at the end of the period.

There are no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A-, A3 or its equivalent or above), 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 equity as at the reporting date.

17. Fiduciary activities and securitisation

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 at fair value, except that Kiwibank does not charge Kiwibank Investment Management Limited, the Manager of the Kiwibank PIE Unit Trust and the issuer and promoter of the Kiwibank KiwiSaver scheme, any bank fees. Further, the Kiwibank PIE Unit Trust bank account used for tax payments does not earn interest.

Insurance business

The Banking Group does not market or distribute its own insurance products.

Notes to the interim financial statements continued

17. Fiduciary activities and securitisation continued

Kiwi Covered Bond Trust

On 23 January 2013, the Kiwi Covered Bond Trust (the "**Covered Bond Trust**") was established to hold Kiwibank housing loans and to provide guarantees to certain debt securities issued by the Bank. Guarantees provided by Kiwi Covered Bond Trustee Limited, as Trustee of the Covered Bond Trust, have a priority claim over the assets of the Covered Bond Trust. Since 19 February 2013, selected Kiwibank housing loans have been transferred to the Covered Bond Trust in order to facilitate the Bank's covered bond programme. These assets do not qualify for derecognition as the Banking Group retains a continuing involvement and retains substantially all the risks and rewards of ownership of the transferred assets. The Covered Bond Trust is consolidated within the Banking Group.

Substantially all of the assets of the Covered Bond Trust comprise housing loans originated by the Bank, which are security for the guarantee of issuances of covered bonds by the Bank. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

The carrying value and fair value of the Covered Bond Trust pool at 31 December 2013 is $316m (31 December 2012: $nil; 30 June 2013: $316m). These securities are ring fenced to ensure they are not used as collateral outside of agreements established in relation to the Covered Bond Trust.

Kiwibank RMBS Trust Series 2009-1

The purpose of the Kiwibank RMBS Trust Series 2009-1 (the "**RMBS Trust**") is to provide an in-house residential mortgage-backed securities facility to issue securities as collateral for borrowing from the Reserve Bank of New Zealand. As at 31 December 2013, included within Loans and advances to customers on the Banking Group's consolidated balance sheet were housing loans with a carrying value of $600m held by the RMBS Trust (31 December 2012: $600m; 30 June 2013: $600m). These housing loans do not qualify for derecognition as the Bank retains substantially all of the risks and rewards of ownership. The RMBS Trust is consolidated within the Banking Group.

18. Risk management

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 30 June 2013.

19. Interest earning and discount bearing assets and liabilities

	The Banking Group
Dollars in millions	**Unaudited as at 31/12/13**
Interest earning and discount bearing assets	**15,825**
Interest and discount bearing liabilities	**13,788**

20. Capital expenditure commitments

Capital expenditure commitments contracted for as at 31 December 2013, but not provided for in these interim financial statements, total $6.1m (31 December 2012: $0.8m; 30 June 2013: $0.2m).

All such commitments are due no later than one year from the reporting date.

21. Contingent liabilities and loan commitments

In June 2013, a group called Fair Play on Fees announced plans for a representative action against banks in New Zealand in relation to certain default fees charged to New Zealand customers. In November 2013, the group issued proceedings against the Bank. The potential outcome of the proceedings cannot be determined with any certainty at this stage.

Other than the above, there are no material contingent liabilities as at 31 December 2013 (31 December 2012: nil; 30 June 2013: nil).

Undrawn loan commitments as at the reporting date are disclosed in note 14.

22. Events subsequent to the reporting date

There are no material events that occurred subsequent to the reporting date, that require recognition, or additional disclosure in these financial statements.

Capital adequacy

Kiwibank Limited ("**Kiwibank**" or the "**Bank**") 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 III) 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 III regime, Kiwibank applies the RBNZ's BS12 - *Guidelines on a Bank's 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. In accordance Kiwibank's banking conditions of registration, Kiwibank applies the RBNZ's Basel III framework.

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 capital ratio must not be less than 8.0% of risk weighted exposures.
- Tier 1 capital ratio must not be less than 6.0% of risk weighted exposures.
- The Common Equity Tier 1 capital ratio is not less than 4.5%.
- Capital of the Banking Group must not be less than NZ$30m.

Regulatory capital

The Basel III standards for bank capital distinguish between Tier 1 and Tier 2 capital. Tier 1 capital is permanently and freely available to absorb losses without the bank being obliged to cease trading, while Tier 2 capital generally only absorbs losses in a winding up. Within Tier 1 capital, Common Equity Tier 1 capital ("**CET 1**") has greater loss absorbing capability than the other Tier 1 instruments referred to as Additional Tier 1 capital ("**AT 1**").

Capital ratios are used to define minimum capital requirements for each of: Common Equity, Tier 1 capital (CET 1 plus AT 1), and Total capital (Tier 1 plus Tier 2), as a percentage of risk-weighted assets. From 1 January 2014, in addition to the minimum capital requirements, Basel III introduces a capital conservation buffer of 2.5% of risk-weighted assets. There are increasing constraints on capital distributions where a bank's capital level falls within the buffer range. The following table shows the current capital ratio requirements and future conservation buffers (as a percentage of risk weighted assets).

	Common equity	Tier 1 capital	Total capital
RBNZ minimum ratios	4.5%	6.0%	8.0%
Conservation buffer from 1 January 2014	2.5%	-	-
RBNZ minimum ratio plus conservation buffer from 1 January 2014	7.0%	8.5%	10.5%

The ordinary shares issued by the Bank, which are fully paid, are included within CET 1 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.

The perpetual preference shares, issued by Kiwi Capital Securities Limited on 4 May 2010, are fully paid and are included within AT 1 capital. Their material terms and conditions are:

a) each share has no voting rights;

b) there are no redemption, conversion or capital repayment options/facilities;

c) dividends are paid quarterly in arrears at the discretion of the directors;

d) there is a predetermined dividend rate of 8.15% pa (which resets every 5 years);

e) there is no maturity date;

f) no provision has been made for a variation or suspension of dividend payments;

g) there are no options to be granted pursuant to any agreement; and

h) there are no dividends in arrears.

The $150m perpetual preference shares are subject to grandfathering under the RBNZ's Basel III transitional arrangements.

The subordinated debt issue, issued by the Bank and which is fully paid, is included within Tier 2 capital. The issue is subordinate to all other general liabilities of the Banking Group and is denominated in New Zealand dollars. The material terms and conditions are:

$150m subordinated debt issued 10 December 2012:

a) the Subordinated Bonds constitute direct, unsecured, subordinated debt obligations of Kiwibank;

b) the Subordinated Bonds pay interest at the Coupon Rate of 5.8% pa;

c) interest will be paid in arrears in equal semi-annual instalments. Payments of interest are subject to Kiwibank and the Banking Group being able to satisfy the Solvency Test immediately following payment;

d) the maturity date of the Subordinated Bonds is 15 December 2022. Kiwibank may redeem the Subordinated Bonds on the First Call Date (15 December 2017) and on any Interest Payment Date thereafter subject to Kiwibank and the Banking Group being able to satisfy the Solvency Test immediately following the payment; Kiwibank may also redeem the Subordinated Bonds at any time (including before the First Call Date) if a Regulatory Event or a Tax Event occurs; and

e) the Subordinated Bonds are not guaranteed by any member of the Banking Group, Kiwibank's parent companies (including New Zealand Post), the Crown or by any other person.

Under the RBNZ's Basel III rules the $150m term subordinated debt is subject to a loss absorbency haircut.

Capital adequacy continued

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 (commonly referred to as "Pillar I" risk classes under Basel III) can be summarised as follows:

- 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).
- Market risk – The vulnerability of earnings to movements in interest rates and currency volatility. The risk based capital allocation is computed based on RBNZ Standardised Approach to Interest Rate Risk (BS2A).
- Operational risk – The risk of loss, resulting from inadequate or failed internal processes (including legal risks), people and systems and from external events. The risk based capital allocation is computed based on RBNZ Standardised Approach to Operational Risk methodology (BS2A).

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 on pages 27 to 31 summarise the composition of regulatory capital and capital adequacy ratios for the period ended 31 December 2013. Throughout the period Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

Regulatory capital

The following table shows the qualifying capital for the Banking Group.

	The Banking Group
Dollars in millions	Unaudited as at 31/12/13
Common Equity Tier 1 capital	
Issued and fully paid up share capital	**360**
Retained earnings	**397**
Dividends paid	**(4)**
Accumulated other comprehensive income and other disclosed reserves [1, 2]	**19**
Less deductions from Common Equity Tier 1 capital	
Intangible assets	**(80)**
Cash flow hedge reserve	**(21)**
Deferred tax assets	**(15)**
Total Common Equity Tier 1 capital	**656**
Additional Tier 1 capital	
Perpetual fully paid up non-cumulative preference shares [3]	**147**
Total Additional Tier 1 capital	**147**
Total Tier 1 capital	**803**
Tier 2 capital	
Term subordinated debt 12/22	**108**
Total Tier 2 capital	**108**
Total capital	**911**

[1] Includes Available for Sale Reserve of ($(2m)). The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale securities until the investment is derecognised or impaired.

[2] Includes cash flow hedge reserve of $21m. The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of foreign exchange and interest rate derivative contracts related to hedged forecasted transactions that have not yet occurred. The cash flow hedge reserve is not eligible for inclusion in capital under BS2A 7 (3)(c).

[3] Represents the face value of perpetual preference shares, which are classified as equity for financial reporting purposes, less issue costs.

Capital adequacy continued

On-balance sheet exposures

	The Banking Group			
	Unaudited as at 31/12/13			
Dollars in millions	Total exposure	Risk weighting	Risk weighted exposure	Minimum Pillar I Capital requirement
On-balance sheet exposures				
Cash and gold bullion	68	0%	-	-
Sovereigns and central banks	1,020	0%	-	-
Multilatteral development banks and other international organisations	109	0%	-	-
Public sector entities	36	20%	7	1
Banks	393	20%	79	6
	154	50%	77	6
Corporate	5	20%	1	-
	115	50%	58	5
	3	100%	3	-
Residential mortgages not passed due	10,694	35%	3,743	299
	1,984	50%	992	79
	305	75%	229	18
	109	100%	109	9
Impaired assets	39	100%	39	3
Past due residential mortgages > 90 days	12	100%	12	1
Other past due assets	3	150%	5	-
Non risk weighted assets	170	0%	-	-
Other assets	893	100%	893	71
Total on-balance sheet exposures	**16,112**		**6,247**	**498**

Capital adequacy continued

Off-balance sheet exposures and market related contracts

	The Banking Group					
	Unaudited as at 31/12/13					
Dollars in millions	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure	Minimum Pillar I Capital Requirement
Direct credit substitute	2	100%	2	100%	2	-
Asset sale with recourse	-	100%	-	-	-	-
Forward asset purchase	-	100%	-	-	-	-
Commitment with certain drawdown	23	100%	23	100%	23	2
Note issuance facility	-	50%	-	-	-	-
Revolving underwriting facility	223	50%	112	40%	45	4
Revolving underwriting facility	838	20%	168	40%	67	5
Revolving underwriting facility	86	0%	-	0%	-	-
Performance-related contingency	4	50%	2	100%	2	-
Other commitments where origional maturity is greater than one year	236	50%	118	40%	47	4
Other commitments where origional maturity is less than or equal to one year	56	20%	11	100%	11	1
Other commitments where origional maturity is less than or equal to one year	2	20%	-	20%	-	-
Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice	525	0%	-	0%	-	-
Market related contracts:[1]			-		-	-
(a) Foreign exchange contracts	1,779	n/a	55	72%	40	3
(b) Interest rate contracts	30,776	n/a	226	49%	111	9
Total off-balance sheet exposures	**34,550**		**717**		**348**	**28**

Residential mortgages by loan-to-value ratio

	The Banking Group		
	Unaudited as at 31/12/13		
Dollars in millions	On-balance sheet	Off-balance sheet	Total
LVR 0%-80%	10,714	251	10,965
LVR > 80%-90%	1,986	16	2,002
LVR 90% +	418	8	426
Total	**13,118**	**275**	**13,393**

The LVR classification above is calculated in line with the Bank's Pillar I capital requirement, which includes capital relief for "Welcome Home" loans that are guaranteed by the New Zealand Crown. Loans with an LVR greater than 80% are presented after the mitigation of credit risk from third party lenders' mortgage insurance, where applicable.

At 31 December 2013, of the loans with an LVR greater than 80%, \$496m relates to "Welcome Home" loans, whose credit risk is mitigated by the New Zealand Crown. Of the remaining loans with an LVR greater than 80%, Kiwibank uses lenders' mortgage insurance on selected loans.

Capital adequacy continued

Dollars in millions	The Banking Group Unaudited as at 31/12/13
Residential mortgages total on-balance sheet exposures	13,118
Corporate lending residentially secured	(938)
Unsecured loans	329
Deferred arrangement fees	53
Collective allowance for impairment	(26)
Individual allowance for impairment	(10)
Net loans and advances to retail customers	**12,526**

Credit risk mitigation

No credit risk mitigation has been recognised as at 31 December 2013.

Operational risk

	The Banking Group	
	Unaudited as at 31/12/13	
Dollars in millions	Implied risk weighted exposure	Total operational risk capital requirement
Operational risk	983	79

Market risk

	The Banking Group			
	Unaudited as at 31/12/13			
	Implied risk weighted exposure		Aggregate capital charge	
Dollars in millions	End of period	Peak end-of-day	End of period	Peak end-of-day
Interest rate risk	320	401	26	32
Foreign currency risk	-	13	-	1
Equity risk	-	-	-	-

Total capital requirements

	The Banking Group		
	Unaudited as at 31/12/13		
Dollars in millions	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital requirement
Credit risk	50,662	6,595	526
Operational risk	n/a	983	79
Market risk	n/a	320	26
Total Pillar I risk	**n/a**	**7,898**	**631**

Capital adequacy continued

Other material risk (Pillar II)

The Basel III 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 II risks), including:

- 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.
- Other risks – Including reputation risk, strategic risk and liquidity risk.

The Bank has made an internal capital allocation of $46m (31 December 2012: $27m). The other material risks identified by the Bank include regulatory environment risk, reputational risk, systems risk and liquidity risk.

Capital ratios

	The Banking Group	
Dollars in millions	**Unaudited as at 31/12/13**	Unaudited as at 31/12/12
Capital adequacy ratios		
Common Equity Tier 1 capital ratio	**8.3%**	n/a
Tier 1 capital ratio	**10.2%**	10.6%
Total capital ratio	**11.5%**	13.5%
RBNZ minimum ratios		
Common Equity Tier 1 capital ratio	**4.5%**	n/a
Tier 1 capital ratio	**6.0%**	4.0%
Total capital ratio	**8.0%**	8.0%
Buffer ratios		
Buffer ratio	**3.5%**	n/a
Buffer ratio requirement (effective from 1 January 2014)	**2.5%**	n/a

	Kiwibank Limited	
Dollars in millions	**Unaudited as at 31/12/13**	Unaudited as at 31/12/12
Capital adequacy ratios		
Common Equity Tier 1 capital ratio	8.2%	n/a
Tier 1 capital ratio	10.1%	10.4%
Total capital ratio	11.4%	13.3%

Conditions of registration

The conditions of registration imposed on Kiwibank Limited by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, which were applicable as at 31 December 2013, are as follows:

Conditions of registration as from 1 October 2013 – Kiwibank Limited

The registration of Kiwibank Limited (the "Bank") as a registered bank is subject to the following conditions:

1. That -
   a) the Total capital ratio of the Banking Group is not less than 8%;
   b) the Tier 1 capital ratio of the Banking Group is not less than 6%;
   c) the Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5%;
   d) the Total capital of the Banking Group is not less than $30 million; and
   e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013 is followed for the recognition and repayment of capital.

   For the purposes of this condition of registration, capital, the Total capital ratio, the Tier 1 capital ratio, and the Common Equity Tier 1 capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013.

1A. That -
   a) 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;
   b) 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 the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013; and
   c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the buffer ratio of the Banking Group is 2.5% or less, the Bank must:
   a) according to the following table, limit the aggregate distributions of the Bank's earnings to the percentage limit to distributions that corresponds to the Banking Group's buffer ratio:

Banking Group's buffer ratio	Percentage limit to distributions of the Bank's earnings
0% - 0.625%	0%
>0.625 – 1.25%	20%
>1.25 – 1.875%	40%
>1.875 – 2.5%	60%

   b) prepare a capital plan to restore the Banking Group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
   c) have the capital plan approved by the Reserve Bank

   For the purpose of this condition of registration,-

   "buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013.

   This condition of registration applies on and after 1 January 2014.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:
   a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
   b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the Banking Group's insurance business -
   a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and
   b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

Conditions of registration continued

For the purposes of this condition of registration, -

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

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 of the Bank[1]	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

[1] This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

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% 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 Reserve Bank of New Zealand document entitled "Connected exposure policy" (BS8) dated September 2013.

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 Bank complies with the following corporate governance requirements:

   a) the board of the Bank must have at least five directors;

   b) the majority of the board members must be non-executive directors;

   c) at least half of the board members must be independent directors;

   d) an alternate director,-

      (i) for a non-executive director must be non-executive; and

      (ii) for an independent director must be independent;

   e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;

   f) the chairperson of the board of the Bank must be independent; and

   g) the Bank's constitution must 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).

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank unless:

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

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

8. That a person must not be appointed as chairperson of the board of the Bank unless:

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

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

9. That the Bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

   a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;

   b) the committee must have at least three members;

   c) every member of the committee must be a non-executive director of the Bank;

   d) the majority of the members of the committee must be independent; and

   e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

   For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

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

11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:

    a) that the Bank's clearing and settlement obligations due on a day can be met on that day;

    b) that the Bank's financial risk positions on a day can be identified on that day;

    c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and

Conditions of registration continued

d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006.

12. That:

a) the business and affairs of the Bank are managed by, or under the direction or supervision of, the board of the Bank;

b) the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the Bank; and

c) all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.

13. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:

a) the one-week mismatch ratio of the Banking Group is not less than zero per cent at the end of each business day;

b) the one-month mismatch ratio of the Banking Group is not less than zero per cent at the end of each business day; and

c) the one-year core funding ratio of the Banking Group is not less than 75 per cent at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.

14. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:

a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and

d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition, -

"total assets" means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets:

"SPV" means a person -

a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;

b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond.

"covered bond" means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

16. That:

a) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless;

(i) the Bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the Bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

b) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

(i) the Bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the Bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

(iii) the Reserve Bank has given the Bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

Conditions of registration continued

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can -
    a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager -
        (i) all liabilities are frozen in full; and
        (ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
    b) apply a *de minimis* to relevant customer accounts;
    c) apply a partial freeze to the customer liability account balances;
    d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
    e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and
    f) reinstate customers' access to some or all of their residual frozen funds.

    For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account" and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.
18. That the bank has an Implementation Plan that -
    a) is up-to-date; and
    b) demonstrates that the bank's pre-positioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17).

    For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.
19. That the bank has a compendium of liabilities that -
    a) at the product-class level lists all liabilities, indicating which are –
        (i) pre-positioned for Open Bank Resolution; and
        (ii) not pre-positioned for Open Bank Resolution;
    b) is agreed by the Reserve Bank; and
    c) if the Reserve Bank's agreement is conditional, meets the Reserve Banks conditions.

    For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.
20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the Bank's Implementation Plan.

    For the purposes of this condition of registration, "Implementation Plan", has the same meaning as in the Reserve Bank of New Zealand document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.
21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.
22. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.
23. That the bank must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.
24. That the bank must not provide a residential mortgage loan if the residential property to be mortgaged to the bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.
25. That the bank must not act as broker or arrange for a member of its banking group to provide a residential mortgage loan.

In these conditions of registration, -

"Banking Group" means Kiwibank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993);

"generally accepted accounting practice" has the same meaning as in section 2 of the Financial Reporting Act 1993.

Conditions of registration continued

In conditions of registration 21 to 25,—

"loan-to-valuation ratio", "loan value", "property value", "qualifying new mortgage lending amount" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated September 2013:

"loan-to-valuation measurement period" means—

a) the six calendar month period ending on the last day of March 2014; and

b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2014.

Amendments to conditions of registration

The RBNZ has issued revised conditions of registration which were effective from 1 October 2013. The revised conditions of registration include new conditions restricting high loan-to-valuation residential mortgage lending and clarify various aspects of the RBNZ's implementation of the Basel III capital standards.

Non-compliance with conditions of registration

From the resignation of Grant Paterson as a director on 18 June 2013 until 30 November 2013, Kiwibank was not in compliance with condition of registration 6 (c). This non-compliance was rectified during the period.

Auditor's Review Report

To the readers of Kiwibank Limited and Group's Disclosure Statement for the six months ended 31 December 2013

The Auditor-General is the auditor of Kiwibank Limited (the "Bank") and the Banking Group comprising the Bank and its subsidiaries. The Auditor-General has appointed me, Chris Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the review of the Disclosure Statement for the six months ended 31 December 2013 of the Bank and the Banking Group, on her behalf.

In our capacity as auditor, we have carried out a review of the:

- interim financial statements on pages 6 to 25 of the Disclosure Statement of the Banking Group for the six months ended 31 December 2013 which comprise the balance sheet as at 31 December 2013, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six month period ended 31 December 2013; and
- supplementary information as required by Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order (No 3) 2013 ("the Order") for the six months ended 31 December 2013.

Review Opinion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that:

- the interim financial statements on pages 6 to 25 (excluding supplementary information included in notes 3, 9, 11, 12, 13, 14, 16, 17, 18 and 19), have not been prepared, in all material respects in accordance with New Zealand Equivalents to International Accounting Standard 34: *Interim Financial Reporting* and do not present fairly the financial position of the Banking Group as at 31 December 2013 and its performance and cash flows for the six months ended on that date;
- the supplementary information disclosed in notes 3, 9, 11, 12, 13, 14, 16, 17, 18 and 19 prescribed by Schedules 5, 7, 13, 16 and 18 of the Order does not fairly state the matters to which it relates in accordance with those Schedules; and
- the supplementary information relating to Capital Adequacy disclosed on pages 26 to 31 has not been prepared in accordance with the Banks Conditions of Registration and Schedule 9 of the Order.

The review was completed on 19 February 2014, and is the date at which our review opinion is expressed.

Basis of Review Opinion

Our review engagement was completed in accordance with review engagement statement RS-1 Statement of Review Engagement Standards issued by the External Reporting Board. A review is limited primarily to enquiries of the Banking Group personnel and analytical procedures applied to the financial data, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Responsibilities of the Board of Directors

The Board of Directors are responsible for preparing the half-year Disclosure Statement which includes interim financial statements in accordance with Clause 25 of the Order and that present fairly the financial position of the Banking Group as at 31 December 2013 and its financial performance and cash flows for the period ended on that date.

The Board of Directors are also responsible for the preparation and fair presentation of the supplementary information in the half-year Disclosure Statement that complies with schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

These responsibilities are specified in the Order issued pursuant to the Reserve Bank of New Zealand Act 1989.

Responsibilities of the Reviewer

We are responsible for reviewing the interim financial statements and supplementary information contained in the Disclosure Statement presented to us by the Directors (as required by Clause 25, Schedules 5, 7, 9, 13, 16 and 18 of the Order).

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalents to International Accounting Standard 34: *Interim Financial Reporting*.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to Capital Adequacy) in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to Capital Adequacy in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not in all material respects prepared in accordance with the Bank's Conditions of Registration and disclosed in accordance with Schedule 9 of the Order.

Independence

In completing our review we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the review we have carried out assignments in the areas of accounting advice, other assurance and advisory services, which are compatible with those independence requirements. In addition, certain Partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. Other than in our capacity as auditor acting on behalf of the Auditor-General and these assignments we have no relationship with or interests in the Banking Group.

Chris Barber
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers