Disclosure Statement & Annual Report.

For the year ended 30 June 2013.

Kiwibank.

Number 48

What's In Here?

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 year ended 30 June 2013, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 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, we anticipate 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 its intention to launch a representative action against New Zealand banks in relation to certain default fees, and proceedings have now been issued against one bank. Kiwibank has been referred to as a potential defendant but, to date, proceedings have not been issued against it. The nature and potential outcome of any proceedings cannot yet be determined.

Credit ratings

On 21 May 2013, Standard & Poor's (Australia) Pty Limited ("**S&P**") affirmed Kiwibank's credit rating of A+. On the same date they also 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 three years preceding 30 June 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.

For an explanation of each agency's credit rating scale see page 3.

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 30 June 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).

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 $943m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2012. 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 3.

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.

Guarantees continued

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 30 June 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 30 June 2013 both S&P (on 30 September 2011) and Fitch Ratings (on 29 September 2011) downgraded their ratings of the Crown from AAA to AA+. For an explanation of each agency's credit rating scale see below.

All changes to Kiwibank's credit rating in the two years preceding 30 June 2013 are described on page 2. 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.

Directorate

Independent Non-executive director, chair

Robert William Bentley Morrison

BCom

Company director*
Country of residence: New Zealand
Director, Tamata Horticulture Limited, Tamata Holdings Limited, Acer Export Partnership Limited, Agriculture General Partner Limited, RWB Nominees Limited, Blind Pig Properties Limited, Kotu Farms Limited, Kotu Management Limited, Falkirk Management Limited, Welnix GP Limited, Investnix Holdings Limited, H.R.L. Morrison & Co Group Limited, Woodward Funds Management Limited.

* Appointed chair 1 July 2011.

Non-executive directors

David Stephen Willis

BCA, ACA (NZ), ICA (Australia)

Company director
Country of residence: Australia
Director, New Zealand Post Limited, B.Q.L. Management Pty Limited, B.Q.L. Nominees Pty Limited, B.Q.L. Properties Limited, Bank of Queensland Limited, BOQ Credit Pty Limited, BOQ Equipment Finance Limited, BOQ Finance (Aust) Limited, BOQ Finance (NZ) Limited, BOQ Funding Pty Limited, BOQ Share Plans Nominee Pty Limited, Couriers Please Holdings Pty Limited, Interflour Holdings Limited, CBH Grain Pty Limited, Volpaia Services Pty Limited, Equipment Rental Billing Services Pty Limited, Hartwood House Pty Limited, Home Building Society Limited, Home Credit Management Limited, Home Financial Planning Pty Limited, Hunter Leasing Limited, Newcourt Financial (Australia) Pty Limited, Pioneer Permanent Building Society Limited, Queensland Electronic Switching Pty Limited, Statewest Financial Services Limited, Statewest Financial Planning Pty Limited, The King's School Foundation Limited, Converga Pty Limited.

Murray Ian David Gribben

BA (Hons), MBA

Company director
Country of residence: New Zealand
Director, New Zealand Post Limited, Ruapehu Alpine Lifts Limited, WBGP Developments Limited, WBGP (Cuba Dixon) Limited, The New Zealand Venture Investment Fund Limited*.

* From 1 July 2013.

Hon. Sir Michael John Cullen

MA, Ph.D

Company director
Country of residence: New Zealand
Chair, New Zealand Post Limited, Express Couriers Limited, Alternate Director, Couriers Please Holdings Pty Limited.

Brian Joseph Roche

BCA, FCA

Chief Executive, New Zealand Post Limited
Country of residence: New Zealand
Director, Datam Limited, Kiwi Group Holdings Limited, Express Couriers Limited, Couriers Please Holdings Pty Limited, New Zealand Post Australia Holdings Pty Limited, New Zealand Post Group Finance Limited, Localist Limited, Valley Road Forest Limited, New Zealand Post Properties Limited, Converga Group Limited, CV International Post Corporation UA, Hurricanes GP Limited, GMI General Partner Limited, Gareth Morgan KiwiSaver Limited, Portfolio Custodial Nominees Limited, New Zealand Post CX Limited.

Independent non-executive directors

Catherine Maria Savage

BCA, CA

Company director
Country of residence: New Zealand
Director, CMS Capital Limited, Comrad Holdings Limited, Comrad Trustee Limited, Savage Group Limited, Radsoft Holdings Limited, Comrad Medical Systems Limited, Safco Limited, Annuitas Management Limited, Todd Family Office Limited, Pathfinder Asset Management Limited, The Griffin Savage Coy. Limited, Waiwhetu Distributors Limited, Industrial Distributors Limited.

Alison Rosemary Gerry

BMS (Hons), MAppFin

Company director
Country of residence: New Zealand
Director, Lindis Crossing Vineyard Limited, Glendora Holdings Limited, Glendora Avocados Limited, Random Walk (2010) Limited, Queenstown Airport Corporation Limited, Pioneer Generation Limited, Television New Zealand Limited, NZX Limited.

Grant Paterson resigned as a director on 18 June 2013. Mark Yeoman is an alternate director for Brian Joseph Roche.

Directorate continued

Finance, Audit and Disclosures Committee Members

Alison Rosemary Gerry (Chair)	Independent non-executive director
Catherine Maria Savage	Independent non-executive director
Brian Joseph Roche	Non-executive director

The charter of the Finance, Audit and Disclosures Committee provides that the membership of the Committee shall be at least three members of the Board who are non-executive directors, a majority of whom must also be independent.

Executive directors

None of the directorate are executive directors of Kiwibank.

Communications with directors

Communications addressed to the directors and responsible persons may be sent to Level 12, New Zealand Post House, 7 Waterloo Quay, Wellington 6011, New Zealand.

Policy for avoiding and dealing with conflicts of interests

The policy and current practice of the Board is that conflicts of interest which may arise from the personal, professional or business interests of the directors or any of them, must be disclosed to the Board. Directors are not entitled to vote on any matter in which they have an interest. Nor can they be counted in the quorum for the part of the Board meeting in respect of which they have a conflict, unless Kiwibank's shareholders have agreed by ordinary resolution (or written notice signed by a majority of shareholder) to waive this requirement or unless the matter is one in respect of which the directors are required to provide a certificate under the Companies Act 1993.

The Companies Act 1993 requires each director to cause to be entered in the interests register and disclosed to the Board:

a) the nature and monetary value of the director's interest in a transaction or proposed transaction if its monetary value is able to be quantified; or

b) the nature and extent of the director's interest in a transaction or proposed transaction if its monetary value is not able to be quantified.

Directors' benefits

There is no transaction which any director or immediate relative or close business associate of any director has with Kiwibank which either has been entered into on terms other than those which would, in the ordinary course of business of Kiwibank, be given to any other person of like circumstances or means, or could otherwise be reasonably likely to influence materially the exercise of that director's duties.

Auditors

The auditor whose report 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.

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 2013; and
   ii. the Disclosure Statement is not false or misleading.
2. During the year ended 30 June 2013:
   i. Kiwibank has complied with the conditions of registration applicable during the year, 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.

Since the resignation of Grant Paterson as a director on 18 June 2013, Kiwibank has not complied with condition 6(c) of its conditions of registration, which requires at least half of the board to be independent. This non-compliance will be rectified with the appointment of a new independent director, a process for which is underway.

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:

26 August 2013

Historical summary of financial statements

The Banking Group					
Dollars in millions	**Audited 12 months ended 30/06/13**	Audited 12 months ended 30/06/12	Audited 12 months ended 30/06/11	Audited 12 months ended 30/06/10	Audited 12 months ended 30/06/09
Financial performance					
Interest income	**790**	773	720	564	649
Interest expense	**(514)**	(516)	(529)	(430)	(485)
Net gains/(losses) on financial instruments at fair value	**-**	5	16	36	(5)
Other income	**170**	157	146	132	143
Gain on sale of subsidiary	**-**	-	-	-	11
Operating expenses	**(304)**	(273)	(242)	(219)	(215)
Impairment losses on loans and advances	**(7)**	(35)	(79)	(18)	(14)
Profit before taxation	**135**	111	32	65	84
Income tax expense	**(38)**	(32)	(11)	(19)	(20)
Net profit after taxation	**97**	79	21	46	64
Net profit after taxation attributable to non-controlling interests	**-**	-	-	-	-
Dividend paid	**(9)**	(9)	(8)	-	-

	Audited As at 30/06/13	Audited As at 30/06/12	Audited As at 30/06/11	Audited As at 30/06/10	Audited As at 30/06/09
Balance sheet					
Total assets	**15,209**	14,745	13,875	12,238	10,371
Of which individually impaired assets	**54**	84	106	38	19
Total liabilities	**14,351**	13,998	13,267	11,649	10,016
Equity attributable to owners of parent	**709**	598	458	439	355
Non-controlling interest	**149**	149	150	150	-

Financial Statements

Financial statements

Income statements

For the year ended 30 June 2013

		The Banking Group		Kiwibank Limited	
Dollars in millions	Note	**12 months ended 30/06/13**	12 months ended 30/06/12	**12 months ended 30/06/13**	12 months ended 30/06/12
Interest income	2	**790**	773	**812**	792
Interest expense	2	**(514)**	(516)	**(543)**	(540)
Net interest income		**276**	257	**269**	252
Net gains/(losses) on financial instruments at fair value	3	**-**	5	**6**	5
Other income	4	**170**	157	**171**	160
Total operating income		**446**	419	**446**	417
Operating expenses	5	**(304)**	(273)	**(301)**	(270)
Impairment losses on loans and advances	24	**(7)**	(35)	**(7)**	(35)
Profit before taxation		**135**	111	**138**	112
Income tax expense	6	**(38)**	(32)	**(37)**	(32)
Profit after taxation		**97**	79	**101**	80
Attributable to:					
Owners of the parent		**97**	79	**101**	80
Non-controlling interest		**-**	-	**-**	-

Statements of comprehensive income

For the year ended 30 June 2013

		The Banking Group		Kiwibank Limited	
Dollars in millions	Note	**12 months ended 30/06/13**	12 months ended 30/06/12	**12 months ended 30/06/13**	12 months ended 30/06/12
Profit after taxation		**97**	79	**101**	80
Other comprehensive income					
Net gain/(loss) from changes in reserves that may be subsequently reclassified to profit or loss					
Available-for-sale reserve (net of tax)	23	**(6)**	5	**(6)**	5
Cash flow hedge reserve (net of tax)	23	**29**	15	**29**	15
Other comprehensive income for the year		**23**	20	**23**	20
Total comprehensive income for the year		**120**	99	**124**	100
Attributable to:					
Owners of the parent		**120**	99	**124**	100
Non-controlling interest		**-**	-	**-**	-

The notes on pages 14 to 94 form part of these financial statements.

Financial statements continued

Statements of changes in equity

For the year ended 30 June 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 30 June 2011	310	187	3	(42)	458	150	608
Year ended 30 June 2012							
Profit for the year	-	79	-	-	79	-	79
Other comprehensive income							
Available-for-sale financial assets (net of tax)	-	-	5	-	5	-	5
Cash flow hedges (net of tax)	-	-	-	15	15	-	15
Total other comprehensive income	-	-	5	15	20	-	20
Total comprehensive income	-	79	5	15	99	-	99
Transactions with owners							
Issue of share capital	50	-	-	-	50	-	50
Transaction with non-controlling interest	-	-	-	-	-	(1)	(1)
Dividends paid to non-controlling interest	-	(9)	-	-	(9)	-	(9)
Balance at 30 June 2012	**360**	**257**	**8**	**(27)**	**598**	**149**	**747**
Year ended 30 June 2013							
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							
Issue of share capital	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transaction with non-controlling interest	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividends paid to non-controlling interest	**-**	**(9)**	**-**	**-**	**(9)**	**-**	**(9)**
Balance at 30 June 2013	**360**	**345**	**2**	**2**	**709**	**149**	**858**

The notes on pages 14 to 94 form part of these financial statements.

Financial statements continued

Statements of changes in equity continued

For the year ended 30 June 2013

	Kiwibank Limited					
Dollars in millions	**Fully Paid Ordinary Shares**	**Retained Earnings**	**Available-For-Sale Reserve**	**Cash Flow Hedge Reserve**	**Perpetual Preference Shares**	**Total**
Balance at 30 June 2011	310	187	3	(42)	150	608
Year ended 30 June 2012						
Profit for the year	-	80	-	-	-	80
Other comprehensive income						
Available-for-sale financial assets (net of tax)	-	-	5	-	-	5
Cash flow hedges (net of tax)	-	-	-	15	-	15
Total other comprehensive income	-	-	5	15	-	20
Total comprehensive income	-	80	5	15	-	100
Transactions with owners						
Issue of share capital	50	-	-	-	-	50
Transaction with non-controlling owners	-	(2)	-	-	-	(2)
Dividends paid perpetual preference shareholders	-	(9)	-	-	-	(9)
Balance at 30 June 2012	**360**	**256**	**8**	**(27)**	**150**	**747**
Year ended 30 June 2013						
Profit for the year	**-**	**101**	**-**	**-**	**-**	**101**
Other comprehensive income						
Available-for-sale financial assets (net of tax)	**-**	**-**	**(6)**	**-**	**-**	**(6)**
Cash flow hedges (net of tax)	**-**	**-**	**-**	**29**	**-**	**29**
Total other comprehensive income	**-**	**-**	**(6)**	**29**	**-**	**23**
Total comprehensive income	**-**	**101**	**(6)**	**29**	**-**	**124**
Transactions with owners						
Issue of share capital	**-**	**-**	**-**	**-**	**-**	**-**
Transaction with non-controlling owners	**-**	**-**	**-**	**-**	**-**	**-**
Dividends paid to perpetual preference shareholders	**-**	**(9)**	**-**	**-**	**-**	**(9)**
Balance at 30 June 2013	**360**	**348**	**2**	**2**	**150**	**862**

The notes on pages 14 to 94 form part of these financial statements.

Financial statements continued

Balance sheets

As at 30 June 2013

		The Banking Group		Kiwibank Limited	
Dollars in millions	Note	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Assets					
Cash and cash equivalents	8	**415**	315	**413**	314
Due from NZP related parties	25	**77**	58	**1,035**	659
Due from other financial institutions	9	**158**	171	**158**	171
Financial assets held for trading	10	**153**	104	**153**	104
Available-for-sale assets	11	**966**	1,401	**966**	1,401
Derivative financial instruments	13	**129**	138	**129**	138
Loans and advances	12	**13,202**	12,445	**13,167**	12,440
Investment in subsidiaries	14	**-**	-	**4**	5
Property, plant and equipment	15	**15**	19	**15**	19
Intangible assets	16	**64**	49	**64**	49
Deferred tax asset	7	**16**	31	**16**	31
Other assets	17	**14**	14	**14**	14
Total assets		**15,209**	14,745	**16,134**	15,345
Liabilities					
Due to other financial institutions	18	**270**	334	**270**	334
Due to NZP related parties	25	**14**	4	**930**	605
Deposits and other borrowings	20	**12,120**	11,565	**12,120**	11,565
Derivative financial instruments	13	**150**	156	**156**	156
Debt securities issued	21	**1,508**	1,806	**1,508**	1,806
Current tax liability		**12**	16	**12**	15
Other liabilities	22	**67**	53	**66**	53
Term subordinated debt	19	**210**	64	**210**	64
Total liabilities		**14,351**	13,998	**15,272**	14,598
Equity attributable to owners of the parent					
Share capital	23	**360**	360	**510**	510
Reserves	23	**349**	238	**352**	237
Total equity attributable to owners of the parent		**709**	598	**862**	747
Non-controlling interest	23	**149**	149	**-**	-
Total equity		**858**	747	**862**	747
Total liabilities and shareholder's equity		**15,209**	14,745	**16,134**	15,345

The board of directors of Kiwibank Limited authorised these financial statements for issue on 26 August 2013.

Robert Morrison

Alison Gerry

The notes on pages 14 to 94 form part of these financial statements.

Financial statements continued

Cash flow statements

For the year ended 30 June 2013

		The Banking Group		Kiwibank Limited	
Dollars in millions	Note	**12 months ended 30/06/13**	12 months ended 30/06/12	**12 months ended 30/06/13**	12 months ended 30/06/12
Cash flows from operating activities					
Interest received		**794**	762	**816**	781
Interest paid		**(518)**	(525)	**(546)**	(549)
Fees and other income		**171**	157	**172**	160
Operating expenses paid		**(269)**	(233)	**(267)**	(230)
Taxes paid		**(35)**	(28)	**(35)**	(28)
Net cash flows from operating activities before changes in operating assets and liabilities		**143**	133	**140**	134
Net changes in operating assets and liabilities					
(Increase)/decrease in financial assets held for trading		**(49)**	223	**(49)**	223
Decrease/(increase) in available-for-sale assets		**429**	(270)	**429**	(270)
Increase in loans and advances		**(722)**	(1,043)	**(680)**	(1,037)
Increase in amounts due from related parties		**(7)**	(57)	**(48)**	(58)
Decrease in balances due from other financial institutions		**13**	269	**13**	269
Increase in deposits and other borrowing		**550**	984	**550**	984
Decrease in balances due to other financial institutions		**(64)**	(462)	**(64)**	(462)
Net cash flows provided by operating activities		**293**	(223)	**291**	(217)
Cash flows from investing activities					
Decrease/(increase) of investment in subsidiaries		**-**	-	**1**	(5)
Purchase of property, plant and equipment		**(3)**	(3)	**(3)**	(3)
Purchase of intangible assets		**(34)**	(18)	**(34)**	(18)
Net cash flows from investing activities		**(37)**	(21)	**(36)**	(26)
Cash flows from financing activities					
Issue of ordinary shares		**-**	50	**-**	50
Issue of shares to non-controlling interest		**-**	1	**-**	-
(Decrease)/Increase in debt securities held		**(297)**	296	**(297)**	296
Issue/(Redemption) of subordinated debt		**150**	(75)	**150**	(75)
Dividends paid to non-controlling interest/perpetual preference shareholders		**(9)**	(9)	**(9)**	(9)
Net cash flows from financing activities		**(156)**	263	**(156)**	262
Increase in cash and cash equivalents		**100**	19	**99**	19
Cash and cash equivalents at beginning of the year		**315**	296	**314**	295
Cash and cash equivalents at end of the year	8	**415**	315	**413**	314

The notes on pages 14 to 94 form part of these financial statements.

Financial statements continued

Cash flow statements continued

For the year ended 30 June 2013

	The Banking Group		Kiwibank Limited	
Dollars in millions	**12 months ended 30/06/13**	12 months ended 30/06/12	**12 months ended 30/06/13**	12 months ended 30/06/12
Reconciliation of net profit after taxation to net cash flows from operating activities				
Net profit after taxation	**97**	79	**101**	80
Non cash movements and non-operating activities				
Unrealised fair value adjustments	**-**	(8)	**(6)**	(8)
Depreciation	**7**	9	**7**	9
Amortisation of intangibles	**17**	16	**17**	16
Decrease/(increase) in deferred expenditure	**9**	(11)	**9**	(11)
(Decrease)/increase in provision for credit impairment	**(19)**	4	**(19)**	4
Lending losses written off	**26**	31	**26**	31
Intangible work in progress written off	**2**	-	**2**	-
(Decrease)/increase in deferred taxation	**4**	(1)	**4**	(1)
Movements in operating assets and liabilities				
(Increase)/decrease in financial assets held for trading	**(50)**	223	**(50)**	223
Decrease/(increase) in available-for-sale assets	**428**	(270)	**427**	(270)
Increase in loans and advances	**(719)**	(1,043)	**(676)**	(1,038)
Decrease in balances due from other financial institutions	**13**	269	**13**	269
Increase in deposits and other borrowing	**550**	984	**550**	984
Increase in balances with related parties	**(7)**	(57)	**(48)**	(58)
Decrease in balances due to other financial institutions	**(64)**	(462)	**(64)**	(462)
Increase in accrued operating expenses	**12**	12	**12**	12
Decrease in interest payable	**(4)**	(9)	**(4)**	(9)
Increase in interest receivable	**(5)**	-	**(5)**	-
(Decrease)/increase in balances with related parties	**(2)**	7	**(2)**	8
(Decrease)/increase in current taxation	**(1)**	6	**(2)**	6
(Decrease)/increase in other assets	**(1)**	(2)	**(1)**	(2)
Net cash flows from operating activities	**293**	(223)	**291**	(217)

The notes on pages 14 to 94 form part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

In these financial statements, the reporting entity is Kiwibank Limited ("**Kiwibank**" or the "**Bank**"). The "**Banking Group**" consists of Kiwibank and its subsidiaries (as set out in note 14). 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**").

These financial statements for the year ended 30 June 2013 have been approved for issue by the Board of Directors on 26 August 2013.

1.2 Basis of preparation

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with New Zealand Equivalents to International Financial Reporting Standards ("**NZ IFRS**") and other applicable Financial Reporting Standards, as appropriate for profit oriented entities, and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2013 (the "**Order**"). The financial statements comply with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and any future years affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 1.28.

Measurement base

These financial statements are based on the general principles of historic cost accounting, modified by the application of fair value measurements for available-for-sale financial assets, financial instruments held at fair value through profit or loss and all derivative contracts. 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.

Accounting period

The audited financial statements are for the year ended 30 June 2013.

Comparative amounts

Comparative amounts are from the audited financial statements for the year ended 30 June 2012. Certain amounts in the comparative information have been reclassified to ensure consistency with the current year's presentation. Further information has been included within the relevant note disclosures.

Voluntary change in accounting policies

The Bank and the Banking Group have amended the presentation of the primary statements, in accordance with NZ IAS 1, to improve the readability of the financial statements.

There have been no other changes in accounting policies.

Notes to the financial statements continued

1. Summary of significant accounting policies continued

1.3 New Accounting Standards and Interpretations

Standards and interpretations effective in the current period:

The following new standards and amendments to standards are mandatory for financial years commencing on or after 1 July 2012 and have been adopted in these financial statements:

Standard	Requirement	Impact on financial statements
Amendments to NZ IAS 1 *Presentation of Financial Statements* — Presentation of Other Comprehensive Income	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss in subsequent periods (reclassification adjustments).	Additional disclosure has been included in the statement of comprehensive income.

No new standards, amendments or interpretations to existing standards that are not yet effective, have been early adopted by the Banking Group in these financial statements.

At the date of authorisation, the following new standards, amendments or interpretations to existing standards were in issue but not yet effective:

Standard	Effective for annual reporting periods beginning on or after:
NZ IFRS 7 (Amendment) – *Financial Instruments: Disclosures* – Offsetting Financial Assets and Financial Liabilities	1 January 2013
NZ IFRS 10 – *Consolidated Financial Statements*	1 January 2013
NZ IFRS 11 – *Joint Arrangements*	1 January 2013
NZ IFRS 12 – *Disclosure of Interests in Other Entities*	1 January 2013
NZ IFRS 13 – *Fair Value Measurement*	1 January 2013
NZ IAS 27 – *Separate Financial Statements* (2011)	1 January 2013
NZ IAS 28 – *Investments in Associates and Joint Ventures*	1 January 2013
NZ IAS 32 (Amendment) – *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities	1 January 2014
NZ IFRS 9 – *Financial Instruments*	1 January 2015

The Directors expect to adopt the above Standards and Interpretations in the period in which they become mandatory.

With the exception of NZ IFRS 9 and NZ IFRS 13, the directors anticipate that the above standards, amendments and interpretations will have no material impact on the financial statements of the Bank or the Banking Group in the period of initial application.

NZ IFRS 9: *Financial Instruments*

NZ IFRS 9 reflects the first phase of work on the replacement of NZ IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in NZ IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, impairment of financial assets and hedge accounting will be addressed. The adoption of the first phase of NZ IFRS 9 will primarily have an effect on the classification and measurement of the Bank's financial assets. The Bank is currently assessing the impact of adopting NZ IFRS 9. However, as the impact of adoption depends on the financial assets held by the Bank at the date of adoption, it is not practical to quantify the effect.

NZ IFRS 13: *Fair Value Measurement*

NZ IFRS 13 becomes effective for annual periods beginning on or after 1 January 2013. NZ IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure the fair value of financial and non-financial assets and liabilities when required or permitted by NZ IFRS. There are also additional disclosure requirements.

In the past the Bank has used various methodologies to measure fair value based on the guidance within the requisite standard and/or industry practice for the type of financial or non-financial item. NZ IFRS 13 will require the Bank to review its fair value measurement policies across all asset and liability classes. However, it is not currently practical to quantify the effect of this review on the financial statements.

Notes to the financial statements continued

1. Summary of significant accounting policies continued

1.4 Basis of consolidation

The consolidated financial statements of the Banking Group comprise the financial statements of Kiwibank and its subsidiaries for the year ended 30 June 2013, using the acquisition method. Subsidiaries are entities that are controlled by Kiwibank.

Control means the power to govern, directly or indirectly, the financial and operating policies of an entity so as to obtain benefits from its activities. All of the facts of a particular situation are considered when determining whether control exists. Control is usually present when an entity has:

- power over more than one-half of the voting rights of the other entity;
- power to govern the financial and operating policies of the other entity;
- power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or
- power to cast the majority of votes at meetings of the board of directors or equivalent governing body of the other entity.

The Banking Group may invest in or establish Special Purpose Vehicle's ("**SPV's**") to enable it to undertake specific transactions. Where the Banking Group has established an SPV which is controlled by the Banking Group to facilitate transactions undertaken for Banking Group purposes, it is consolidated in the Banking Group financial statements. In relation to SPV's control is deemed to exist where:

- in substance, the majority of the residual risks and rewards from their activities accrue to the Banking Group; or
- in substance, the Banking Group controls decision making powers so as to obtain the majority of the risks and rewards from their activities.

The results and financial position of subsidiaries are included in the consolidated financial statements from the date control is gained up to the date control ceases. On the date of acquisition of a subsidiary, identifiable assets and liabilities acquired are initially measured at fair value. The excess of the cost of acquisition over the fair value of the Banking Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Banking Group's share of the net assets acquired the difference is recognised directly in the income statement.

The interest of non-controlling shareholders is stated at their proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned directly or indirectly by the Bank. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

All intra-group balances, transactions, income or expenses are fully eliminated on consolidation.

1.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors of Kiwibank (the "**Board**"). A reportable business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

1.6 Foreign currency translation

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

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.

1.7 Financial instruments

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

Financial assets

Financial assets are classified in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. Management determines the classification of financial assets upon initial recognition.

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

This category has two sub-classes: financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Management designated the Kiwibank retail fixed rate loan portfolio, originated prior to 1 January 2008, as financial assets at fair value through profit or loss, as this significantly reduces an accounting mismatch, which would arise if such loans were carried at amortised cost, and the derivatives, which have been entered into to offset the interest rate risk on the retail fixed rate loans are held for trading. Derivatives are categorised as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss are recognised initially at fair value.

Notes to the financial statements continued

1. Summary of significant accounting policies continued

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Gains and losses exclude interest and dividends. Transaction costs are expensed as they are incurred.

Loans and receivables

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

Available-for-sale financial assets

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

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

The fair values of quoted investments in active markets are based on current prices. If the market for a financial asset is not active (and for unlisted securities), fair value is established by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Derecognition of financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Banking Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full, without material delay, to a third party under a 'pass-through' arrangement and cannot sell or re-pledge the asset other than to the transferee; or
- either the Banking Group has transferred substantially all the risks and rewards of the asset, or the Banking Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A situation may arise where the Banking Group transfers its right to receive cash flows from an asset or has entered into a pass-through arrangement. In some cases the Banking Group would have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of these assets. Should this occur to the extent that the Banking Group has continuing involvement in the asset, the asset continues to be recognised on the balance sheet.

Financial liabilities

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

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

European Commercial Paper issued is designated at fair value through profit or loss. Financial liabilities held for trading are derivatives and a portion of registered certificates of deposits. All other financial liabilities are at amortised cost.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Derivative financial instruments and hedge accounting

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

Notes to the financial statements continued

1. Summary of significant accounting policies continued

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

Derivatives held for trading

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

1.8 Offsetting financial instruments

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

1.9 Repurchase and reverse repurchase agreements

Under Repurchase Agreements, collateral in the form of securities is advanced to a third party and the Bank receives cash in exchange. The counterparty is allowed to sell or re-pledge the collateral advanced under Repurchase Agreements in the absence of default by the bank, but they have an obligation to return the collateral at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of the securities advanced and therefore they are not derecognised and are retained within the relevant security portfolio and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

A Reverse Repurchase Agreement is the same transaction as a Repurchase Agreement except the Bank is receiving the collateral in the form of securities and giving cash in exchange. The Bank may sell or re-pledge any collateral received, but has an obligation to return the collateral at the maturity of the contract and the counterparty retains substantially all the risks and rewards of ownership. Consequently the collateral is not recognised by the Bank which instead records a receivable for the cash given. The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement.

1.10 Impairment of financial assets

At each reporting date an assessment is made as to whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired

Notes to the financial statements continued

1. Summary of significant accounting policies continued

includes observable data that comes to the attention of the Banking Group about the following loss events:

- significant financial difficulty of the issuer or obligator;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Banking Group granting to the borrower, for economic or legal reasons relating to the borrowers financial difficulty, a concession that the Banking Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Banking Group, including:
  a) adverse changes in the payment status of borrowers in the Banking Group; or
  b) national or local economic conditions that correlate with defaults on the assets in the Banking Group.

Assets carried at fair value

Financial assets at fair value through profit or loss, including Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008, are assessed for impairment by reference to the remaining maturities on the loan portfolio. The risk associated with this particular portfolio is mitigated by the fact that it contains only secured retail home loans and therefore excludes commercial lending.

Assets classified as available-for-sale

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

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

Assets carried at amortised cost

Management assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Banking Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated. In some instances Kiwibank uses loan mortgage insurance on origination of loans where the loan to valuation ratio is greater than 80%.

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

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised through the income statement.

Notes to the financial statements continued

1. Summary of significant accounting policies continued

1.11 Asset quality

Definitions

"Impaired asset" means any credit exposures against which an individually assessed provision has been recorded in accordance with NZ IAS 39 – Financial Instruments: Recognition and Measurement. Impaired assets include assets acquired through a security enforcement (primarily real estate), acquired through actual foreclosure or in full or partial satisfaction of a debt.

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

An "asset under administration" is any credit exposure which is not an impaired asset or a past due asset, but which is to a counterparty who is in receivership, liquidation, bankruptcy, statutory management or any form of administration. These are classified as "other assets under administration" and reported separately.

1.12 Property, plant and equipment

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

Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

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

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

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

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

1.13 Intangible assets

Computer software

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

Customer relationships

Acquired customer relationships that are expected to generate net economic benefits beyond 12 months are recognised as intangible assets. Acquired customer relationships have finite lives and are amortised to the income statement on a straight-line basis over their estimated useful lives, which is currently five years.

1.14 Dividend distribution

Dividends distributed in respect of equity instruments are recognised as a liability in the financial statements in the reporting period in which the dividend distribution is approved.

1.15 Impairment of non-financial assets

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

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

1.16 Taxation

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

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

Notes to the financial statements continued

1. Summary of significant accounting policies continued

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

Current or deferred tax related to fair value measurement of available-for-sale assets and cash flow hedges, which is charged or credited to other comprehensive income is subsequently recognised in the income statement if and when the deferred gain or loss on the related asset or liability affects profit or loss.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

1.17 Operating leases

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

1.18 Revenue recognition

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

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

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

Fees (including payment services) are generally recognised on an accrual basis when the service has been provided.

1.19 Expense recognition

All expenses, other than those specifically disclosed in other sections of note 1, are recognised in the income statement on an accrual basis.

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

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

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

Prepayment penalty fees are estimated over the life of a loan as an adjustment of yield. To the extent actual prepayment penalty fees differ from original estimation, an adjustment is made and recorded in interest income immediately.

1.21 Employee benefits

Employees are not entitled to any superannuation or long service entitlements. Annual leave is accrued and provided for based on an employee's base remuneration package. The Banking Group makes employer contributions to KiwiSaver scheme's on an accrual basis.

1.22 Equity

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

1.23 Securitisation and funds under management

A subsidiary of the Banking Group acts as manager for a number of unit trusts and investment funds.

The assets and liabilities of these trusts and funds are not included in the consolidated financial statements when the Banking Group does not have control of the trusts and funds. Fees earned in respect of these activities are included in Other Income.

Securitised assets are derecognised when the right to receive cash flows have expired or the Banking Group has transferred substantially all the risks and rewards of ownership (see note 35).

Notes to the financial statements continued

1. Summary of significant accounting policies continued

1.24 Cash flow statements

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

i. Cash and cash equivalents is considered to be cash on hand, current accounts in banks, ATM's, overnight bank deposits, net of bank overdrafts and inter-bank balances arising from the daily RBNZ settlement process.
ii. Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment, intangibles, equity or debt instruments of other entities and other long-term assets.
iii. Financing activities are those activities which result in changes in the size and composition of the capital structure of the Banking Group. This includes both equity and debt not falling within the definition of cash.
iv. Operating activities include all transactions and other events that are not investing or financing activities.
v. Certain cash flows have been netted to provide more meaningful disclosure, including changes in loans and advances to customers, deposits held by customers, balances with other banks, debt securities issued, available-for-sale assets and financial assets held for trading. Many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group.

1.25 Deferred settlement liabilities

Deferred settlement liabilities are recognised in the balance sheet at fair value and are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.26 Provisions

A provision is recognised in the balance sheet when the Banking Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

1.27 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet, but are disclosed unless the likelihood of payment is remote.

1.28 Critical accounting estimates and judgements

Fair value estimation

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the end of the reporting date or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. The quoted market price used for financial assets held is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not quoted in an active market, including Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008, and over-the-counter derivatives, is determined by using valuation techniques. The Banking Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

The fair value of Kiwibank's retail fixed rate loan portfolio originated prior to 1 January 2008 is determined by discounting estimated cash flows expected to be received. Expected cash flows are after allowance for amortisation and are discounted at current market rates including an adjustment for credit risk. An amortisation rate of 3.45% was applied at 30 June 2012. There was no amortisation rate applied at 30 June 2013 as there were no loans for which the fair value was determined by a valuation technique at this date. Only scheduled repayments or contractual lump sum repayments are taken into account in calculating the amortisation rate. Prepayment risk associated with unscheduled repayments or loan terminations have been disregarded as application of Kiwibank's break fees ensures that no mark-to-market impact needs to be considered. The curve against which each loan is discounted is constructed using the end of period NZ Wholesale curve as the benchmark rate to develop a zero curve which is then adjusted by an assessed market credit spread component.

Asset backed securities not traded in active markets are valued using observable external third party inputs.

Notes to the financial statements continued

1. Summary of significant accounting policies continued

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

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

The total provision comprises a specific impairment and collective impairment provision. Specific provisions have been raised where objective evidence of impairment exists. If no objective evidence of impairment exists exposures are included in a group of financial assets (personal markets and business markets lending) and collectively assessed for impairment. Collective impairment calculations have been determined by a provisioning model, historical loss experience and management's experience of economic stress factors. Key macro economic assumptions considered in the collective provisioning assessment are geographical concentration risk, personal savings levels, unemployment levels, property price discounts and insurance recoveries.

Securitisation and the consolidation of SPV's

The Banking Group sponsors the formation of SPV's in the ordinary course of business, primarily to provide funding. SPV's are typically set up for a single, pre-defined purpose, have a limited life and generally are not operating entities nor do they have employees. The most common form of SPV structure involves the acquisition of financial assets by the SPV that are funded by the issuance of securities to external investors (securitisation). Repayment of the issued securities is determined by the performance of the financial assets acquired by the SPV.

Under NZ GAAP, an SPV is consolidated and reported as part of the Banking Group if it is controlled by the Bank in line with NZ IAS 27 *Consolidated and separate financial statements* are deemed to be controlled in applying NZ SIC 12 *Consolidation – Special Purpose Entities*. The definition of control is based on the substance rather than the legal form of the arrangement. As it can sometimes be difficult to determine whether the Banking Group controls an SPV, management makes judgements about the Banking Group's exposure to the associated risks and rewards, as well as its ability to make operational decisions for an SPV.

Notes to the financial statements continued

2. Interest

	The Banking Group		Kiwibank Limited	
Dollars in millions	**12 months ended 30/06/13**	12 months ended 30/06/12	**12 months ended 30/06/13**	12 months ended 30/06/12
Interest income				
Loans and advances at fair value through profit or loss	**2**	18	**2**	18
Loans and advances at amortised cost	**723**	714	**721**	714
Government and local authority securities	**26**	30	**26**	30
Other securities*	**27**	(1)	**26**	(1)
Cash and liquid assets	**4**	4	**4**	4
Balances with NZP related parties	**3**	1	**28**	20
Interest income on impaired assets	**5**	7	**5**	7
Total interest income	**790**	773	**812**	792
Total interest income derived from financial assets				
Not at fair value through profit or loss ❶	**778**	720	**800**	739
At fair value through profit or loss ❶	**12**	53	**12**	53
Total interest income	**790**	773	**812**	792
Interest expense				
Deposits by customers	**417**	417	**417**	417
Debt securities issued	**96**	98	**96**	98
Balances with NZP related parties	**1**	1	**30**	25
Total interest expense	**514**	516	**543**	540
Total interest expense on financial liabilities				
Not at fair value through profit or loss ❶	**482**	473	**511**	497
At fair value through profit or loss ❶	**32**	43	**32**	43
Total interest expense	**514**	516	**543**	540

* Interest income from other securities includes the net income and expenses on interest rate swaps which may result in a debit balance.

Where necessary the above comparative balances have been restated to comply with the current year's disclosure of related party amounts.

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

Financial assets designated at fair value through profit or loss upon initial recognition	**(1)**	(10)	**(1)**	(10)
Derivative financial instruments held for trading	**2**	14	**8**	14
Financial assets held for trading	**-**	3	**-**	3
Cumulative gain transferred from the available-for-sale reserve	**2**	1	**2**	1
Cumulative loss transferred from the cash flow hedge reserve	**(2)**	(3)	**(2)**	(3)
Loss on foreign exchange	**(1)**	-	**(1)**	-
Total gains on financial instruments	**-**	5	**6**	5

Net ineffectiveness on qualifying cash flow hedges is $0.1m (30 June 2012: $0.3m). Net ineffectiveness on qualifying fair value hedges is $0.3m (30 June 2012: ($0.3m)) and the composition of this is disclosed in note 13.

❶ Based on underlying balance sheet classification

Notes to the financial statements continued

4. Other income

	The Banking Group		Kiwibank Limited	
Dollars in millions	**12 months ended 30/06/13**	12 months ended 30/06/12	**12 months ended 30/06/13**	12 months ended 30/06/12
Banking and lending fee income	**105**	95	**106**	98
Payment services fee income (related party)	**38**	39	**38**	39
Payment services other fee income	**27**	23	**27**	23
Total other income	**170**	157	**171**	160

5. Operating expenses

Included in operating expenses are the following items:				
Operating lease and rental costs	**13**	13	**13**	13
Transaction costs on retail banking	**78**	70	**77**	70
Depreciation	**7**	9	**7**	9
Amortisation of intangibles	**17**	16	**17**	16
Directors' fees	**0.4**	0.3	**0.4**	0.3
Salaries and wages	**111**	90	**110**	90
Computer and office costs	**31**	31	**31**	31
Termination payments	**-**	1	**-**	1

Dollars in thousands				
Auditor's remuneration				
Audit and review of financial statements	**612**	603	**443**	459
Assurance services*	**101**	107	**77**	97
Other advisory				
Tax advisory services	**-**	33	**-**	33

* These services relate to off-quarter Disclosure Statement agreed upon procedures, accounting opinions and Trustee reporting.

Notes to the financial statements continued

6. Taxation

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Profit before tax	**135**	111	**138**	112
Tax calculated at a rate of 28%	**(38)**	(31)	**(39)**	(31)
Income not subject to tax	**-**	-	**2**	-
Expenses not subject to tax	**-**	(1)	**-**	(1)
Taxation charge as per the income statement	**(38)**	(32)	**(37)**	(32)
Represented by:				
Current income tax	**(33)**	(33)	**(32)**	(33)
Deferred income tax	**(5)**	1	**(5)**	1
Taxation charge as per the income statement	**(38)**	(32)	**(37)**	(32)
The deferred tax charge in the income statement comprises the following temporary differences:				
Accelerated tax depreciation	**1**	1	**1**	1
Allowances for credit and impairment losses	**(6)**	1	**(6)**	1
Other provisions and accruals	**-**	(1)	**-**	(1)
Total temporary differences	**(5)**	1	**(5)**	1

Imputation credit account

The amount of imputation credits available to the Banking Group, which are attributable to Kiwi Capital Securities Limited, as at the reporting date is $1m (30 June 2012: $1m). Kiwibank Limited does not maintain an imputation credit account as it is part of the NZP tax group.

7. Deferred taxation

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Deferred tax				
Balance at beginning of year	**31**	36	**31**	36
Prior period adjustment	**1**	-	**1**	-
Temporary differences for the year	**(5)**	1	**(5)**	1
Tax on profits taken to reserves	**(11)**	(6)	**(11)**	(6)
Balance at end of year	**16**	31	**16**	31
Deferred income tax assets				
Cash flow hedges	**-**	10	**-**	10
Other provisions and accruals	**2**	1	**2**	1
Allowance for loan impairment	**20**	26	**20**	26
Total deferred income tax assets	**22**	37	**22**	37
Deferred income tax liabilities				
Cash flow hedges	**(1)**	-	**(1)**	-
Accelerated tax depreciation	**(5)**	(6)	**(5)**	(6)
Total deferred income tax liabilities	**(6)**	(6)	**(6)**	(6)
Net deferred taxation	**16**	31	**16**	31
Deferred tax assets and liabilities to be used within 12 months	**20**	36	**20**	36
Deferred tax assets and liabilities to be used after 12 months	**(4)**	(5)	**(4)**	(5)

Notes to the financial statements continued

8. Cash and cash equivalents

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Cash in hand	**35**	45	**35**	45
Cash with central banks	**312**	209	**312**	209
Call and overnight advances to financial institutions	**68**	61	**66**	60
Total cash and cash equivalents	**415**	315	**413**	314
Current	**415**	315	**413**	314

9. Due from other financial institutions

Unsettled receivables	**2**	-	**2**	-
Short term advances due from other financial institutions	**118**	145	**118**	145
Collateralised loans	**38**	26	**38**	26
Total amounts due from other financial institutions	**158**	171	**158**	171
Current	**158**	171	**158**	171

As at 30 June 2013, included within the balance above, is $38.2m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (30 June 2012; $26.3m).

10. Financial assets held for trading

Bank bills	**80**	3	**80**	3
Other securities	**73**	101	**73**	101
Total financial assets held for trading	**153**	104	**153**	104
Current	**153**	104	**153**	104

11. Available-for-sale assets

Government stock and multilateral development banks	**587**	464	**587**	464
Treasury bills	**33**	562	**33**	562
Local authority securities	**65**	64	**65**	64
Other debt securities	**281**	311	**281**	311
Total available-for-sale assets	**966**	1,401	**966**	1,401
Current	**966**	1,401	**966**	1,401

12. Loans and advances

Loans and advances designated upon initial recognition at fair value through profit or loss	**-**	44	**-**	44
Loans and advance at amortised cost	**13,274**	12,492	**13,239**	12,487
Allowance for impairment losses (note 24)	**(72)**	(91)	**(72)**	(91)
Total net loans and advances	**13,202**	12,445	**13,167**	12,440
Current	**1,071**	1,036	**1,057**	1,030
Non-current	**12,131**	11,409	**12,110**	11,410
Cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value through profit or loss (note 24)	**-**	0.03	**-**	0.03

The above changes in the fair value of the loans and advances that is attributable to changes in the credit risk of the financial asset is determined as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk.

Notes to the financial statements continued

13. Derivative financial instruments

The Banking Group uses the following derivative instruments for both hedging and non-hedging purposes.

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.
- Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, the Banking Group assesses counterparties using the same techniques as for its lending activities.
- Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Banking Group and a customer over-the-counter. The Banking Group is exposed to credit risk on purchased options only and only to the extent of their carrying amount, which is their fair value.
- The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Banking Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair value of derivative instruments is set out on pages 29 to 32.

Fair value hedges

Gain / (loss) on fair value hedges attributable to the hedged risk

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Gain/(loss) arising from fair value hedges:				
Hedged item	**16**	(10)	**16**	(10)
Hedging instrument	**(16)**	10	**(16)**	10
Net ineffectiveness on qualifying fair value hedges	**-**	-	**-**	-

Notes to the financial statements continued

13. Derivative financial instruments continued

	The Banking Group		
	Notional Principal Amount	**Fair values**	
Dollars in millions		Assets	Liabilities
30 June 2013			
Derivatives held for trading			
Foreign exchange derivatives			
Forward contracts	**749**	**19**	**(8)**
Swap agreements	**342**	**-**	**(24)**
Options purchased	**13**	**-**	**-**
Options sold	**13**	**-**	**-**
Total foreign exchange derivatives	**1,117**	**19**	**(32)**
Interest rate derivatives			
Forward rate agreements	**1,000**	**-**	**-**
Swap agreements	**19,543**	**77**	**(76)**
Futures contracts	**638**	**-**	**-**
Total interest rate derivatives	**21,181**	**77**	**(76)**
Total derivatives held for trading	**22,298**	**96**	**(108)**
Derivatives held for hedging			
Designated as cash flow hedges			
Interest rate derivatives			
Swaps	**5,697**	**12**	**(25)**
Exchange rate derivatives			
Swaps	**291**	**7**	**(17)**
Total derivatives designated as cash flow hedges	**5,988**	**19**	**(42)**
Designated as fair value hedges			
Interest rate derivatives			
Swaps	**385**	**14**	**-**
Total derivatives designated as fair value hedges	**385**	**14**	**-**
Total derivatives held for hedging	**6,373**	**33**	**(42)**
Total derivative financial instruments	**28,671**	**129**	**(150)**
Current		**99**	**(124)**
Non-current		**30**	**(26)**

Notes to the financial statements continued

13. Derivative financial instruments continued

	Kiwibank Limited		
	Notional Principal Amount	Fair values	
Dollars in millions		Assets	Liabilities
30 June 2013			
Derivatives held for trading			
Foreign exchange derivatives			
Forward contracts	**749**	**19**	**(8)**
Swap agreements	**533**	**-**	**(30)**
Options purchased	**13**	**-**	**-**
Options sold	**13**	**-**	**-**
Total foreign exchange derivatives	**1,308**	**19**	**(38)**
Interest rate derivatives			
Forward rate agreements	**1,000**	**-**	**-**
Swap agreements	**19,543**	**77**	**(76)**
Futures contracts	**638**	**-**	**-**
Total interest rate derivatives	**21,181**	**77**	**(76)**
Total derivatives held for trading	**22,489**	**96**	**(114)**
Derivatives held for hedging			
Designated as cash flow hedges			
Interest rate derivatives			
Swaps	**5,697**	**12**	**(25)**
Exchange rate derivatives			
Swaps	**291**	**7**	**(17)**
Total derivatives designated as cash flow hedges	**5,988**	**19**	**(42)**
Designated as fair value hedges			
Interest rate derivatives			
Swaps	**385**	**14**	**-**
Total derivatives designated as fair value hedges	**385**	**14**	**-**
Total derivatives held for hedging	**6,373**	**33**	**(42)**
Total derivative financial instruments	**28,862**	**129**	**(156)**
Current		**99**	**(130)**
Non-current		**30**	**(26)**

Notes to the financial statements continued

13. Derivative financial instruments continued

	The Banking Group		
	Notional Principal	Fair values	
Dollars in millions	Amount	Assets	Liabilities
30 June 2012			
Derivatives held for trading			
Foreign exchange derivatives			
Forward contracts	1,013	14	(5)
Swap agreements	457	17	(3)
Options purchased	5	-	-
Options sold	6	-	-
Total foreign exchange derivatives	1,481	31	(8)
Interest rate derivatives			
Forward rate agreements	200	-	-
Swap agreements	10,822	77	(85)
Futures contracts	975	-	-
Total interest rate derivatives	11,997	77	(85)
Total derivatives held for trading	13,478	108	(93)
Derivatives held for hedging			
Designated as cash flow hedges			
Interest rate derivatives			
Swap agreements	3,571	7	(63)
Total derivatives designated as cash flow hedges	3,571	7	(63)
Designated as fair value hedges			
Interest rate derivatives			
Swap agreements	447	23	-
Total derivatives designated as fair value hedges	447	23	-
Total derivatives held for hedging	4,018	30	(63)
Total derivative financial instruments	17,496	138	(156)
Current		111	(121)
Non-current		27	(35)

Notes to the financial statements continued

13. Derivative financial instruments continued

	Kiwibank Limited		
	Notional Principal Amount	**Fair values**	
Dollars in millions		Assets	Liabilities
30 June 2012			
Derivatives held for trading			
Foreign exchange derivatives			
Forward contracts	1,013	14	(5)
Swap agreements	457	17	(3)
Options purchased	5	-	-
Options sold	6	-	-
Total foreign exchange derivatives	1,481	31	(8)
Interest rate derivatives			
Forward rate agreements	200	-	-
Swap agreements	10,822	77	(85)
Futures contracts	975	-	-
Total interest rate derivatives	11,997	77	(85)
Total derivatives held for trading	13,478	108	(93)
Derivatives held for hedging			
Designated as cash flow hedges			
Interest rate derivatives			
Swap agreements	3,571	7	(63)
Total derivatives designated as cash flow hedges	3,571	7	(63)
Designated as fair value hedges			
Interest rate derivatives			
Swap agreements	447	23	-
Total derivatives designated as fair value hedges	447	23	-
Total derivatives held for hedging	4,018	30	(63)
Total derivative financial instruments	17,496	138	(156)
Current		111	(121)
Non-current		27	(35)

The comparative balances have been amended to align with the current year's presentation in relation to the non-current portion of derivatives held for hedging.

Notes to the financial statements continued

13. Derivative financial instruments continued

Fair value hedges

The Banking Group previously entered into interest rate swaps to hedge interest rate risk resulting from any potential change or movement in the fair value of fixed rate coupon bonds. The Banking Group hedged this risk through the use of pay fixed interest rate swaps. The designated hedging relationships resulted in fair value gains and losses on the fixed rate financial instruments and interest rate swaps. The fair value gains and losses were recorded through the income statement as incurred. When a fair value hedging relationship was de-designated, the fair value adjustments to the balance sheet carrying value were amortised to the income statement over the remaining period to the maturity date of the fixed rate financial instrument.

The Banking Group also partially hedges the interest rate risk arising from any potential change in the fair value of fixed rate subordinated debt issuances and medium term notes. The Banking Group hedges this risk through the use of receive fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate liability and interest rate swap. The fair value gains and losses are recorded through the income statement as incurred. When a fair value hedging relationship is de-designated, the fair value adjustments to the balance sheet carrying value are amortised to the income statement over the remaining period to the maturity date of the fixed rate liability.

Cash flow hedges

The Banking Group hedges the short term future reissuance of fixed rate loan customers and future retail term deposits through the use of interest rate swaps. Gains and losses deferred in the cash flow hedge reserve will be reclassified to the income statement over the next one to five years, as the cash flows under the hedged transactions occur.

14. Investment in subsidiaries and trusts

Kiwibank's investment in subsidiaries comprises shares at cost. The subsidiaries comprise:

		Interest held by Kiwibank Limited	
Name of entity	**Principal activity**	**30/06/13**	30/06/12
Kiwibank Nominees Limited	Provision of custodial services to customers in respect of assets that are beneficially owned by those customers	**100%**	100%
New Zealand Home Lending Limited	Agency services for mortgage lending through the New Zealand Home Loans Company Limited	**100%**	100%
AMP Home Loans Limited	Agency services for mortgage lending through the AMP Advisor network	**100%**	100%
Kiwibank Investment Management Limited	Provision of investment management services	**100%**	100%
KB Custodial Services Limited	Funds management	**100%**	100%
Kiwi Asset Finance Limited	Asset finance company	**70%**	80%
Kiwi Capital Management Limited*	Issuance management company	**-**	-
Kiwi Capital Securities Limited*	Issuer of perpetual preference shares	**-**	-
Kiwibank Portfolio Investment Entity Unit Trust* (PIE Unit Trust)	Provision of investment management services	**-**	-
Kiwibank RMBS Trust Series 2009-1*	Securitisation finance entity	**-**	-
Kiwibank Covered Bond Trust*	Securitisation finance entity	**-**	-

* The Banking Group consolidates the PIE Unit Trust, the Kiwibank RMBS Trust Series 2009-1, Kiwibank Covered Bond Trust, Kiwi Capital Management Limited and Kiwi Capital Securities Limited on the basis that Kiwibank is deemed to control these entities as their activities are conducted on behalf of Kiwibank according to Kiwibank's specific business needs.

All entities have a reporting date of 30 June and are incorporated and/or domiciled in New Zealand.

In October 2011, Kiwibank disposed of a 20% shareholding in Kiwi Asset Finance Limited ("KAFL") and in October 2012, Kiwibank disposed of a further 10% of its shareholding to the same non-controlling shareholder. A deferred settlement liability has been recorded as Kiwibank is obliged to repurchase the 30% holding between 2016 and 2018 (note 22).

Notes to the financial statements continued

15. Property, plant and equipment

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Furniture and fittings	**7**	8	**7**	8
Computer hardware	**7**	10	**7**	10
Work in progress	**1**	1	**1**	1
Total property, plant and equipment – Non-current	**15**	19	**15**	19
Furniture and fittings				
Cost brought forward	**12**	8	**12**	8
Accumulated depreciation brought forward	**(4)**	(3)	**(4)**	(3)
Opening net book value	**8**	5	**8**	5
Additions	**-**	2	**-**	2
Transfers from work in progress	**-**	2	**-**	2
Depreciation	**(1)**	(1)	**(1)**	(1)
Closing net book value	**7**	8	**7**	8
Cost	**12**	12	**12**	12
Accumulated depreciation	**(5)**	(4)	**(5)**	(4)
Closing net book value	**7**	8	**7**	8
Computer hardware				
Cost brought forward	**49**	46	**49**	46
Accumulated depreciation brought forward	**(39)**	(31)	**(39)**	(31)
Opening net book value	**10**	15	**10**	15
Additions	**2**	-	**2**	-
Transfers from work in progress	**1**	3	**1**	3
Depreciation	**(6)**	(8)	**(6)**	(8)
Closing net book value	**7**	10	**7**	10
Cost	**52**	49	**52**	49
Accumulated depreciation	**(45)**	(39)	**(45)**	(39)
Closing net book value	**7**	10	**7**	10
Work in progress				
Balance brought forward	**1**	5	**1**	5
Additions	**1**	1	**1**	1
Transfers to fixtures and fittings	**-**	(2)	**-**	(2)
Transfers to computer hardware	**(1)**	(3)	**(1)**	(3)
Closing net book value	**1**	1	**1**	1

Notes to the financial statements continued

16. Intangible assets

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Computer software	**37**	37	**37**	37
Acquired customer relationships	**-**	-	**-**	-
Computer software work in progress (internally developed)	**27**	12	**27**	12
Total intangible assets – Non-current	**64**	49	**64**	49
Computer software				
Cost brought forward	**107**	96	**107**	96
Accumulated amortisation brought forward	**(70)**	(59)	**(70)**	(59)
Opening net book value	**37**	37	**37**	37
Transfers from computer software work in progress	**12**	13	**12**	13
Additions	**5**	3	**5**	3
Disposals	**-**	(2)	**-**	(2)
Amortisation	**(17)**	(14)	**(17)**	(14)
Closing net book value	**37**	37	**37**	37
Cost	**124**	107	**124**	107
Accumulated amortisation	**(87)**	(70)	**(87)**	(70)
Closing net book value	**37**	37	**37**	37
Acquired customer relationships				
Cost brought forward	**13**	13	**13**	13
Accumulated amortisation brought forward	**(13)**	(11)	**(13)**	(11)
Opening net book value	**-**	2	**-**	2
Amortisation	**-**	(2)	**-**	(2)
Closing net book value	**-**	-	**-**	-
Cost	**13**	13	**13**	13
Accumulated amortisation	**(13)**	(13)	**(13)**	(13)
Closing net book value	**-**	-	**-**	-
Computer software work in progress (internally developed)				
Balance brought forward	**12**	9	**12**	9
Additions	**29**	16	**29**	16
Transfers to computer software	**(12)**	(13)	**(12)**	(13)
Disposals	**(2)**	-	**(2)**	-
Closing net book value	**27**	12	**27**	12

17. Other assets

Prepayments	**3**	2	**3**	2
Trade and other receivables	**11**	12	**11**	12
Total other assets (current)	**14**	14	**14**	14

Notes to the financial statements continued

18. Due to other financial institutions

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Repurchase agreements	**185**	297	**185**	297
Cash collateral pledged	**-**	18	**-**	18
Short term borrowing	**50**	-	**50**	-
Unsettled payables	**4**	1	**4**	1
Transaction balances with other financial institutions	**31**	18	**31**	18
Total due to other financial institutions (current)	**270**	334	**270**	334
Current	**270**	334	**270**	334

As at 30 June 2013, included within the balance above, is $Nil of collateral pledged by counterparties in respect of their credit support annex obligations to Kiwibank (30 June 12: $18m).

19. Term subordinated debt

Face value	**210**	60	**210**	60
Interest accrued	**2**	1	**2**	1
Transaction costs	**(2)**	-	**(2)**	-
Fair value hedge adjustment	**-**	3	**-**	3
Term subordinated debt	**210**	64	**210**	64
Current	**2**	1	**2**	1
Non-current	**208**	63	**208**	63

During the year $150m of term subordinated debt was issued and $nil of term subordinated debt was called by the Banking Group (30 June 2012: $nil was issued and $75m was called). The terms and conditions of the term subordinated debt issued are as follows.

Issue date	Amount $m's	Coupon rate	Call date	Maturity date
30 September 2008	60	8.75% p.a.	30 September 2013	30 September 2018
15 December 2012	150	5.80% p.a.	15 December 2017	15 December 2022

The term subordinated debt issue is subordinate to all other general liabilities of the Banking Group and is denominated in New Zealand dollars. The 30 September 2008 issue carried an A credit rating and the 15 December 2012 issue carried a BB+ credit rating from S&P as at the reporting date.

As at 30 June 2013, $168m of the term subordinated debt qualified as Tier 2 capital (at 30 June 2012: $60m qualified as lower tier two capital) for Capital Adequacy calculation purposes.

The contractual terms of the term subordinated debt issues expressly provide that they do 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 year, (30 June 2012: none).

Notes to the financial statements continued

20. Deposits and other borrowing

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Demand deposits non-interest bearing	**894**	745	**894**	745
Demand deposits bearing interest	**2,336**	2,078	**2,336**	2,078
Term deposits	**8,890**	8,742	**8,890**	8,742
Total deposits from customers	**12,120**	11,565	**12,120**	11,565
Current	**11,778**	11,189	**11,778**	11,189
Non-current	**342**	376	**342**	376

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 30 June 2013, $3,469m of the Trust's funds were invested in Kiwibank products or securities (30 June 2012: $2,980m).

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.

21. Debt securities issued

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Short term debt				
Commercial paper at fair value through profit or loss	**387**	825	**387**	825
Certificates of deposit – amortised cost	**162**	54	**162**	54
Certificates of deposit – held for trading	**90**	189	**90**	189
Long term debt				
Medium term notes	**663**	719	**663**	719
Covered bonds	**201**	-	**201**	-
Fair value hedge adjustment	**5**	19	**5**	19
Total debt securities issued	**1,508**	1,806	**1,508**	1,806
Current	**787**	1,098	**787**	1,098
Non-current	**721**	708	**721**	708

In the event of the liquidation of Kiwibank, holders of these debt securities 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. Kiwibank has not had any defaults of principal, interest or other breaches with respect to these liabilities during the year (year ended 30 June 2012: none).

Notes to the financial statements continued

22. Other liabilities

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Trade and other payables	**21**	18	**21**	18
Employee entitlements	**22**	13	**22**	13
Deferred settlement obligation to non-controlling interest	**3**	2	**3**	2
Other liabilities	**21**	20	**20**	20
Total other liabilities	**67**	53	**66**	53
Current	**64**	51	**63**	51
Non-current	**3**	2	**3**	2

In the event of liquidation, these creditors rank in priority to subordinated debt holders and shareholders and will rank equally with deposit holders and other creditors.

In October 2011 and October 2012, Kiwibank disposed of a 20% and a 10 % shareholding, respectively, in KAFL, however it is required to purchase the non-controlling shares in KAFL back between July 2016 and 2018. The Banking Group has recognised a deferred settlement liability for this obligation. The fair value of the liability is $2.6m (30 June 2012: $1.9m) and is calculated by applying discounted cash flows analysis at a pre tax discount rate of 11.59% per annum (30 June 2012: 11.59%).

23. Equity

The total authorised number of ordinary shares in Kiwibank at the reporting date was 360 million (30 June 2012: 360 million). All issued ordinary shares are fully paid. All ordinary shares have equal voting rights and share equally in dividends and surpluses on winding up. Ordinary shares do not have a par value. The whole of the issued ordinary share capital is owned by KGHL, which is incorporated in New Zealand.

On 23 December 2011 50,000,000 ordinary shares were issued for cash at $1 per share to KGHL.

Perpetual preference shares

On 4 May 2010 Kiwibank issued 150,000,000 perpetual preference shares (the "**PPS**") to Kiwi Capital Management Limited ("**KCML**") for cash at $1 per PPS. All issued PPS were fully paid as at the reporting date. The PPS are non-redeemable and carry no voting rights. Dividends are paid quarterly in arrears at the discretion of the Board. During the year, Kiwibank paid a dividend of $8.8m to KCML (year ended 30 June 2012: $8.7m). No provision has been made for a variation or suspension of dividend payments.

Non-controlling interest

The non-controlling interest comprises perpetual callable non-cumulative preference shares (the "**KCSL PPS**") issued by Kiwi Capital Securities Limited ("**KCSL**"). On 4 May 2010 KCSL issued 150,000,000 KCSL PPS for cash at $1 per KCSL PPS. All issued KCSL PPS were fully paid as at the reporting date. The KCSL PPS are non-redeemable and carry no voting rights other than in respect of amendments relating to the rights, privileges, limitations and conditions attaching to the KCSL PPS. The KCSL PPS have no maturity date, however, in certain circumstances Kiwi Group Holdings Limited ("KGHL"), the immediate parent of Kiwibank, has the right (the Call) to require holders of KCSL PPS to transfer all of their KCSL PPS to KGHL or a purchaser nominated by KGHL. Dividends are paid quarterly in arrears at the discretion of the Board of KCSL. A dividend will not be paid if the Board of KCSL in its sole discretion does not resolve to pay a dividend. A dividend must not be paid on the KCSL PPS if: a) the Board of KCSL is not satisfied on reasonable grounds that KCSL will satisfy the solvency test (in section 4 of the Companies Act 1993) immediately after the payment; or b) a dividend on the PPS is not paid on the corresponding dividend payment date for the PPS. The costs associated with this share issue have been netted against the perpetual preference share capital in the balance sheet.

Notes to the financial statements continued

23. Equity continued

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Equity				
360,000,000 ordinary shares fully paid	**360**	360	**360**	360
150,000,000 perpetual preference shares	**-**	-	**150**	150
Non-controlling interest	**149**	149	**-**	-
Retained earnings	**345**	257	**348**	256
Cash flow hedging reserve	**2**	(27)	**2**	(27)
Available-for-sale reserve	**2**	8	**2**	8
Total equity	**858**	747	**862**	747
Share capital				
Balance at beginning of the year (2013: 360m shares; 2012: 310m shares)	**360**	310	**360**	310
Issued in year (2013: nil shares; 2012: 50m shares)	**-**	50	**-**	50
Balance at end of the year (2013: 360m shares; 2012: 360m shares)	**360**	360	**360**	360
Perpetual preference shares				
Balance at beginning and end of the year	**-**	-	**150**	150
Non-controlling interest				
Balance at beginning of the year	**149**	150	**-**	-
Transactions with controlling interests	**-**	(1)	**-**	-
Balance at end of the year	**149**	149	**-**	-
Retained earnings				
Balance at beginning of the year	**257**	187	**256**	187
Net profit for the year	**97**	79	**101**	80
Dividends paid	**(9)**	(9)	**(9)**	(9)
Deferred settlement obligation to non-controlling interests	**-**	-	**-**	(2)
Balance at end of the year	**345**	257	**348**	256
Cash flow hedging reserve				
Balance at beginning of the year	**(27)**	(42)	**(27)**	(42)
Gross changes in fair value	**39**	18	**39**	18
Tax on changes in fair value	**(11)**	(5)	**(11)**	(5)
Cumulative loss transferred to the income statement on disposal of financial assets	**2**	3	**2**	3
Tax effect of items transferred to income statement	**(1)**	(1)	**(1)**	(1)
Balance at end of the year	**2**	(27)	**2**	(27)

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.

Notes to the financial statements continued

23. Equity continued

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Available-for-sale reserve				
Balance at beginning of the year	**8**	3	**8**	3
Gross changes in fair value	**(6)**	8	**(6)**	8
Tax on changes in fair value	**2**	(2)	**2**	(2)
Cumulative gain transferred to the income statement on disposal of financial assets	**(2)**	(1)	**(2)**	(1)
Tax effect of items transferred to income statement	**-**	-	**-**	-
Balance at end of the year	**2**	8	**2**	8

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.

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Dividends paid				
Declared and paid during the year on perpetual preference shares:				
August dividend: 1.46 cents per share (2012: 1.44 cents per share)	**2.2**	2.1	**2.2**	2.1
November dividend: 1.46 cents per share (2012: 1.46 cents per share)	**2.2**	2.2	**2.2**	2.2
February dividend: 1.46 cents per share (2012: 1.46 cents per share)	**2.2**	2.2	**2.2**	2.2
May dividend: 1.46 cents per share (2012: 1.46 cents per share)	**2.2**	2.2	**2.2**	2.2
Total dividends paid	**8.8**	8.7	**8.8**	8.7

Capital

The Banking Group's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary shares, retained earnings including current year profit, the available-for-sale reserve and perpetual preference shares.
- Tier 2 capital, which includes term subordinated debt.

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the RBNZ. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the RBNZ in supervising the Bank. Further details can be found in the Capital Adequacy section of this Disclosure Statement.

During the year ended 30 June 2013, the Bank has not complied with one condition of its externally imposed conditions of registration regarding the number of independent directors appointed (2012: the Bank complied with all its externally imposed conditions of registration). The RBNZ was notified immediately.

Capital management

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes have been made to the objectives, policies and processes from the previous year. However, they are under constant review by the Board.

Notes to the financial statements continued

24. Asset quality

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Allowance for impairment losses in balance sheet				
Collective allowance for impairment losses	**44**	50	**44**	50
Allowance for impairment losses on individually impaired assets	**28**	41	**28**	41
Allowance for impairment losses (note 12)	**72**	91	**72**	91
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value through profit or loss (part e)	**-**	-	**-**	-
Total allowance for impairment losses	**72**	91	**72**	91

	The Banking Group		Kiwibank Limited	
Dollars in millions	**12 months ended 30/06/13**	12 months ended 30/06/12	**12 months ended 30/06/13**	12 months ended 30/06/12
Impairment losses per income statement				
Collective impairment (reversals)/losses on loans not at fair value through profit or loss	**(4)**	16	**(4)**	16
Charge to income statement for individually impaired assets	**11**	19	**11**	19
Total impairment losses per income statement	**7**	35	**7**	35

Summary of lending

30 June 2013	The Banking Group			Kiwibank Limited		
Dollars in millions	Loans and advances to retail customers	Loans and advances to corporate and institutional customers	Total	Loans and advances to retail customers	Loans and advances to corporate and institutional customers	Total
Neither past due nor impaired	**11,669**	**1,368**	**13,037**	**11,669**	**1,333**	**13,002**
Past due but not impaired (a)	**175**	**8**	**183**	**175**	**8**	**183**
Impaired (b)	**23**	**31**	**54**	**23**	**31**	**54**
Gross	**11,867**	**1,407**	**13,274**	**11,867**	**1,372**	**13,239**
Collective allowance for impairment (c)	**(24)**	**(20)**	**(44)**	**(24)**	**(20)**	**(44)**
Individual allowance for impairment (d)	**(11)**	**(17)**	**(28)**	**(11)**	**(17)**	**(28)**
Net loans and advances	**11,832**	**1,370**	**13,202**	**11,832**	**1,335**	**13,167**

Notes to the financial statements continued

24. Asset quality continued

30 June 2012	The Banking Group			Kiwibank Limited		
Dollars in millions	Loans and advances to retail customers	Loans and advances to corporate and institutional customers	Total	Loans and advances to retail customers	Loans and advances to corporate and institutional customers	Total
Neither past due nor impaired	10,780	1,470	12,250	10,780	1,465	12,245
Past due but not impaired (a)	187	15	202	187	15	202
Impaired (b)	16	68	84	16	68	84
Gross	10,983	1,553	12,536	10,983	1,548	12,531
Collective allowance for impairment (c)	(25)	(25)	(50)	(25)	(25)	(50)
Individual allowance for impairment (d)	(8)	(33)	(41)	(8)	(33)	(41)
Net loans and advances	10,950	1,495	12,445	10,950	1,490	12,440

a: Loans and advances past due but not impaired

	The Banking Group and Kiwibank Limited			
Loans and advances to customers Dollars in millions	**Retail unsecured lending**	**Residential mortgage lending**	**Corporate exposures**	**Total**
30 June 2013				
Past due up to 30 days	**29**	**105**	**3**	**137**
Past due 31 – 60 days	**6**	**11**	**2**	**19**
Past due 61 – 90 days	**3**	**7**	**-**	**10**
Past due > 90 days	**3**	**11**	**3**	**17**
Total	**41**	**134**	**8**	**183**
30 June 2012				
Past due up to 30 days	23	97	9	129
Past due 31 – 60 days	7	15	1	23
Past due 61 – 90 days	3	9	2	14
Past due > 90 days	3	30	3	36
Total	36	151	15	202

Notes to the financial statements continued

24. Asset quality continued

b: Impaired assets

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

	The Banking Group		Kiwibank Limited	
Dollars in millions	**12 months ended 30/06/13**	12 months ended 30/06/12	**12 months ended 30/06/13**	12 months ended 30/06/12
Impaired assets – retail unsecured lending				
Balance at beginning of the year	**1**	-	**1**	-
Transfers from performing	**3**	4	**3**	4
Transfers to performing	**-**	-	**-**	-
Asset realisations and loans repaid	**-**	-	**-**	-
Advances written off	**(3)**	(3)	**(3)**	(3)
Balance at end of the year	**1**	1	**1**	1
Impaired assets – residential mortgage loans				
Balance at beginning of the year	**15**	41	**15**	41
Transfers from performing	**20**	12	**20**	12
Transfers to performing	**(4)**	(10)	**(4)**	(10)
Asset realisations and loans repaid	**(7)**	(15)	**(7)**	(15)
Advances written off	**(2)**	(13)	**(2)**	(13)
Balance at end of the year	**22**	15	**22**	15
Impaired assets – corporate exposures				
Balance at beginning of the year	**68**	65	**68**	65
Transfers from performing	**13**	24	**13**	24
Transfers to performing	**(7)**	-	**(7)**	-
Asset realisations and loans repaid	**(23)**	(6)	**(23)**	(6)
Advances written off	**(20)**	(15)	**(20)**	(15)
Balance at end of the year	**31**	68	**31**	68
Total gross impaired assets	**54**	84	**54**	84
Individual allowance for impairment	**(28)**	(41)	**(28)**	(41)
Total net impaired assets	**26**	43	**26**	43

Notes to the financial statements continued

24. Asset quality continued

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

Dollars in millions The Banking Group	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Collective allowance for impairment losses				
12 months ended 30 June 2013				
Balance at beginning of the year	**4**	**21**	**25**	**50**
Impairment losses on loans not at fair value through profit or loss	**7**	**(6)**	**(5)**	**(4)**
Advances written off	**(2)**	**-**	**-**	**(2)**
Balance at end of the year	**9**	**15**	**20**	**44**
12 months ended 30 June 2012				
Balance at beginning of the year	4	18	15	37
Impairment losses on loans not at fair value through profit or loss	3	3	10	16
Advances written off	(3)	-	-	(3)
Balance at end of the year	4	21	25	50

Kiwibank Limited	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
12 months ended 30 June 2013				
Balance at beginning of the year	**4**	**21**	**25**	**50**
Impairment losses on loans not at fair value through profit or loss	**7**	**(6)**	**(5)**	**(4)**
Advances written off	**(2)**	**-**	**-**	**(2)**
Balance at end of the year	**9**	**15**	**20**	**44**
12 months ended 30 June 2012				
Balance at beginning of the year	4	18	15	37
Impairment losses on loans not at fair value through profit or loss	3	3	10	16
Advances written off	(3)	-	-	(3)
Balance at end of the year	4	21	25	50

Notes to the financial statements continued

24. Asset quality continued

d: Reconciliation of the individual allowance for impairment

The Banking Group and Kiwibank Limited				
Dollars in millions	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Individual allowance for impairment losses				
12 months ended 30 June 2013				
Balance at beginning of the year	**1**	**7**	**33**	**41**
Impairment losses on loans not at fair value through profit or loss	**1**	**5**	**16**	**22**
Advances written off	**(1)**	**(2)**	**(21)**	**(24)**
Reversals of previously recognised impaired assets	**-**	**-**	**(11)**	**(11)**
Balance at end of the year	**1**	**10**	**17**	**28**
12 months ended 30 June 2012				
Balance at beginning of the year	-	17	33	50
Impairment losses on loans not at fair value through profit or loss	1	10	18	29
Advances written off	-	(13)	(15)	(28)
Reversals of previously recognised impaired assets	-	(7)	(3)	(10)
Balance at end of the year	1	7	33	41

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

The total credit risk adjustment on residential mortgage loans at fair value through profit or loss is $nil as at 30 June 2013 (30 June 2012: $0.03m). The credit risk unwind for the year ended 30 June 2013 is $0.03m (year ended 30 June 2012: $0.3m). Refer note 12.

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 year. There are no real estate or other assets acquired through the enforcement of security/collateral held at 30 June 2013 (30 June 2012: nil). There are no assets under administration as at 30 June 2013 (30 June 2012: nil). There are no unrecognised impaired assets as at 30 June 2013 (30 June 2012: nil). The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired is $0.4m at 30 June 2013 (30 June 2012: $1.1m). There are no restructured loans.

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.

Notes to the financial statements continued

25. Related party transactions

Related parties comprise NZP and its subsidiaries (the "NZP group") and key management personnel. In addition, Kiwibank undertakes some transactions with other State-Owned Enterprises and Government departments.

Transaction with NZP and related entities

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. No consideration is paid to NZP for the NZP guarantee.

Transactions conducted with entities within the NZP group include:

- Certain shared service activities have been provided to Kiwibank in common with other NZP group companies. The fee paid for this service is based upon activity and a mutually agreed fee.
- Kiwibank provided Treasury services to NZP under a service level agreement.
- Kiwibank utilises NZP's retail network in its provision of retail banking services to customers. The fee paid for this service is based upon activity and a mutually agreed fee.
- During the year, NZP held a number of property leases on behalf of Kiwibank. Kiwibank reimbursed NZP for the lease charges but had no contractual lease commitments for property charges. At 30 June 2013, Kiwibank holds a property lease with NZP as disclosed in note 40.
- Included in Kiwibank's operating expenditure are related party amounts paid for data processing, IT support, and marketing logistics. These amounts have been paid to Datam Limited, a fellow subsidiary company. The fee paid for these services has been agreed and is consistent with amounts charged to other group companies.
- Kiwibank is part of the NZP consolidated tax group, and purchased tax losses from entities within the NZP Group.
- Kiwibank manages the Payment Services activity of NZP Group. Kiwibank includes fee revenue (see note 4) and expenditure from this activity.
- NZP has a credit facility with the Banking Group, allowing NZP to drawdown to the extent that the Banking Group does not exceed credit exposure to connected persons of 15% of Tier 1 capital, as required in Kiwibank's banking conditions of registration. When loans are drawn down the transaction is undertaken at market interest rates. As at 30 June 2013 the amount owed by NZP to Kiwibank was $75.5m (30 June 2012: $57.4m).
- The Crown has entered into a $300m uncalled capital facility with NZP where NZP may 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 (2012: $3.6m).
- There is a loan agreement between Kiwibank and Kiwi Asset Finance Limited, the balance of which was $28.8m at 30 June 2013 (30 June 2012: $12.4m).
- There is a revolving credit agreement between Kiwibank and New Zealand Home Loans Limited ("**NZHL**"), the balance of which was $1.6m at 30 June 2013 (30 June 2012: $1.2m).
- During the year ended 30 June 2013 NZHL received commissions from Kiwibank totalling $9.8m (year ended 30 June 2012: $10.3m).
- During the year ended 30 June 2013 Kiwibank received commissions from Kiwi Insurance Limited totalling $1.0m (year ended 30 June 2012: $1.0m).

Transactions within the Banking Group

Transactions covered within the Banking Group include:

- Kiwibank received management fees from the RMBS Trust of $3.4m in the year (30 June 2012: $3.6m).
- Kiwibank received management fees from the Kiwibank Covered Bond Trust of $0.4m in the year (30 June 2012: $nil).
- There is a foreign exchange swap between Kiwibank and the Kiwibank Covered Bond Trust.
- There is a total return swap between Kiwibank and the RMBS Trust.
- During the year, Kiwibank Limited paid a dividend of $8.8m to Kiwi Capital Management Limited (year ended 30 June 2012: $8.7m).
- At 30 June 2013, $3,469m of PIE funds under management (note 20) were invested in Kiwibank's own products or securities (30 June 2012: $2,980m).
- Kiwi Investment Management Limited received management fees totalling $1.6m in the year (year ended 30 June 2012: $0.8m) from the Kiwibank KiwiSaver Scheme.
- As at 30 June 2013, 5,000 of the non-cumulative perpetual preference share capital of Kiwi Capital Securities Limited are held by related parties of the Banking Group (30 June 2012: 5,000).
- During the year ended 30 June 2013, Kiwibank Limited purchased $3.4m of tax losses from Kiwi Capital Management Limited (30 June 2012: $3.5m).

The table on page 47 shows revenue and expenditure with individual companies within the NZP group and other related parties. No provision for credit impairment has been recognised for loans made to related parties.

Notes to the financial statements continued

25. Related party transactions continued

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
12 months ended 30 June				
Revenue				
NZP	**41**	39	**41**	39
Other controlled entities of Kiwibank	**-**	-	**29**	19
Other subsidiaries within the NZP Group	**1**	1	**1**	1
Expenditure				
NZP	**67**	60	**67**	60
Other subsidiaries within the NZP Group	**14**	14	**14**	14
Other controlled entities of Kiwibank	**-**	-	**162**	148
Associates of the NZP Group	**4**	6	**4**	6
As at 30 June				
Outstanding balances				
NZP	**13**	3	**13**	3
Other subsidiaries within the NZP Group	**1**	1	**-**	1
RMBS Trust (note 35)	**-**	-	**601**	601
Kiwibank Covered Bond Trust (note 35)	**-**	-	**316**	-
Other controlled entities of Kiwibank	**-**	-	**-**	-
Total per balance sheet – Due to NZP related parties	**14**	4	**930**	605
NZP Electoral Enrolment Centre (deposits)	**-**	3	**-**	3
NZP Superannuation Plan (deposits)	**9**	11	**9**	11
Kiwibank KiwiSaver Scheme (deposits)	**33**	12	**33**	12
Gareth Morgan KiwiSaver Scheme – (deposits)	**8**	-	**8**	-
Gareth Morgan KiwiSaver Scheme – (term subordinated debt)	**1**	-	**1**	-
Gareth Morgan KiwiSaver Scheme – (debt securities)	**4**	4	**4**	4
Gareth Morgan KiwiSaver Scheme – (KCSL PPS)	**1**	1	**-**	-
PIE Unit Trust (note 20)	**-**	-	**3,469**	2,980
Balances owed to NZP related parties	**9**	9	**9**	10
Other controlled entities of Kiwibank	**-**	-	**2**	-
Total balances due to related parties	**79**	44	**4,465**	3,625
Receivables				
Other controlled entities of Kiwibank	**-**	-	**29**	-
NZP	**76**	57	**76**	57
RMBS Trust (note 35)	**-**	-	**601**	601
Kiwibank Covered Bond Trust (note 35)	**-**	-	**328**	-
Other subsidiaries within the NZP Group	**1**	1	**1**	1
Total per balance sheet – Due from NZP related parties	**77**	58	**1,035**	659
Loans to NZP related parties (note 12)	**2**	2	**2**	2
Loans to other controlled entities of Kiwibank (note 12)	**-**	-	**2**	14
Total related party receivables	**79**	60	**1,039**	675

Notes to the financial statements continued

25. Related party transactions continued

Transactions with key management personnel

Loans made to and deposits held by key management personnel (including personally related parties) are made in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees or customers. Loans are on terms of repayment that range between fixed and variable, all of which have been made in accordance with the Banking Group's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (30 June 2012: $nil).

Key management personnel is defined as those persons having authority and responsibility for planning directing and controlling the activities of the entity, directly or indirectly. This includes the Board and members of the senior executive team.

The table below shows the amount of benefits paid to key management personnel within the Banking Group. It also shows loans to and deposits from key management personnel.

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Key management personnel				
Salaries and short-term benefits	**5**	5	**5**	5
Total compensation of key management personnel	**5**	5	**5**	5
Loans to key management personnel	**1**	2	**1**	2
Deposits from key management personnel	**1**	5	**1**	5

26. Concentration of credit risk

Concentrations of credit risk arise where the Banking Group and Kiwibank are exposed to risk in activities or industries of a similar nature. An analysis of financial assets by industry sector at reporting date is as follows:

New Zealand				
Government, local authorities and services	**956**	1,269	**956**	1,269
Finance, investment and insurance	**904**	784	**1,859**	1,396
Households	**11,864**	10,983	**11,864**	10,983
Transport and storage	**70**	38	**54**	30
Communications	**5**	2	**5**	2
Electricity, gas and water	**8**	5	**8**	5
Construction	**95**	62	**87**	58
Property and business services	**833**	1,026	**833**	1,026
Agriculture	**26**	35	**25**	34
Health and community services	**65**	54	**65**	54
Personal and other services	**63**	166	**62**	166
Retail and wholesale trade	**74**	60	**71**	59
Food & other manufacturing	**139**	110	**134**	107
Overseas				
Finance, investment and insurance	**70**	129	**70**	129
	15,172	14,723	**16,093**	15,318
Less allowance for impairment losses	**(72)**	(91)	**(72)**	(91)
Other financial assets	**10**	11	**10**	11
Total financial assets	**15,110**	14,643	**16,031**	15,238

Notes to the financial statements continued

26. Concentration of credit risk continued

Maximum exposure to credit risk and collateral held

	The Banking Group			Kiwibank Limited		
Dollars in millions	30/06/13 Maximum exposure	Collateral	30/06/13 Net exposure	30/06/13 Maximum exposure	Collateral	30/06/13 Net exposure
Credit risk relating to balance sheet assets						
Fixed rate lending at fair value through profit or loss	**-**	**-**	**-**	**-**	**-**	**-**
Fixed rate lending at amortised cost	**7,082**	**7,067**	**15**	**7,047**	**7,032**	**15**
Variable rate lending	**5,900**	**5,887**	**13**	**5,900**	**5,887**	**13**
Unsecured lending	**292**	**-**	**292**	**292**	**-**	**292**
Due from other financial institutions	**158**	**-**	**158**	**158**	**-**	**158**
Balances with related parties	**77**	**-**	**77**	**1,035**	**-**	**1,035**
Derivative financial instruments	**129**	**-**	**129**	**129**	**-**	**129**
Financial assets held for trading	**153**	**-**	**153**	**153**	**-**	**153**
Available-for-sale assets	**966**	**-**	**966**	**966**	**-**	**966**
Cash and cash equivalents	**415**	**-**	**415**	**413**	**-**	**413**
Other financial assets	**10**	**-**	**10**	**10**	**-**	**10**
Total gross financial assets	**15,182**	**12,954**	**2,228**	**16,103**	**12,919**	**3,184**
Allowance for impairment	**(72)**	**-**	**(72)**	**(72)**	**-**	**(72)**
Total financial assets	**15,110**	**12,954**	**2,156**	**16,031**	**12,919**	**3,112**

	The Banking Group			Kiwibank Limited		
Dollars in millions	30/06/12 Maximum exposure	Collateral	30/06/12 Net exposure	30/06/12 Maximum exposure	Collateral	30/06/12 Net exposure
Credit risk relating to balance sheet assets						
Fixed rate lending at fair value through profit or loss	44	44	-	44	44	-
Fixed rate lending at amortised cost	4,686	4,670	16	4,681	4,665	16
Variable rate lending	7,521	7,496	25	7,521	7,496	25
Unsecured lending	285	-	285	285	-	285
Due from other financial institutions	171	-	171	171	-	171
Balances with related parties	58	-	58	659	-	659
Derivative financial instruments	138	-	138	138	-	138
Financial assets held for trading	104	-	104	104	-	104
Available-for-sale assets	1,401	-	1,401	1,401	-	1,401
Cash and cash equivalents	315	-	315	314	-	314
Other financial assets	11	-	11	11	-	11
Total gross financial assets	14,734	12,210	2,524	15,329	12,205	3,124
Allowance for impairment	(91)	-	(91)	(91)	-	(91)
Total financial assets	14,643	12,210	2,433	15,238	12,205	3,033

Notes to the financial statements continued

26. Concentration of credit risk continued

The table on page 49 represents a worst case scenario of credit risk exposure to Kiwibank Limited and the Banking Group at 30 June 2013 and 30 June 2012. The exposures set out are based on net carrying amounts as reported in the balance sheet.

As shown, 87% of the total maximum exposure of the Banking Group is derived from loans and advances to retail and corporate customers (30 June 2012: 85%).

The table on page 49 provides a quantification of the value of the financial charges the Bank and the Banking Group holds over a borrower's specific asset (or assets) where the Bank or 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 Bank and the Banking Group are potentially exposed to credit risk for undrawn loan commitments (note 32) for an amount equal to the undrawn balance.

27. Concentration of funding

Concentrations of funding arise where the Banking Group and Kiwibank are funded by industries of a similar nature or in particular geographies. An analysis of financial liabilities by industry sector and geography at the reporting date is as follows:

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Analysis by industry sector				
New Zealand				
Transport and storage	**120**	74	**120**	74
Finance, investment and insurance	**3,123**	3,358	**4,045**	3,959
Electricity, gas and water	**6**	4	**6**	4
Food & other manufacturing	**32**	29	**32**	29
Construction	**42**	22	**42**	22
Communications	**9**	5	**9**	5
Government, local authorities and services	**349**	432	**349**	432
Agriculture	**26**	36	**26**	36
Health and community services	**119**	106	**119**	106
Personal and other services	**221**	230	**221**	230
Property and business services	**284**	242	**284**	242
Education	**111**	80	**111**	80
Retail and wholesale trade	**55**	53	**55**	53
Households	**8,499**	7,797	**8,499**	7,797
Overseas				
Finance, investment and insurance – Australia	**357**	352	**357**	352
Finance, investment and insurance – rest of world	**677**	873	**677**	873
Households – Australia	**85**	41	**85**	41
Households – rest of world	**153**	191	**153**	191
Other financial liabilities	**43**	45	**42**	45
Total financial liabilities	**14,311**	13,970	**15,232**	14,571

Notes to the financial statements continued

28. Segment analysis

For the purposes of this note, the chief operating decision-maker has been identified as the Board of Kiwibank. The Board reviews the Banking Group's internal reporting pack on a regular basis to assess performance and to allocate resources. Within the pack, operating segments have primarily been determined with reference to differences in products and services.

Operating segments have been aggregated for reporting purposes where the following criteria have been met:

a) Aggregation is consistent with the core principle of NZ IFRS 8 Operating Segments;

b) Segments have similar economic characteristics; and

c) Segments are similar in each of the following respects:

- nature of the product and services;
- nature of production process;
- type or class of customer for their products and services;
- methods used to distribute their products or provide their services; and
- nature of the regulatory environment.

The Board assesses the performance of the operating segments based on a measure of profit before tax. This measurement basis includes a reallocation of internal overhead expenses from non-income generating cost centres of the business. The overheads are allocated directly to the relevant segments where directly attributable, otherwise they are generally allocated based on headcount. Net interest income at a segmental level includes an allocation for internal transfer pricing which eliminates to zero at a Banking Group level. Transfer pricing is allocated on a basis which reflects intersegment funding arrangements.

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

A summarised description of each business unit is shown below:

- Personal markets – Provides banking products and services to the personal banking segment via the Banking Group and NZP distribution channels and the bank's funding reserves.
- Business markets – Provides banking products and services to the business sector, via the Banking Group and NZP distribution channels. Included within the segment are Business and Treasury services.
- Payment services – Provides collection agency services for the corporate segment, prepaid and scheme debit cards (including Prezzy and Visa debit cards) and international payment services.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Banking Group's total revenue (2012: Nil).

The Banking Group operates predominantly within New Zealand.

Notes to the financial statements continued

28. Segment analysis continued

Dollars in millions	The Banking Group 12 months ended 30/06/13	The Banking Group 12 months ended 30/06/12	Kiwibank Limited 12 months ended 30/06/13	Kiwibank Limited 12 months ended 30/06/12
Primary reporting – business segments				
Personal markets				
External net interest income	**301**	304	**301**	304
Net intersegment interest	**(129)**	(143)	**(129)**	(143)
Net interest income	**172**	161	**172**	161
Other external operating income	**96**	92	**94**	92
Segmental revenue	**268**	253	**266**	253
Profit before taxation	**80**	70	**79**	70
Total assets	**11,859**	10,949	**12,893**	11,608
Total liabilities	**8,792**	8,072	**9,706**	8,673
Acquisition of intangible assets	**20**	12	**20**	12
Acquisition of property, plant and equipment	**2**	2	**2**	2
Amortisation expense	**(11)**	(10)	**(11)**	(10)
Depreciation expense	**(4)**	(6)	**(4)**	(6)
Impairment losses on loans and advances	**(7)**	(5)	**(7)**	(5)
Business markets				
External net interest income	**(25)**	(47)	**(32)**	(52)
Net intersegment interest	**129**	143	**129**	143
Net interest income	**104**	96	**97**	91
Other external operating income	**9**	8	**18**	11
Segmental revenue	**113**	104	**115**	102
Profit before taxation	**41**	26	**45**	27
Total assets	**3,339**	3,787	**3,230**	3,728
Total liabilities	**5,548**	5,917	**5,555**	5,916
Acquisition of intangible assets	**9**	5	**9**	5
Acquisition of property, plant and equipment	**1**	1	**1**	1
Amortisation expense	**(4)**	(4)	**(4)**	(4)
Depreciation expense	**(2)**	(2)	**(2)**	(2)
Impairment losses on loans and advances	**-**	(30)	**-**	(30)

Notes to the financial statements continued

28. Segment analysis continued

Dollars in millions	The Banking Group **12 months ended 30/06/13**	The Banking Group 12 months ended 30/06/12	Kiwibank Limited **12 months ended 30/06/13**	Kiwibank Limited 12 months ended 30/06/12
Payment services				
External net interest income	**-**	-	**-**	-
Net intersegment interest	**-**	-	**-**	-
Net interest income	**-**	-	**-**	-
Other external operating income	**65**	62	**65**	62
Segmental revenue	**65**	62	**65**	62
Profit before taxation	**14**	15	**14**	15
Total assets	**11**	9	**11**	9
Total liabilities	**11**	9	**11**	9
Acquisition of intangible assets	**5**	3	**5**	3
Acquisition of property, plant and equipment	**-**	-	**-**	-
Amortisation expense	**(2)**	(2)	**(2)**	(2)
Depreciation expense	**(1)**	(1)	**(1)**	(1)
Impairment losses on loans and advances	**-**	-	**-**	-
Total				
External net interest income	**276**	257	**269**	252
Net intersegment interest	**-**	-	**-**	-
Net interest income	**276**	257	**269**	252
Other external operating income	**170**	162	**177**	165
Total revenue	**446**	419	**446**	417
Profit before taxation	**135**	111	**138**	112
Income tax expense	**(38)**	(32)	**(37)**	(32)
Profit for the year	**97**	79	**101**	80
Total assets	**15,209**	14,745	**16,134**	15,345
Total liabilities	**14,351**	13,998	**15,272**	14,598
Acquisition of intangible assets	**34**	20	**34**	20
Acquisition of property, plant and equipment	**3**	3	**3**	3
Amortisation expense	**(17)**	(16)	**(17)**	(16)
Depreciation expense	**(7)**	(9)	**(7)**	(9)
Impairment losses on loans and advances	**(7)**	(35)	**(7)**	(35)

Notes to the financial statements continued

29. Interest repricing

The tables below summarise the Banking Group's and Kiwibank's exposure to interest rate risk. They include the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. For further details on how interest rate risk is managed refer to note 39.

	The Banking Group						
	30/06/13						
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	415	35	380	-	-	-	-
Due from other financial institutions	158	-	138	20	-	-	-
Financial assets held for trading	153	-	91	-	-	30	32
Available-for-sale assets	966	-	280	23	10	493	160
Loans and advances	13,202	(53)	7,237	672	1,681	3,031	634
Derivative financial instruments	129	129	-	-	-	-	-
Due from NZP related parties	77	1	45	-	-	-	31
Other financial assets	10	10	-	-	-	-	-
Total financial assets	15,110	122	8,171	715	1,691	3,554	857
Financial liabilities							
Due to other financial institutions	(270)	(31)	(239)	-	-	-	-
Deposits and other borrowings	(12,120)	(894)	(7,165)	(2,219)	(1,508)	(167)	(167)
Derivative financial instruments	(150)	(150)	-	-	-	-	-
Debt securities issued	(1,508)	-	(837)	-	(5)	(300)	(366)
Term subordinated debt	(210)	-	-	(62)	-	-	(148)
Due to NZP related parties	(14)	(4)	-	-	(10)	-	-
Other financial liabilities	(39)	(39)	-	-	-	-	-
Total financial liabilities	(14,311)	(1,118)	(8,241)	(2,281)	(1,523)	(467)	(681)
On-balance sheet gap	799	(996)	(70)	(1,566)	168	3,087	176
Net derivative notional principals	-	-	3,538	(210)	146	(2,703)	(771)
Net effective interest rate gap	799	(996)	3,468	(1,776)	314	384	(595)

Notes to the financial statements continued

29. Interest repricing continued

	Kiwibank Limited						
	30/06/13						
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	413	35	378	-	-	-	-
Due from other financial institutions	158	-	138	20	-	-	-
Financial assets held for trading	153	-	91	-	-	30	32
Available-for-sale assets	966	-	280	23	10	493	160
Loans and advances	13,167	(53)	7,202	672	1,681	3,031	634
Derivative financial instruments	129	129	-	-	-	-	-
Due from NZP related parties	1,035	2	756	46	-	-	231
Other financial assets	10	10	-	-	-	-	-
Total financial assets	16,031	123	8,845	761	1,691	3,554	1,057
Financial liabilities							
Due to other financial institutions	(270)	(31)	(239)	-	-	-	-
Deposits and other borrowings	(12,120)	(894)	(7,165)	(2,219)	(1,508)	(167)	(167)
Derivative financial instruments	(156)	(156)	-	-	-	-	-
Debt securities issued	(1,508)	-	(837)	-	(5)	(300)	(366)
Term subordinated debt	(210)	-	-	(62)	-	-	(148)
Due to NZP related parties	(930)	(4)	(916)	-	(10)	-	-
Other financial liabilities	(38)	(38)	-	-	-	-	-
Total financial liabilities	(15,232)	(1,123)	(9,157)	(2,281)	(1,523)	(467)	(681)
On-balance sheet gap	799	(1,000)	(312)	(1,520)	168	3,087	376
Net derivative notional principals	-	-	3,538	(210)	146	(2,703)	(771)
Net effective interest rate gap	799	(1,000)	3,226	(1,730)	314	384	(395)

Notes to the financial statements continued

29. Interest repricing continued

	The Banking Group						
	30/06/12						
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	315	45	270	-	-	-	-
Due from other financial institutions	171	-	87	84	-	-	-
Financial assets held for trading	104	-	15	3	38	19	29
Available-for-sale assets	1,401	-	422	184	478	-	317
Loans and advances	12,445	(73)	8,427	581	1,289	1,710	511
Derivative financial instruments	138	138	-	-	-	-	-
Due from NZP related parties	58	-	28	-	-	-	30
Other financial assets	11	11	-	-	-	-	-
Total financial assets	14,643	121	9,249	852	1,805	1,729	887
Financial liabilities							
Due to other financial institutions	(334)	(18)	(316)	-	-	-	-
Deposits and other borrowings	(11,565)	(745)	(6,730)	(2,412)	(1,302)	(193)	(183)
Derivative financial instruments	(156)	(156)	-	-	-	-	-
Debt securities issued	(1,806)	-	(1,361)	(28)	(21)	(5)	(391)
Term subordinated debt	(64)	-	-	-	-	(64)	-
Due to NZP related parties	(4)	(4)	-	-	-	-	-
Other financial liabilities	(41)	(41)	-	-	-	-	-
Total financial liabilities	(13,970)	(964)	(8,407)	(2,440)	(1,323)	(262)	(574)
On-balance sheet gap	673	(843)	842	(1,588)	482	1,467	313
Net derivative notional principals	-	-	1,949	343	(1,006)	(1,298)	12
Net effective interest rate gap	673	(843)	2,791	(1,245)	(524)	169	325

Notes to the financial statements continued

29. Interest repricing continued

	Kiwibank Limited						
	30/06/12						
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	314	44	270	-	-	-	-
Due from other financial institutions	171	-	87	84	-	-	-
Financial assets held for trading	104	-	15	3	38	19	29
Available-for-sale assets	1,401	-	422	184	478	-	317
Loans and advances	12,440	(73)	8,422	581	1,289	1,710	511
Derivative financial instruments	138	138	-	-	-	-	-
Due from NZP related parties	659	-	629	-	-	-	30
Other financial assets	11	11	-	-	-	-	-
Total financial assets	15,238	120	9,845	852	1,805	1,729	887
Financial liabilities							
Due to other financial institutions	(334)	(18)	(316)	-	-	-	-
Deposits and other borrowings	(11,565)	(745)	(6,730)	(2,412)	(1,302)	(193)	(183)
Derivative financial instruments	(156)	(156)	-	-	-	-	-
Debt securities issued	(1,806)	-	(1,361)	(28)	(21)	(5)	(391)
Term subordinated debt	(64)	-	-	-	-	(64)	-
Due to NZP related parties	(605)	(4)	(601)	-	-	-	-
Other financial liabilities	(41)	(41)	-	-	-	-	-
Total financial liabilities	(14,571)	(964)	(9,008)	(2,440)	(1,323)	(262)	(574)
On-balance sheet gap	667	(844)	837	(1,588)	482	1,467	313
Net derivative notional principals	-	-	1,949	343	(1,006)	(1,298)	12
Net effective interest rate gap	667	(844)	2,786	(1,245)	(524)	169	325

Notes to the financial statements continued

30. Financial instruments by category

30 June 2013 Dollars in millions	Loans and receivables	Available-for-sale	Assets at fair value through profit or loss: Held for trading	Assets at fair value through profit or loss: Designated at FVTPL	Derivatives used for hedging	Total
			The Banking Group			
Cash and cash equivalents	**415**	**-**	**-**	**-**	**-**	**415**
Due from other financial institutions	**158**	**-**	**-**	**-**	**-**	**158**
Financial assets held for trading	**-**	**-**	**153**	**-**	**-**	**153**
Available-for-sale assets	**-**	**966**	**-**	**-**	**-**	**966**
Loans and advances	**13,202**	**-**	**-**	**-**	**-**	**13,202**
Derivative financial instruments	**-**	**-**	**96**	**-**	**33**	**129**
Due from NZP related parties	**77**	**-**	**-**	**-**	**-**	**77**
Other financial assets	**10**	**-**	**-**	**-**	**-**	**10**
Total financial assets	**13,862**	**966**	**249**	**-**	**33**	**15,110**

Dollars in millions	Liabilities at fair value through profit or loss: Held for trading	Liabilities at fair value through profit or loss: Designated at FVTPL	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Due to other financial institutions	**-**	**-**	**-**	**270**	**270**
Deposits and other borrowings	**-**	**-**	**-**	**12,120**	**12,120**
Derivative financial instruments	**108**	**-**	**42**	**-**	**150**
Debt securities issued	**90**	**387**	**-**	**1,031**	**1,508**
Term subordinated debt	**-**	**-**	**-**	**210**	**210**
Due to NZP related parties	**-**	**-**	**-**	**14**	**14**
Other financial liabilities	**-**	**-**	**-**	**39**	**39**
Total financial liabilities	**198**	**387**	**42**	**13,684**	**14,311**

Notes to the financial statements continued

30. Financial instruments by category continued

Kiwibank Limited						
30 June 2013			Assets at fair value through profit or loss			
Dollars in millions	Loans and receivables	Available-for-sale	Held for trading	Designated at FVTPL	Derivatives used for hedging	Total
Cash and cash equivalents	**413**	**-**	**-**	**-**	**-**	**413**
Due from other financial institutions	**158**	**-**	**-**	**-**	**-**	**158**
Financial assets held for trading	**-**	**-**	**153**	**-**	**-**	**153**
Available-for-sale assets	**-**	**966**	**-**	**-**	**-**	**966**
Loans and advances	**13,167**	**-**	**-**	**-**	**-**	**13,167**
Derivative financial instruments	**-**	**-**	**96**	**-**	**33**	**129**
Due from NZP related parties	**1,035**	**-**	**-**	**-**	**-**	**1,035**
Other financial assets	**10**	**-**	**-**	**-**	**-**	**10**
Total financial assets	**14,783**	**966**	**249**	**-**	**33**	**16,031**

	Liabilities at fair value through profit or loss				
Dollars in millions	Held for trading	Designated at FVTPL	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Due to other financial institutions	**-**	**-**	**-**	**270**	**270**
Deposits and other borrowings	**-**	**-**	**-**	**12,120**	**12,120**
Derivative financial instruments	**114**	**-**	**42**	**-**	**156**
Debt securities issued	**90**	**387**	**-**	**1,031**	**1,508**
Term subordinated debt	**-**	**-**	**-**	**210**	**210**
Due to NZP related parties	**-**	**-**	**-**	**930**	**930**
Other financial liabilities	**-**	**-**	**-**	**38**	**38**
Total financial liabilities	**204**	**387**	**42**	**14,599**	**15,232**

Notes to the financial statements continued

30. Financial instruments by category continued

	The Banking Group					
30 June 2012			Assets at fair value through profit or loss			
Dollars in millions	Loans and receivables	Available-for-sale	Held for trading	Designated at FVTPL	Derivatives used for hedging	Total
Cash and cash equivalents	315	-	-	-	-	315
Due from other financial institutions	171	-	-	-	-	171
Financial assets held for trading	-	-	104	-	-	104
Available-for-sale assets	-	1,401	-	-	-	1,401
Loans and advances	12,401	-	-	44	-	12,445
Derivative financial instruments	-	-	108	-	30	138
Due from NZP related parties	58	-	-	-	-	58
Other financial assets	11	-	-	-	-	11
Total financial assets	12,956	1,401	212	44	30	14,643

	Liabilities at fair value through profit or loss				
Dollars in millions	Held for trading	Designated at FVTPL	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Due to other financial institutions	-	-	-	334	334
Deposits and other borrowings	-	-	-	11,565	11,565
Derivative financial instruments	93	-	63	-	156
Debt securities issued	189	825	-	792	1,806
Term subordinated debt	-	-	-	64	64
Due to NZP related parties	-	-	-	4	4
Other financial liabilities	-	-	-	41	41
Total financial liabilities	282	825	63	12,800	13,970

Notes to the financial statements continued

30. Financial instruments by category continued

30 June 2012	Kiwibank Limited					
			Assets at fair value through profit or loss			
Dollars in millions	Loans and receivables	Available-for-sale	Held for trading	Designated at FVTPL	Derivatives used for hedging	Total
Cash and cash equivalents	314	-	-	-	-	314
Due from other financial institutions	171	-	-	-	-	171
Financial assets held for trading	-	-	104	-	-	104
Available-for-sale assets	-	1,401	-	-	-	1,401
Loans and advances	12,396	-	-	44	-	12,440
Derivative financial instruments	-	-	108	-	30	138
Due from NZP related parties	659	-	-	-	-	659
Other financial assets	11	-	-	-	-	11
Total financial assets	13,551	1,401	212	44	30	15,238

	Liabilities at fair value through profit or loss				
Dollars in millions	Held for trading	Designated at FVTPL	Derivatives used for hedging	Other financial liabilities at amortised cost	Total
Due to other financial institutions	-	-	-	334	334
Deposits and other borrowings	-	-	-	11,565	11,565
Derivative financial instruments	93	-	63	-	156
Debt securities issued	189	825	-	792	1,806
Term subordinated debt	-	-	-	64	64
Due to NZP related parties	-	-	-	605	605
Other financial liabilities	-	-	-	41	41
Total financial liabilities	282	825	63	13,401	14,571

Notes to the financial statements continued

31. Foreign exchange risk

The Banking Group and Kiwibank take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for overnight positions, which are monitored daily. The table below summarises the Banking Group's exposure to foreign currency exchange rate risk as at the reporting date. Included in the table are financial instruments at NZD carrying amounts, categorised by currency.

	The Banking Group										
	30/06/13										
	NZD	JPY	SGD	HKD	CHF	CAD	AUD	USD	GBP	EUR	Total
Assets											
Cash and cash equivalents	352	1	-	-	-	1	7	35	11	8	415
Due from other financial institutions	158	-	-	-	-	-	-	-	-	-	158
Financial assets held for trading	147	-	-	-	-	-	-	6	-	-	153
Available-for-sale assets	966	-	-	-	-	-	-	-	-	-	966
Loans and advances	13,202	-	-	-	-	-	-	-	-	-	13,202
Derivative financial instruments	(171)	(2)	20	(1)	208	16	(166)	163	65	(3)	129
Due from NZP related parties	77	-	-	-	-	-	-	-	-	-	77
Other financial assets	10	-	-	-	-	-	-	-	-	-	10
Total financial assets	14,741	(1)	20	(1)	208	17	(159)	204	76	5	15,110
Liabilities											
Due to other financial institutions	(270)	-	-	-	-	-	-	-	-	-	(270)
Deposits and other borrowings	(12,033)	(1)	-	-	-	(1)	(30)	(35)	(12)	(8)	(12,120)
Derivative financial instruments	(795)	96	-	1	-	-	552	(9)	2	3	(150)
Debt securities issued	(598)	(91)	(20)	-	(199)	(16)	(358)	(160)	(66)	-	(1,508)
Term subordinated debt	(210)	-	-	-	-	-	-	-	-	-	(210)
Due to NZP related parties	(14)	-	-	-	-	-	-	-	-	-	(14)
Other financial liabilities	(39)	-	-	-	-	-	-	-	-	-	(39)
Total financial liabilities	(13,959)	4	(20)	1	(199)	(17)	164	(204)	(76)	(5)	(14,311)
Net on balance sheet financial position	782	3	-	-	9	-	5	-	-	-	799

Notes to the financial statements continued

31. Foreign exchange risk continued

	Kiwibank Limited										
	30/06/13										
	NZD	JPY	SGD	HKD	CHF	CAD	AUD	USD	GBP	EUR	Total
Assets											
Cash and cash equivalents	350	1	-	-	-	1	7	35	11	8	413
Due from other financial institutions	158	-	-	-	-	-	-	-	-	-	158
Financial assets held for trading	147	-	-	-	-	-	-	6	-	-	153
Available-for-sale assets	966	-	-	-	-	-	-	-	-	-	966
Loans and advances	13,167	-	-	-	-	-	-	-	-	-	13,167
Derivative financial instruments	(171)	(2)	20	(1)	208	16	(166)	163	65	(3)	129
Due from NZP related parties	835	-	-	-	200	-	-	-	-	-	1,035
Other financial assets	10	-	-	-	-	-	-	-	-	-	10
Total financial assets	15,462	(1)	20	(1)	408	17	(159)	204	76	5	16,031
Liabilities											
Due to other financial institutions	(270)	-	-	-	-	-	-	-	-	-	(270)
Deposits and other borrowings	(12,033)	(1)	-	-	-	(1)	(30)	(35)	(12)	(8)	(12,120)
Derivative financial instruments	(593)	96	-	1	(208)	-	552	(9)	2	3	(156)
Debt securities issued	(598)	(91)	(20)	-	(199)	(16)	(358)	(160)	(66)	-	(1,508)
Term subordinated debt	(210)	-	-	-	-	-	-	-	-	-	(210)
Due to NZP related parties	(930)	-	-	-	-	-	-	-	-	-	(930)
Other financial liabilities	(38)	-	-	-	-	-	-	-	-	-	(38)
Total financial liabilities	(14,672)	4	(20)	1	(407)	(17)	164	(204)	(76)	(5)	(15,232)
Net on balance sheet financial position	790	3	-	-	1	-	5	-	-	-	799

Notes to the financial statements continued

31. Foreign exchange risk continued

	The Banking Group							
	30/06/12							
	NZD	JPY	SGD	AUD	USD	GBP	EUR	Total
Assets								
Cash and cash equivalents	257	-	-	9	26	13	10	315
Due from other financial institutions	162	-	-	-	-	9	-	171
Financial assets held for trading	67	-	-	-	7	-	30	104
Available-for-sale assets	1,376	-	-	25	-	-	-	1,401
Loans and advances	12,445	-	-	-	-	-	-	12,445
Derivative financial instruments	(829)	52	-	477	320	147	(29)	138
Due from NZP related parties	58	-	-	-	-	-	-	58
Other financial assets	11	-	-	-	-	-	-	11
Total financial assets	13,547	52	-	511	353	169	11	14,643
Liabilities								
Due to other financial institutions	(334)	-	-	-	-	-	-	(334)
Deposits and other borrowings	(11,498)	(1)	-	(8)	(26)	(22)	(10)	(11,565)
Derivative financial instruments	(295)	-	35	(20)	85	-	39	(156)
Debt securities issued	(642)	(48)	(35)	(482)	(412)	(147)	(40)	(1,806)
Term subordinated debt	(64)	-	-	-	-	-	-	(64)
Due to NZP related parties	(4)	-	-	-	-	-	-	(4)
Other financial liabilities	(41)	-	-	-	-	-	-	(41)
Total financial liabilities	(12,878)	(49)	-	(510)	(353)	(169)	(11)	(13,970)
Net on balance sheet financial position	669	3	-	1	-	-	-	673

Notes to the financial statements continued

31. Foreign exchange risk continued

	Kiwibank Limited							
	30/06/12							
	NZD	JPY	SGD	AUD	USD	GBP	EUR	Total
Assets								
Cash and cash equivalents	256	-	-	9	26	13	10	314
Due from other financial institutions	162	-	-	-	-	9	-	171
Financial assets held for trading	67	-	-	-	7	-	30	104
Available-for-sale assets	1,376	-	-	25	-	-	-	1,401
Loans and advances	12,440	-	-	-	-	-	-	12,440
Derivative financial instruments	(829)	52	-	477	320	147	(29)	138
Due from NZP related parties	659	-	-	-	-	-	-	659
Other financial assets	11	-	-	-	-	-	-	11
Total financial assets	14,142	52	-	511	353	169	11	15,238
Liabilities								
Due to other financial institutions	(334)	-	-	-	-	-	-	(334)
Deposits and other borrowings	(11,498)	(1)	-	(8)	(26)	(22)	(10)	(11,565)
Derivative financial instruments	(295)	-	35	(20)	85	-	39	(156)
Debt securities issued	(642)	(48)	(35)	(482)	(412)	(147)	(40)	(1,806)
Term subordinated debt	(64)	-	-	-	-	-	-	(64)
Due to NZP related parties	(605)	-	-	-	-	-	-	(605)
Other financial liabilities	(41)	-	-	-	-	-	-	(41)
Total financial liabilities	(13,479)	(49)	-	(510)	(353)	(169)	(11)	(14,571)
Net on balance sheet financial position	663	3	-	1	-	-	-	667

Notes to the financial statements continued

32. Liquidity risk

The Banking Group Liquidity Policy is approved by the Board and defines the core principles for measuring, managing and monitoring liquidity risk across the Banking Group. Further details of the Banking Group's policies for managing liquidity risk are set out in note 39.

Liquidity risk management process

The Banking Group's liquidity management responsibilities include:

- Day-to-day liquidity requirements. RBNZ liquidity ratios are calculated and monitored daily to ensure that the Group:
  - is compliant with part 11 of the Conditions of Registration and the RBNZ "Liquidity policy" (BS13).
  - maintains a prudent level of cash and highly liquid assets ("primary liquid assets") and marketable assets of limited credit risk ("secondary liquid assets") to meet anticipated wholesale and retail outflows over a one week, one month and one year period as well as provide adequate cover against funding stress or unexpected run-off risk.
- Securing an appropriately matched profile of future cash flows from maturing assets and liabilities.
- Implementing the bank's funding plan which includes the development of sustainable wholesale funding capacity.
- Stress testing the bank's funding and liquidity position with a range of adverse events covering:
  - a Kiwibank name crisis
  - an international credit crisis
  - a macro economic event
  - a significant earnings loss.

Non-derivative cash flows

The tables below summarise the cash flows payable by the Banking Group and Kiwibank under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Banking Group does not manage liquidity risk on the basis of the information provided below.

Derivative cash flows

a) Derivatives settled on a net basis

The tables on pages 67 to 70 analyses the Banking Group's and Kiwibank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

b) Derivatives settled on a gross basis

The tables on pages 67 to 70 analyses the Banking Group's and Kiwibank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

Notes to the financial statements continued

32. Liquidity risk continued

	The Banking Group						
	30/06/13						
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	(270)	-	-	-	-	(270)	(270)
Deposits and other borrowings	(6,649)	(1,495)	(3,824)	(406)	-	(12,374)	(12,120)
Debt securities issued	(196)	(473)	(149)	(506)	(265)	(1,589)	(1,508)
Term subordinated debt	-	(3)	(11)	(51)	(265)	(330)	(210)
Due to NZP related parties	(4)	-	(10)	-	-	(14)	(14)
Other financial liabilities	(39)	-	-	-	-	(39)	(39)
Total financial liabilities	(7,158)	(1,971)	(3,994)	(963)	(530)	(14,616)	(14,161)
Assets							
Cash and cash equivalents	415	-	-	-	-	415	415
Due from other financial institutions	158	-	-	-	-	158	158
Financial assets held for trading	5	83	3	62	6	159	153
Available-for-sale assets	27	49	156	796	-	1,028	966
Loans and advances	152	282	800	2,920	23,157	27,311	13,202
Due from NZP related parties	-	1	47	35	-	83	77
Other financial assets	10	-	-	-	-	10	10
Total financial assets	767	415	1,006	3,813	23,163	29,164	14,981
Net non-derivative cash flows	(6,391)	(1,556)	(2,988)	2,850	22,633	14,548	
Derivative cash flows – net							
Interest rate derivatives	-	(3)	(2)	8	(1)	2	
Total	-	(3)	(2)	8	(1)	2	
Derivative cash flows – gross							
Foreign exchange derivatives							
Inflow	487	230	52	411	254	1,434	
Outflow	(483)	(224)	(61)	(499)	(272)	(1,539)	
Total	4	6	(9)	(88)	(18)	(105)	
Off balance sheet cash flows							
Capital commitments	-	-	-	-	-	-	
Loan commitments	(1,820)	-	-	-	-	(1,820)	
Lease commitments	-	(1)	(4)	(18)	(8)	(31)	
Total	(1,820)	(1)	(4)	(18)	(8)	(1,851)	
Net cash flows	(8,207)	(1,554)	(3,003)	2,752	22,606	12,594	
Cumulative net cash flows	(8,207)	(9,761)	(12,764)	(10,012)	12,594	12,594	

Notes to the financial statements continued

32. Liquidity risk continued

	Kiwibank Limited						
	30/06/13						
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	(270)	-	-	-	-	(270)	(270)
Deposits and other borrowings	(6,649)	(1,495)	(3,824)	(406)	-	(12,374)	(12,120)
Debt securities issued	(196)	(473)	(149)	(506)	(265)	(1,589)	(1,508)
Term subordinated debt	-	(3)	(11)	(51)	(265)	(330)	(210)
Due to NZP related parties	(3)	(6)	(29)	(202)	(2,187)	(2,427)	(930)
Other financial liabilities	(38)	-	-	-	-	(38)	(38)
Total financial liabilities	(7,156)	(1,977)	(4,013)	(1,165)	(2,717)	(17,028)	(15,076)
Assets							
Cash and cash equivalents	413	-	-	-	-	413	413
Due from other financial institutions	158	-	-	-	-	158	158
Financial assets held for trading	5	83	3	62	6	159	153
Available-for-sale assets	27	49	156	796	-	1,028	966
Loans and advances	152	278	789	2,921	23,157	27,297	13,167
Due from NZP related parties	126	5	64	155	1,820	2,170	1,035
Other financial assets	10	-	-	-	-	10	10
Total financial assets	891	415	1,012	3,934	24,983	31,235	15,902
Net non-derivative cash flows	(6,265)	(1,562)	(3,001)	2,769	22,266	14,207	
Derivative cash flows – net							
Interest rate derivatives	-	(3)	(2)	8	(1)	2	
Total	-	(3)	(2)	8	(1)	2	
Derivative cash flows – gross							
Foreign exchange derivatives							
Inflow	488	231	57	453	476	1,705	
Outflow	(483)	(224)	(62)	(507)	(481)	(1,757)	
Total	5	7	(5)	(54)	(5)	(52)	
Off balance sheet cash flows							
Capital commitments	-	-	-	-	-	-	
Loan commitments	(1,820)	-	-	-	-	(1,820)	
Lease commitments	-	(1)	(4)	(18)	(8)	(31)	
Total	(1,820)	(1)	(4)	(18)	(8)	(1,851)	
Net cash flows	(8,080)	(1,559)	(3,012)	2,705	22,252	12,306	
Cumulative net cash flows	(8,080)	(9,639)	(12,651)	(9,946)	12,306	12,306	

Notes to the financial statements continued

32. Liquidity risk continued

	The Banking Group						
	30/06/12						
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	(334)	-	-	-	-	(334)	(334)
Deposits and other borrowings	(5,880)	(1,717)	(3,835)	(443)	-	(11,875)	(11,565)
Debt securities issued	(462)	(593)	(79)	(733)	-	(1,867)	(1,806)
Term subordinated debt	-	(3)	(3)	(16)	(86)	(108)	(64)
Due to NZP related parties	(4)	-	-	-	-	(4)	(4)
Other financial liabilities	(41)	-	-	-	-	(41)	(41)
Total financial liabilities	(6,721)	(2,313)	(3,917)	(1,192)	(86)	(14,229)	(13,814)
Assets							
Cash and cash equivalents	315	-	-	-	-	315	315
Due from other financial institutions	171	-	-	-	-	171	171
Financial assets held for trading	13	1	44	46	7	111	104
Available-for-sale assets	48	184	705	508	15	1,460	1,401
Loans and advances	170	269	806	2,944	22,637	26,826	12,445
Due from NZP related parties	-	1	29	37	-	67	58
Other financial assets	11	-	-	-	-	11	11
Total financial assets	728	455	1,584	3,535	22,659	28,961	14,505
Net non-derivative cash flows	(5,993)	(1,858)	(2,333)	2,343	22,573	14,732	
Derivative cash flows – net							
Interest rate derivatives	(7)	(12)	(15)	(6)	-	(40)	
Total	(7)	(12)	(15)	(6)	-	(40)	
Derivative cash flows – gross							
Foreign exchange derivatives							
Inflow	605	423	84	393	-	1,505	
Outflow	(598)	(423)	(78)	(390)	-	(1,489)	
Total	7	-	6	3	-	16	
Off balance sheet cash flows							
Capital commitments	(1)	-	-	-	-	(1)	
Loan commitments	(1,623)	-	-	-	-	(1,623)	
Lease commitments	-	(1)	(4)	(18)	(12)	(35)	
Total	(1,624)	(1)	(4)	(18)	(12)	(1,659)	
Net cash flows	(7,617)	(1,871)	(2,346)	2,322	22,561	13,049	
Cumulative net cash flows	(7,617)	(9,488)	(11,834)	(9,512)	13,049	13,049	

Notes to the financial statements continued

32. Liquidity risk continued

	Kiwibank Limited						
	30/06/12						
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	(334)	-	-	-	-	(334)	(334)
Deposits and other borrowings	(5,880)	(1,717)	(3,835)	(443)	-	(11,875)	(11,565)
Debt securities issued	(463)	(593)	(79)	(733)	-	(1,868)	(1,806)
Term subordinated debt	-	(3)	(3)	(16)	(86)	(108)	(64)
Due to NZP related parties	(1)	(4)	(17)	(108)	(1,658)	(1,788)	(605)
Other financial liabilities	(41)	-	-	-	-	(41)	(41)
Total financial liabilities	(6,719)	(2,317)	(3,934)	(1,300)	(1,744)	(16,014)	(14,415)
Assets							
Cash and cash equivalents	314	-	-	-	-	314	314
Due from other financial institutions	171	-	-	-	-	171	171
Financial assets held for trading	13	1	44	46	7	111	104
Available-for-sale assets	48	184	705	508	15	1,460	1,401
Loans and advances	170	266	802	2,946	22,637	26,821	12,440
Due from NZP related parties	2	4	43	129	1,527	1,705	659
Other financial assets	11	-	-	-	-	11	11
Total financial assets	729	455	1,594	3,629	24,186	30,593	15,100
Net non-derivative cash flows	(5,990)	(1,862)	(2,340)	2,329	22,442	14,579	
Derivative cash flows – net							
Interest rate derivatives	(7)	(12)	(15)	(6)	-	(40)	
Total	(7)	(12)	(15)	(6)	-	(40)	
Derivative cash flows – gross							
Foreign exchange derivatives							
Inflow	605	423	84	393	-	1,505	
Outflow	(598)	(423)	(78)	(390)	-	(1,489)	
Total	7	-	6	3	-	16	
Off balance sheet cash flows							
Capital commitments	(1)	-	-	-	-	(1)	
Loan commitments	(1,623)	-	-	-	-	(1,623)	
Lease commitments	-	(1)	(4)	(18)	(12)	(35)	
Total	(1,624)	(1)	(4)	(18)	(12)	(1,659)	
Net cash flows	(7,614)	(1,875)	(2,353)	2,308	22,430	12,896	
Cumulative net cash flows	(7,614)	(9,489)	(11,842)	(9,534)	12,896	12,896	

During the year ended 30 June 2013, the method of calculating undrawn loan commitments was amended and the comparative balances have been adjusted to reflect this change.

Notes to the financial statements continued

33. Sensitivity analysis

The tables below summarise the pre-tax sensitivity of financial assets and liabilities to changes in the two key risk variables, interest rate, and currency risks using a reasonable possible change in these rates. The market value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario.

The Banking Group		Interest rate risk			
30/06/13		-1%	+1%	-1%	+1%
Dollars in millions	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	415	-	-	-	-
Due from other financial institutions	158	-	-	-	-
Financial assets held for trading	153	2	(2)	2	(2)
Available-for-sale assets	966	-	-	15	(14)
Loans and advances	13,202	12	(12)	12	(12)
Derivative financial instruments	129	(48)	45	(80)	77
Due from NZP related parties	77	-	-	-	-
Other financial assets	10	-	-	-	-
Total financial assets	15,110	(34)	31	(51)	49
Financial Liabilities					
Due to other financial institutions	(270)	-	-	-	-
Deposits and other borrowings	(12,120)	(4)	4	(4)	4
Derivative financial instruments	(150)	73	(69)	43	(40)
Debt securities issued	(1,508)	(28)	26	(28)	26
Term subordinated debt	(210)	(6)	6	(6)	6
Due to NZP related parties	(14)	-	-	-	-
Other financial liabilities	(39)	-	-	-	-
Total financial liabilities	(14,311)	35	(33)	5	(4)

Notes to the financial statements continued

33. Sensitivity analysis continued

The Banking Group		Currency risk			
30/06/13	Carrying	-10%	+10%	-10%	+10%
Dollars in millions	amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	415	7	(6)	7	(6)
Due from other financial institutions	158	-	-	-	-
Financial assets held for trading	153	1	(1)	1	(1)
Available-for-sale assets	966	-	-	-	-
Loans and advances	13,202	-	-	-	-
Derivative financial instruments	129	34	(27)	34	(27)
Due from NZP related parties	77	-	-	-	-
Other financial assets	10	-	-	-	-
Total financial assets	15,110	42	(34)	42	(34)
Financial Liabilities					
Due to other financial institutions	(270)	-	-	-	-
Deposits and other borrowings	(12,120)	(12)	10	(12)	10
Derivative financial instruments	(150)	71	(59)	71	(59)
Debt securities issued	(1,508)	(101)	83	(101)	83
Term subordinated debt	(210)	-	-	-	-
Due to NZP related parties	(14)	-	-	-	-
Other financial liabilities	(39)	-	-	-	-
Total financial liabilities	(14,311)	(42)	34	(42)	34

Notes to the financial statements continued

33. Sensitivity analysis continued

Kiwibank Limited		Interest rate risk			
30/06/13		-1%	+1%	-1%	+1%
Dollars in millions	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	413	-	-	-	-
Due from other financial institutions	158	-	-	-	-
Financial assets held for trading	153	2	(2)	2	(2)
Available-for-sale assets	966	-	-	15	(14)
Loans and advances	13,167	12	(12)	12	(12)
Derivative financial instruments	129	(48)	45	(80)	77
Due from NZP related parties	1,035	17	(15)	17	(15)
Other financial assets	10	-	-	-	-
Total financial assets	16,031	(17)	16	(34)	34
Financial Liabilities					
Due to other financial institutions	(270)	-	-	-	-
Deposits and other borrowings	(12,120)	(4)	4	(4)	4
Derivative financial instruments	(156)	57	(54)	27	(25)
Debt securities issued	(1,508)	(28)	26	(28)	26
Term subordinated debt	(210)	(6)	6	(6)	6
Due to NZP related parties	(930)	-	-	-	-
Other financial liabilities	(38)	-	-	-	-
Total financial liabilities	(15,232)	19	(18)	(11)	11

Notes to the financial statements continued

33. Sensitivity analysis continued

Kiwibank Limited		Currency risk			
30/06/13	Carrying	-10%	+10%	-10%	+10%
Dollars in millions	amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	413	7	(6)	7	(6)
Due from other financial institutions	158	-	-	-	-
Financial assets held for trading	153	1	(1)	1	(1)
Available-for-sale assets	966	-	-	-	-
Loans and advances	13,167	-	-	-	-
Derivative financial instruments	129	34	(27)	34	(27)
Due from NZP related parties	1,035	22	(18)	22	(18)
Other financial assets	10	-	-	-	-
Total financial assets	16,031	64	(52)	64	(52)
Financial Liabilities					
Due to other financial institutions	(270)	-	-	-	-
Deposits and other borrowings	(12,120)	(12)	10	(12)	10
Derivative financial instruments	(156)	48	(40)	48	(40)
Debt securities issued	(1,508)	(101)	83	(101)	83
Term subordinated debt	(210)	-	-	-	-
Due to NZP related parties	(930)	-	-	-	-
Other financial liabilities	(38)	-	-	-	-
Total financial liabilities	(15,232)	(65)	53	(65)	53

Notes to the financial statements continued

33. Sensitivity analysis continued

The Banking Group		Interest rate risk			
30/06/12		-1%	+1%	-1%	+1%
Dollars in millions	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	315	-	-	-	-
Due from other financial institutions	171	-	-	-	-
Financial assets held for trading	104	2	(2)	2	(2)
Available-for-sale assets	1,401	-	-	13	(13)
Loans and advances	12,445	20	(20)	20	(20)
Derivative financial instruments	138	49	(47)	47	(46)
Due from NZP related parties	58	-	-	-	-
Other financial assets	11	-	-	-	-
Total financial assets	14,643	71	(69)	82	(81)
Financial Liabilities					
Due to other financial institutions	(334)	-	-	-	-
Deposits and other borrowings	(11,565)	(3)	3	(3)	3
Derivative financial instruments	(156)	(42)	39	(73)	69
Debt securities issued	(1,806)	(11)	12	(11)	12
Term subordinated debt	(64)	(1)	1	(1)	1
Due to NZP related parties	(4)	-	-	-	-
Other financial liabilities	(41)	-	-	-	-
Total financial liabilities	(13,970)	(57)	55	(88)	85

Notes to the financial statements continued

33. Sensitivity analysis continued

The Banking Group		Currency risk			
30/06/12	Carrying	-10%	+10%	-10%	+10%
Dollars in millions	amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	315	7	(5)	7	(5)
Due from other financial institutions	171	1	(1)	1	(1)
Financial assets held for trading	104	4	(3)	4	(3)
Available-for-sale assets	1,401	-	-	3	(2)
Loans and advances	12,445	-	-	-	-
Derivative financial instruments	138	108	(88)	108	(88)
Due from NZP related parties	58	-	-	-	-
Other financial assets	11	-	-	-	-
Total financial assets	14,643	120	(97)	123	(99)
Financial Liabilities					
Due to other financial institutions	(334)	-	-	-	-
Deposits and other borrowings	(11,565)	(7)	6	(7)	6
Derivative financial instruments	(156)	15	(13)	15	(13)
Debt securities issued	(1,806)	(129)	106	(129)	106
Term subordinated debt	(64)	-	-	-	-
Due to NZP related parties	(4)	-	-	-	-
Other financial liabilities	(41)	-	-	-	-
Total financial liabilities	(13,970)	(121)	99	(121)	99

Notes to the financial statements continued

33. Sensitivity analysis continued

Kiwibank Limited		Interest rate risk			
30/06/12		-1%	+1%	-1%	+1%
Dollars in millions	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	314	-	-	-	-
Due from other financial institutions	171	-	-	-	-
Financial assets held for trading	104	2	(2)	2	(2)
Available-for-sale assets	1,401	-	-	13	(13)
Loans and advances	12,440	20	(20)	20	(20)
Derivative financial instruments	138	49	(47)	47	(46)
Due from NZP related parties	659	2	(2)	2	(2)
Other financial assets	11	-	-	-	-
Total financial assets	15,238	73	(71)	84	(83)
Financial Liabilities					
Due to other financial institutions	(334)	-	-	-	-
Deposits and other borrowings	(11,565)	(3)	3	(3)	3
Derivative financial instruments	(156)	(42)	39	(73)	69
Debt securities issued	(1,806)	(11)	12	(11)	12
Term subordinated debt	(64)	(1)	1	(1)	1
Due to NZP related parties	(605)	-	-	-	-
Other financial liabilities	(41)	-	-	-	-
Total financial liabilities	(14,571)	(57)	55	(88)	85

Notes to the financial statements continued

33. Sensitivity analysis continued

Kiwibank Limited		Currency risk			
30/06/12		-10%	+10%	-10%	+10%
Dollars in millions	Carrying amounts	Net profit	Net profit	Equity	Equity
Financial assets					
Cash and cash equivalents	314	7	(5)	7	(5)
Due from other financial institutions	171	1	(1)	1	(1)
Financial assets held for trading	104	4	(3)	4	(3)
Available-for-sale assets	1,401	-	-	3	(2)
Loans and advances	12,440	-	-	-	-
Derivative financial instruments	138	108	(88)	108	(88)
Due from NZP related parties	659	-	-	-	-
Other financial assets	11	-	-	-	-
Total financial assets	15,238	120	(97)	123	(99)
Financial Liabilities					
Due to other financial institutions	(334)	-	-	-	-
Deposits and other borrowings	(11,565)	(7)	6	(7)	6
Derivative financial instruments	(156)	15	(13)	15	(13)
Debt securities issued	(1,806)	(129)	106	(129)	106
Term subordinated debt	(64)	-	-	-	-
Due to NZP related parties	(605)	-	-	-	-
Other financial liabilities	(41)	-	-	-	-
Total financial liabilities	(14,571)	(121)	99	(121)	99

Notes to the financial statements continued

34. 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 securities

Estimates of fair value for held for trading 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.

Available-for-sale securities

Estimates of fair value for 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.

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

For other financial assets, 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.

Other financial liabilities

For other financial liabilities, the carrying amount is equivalent to the 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.

Interest rate contracts

For interest rate contracts, fair values are obtained from quoted market prices, discounted cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate, a cash basis has been adopted.

Foreign exchange contracts

For foreign exchange contracts, fair values are obtained from quoted market prices, 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 financial statements continued

34. Fair value of financial instruments continued

	The Banking Group			
	30/06/13		30/06/12	
Dollars in millions	**Carrying amount**	**Estimated fair value**	Carrying amount	Estimated fair value
Assets				
Cash and cash equivalents	**415**	**415**	315	315
Due from other financial institutions	**158**	**158**	171	171
Financial assets held for trading	**153**	**153**	104	104
Available-for-sale assets	**966**	**966**	1,401	1,401
Loans and advances	**13,202**	**13,210**	12,445	12,497
Derivative financial instruments	**129**	**129**	138	138
Due from NZP related parties	**77**	**77**	58	58
Other financial assets	**10**	**10**	11	11
Total financial assets	**15,110**	**15,118**	14,643	14,695
Liabilities				
Due to other financial institutions	**270**	**270**	334	334
Deposits and other borrowings	**12,120**	**12,132**	11,565	11,580
Derivative financial instruments	**150**	**150**	156	156
Debt securities issued	**1,508**	**1,512**	1,806	1,807
Term subordinated debt	**210**	**211**	64	64
Due to NZP related parties	**14**	**14**	4	4
Other financial liabilities	**39**	**39**	41	41
Total financial liabilities	**14,311**	**14,328**	13,970	13,986

Notes to the financial statements continued

34. Fair value of financial instruments continued

	Kiwibank Limited			
	30/06/13		30/06/12	
Dollars in millions	**Carrying amount**	**Estimated fair value**	Carrying amount	Estimated fair value
Assets				
Cash and cash equivalents	**413**	**413**	314	314
Due from other financial institutions	**158**	**158**	171	171
Financial assets held for trading	**153**	**153**	104	104
Available-for-sale assets	**966**	**966**	1,401	1,401
Loans and advances	**13,167**	**13,175**	12,440	12,492
Derivative financial instruments	**129**	**129**	138	138
Due from NZP related parties	**1,035**	**1,029**	659	659
Other financial assets	**10**	**10**	11	11
Total financial assets	**16,031**	**16,033**	15,238	15,290
Liabilities				
Due to other financial institutions	**270**	**270**	334	334
Deposits and other borrowings	**12,120**	**12,132**	11,565	11,580
Derivative financial instruments	**156**	**156**	156	156
Debt securities issued	**1,508**	**1,512**	1,806	1,807
Term subordinated debt	**210**	**211**	64	64
Due to NZP related parties	**930**	**928**	605	605
Other financial liabilities	**38**	**38**	41	41
Total financial liabilities	**15,232**	**15,247**	14,571	14,587

Notes to the financial statements continued

34. Fair value of financial instruments continued

Fair value hierarchy

Kiwibank 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			
30/06/13 Dollars in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets				
Interest rate swaps	-	103	-	103
Currency swaps	-	7	-	7
Forward foreign exchange contracts	-	19	-	19
Options purchased	-	-	-	-
Futures contracts	-	-	-	-
Forward rate agreements	-	-	-	-
Total derivative financial assets	-	129	-	129
Other financial assets held for trading				
Bank bills	-	80	-	80
Other securities	13	60	-	73
Total other financial assets held for trading	13	140	-	153
Available-for-sale assets				
Government stock and multilateral development banks	548	72	-	620
Local authority securities	-	65	-	65
Other debt securities	-	281	-	281
Total available-for-sale assets	548	418	-	966
Financial assets designated at FVTPL				
Loans and advances	-	-	-	-
Total financial assets at fair value	561	687	-	1,248
Financial liabilities				
Derivative financial liabilities				
Interest rate swaps	-	101	-	101
Currency swaps	-	41	-	41
Forward foreign exchange contracts	-	8	-	8
Options sold	-	-	-	-
Futures contracts	-	-	-	-
Forward rate agreements	-	-	-	-
Total derivative financial liabilities	-	150	-	150
Debt securities issued	-	477	-	477
Total financial liabilities at fair value	-	627	-	627

Notes to the financial statements continued

34. Fair value of financial instruments continued

	Kiwibank Limited			
30/06/13 Dollars in millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets				
Interest rate swaps	-	103	-	103
Currency swaps	-	7	-	7
Forward foreign exchange contracts	-	19	-	19
Options purchased	-	-	-	-
Futures contracts	-	-	-	-
Forward rate agreements	-	-	-	-
Total derivative financial assets	-	129	-	129
Other financial assets held for trading				
Bank bills	-	80	-	80
Other securities	13	60	-	73
Total other financial assets held for trading	13	140	-	153
Available-for-sale assets				
Government stock and multilateral development banks	548	72	-	620
Local authority securities	-	65	-	65
Other debt securities	-	281	-	281
Total available-for-sale assets	548	418	-	966
Financial assets designated at FVTPL				
Loans and advances	-	-	-	-
Total financial assets at fair value	561	687	-	1,248
Financial liabilities				
Derivative financial liabilities				
Interest rate swaps	-	101	-	101
Currency swaps	-	47	-	47
Forward foreign exchange contracts	-	8	-	8
Options sold	-	-	-	-
Futures contracts	-	-	-	-
Forward rate agreements	-	-	-	-
Total derivative financial liabilities	-	156	-	156
Debt securities issued	-	477	-	477
Total financial liabilities at fair value	-	633	-	633

Notes to the financial statements continued

34. Fair value of financial instruments continued

	The Banking Group			
30/06/12 Dollars in millions	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets				
Interest rate swaps	-	107	-	107
Currency swaps	-	17	-	17
Forward foreign exchange contracts	-	14	-	14
Options purchased	-	-	-	-
Futures contracts	-	-	-	-
Forward rate agreements	-	-	-	-
Total derivative financial assets	-	138	-	138
Other financial assets held for trading				
Bank bills	-	3	-	3
Other securities	-	101	-	101
Total other financial assets held for trading	-	104	-	104
Available-for-sale assets				
Government stock and multilateral development banks	978	48	-	1,026
Local authority securities	-	64	-	64
Other debt securities	-	311	-	311
Total available-for-sale assets	978	423	-	1,401
Financial assets designated at FVTPL				
Loans and advances	-	-	44	44
Total financial assets at fair value	978	665	44	1,687
Financial liabilities				
Derivative financial liabilities				
Interest rate swaps	-	148	-	148
Currency swaps	-	3	-	3
Forward foreign exchange contracts	-	5	-	5
Options sold	-	-	-	-
Futures contracts	-	-	-	-
Forward rate agreements	-	-	-	-
Total derivative financial liabilities	-	156	-	156
Debt securities issued	-	1,014	-	1,014
Total financial liabilities at fair value	-	1,170	-	1,170

Notes to the financial statements continued

34. Fair value of financial instruments continued

	Kiwibank Limited			
30/06/12 Dollars in millions	Level 1	Level 2	Level 3	Total
Financial assets				
Derivative financial assets				
Interest rate swaps	-	107	-	107
Currency swaps	-	17	-	17
Forward foreign exchange contracts	-	14	-	14
Options purchased	-	-	-	-
Futures contracts	-	-	-	-
Forward rate agreements	-	-	-	-
Total derivative financial assets	-	138	-	138
Other financial assets held for trading				
Bank bills	-	3	-	3
Other securities	-	101	-	101
Total other financial assets held for trading	-	104	-	104
Available-for-sale assets				
Government stock and multilateral development banks	978	48	-	1,026
Local authority securities	-	64	-	64
Other debt securities	-	311	-	311
Total available-for-sale assets	978	423	-	1,401
Financial assets designated at FVTPL				
Loans and advances	-	-	44	44
Total financial assets at fair value	978	665	44	1,687
Financial liabilities				
Derivative financial liabilities				
Interest rate swaps	-	148	-	148
Currency swaps	-	3	-	3
Forward foreign exchange contracts	-	5	-	5
Options sold	-	-	-	-
Futures contracts	-	-	-	-
Forward rate agreements	-	-	-	-
Total derivative financial liabilities	-	156	-	156
Debt securities issued	-	1,014	-	1,014
Total financial liabilities at fair value	-	1,170	-	1,170

Notes to the financial statements continued

34. Fair value of financial instruments continued

Loans and advances designated at fair value through profit or loss

For loans and advances designated at fair value through profit or loss, a discounted cash-flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. At the reporting date, a one basis point movement in credit spread or underlying interest rate would impact the income statement by $nil (30 June 12: $2k). (See critical accounting estimates, note 1.28).

The following table presents the changes in level 3 instruments, for both the Banking Group and Kiwibank Limited:

Dollars in millions	**30/06/13**	30/06/12
Financial assets at FVTPL		
Balance at beginning of the year	**44**	448
Total fair value losses recorded in the income statement	**(1)**	(10)
Loan repayments	**(43)**	(394)
Balance at end of the year	**-**	44

There have been no transfers between levels 1 and 2 during the year ended 30 June 2013 (2012: no transfers). There were also no transfers into/out of level 3 during the year ended 30 June 2013 (2012: no transfers).

35. Transfers of financial assets

The following financial assets have been transferred but have not been derecognised.

Securitised assets

Kiwibank RMBS Trust Series 2009-1 (the "**RMBS Trust**")

In May 2008 the RBNZ expanded the range of acceptable collateral that the banks can pledge and borrow against as part of changes to its liquidity management programme, designed to ensure adequate liquidity for New Zealand financial institutions. The expanded collateral criteria includes the use of a pool of individual residentially secured mortgages (loans and advances) that are aggregated together to form a residential mortgage backed security ("**RMBS**").

An RMBS can be transferred to a separate Trust allowing the Banking Group to enter into a repurchase agreement on these loans with the RBNZ. The Banking Group can borrow from the RBNZ using the RMBS as collateral until repurchased at a later date, in order to manage its liquidity requirements.

On 26 June 2009 the Banking Group established an in-house RMBS facility in order to issue securities that meet the RBNZ criteria. Kiwibank recognises in its financial statements a payable and receivable of RMBS securities of equal amount totalling $600m to the RMBS Trust, a consolidated entity. These assets and liabilities 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 (funding, liquidity and credit risk remains with the Bank).

Notes to the financial statements continued

35. Transfers of financial assets continued

The carrying value and fair value of the RMBS pool at 30 June 2013 is $600m (30 June 2012: $600m). These securities are ring fenced to ensure they are not used as collateral outside of agreements established with the RMBS Trust.

Kiwibank Covered Bond Trust (the "**Covered Bond Trust**")

On 23 January 2013, 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 the Covered Bond Trust have a prior claim over the assets of the Covered Bond Trust. On 19 February 2013, selected Kiwibank housing loans were transferred to the Covered Bond Trust in order to establish and facilitate the Bank's covered bond programme. These assets and liabilities 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 and highly rated short-dated securities, together which are security for the guarantee of issuances of covered bonds by the Bank, provided by Kiwi Covered Bond Trustee Limited as Trustee of the Covered Bond Trust. 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 30 June 2013 is $316m (30 June 2012: $Nil). These securities are ring fenced to ensure they are not used as collateral outside of agreements established with the Covered Bond Trust.

The consolidated financial statements of the Banking Group do not change as a result of establishing the RMBS Trust and the Covered Bond Trust.

Repurchase agreements

The Banking Group enters into sale and repurchase agreements with the wider market in order to manage short term liquidity. Under the repurchase agreements, collateral in the form of securities is advanced to a third party and Kiwibank receives cash in exchange. The counterparty is allowed to sell or repledge the collateral advanced under repurchase agreements in the absence of default by Kiwibank, but has an obligation to return the collateral at the maturity of the contract.

Kiwibank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. Securities sold under agreements to repurchase are accounted for as financial assets and are retained within the relevant financial asset category. In addition, it recognises a financial liability for cash received. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement. As at 30 June 2013, the Banking Group has recognised liabilities for outstanding repurchase agreements of $185.0m (30 June 2012: $296.7m), which have settlement dates ranging up to seven days.

As at 30 June 2013 neither Kiwibank, nor the Banking Group has derecognised any financial assets where they have a continuing involvement (30 June 2012: Nil).

36. Interest earning and discount bearing assets and liabilities

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Interest earning and discount bearing assets (note 29)	**14,988**	14,522	**15,908**	15,118
Interest and discount bearing liabilities (note 29)	**13,193**	13,006	**14,109**	13,607

Notes to the financial statements continued

37. Credit exposure concentrations

Credit exposure to individual counterparties

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

There were no individual counterparties, excluding connected persons, bank counterparties and the central government of any country with a long-term credit rating of A- or A3 above, or its equivalent, where the year end and peak end-of-day aggregate actual credit exposures, net of individual credit impairment allowances (which were nil), equalled or exceeded 10% of the Banking Group's shareholder's equity as at the reporting date.

As at 30 June 2013 and in the 3 months ended 30 June 2013, there have been no credit exposure concentrations with non bank counterparties where actual credit exposures equalled or exceeded 10% of the Banking Group's shareholder's equity as at the reporting date (3 months ended 30 June 2012: nil).

Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of individual credit impairment allowance and excluding advances of a capital nature). The information on credit exposure to connected persons has been derived in accordance with the Banking Group's Conditions of Registration and the RBNZ Connected Exposures Policy BS8. The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end-of-day credit exposures to non-bank connected persons have been calculated using the Banking Group's Tier 1 capital at the end of the year. The rating-contingent limit, which is applicable to the Banking Group as at the reporting date, is 60%. There have been no rating-contingent limit changes during the last year. Within the rating-contingent limit there is a sub-limit of 15% of the Banking Group's Tier I capital, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's Conditions of Registration have been complied with at all times over the last year. The limit is 125% of the Banking Group's Tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure. There are no individual impairment credit allowances against credit exposures to non-bank connected persons nor are there any contingent exposures arising from risk lay-off arrangements to connected persons as at 30 June 2013 (30 June 2012: nil).

	The Banking Group	
Dollars in millions	**Year ended 30/06/13**	Year ended 30/06/12
Credit exposures to non-bank connected persons at year end	**78**	60
Credit exposures to non-bank connected persons at year end expressed as a percentage of Tier 1 capital	**8.3%**	8.3%
Peak credit exposures to non-bank connected persons during the year	**80**	62
Peak credit exposures to non-bank connected persons during the year expressed as a percentage of Tier 1 capital	**8.4%**	8.5%

Notes to the financial statements continued

38. Fiduciary activities

Custodial services

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

Insurance business

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

Securitised assets

The Banking Group has an in house RMBS facility and covered bond programme, which are discussed further in Note 35.

Funds management

The Kiwibank KiwiSaver Scheme commenced accepting members and subscriptions on the 1st of July 2010 and closed to new members on 5 December 2012. The issuer and promoter of the Kiwibank KiwiSaver Scheme is Kiwibank Investment Management Limited, Kiwibank Limited and their directors. AMP Capital has been engaged to manage the funds available through Kiwibank KiwiSaver, with the exception of the Cash Fund which is managed by Kiwibank Treasury.

The total amount of Kiwibank KiwiSaver funds managed at 30 June 2013 is $163m (30 June 2012: $96m).

A subsidiary of Kiwibank also:

- acts as the manager for the Kiwibank PIE Unit Trust. These funds are invested in products of Kiwibank and are recorded as liabilities in the balance sheet (note 20). At 30 June 2013, $3,469m of funds under management were invested in Kiwibank's own products or securities (30 June 2012: $2,980m).
- is a distributor of the Kiwibank Investment Portfolio. The Banking Group is not the Issuer, Manager or Promoter of these Funds. Nor is it responsible for any decline in performance of the underlying assets of the investors due to market forces.

Provision of financial services

Financial services provided by Kiwibank to entities which are involved in trust, custodial, funds management and other fiduciary activities, are at fair value, except that Kiwibank does not charge Kiwibank Investment Management Limited, the Manager of the Kiwibank PIE Unit Trust, any bank fees. Further, the Kiwibank PIE Unit Trust bank account used for tax payments does not earn interest.

The Banking Group has not provided any funding to entities which conduct the following activities during the years ended 30 June 2013 and 30 June 2012:

- trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group;
- marketing and distribution of insurance products.

Risk management

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

39. Risk management policies

Risk management

The Banking Group's exposure to risk arises primarily from its business activities as a financial intermediary and financial markets participant. Kiwibank recognises the importance of effective risk management to its business success and to its customers. Risk management enables Kiwibank to both increase its financial and organisational growth opportunities and mitigate potential loss or damage.

Organisational perspective

Kiwibank approaches the management of risk using an organisational framework that is characterised by:

- The Board providing oversight on risk appetites, strategies, and monitoring progress;
- Business unit level accountability for the management of risks in accordance with agreed strategies and the Bank's risk management framework;
- The Risk Management function is responsible for implementing a risk management framework and providing assurance around the management of various elements of risk; and
- Independent oversight of business unit risk management by both internal and external audit functions to i) provide regular risk evaluation and reporting; and ii) assess the adequacy and effectiveness of management's control of risk.

The directors of Kiwibank are responsible for the stewardship of Kiwibank. To help discharge this obligation, the Board has established the Finance, Audit and Disclosures Committee, (which includes members who have appropriate financial experience and understanding of the banking industry in which Kiwibank operates) and the Risk, Credit and Compliance Committee, which collectively are responsible for:

- Review and approval of Kiwibank's frameworks and policies for managing business, credit, market and operational risk and maintaining an effective risk management framework.
- Monitoring the Bank's key risks, performance, exposures against limits, capital levels and management of Kiwibank's risks.
- Monitoring anticipated changes in the economic and business environment and other factors relevant to Kiwibank's risk profile.

Notes to the financial statements continued

39. Risk management policies continued

- Review and approval of limits and conditions that apply to risk taking.
- Review of internal audit activities and significant audit issues.
- Review of financial and disclosure statements.

The following specialised principal management committees have been formed to translate Board risk appetite into appropriate strategies, policies, controls, processes and procedures for identifying, measuring and managing risk: i) the Asset-Liability Committee ("**ALCO**"), which is concerned with balance sheet structure, capital, funding and market risk; ii) the Executive Risk Committee, which is focused on business, credit and operational risk; iii) the Disclosure Committee, which is focused on continuous disclosure requirements; and iv) the Enterprise Portfolio Management Office, which considers certain risks associated with the Bank's key strategic projects and investment portfolio.

Independent Credit and Market risk-control units operate alongside the Bank's lending business units and Treasury unit. These risk-control functions are accountable for identifying and quantifying credit and market risks, respectively, and for working with the lending and Treasury business units to implement appropriate policies, procedures and controls to manage those risks.

Kiwibank's Risk Management Unit has been assigned the role of internal monitor. The Risk Management Unit is tasked with ensuring that risk based reporting of financial and non-financial threats to Kiwibank is undertaken on a regular basis. The unit provides an independent appraisal of business units' risk positions and the overall control environment, reporting on the Bank's key risks through the Executive Risk Committee, and onto the Board Risk, Credit and Compliance Committee and the Board Finance, Audit and Disclosures Committee as appropriate. No formal reviews of the Banking Group's risk management system were undertaken by external parties during the year ended 30 June 2013.

Internal audit

Kiwibank has an independent internal audit function, which appraises the adequacy and effectiveness of the internal control environment, and reports results to both Management and the Board Finance, Audit and Disclosures Committee. The internal audit function reports directly to the Chair of the Board Finance, Audit and Disclosures Committee with matrix reporting to the Chief Risk Officer.

In planning audit activities, internal audit adopts a risk-based approach that directs and concentrates resources to those areas of greatest significance, strategic concern and risk to the business. This encompasses reviews of major credit, market, technology and operating risks within Kiwibank. Significant findings are reported quarterly to the Board Finance, Audit and Disclosures Committee. The audit plan is approved by the Board Finance, Audit and Disclosures Committee. All issues and recommendations reported to management are tracked and monitored internally to ensure completion and agreed actions are undertaken where appropriate.

Risk management framework

Kiwibank's risk management framework revolves around four key functions. Namely:

- **Strategic risk management** – A framework and set of processes that the Bank uses to plan, organise, lead and control risk management activities in an effort to minimise the effects and impacts of risk events on the Bank's capital and earnings. This reflects the Basel III accord requirements for a properly framed structure from which risk management strategies and policy can be devolved. This framework provides:
  - i) A high level "risk structure" for the classification and categorisation of all risks deemed material to the Bank, which forms the basis of reporting the Bank's risk profile.
  - ii) Risk appetite – the Bank's willingness to take on financial risks and a basic operational pre-requisite for the establishment of consistent risk limits.
  - iii) Risk policy statements – these explicitly articulate the Bank's fundamental attitude towards risk and risk management. The risk policy statements are intended to ensure employees understand the Bank's risk management goals throughout the organisation.
  - iv) Risk principles – these are central rules for risk management decision-making and form the basis for maximum uniformity in risk management decision-making.
- **Capital management and capital adequacy** – Kiwibank's capital management strategy seeks to ensure the Bank is adequately capitalised while recognising capital is often an expensive form of funding or insurance. The Bank seeks to maintain and acquire capital in an economically effective manner so as to: i) support future development and growth aspirations; ii) comply at all times with regulatory capital requirements; iii) maintain a strong internal capital base to cover all material inherent risks; and iv) maintain an investment grade credit rating.

  The Bank undertakes a programme of activities designed to ensure that it has sufficient financial resources to continue as a going concern even if it suffers a material unforeseen or unexpected risk event(s). This programme, called the Internal Capital Adequacy Assessment Programme ("**ICAAP**"), deals primarily with assessing the Bank's capacity to absorb risk based on: i) identification and quantification of its immediate risks; and ii) comparison of those risks with its financial capital (that may have to be sacrificed if these risks materialise).

  The Board of Directors has ultimate responsibility for capital adequacy and approves capital policy and minimum internal capital levels and limits.

  In ensuring that Kiwibank has adequate overall capital in relation to its risk profile, a mixture of risk capital estimates and judgement based estimates have been made relating to all material risks, even where they are hard to quantify. Included in these estimates is also a trade-off between the importance of allocating capital to such risks and the robustness of the Bank's approach to mitigating and managing these risks.

Notes to the financial statements continued

39. Risk management policies continued

The Bank monitors its key risks and internal and regulatory capital adequacy, and reports on these to the Board Risk, Credit and Compliance Committee. In the event of large, unexpected losses, the Bank is committed to restoring its capital position. Management have developed plans accordingly.

- **Risk assessment and risk prioritisation** – This function administered by the Risk Management Unit is designed to identify and assess the real risks facing the Bank. The prioritisation process is intended to ensure that management focus and appropriate resources are directed at isolating, reducing or controlling expected (probable) risk events. The risk prioritisation process involves assessing the probability and severity of losses using (where possible) quantitative risk and control data.
- **Enterprise risk management** – Irrespective of their relative significance, the majority of risk situations facing the Bank occur in the day-to-day operations of the business. These risks (referred to as enterprise risks - as they arise from operating the business) are not confined to formal risk domains (i.e. credit, market, or operational risk) or business lines. As it is considered desirable to manage risk in a consistent and comprehensive manner across the whole of Kiwibank, a decision support model exists for any manager needing to make a risk management decision about a specific risk matter arising in their current or proposed operations (i.e. day-to-day business activities).

Kiwibank's high level "risk structure" recognises four main types of risk (or risk domains). Specifically:

- **Credit risk** – the risk of financial loss arising from the failure of a customer or counterparty to honour any financial or contractual obligation.
- **Market risk** – the potential for losses arising from adverse movements in the level and volatility of market factors, such as interest rates and foreign exchange rates. This risk domain also includes the risk that Kiwibank will not have sufficient funds available to meet financial and transactional cash-flow obligations.
- **Operational risk** – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events. This risk domain includes legal and regulatory risk, which includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from regulatory actions, as well as private settlements.
- **Business and strategic risk** – macro or micro environmental events that could impede or prevent the Bank achieving its stated business goals or strategies, including missed opportunities and potential losses/damage arising from poor strategic business decisions.

Credit risk

The Banking Group's credit risks arise from lending to customers and from inter-bank, treasury, international and capital market activities. The Banking Group has clearly defined credit policies and frameworks for the approval and management of credit risk.

Key elements of the Credit risk management framework are:

- **Strategy and organisational structure** – the Board requires sound lending growth for appropriate returns. The Banking Group pursues this objective in a structured manner, managing credit risk through the formulation of high-level credit policies, application of sector specific credit underwriting standards including scorecards, delegated authorities, a robust control environment, monitoring of the portfolios, review of all major credit risks and risk concentrations. The Board employs a structure of delegated authorities to implement and monitor the multiple facets of credit risk management.

  Kiwibank's Executive Risk Committee (comprising of executive management) is tasked with producing robust credit policies, credit management processes and asset writing strategies; examining portfolio standards, concentrations of lending, asset impairment; and monitoring compliance with policy.

  An independent credit management function staffed by credit risk specialists exists to; i) provide independent credit decisions; ii) support front-line lending staff in the application of sound credit practices; iii) provide centralised remedial management of arrears; and iv) undertake portfolio monitoring and loan asset quality analysis and reporting.

  The integrity and effectiveness of the Bank's credit risk management practices, asset quality and compliance with policy is supported by independent assessments by the Risk Asset Review unit and internal audit functions.
- **Credit risk mitigation** – Kiwibank's Board approved wholesale credit management policy sets out the parameters for which it can enter into credit exposures arising from on and off-balance sheet transactions. Kiwibank also has legal arrangements with its major institutional counterparties to allow netting of off-balance sheet exposures along with collateral management arrangements. Kiwibank applies the simple method to measure the mitigating effects of collateral.
- **Portfolio structure and monitoring** – The Banking Group's credit portfolio is divided into two segments, Personal (Consumer), and Business Markets.

  The Personal segment is comprised of housing loan, credit card and personal loan facilities. This segment is managed on a delinquency band approach.

  The Business Markets segment consists of lending to small and medium sized businesses. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default. These exposures are generally required to be reviewed on an annual basis, unless they are small facilities that are managed on a behavioural basis after their initial rating at origination.

  The overall composition and quality of the credit portfolios is monitored taking into account the potential changes in economic conditions.

Notes to the financial statements continued

39. Risk management policies continued

- **Credit approval standards** – Kiwibank has clearly defined credit underwriting policies and standards for all lending, which incorporate income and repayment capacity, acceptable terms, security, and loan documentation criteria. In the first instance, Kiwibank relies on the assessed integrity of the debtor or counterparty and their ability to meet their financial obligations for repayment.

  Longer term Consumer lending is generally secured against real estate, while short term revolving consumer credit (personal lending) is generally unsecured. Kiwibank requires adequate and sustainable loan servicing capability, and may also require security cover within loan to security valuation as set down in Kiwibank's credit policy.

  Collateral security in the form of real property and/or general security interest over business assets is generally taken for business credit except for government, bank and corporate counterparties of strong financial standing. The Bank uses ISDA agreements to document derivative activities and limit exposures to credit losses. Under ISDA protocols, in the event of default, all contracts with the counterparty are terminated and settled on a net basis.

  Credit facilities are approved through a hierarchy of delegated approval authorities that reflect the skill and experience of lending management.

- **Problem credit facility management** – Credit exposures are monitored regularly through the examination of irregular and delinquent accounts. This enables doubtful debts to be immediately identified so that specific provisions for potential losses can be established as early as possible. Problem credit facilities are monitored to ensure workout and collection and recovery strategies are established and enacted promptly to minimise risk of potential losses.

  Credit risk portfolios are regularly assessed for objective evidence of impairment. Kiwibank maintains a collective impairment allowance where there is objective evidence that the portfolio contains probable losses that will be identified in future periods. Kiwibank also creates an individual allowance for impairment against specific credit exposures when there is objective evidence that it will not be able to collect all amounts due.

- **Operations control environment** – Operationally, credit risk is controlled through a combination of approvals, limits, monitoring and review procedures. Functions are segregated so that no one person is in a position to control all significant stages of processing a credit transaction, thereby reducing the chance of error or defalcation escaping detection. Preparation of formal lending documentation only occurs after an independent officer in the operations area has ensured that the credit has been approved and the facility documentation matches the terms of the credit approval.

Market risk

Market risk arises from the mismatch between assets and liabilities in the banking business and from controlled trading undertaken in the pursuit of profit. In order to manage its own exposure to market risk, Kiwibank trades diverse financial instruments including interest rates, foreign currencies and transacts in derivative instruments such as swaps, options, futures and forward rate agreements. These activities are managed using structural limits (including volume and basis point value limits) in conjunction with scenario analysis. Market risk limits are allocated based on business strategies, modelling and experience, in addition to market liquidity and risk concentration analysis.

Key elements of Kiwibank's market risk management framework are:

- **Interest rate risk management** – The Board expects reasonable stability in Kiwibank's net interest income over time. Kiwibank's Treasury function has been tasked with managing the sensitivity of net income to changes in wholesale market interest rates. This sensitivity (known as structural interest rate risk) arises from the bank's lending and deposit taking activities and investment of capital and other liabilities. The provision of loans and accepting deposits at both fixed and variable rates gives rise to the risk that Kiwibank could have unmatched positions leading to material exposures in a shifting interest rate environment. Other activities such as current account facilities and employing financial instruments such as swaps, options and forward rate agreements also incur interest rate risks.

  The main objective of the management of interest rate risk is to achieve a balance between reducing risk to earnings from the adverse effect of interest rate movements and enhancing net interest income through the correct anticipation of the direction and extent of interest rate changes.

  Kiwibank's ALCO (comprising of executive management) is responsible for implementing and monitoring interest rate risk management policies within Board defined policy guidelines and limits. Interest rate risk is managed by Kiwibank's Treasury unit within pre-approved limits.

  Interest rate risk is measured in terms of Kiwibank's notional exposure to potential shifts in future interest rates relative to the timescale within which assets and liabilities can be re-priced. A separate independent Market Risk Management Unit is responsible for the daily measurement and monitoring of market risk exposures.

  Kiwibank reduces interest rate risk by seeking to match the re-pricing of assets and liabilities. A substantial portion of customer deposits and lending is at variable rates, which are periodically adjusted to reflect market movements. Where natural hedging still leaves a resultant interest rate mismatch, the residual risks are hedged within predefined limits through the use of physical financial instruments, interest rate swaps and other derivative financial instruments.

Notes to the financial statements continued

39. Risk management policies continued

- **Currency risk management** – Currency risk results from the mismatch of foreign currency assets and liabilities. These mismatches can arise from the day-to-day purchase and sale of foreign currency and from deposit and lending activity in foreign currencies. Kiwibank has a policy of hedging all foreign currency borrowing into New Zealand dollars. Foreign currency denominated revenue and expense flows are forecast and hedged on a proportional basis determined by the ALCO. Residual currency risks are monitored in terms of open positions in each currency. Currency risks are monitored daily.
- **Liquidity and funding risk management** – Liquidity risk is the risk that Kiwibank will not have sufficient funds available to meet its financial and transactional cash flow obligations.

  Management of liquidity risk is designed to ensure that Kiwibank has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis. The Bank's Treasury function has responsibility for liquidity management, under oversight of the ALCO.

  Kiwibank monitors this risk daily, primarily by forecasting future cash requirements, both under normal conditions and during crisis situations. Kiwibank manages this by; i) holding readily tradable, investment assets and deposits on call with high credit quality counterparties to provide for any unexpected patterns in cash movements; and ii) by seeking a stable funding base.

  Kiwibank maintains a stock of prime liquid assets. Some assets classified as investment securities in the balance sheet fit the definition of liquid assets for this purpose.

  Kiwibank maintains liquidity crisis contingency plans defining an approach for responding to liquidity threatening events. Funding risk is allied to liquidity risk, but is concerned with the Bank's capacity to fund increases in assets while meeting its payment obligations, including repaying depositors and maturing wholesale debt.

  Kiwibank employs asset and liability cash flow modelling to determine appropriate liquidity and funding strategies. This modelling helps ensure that an appropriate portion of the Banking Group's assets are funded by customer liabilities, bank borrowing, and equity. This approach also recognises the favourable liquidity characteristics of long term customer liabilities and wholesale debt funding, in reducing the impact or volatility of short term funding.

  Under normal business conditions, Kiwibank seeks to satisfy the majority of its funding needs from retail liabilities. Kiwibank's borrowing capacity is an estimate of the amount of funding that can be raised in the wholesale markets. Kiwibank's funding strategy is designed to deliver a sustainable portfolio of wholesale funds.

  Treasury (under oversight of the ALCO) is responsible for monitoring Kiwibank's funding base and ensuring that this base is prudently maintained and adequately diversified.
- **Equity risk** – Equity risk results from the re-pricing of equity investments. Kiwibank does not undertake equity trading and there are no significant exposures to equity instruments.

Operational risk

Operational risk is the potential exposure to financial and other damage arising from the way in which Kiwibank pursues its business objectives. While operational risk can never be eliminated, Kiwibank endeavours to minimise the impact of operational incidents by ensuring that the appropriate risk management methodologies, controls, systems, staff and processes are in place.

The key sources of operational risk included in the Bank's operational risk measurement framework are; i) internal fraud; ii) external fraud; iii) acts inconsistent with workplace employment, health and safety laws; iv) unintentional or negligent failure to meet legal or professional obligations to specific customers (including fiduciary and suitability requirements) or from the design of a product; v) failed transaction processing or process management; vi) disruption to business or system failures; and vii) loss or damage to physical assets from natural disaster or other events.

Operational risk management within Kiwibank is based on the following core elements:

- Senior management are accountable to the Board for maintaining an adequate and effective control environment that is commensurate with Kiwibank's risk appetite and business objectives.
- Business units are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility.
- A central Risk Management Unit supports business units with operational risk identification, measurement and prioritisation.

The Risk Management Unit undertakes elementary operational risk measurements (using internal loss and potential loss data) across the Bank and reports quarterly to the Board Risk, Credit and Compliance Committee on Kiwibank's overall operational risk profile. An Internal Audit function appraises the adequacy and effectiveness of the internal control environment, and reports results to both Management and the Board Finance, Audit and Disclosures Committee.

Key management and control techniques employed by Kiwibank, include sound project management, change control disciplines and business continuity planning. These techniques are enhanced by a focus on staff competency and supervision. Where appropriate these management practices are augmented by risk transfer mechanisms such as insurance, and by regular risk and control assessments.

Notes to the financial statements continued

39. Risk management policies continued

Business and strategic risk

There are numerous external and internal uncertainties that may derail the business strategies or goals of Kiwibank. Success in managing business risk is intrinsically more difficult than managing financial risks (i.e. credit, market and operational risks).

It is only through sound business strategies and skilful execution of these business strategies that Kiwibank's business goals/objectives will be achieved. Risk management strategies are not a substitute for good business strategies but aid in the selection of appropriate strategies and in their successful execution.

Kiwibank has three core business risk management strategies aimed at supporting the business strategies of the Bank. Specifically:

- Establishment and maintenance of an internal organisational environment in which business and strategic risk can meaningfully be managed.
- Establishment and maintenance of structures, measurement basis and risk management processes for the evaluation and management of business and strategic risks.
- Building capability within Kiwibank to enable both the pursuit of opportunities and mitigation of vulnerabilities.

40. Operating lease commitments

Leases for property occupied by Kiwibank are managed by NZP. As at the reporting date commitments under non-cancellable property and vehicle operating leases in respect of payments due to be made were:

	The Banking Group		Kiwibank Limited	
Dollars in millions	**30/06/13**	30/06/12	**30/06/13**	30/06/12
Less than one year	**5**	5	**5**	5
Between one and two years	**5**	5	**5**	5
Between two and five years	**13**	13	**13**	13
Greater than five years	**8**	12	**8**	12
Total lease commitments	**31**	35	**31**	35

41. Capital expenditure commitments

Capital expenditure commitments contracted for as at 30 June 2013, but not provided for in these financial statements, total $0.2m; (30 June 2012: $0.7m). All such commitments are due no later than one year from the reporting date.

42. Contingent liabilities

Other than in relation to undrawn loan commitments disclosed in note 32, there are no material contingent liabilities as at 30 June 2013 (30 June 2012: nil).

43. Events subsequent to the reporting date

There are no material events that occurred subsequent to the reporting date, that require recognition of, 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 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 with changes to Kiwibank’s banking conditions of registration, from 1 January 2013, Kiwibank applies the RBNZ’s Basel III framework which requires a strengthened and more conservative approach to capital adequacy.

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% of risk weighted exposures.
- Tier 1 capital ratio must not be less than 6% 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 (CET 1) has greater loss absorbing capability than the other Tier 1 instruments referred to as Additional Tier 1 (AT 1) capital.

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 per cent 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 new capital ratio requirements and conservation buffers (as a percentage of risk weighted assets).

	Common equity	Tier 1 capital	Total capital
RBNZ minimum ratios prior to 1 January 2013	–	4.0%	8.0%
Minimum ratios from 1 January 2013	4.5%	6.0%	8.0%
Conservation buffer from 1 January 2014	2.5%	2.5%	2.5%
Minimum ratio plus conservation buffer from 1 January 2014	7.0%	8.5%	10.5%

The following table shows the increasing constraints on capital distributions where a bank’s capital level falls within the buffer range effective from 1 January 2014.

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%

Capital adequacy continued

The ordinary shares, which are fully paid, are included within Common Equity Tier 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 on 4 May 2010 are fully paid and are included within Additional Tier 1 capital. Their material terms and conditions are:

f) each share has no voting rights;

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

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

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

j) there is no maturity date;

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

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

m) there are no dividends in arrears.

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

Both subordinated debt issues, which are fully paid, are included within Tier 2 capital. These issues are subordinate to all other general liabilities of the Banking Group and are denominated in New Zealand dollars. Their material terms and conditions are:

$60m subordinated debt issue 30 September 2008:

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

b) the Bonds pay interest at the Coupon Rate of 8.75% 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 Bonds is 30 September 2018. Kiwibank may elect to redeem the Bonds on the Call Date (30 September 2013) subject to Kiwibank and the Banking Group being able to satisfy the Solvency Test immediately following the payment;

e) the Bonds are not guaranteed by Kiwibank's ultimate parent company, New Zealand Post, the Crown, or by any other person; and

f) Kiwibank may create and issue additional debt obligations ranking equally with, ahead of, or after, the Bonds without the consent of the Holders.

The $60m term subordinated debt is subject to grandfathering under the RBNZ's Basel III transitional arrangements.

$150m subordinated debt issue 5 November 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.

Risk exposures

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

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

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

- 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 97 to 101 summarise the composition of regulatory capital and capital adequacy ratios for the year ended 30 June 2013. Throughout the period Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

Capital adequacy continued

Regulatory capital

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

	The Banking Group
Dollars in millions	30/06/13
Common Equity Tier 1 capital	
Issued and fully paid up share capital	360
Retained earnings	354
Dividends paid	(9)
Accumulated other comprehensive income and other disclosed reserves [1, 2]	4
Less deductions from Common Equity Tier 1 capital	
Intangible assets	(64)
Cash flow hedge reserve	(2)
Deferred tax assets	(16)
Total Common Equity Tier 1 capital	627
Additional Tier 1 capital	
Perpetual fully paid up non-cumulative preference shares [3]	147
Total Additional Tier 1 capital	147
Total Tier 1 capital	774
Tier 2 capital	
Term subordinated debt 09/18	60
Term subordinated debt 12/22	108
Total Tier 2 capital	168
Total capital	942

[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 $2m. 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 less issue costs.

Capital adequacy continued

On-balance sheet exposures

	The Banking Group			
30/06/13 Dollars in millions	**Principal amount**	**Risk weighting**	**Risk weighted exposure**	**Minimum Pillar I capital requirement**
On-balance sheet exposures				
Cash and gold bullion	**35**	**0%**	**-**	**-**
Sovereigns and central banks	**874**	**0%**	**-**	**-**
Multilateral development banks and other international organisations	**72**	**0%**	**-**	**-**
Public sector entities	**78**	**20%**	**16**	**1**
Banks	**565**	**20%**	**113**	**9**
	18	**50%**	**9**	**1**
Corporate	**17**	**20%**	**3**	**-**
	113	**50%**	**57**	**5**
	2	**100%**	**2**	**-**
Residential mortgages not past due	**10,100**	**35%**	**3,535**	**283**
	1,981	**50%**	**991**	**79**
	300	**75%**	**225**	**18**
	57	**100%**	**57**	**5**
Impaired assets	**54**	**100%**	**54**	**4**
Past due residential mortgages >90 days	**11**	**100%**	**11**	**1**
Other past due assets	**6**	**150%**	**9**	**1**
Non risk weighted assets	**136**	**0%**	**-**	**-**
Other assets	**790**	**100%**	**790**	**63**
Total on-balance sheet exposures	**15,209**		**5,872**	**470**

Capital adequacy continued

Off-balance sheet exposures and market related contracts

	The Banking Group					
30/06/13 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	**3**	**100%**	**3**	**100%**	**3**	**-**
Asset sale with recourse	**-**	**100%**	**-**	**-**	**-**	**-**
Forward asset purchase	**-**	**100%**	**-**	**-**	**-**	**-**
Commitment with certain drawdown	**13**	**100%**	**13**	**100%**	**13**	**1**
Note issuance facility	**-**	**50%**	**-**	**-**	**-**	**-**
Revolving underwriting facility	**188**	**50%**	**94**	**40%**	**38**	**3**
Revolving underwriting facility	**772**	**20%**	**154**	**40%**	**62**	**5**
Revolving underwriting facility	**64**	**0%**	**-**	**0%**	**-**	**-**
Performance-related contingency	**3**	**50%**	**2**	**100%**	**2**	**-**
Other commitments where original maturity is greater than one year	**256**	**-** **50%**	**128**	**40%**	**51**	**4**
Other commitments where original maturity is less than or equal to one year	**40**	**-** **20%**	**8**	**100%**	**8**	**1**
Other commitments where original maturity is less than or equal to one year	**1**	**-** **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	**483**	**0%**	**-**	**0%**	**-**	**-**
Market related contracts: [1]						
(a) Foreign exchange contracts	**1,407**	**n/a**	**72**	**75%**	**54**	**4**
(b) Interest rate contracts	**27,264**	**n/a**	**202**	**45%**	**90**	**7**
Total off-balance sheet exposures	**30,494**	**n/a**	**676**	**-**	**321**	**25**

[1] The credit equivalent amount for market related contracts was calculated using the current exposure method.

Capital adequacy continued

Residential mortgages by loan-to-value ratio

30/06/13 Dollars in millions	The Banking Group On-balance sheet	Off-balance sheet	Total
LVR 0% - 80%	10,120	225	10,345
LVR >80% - 90%	1,985	14	1,999
LVR 90% +	366	6	372
Total	**12,471**	**245**	**12,716**

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 30 June 2013, of the loans with an LVR greater than 80%, $493m 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.

The following table is a reconciliation of residential mortgages on balance sheet exposures for capital adequacy purposes and loans and advances to retail customers per the notes to the financial statements (note 24).

Dollars in millions	The Banking Group 30/06/13
Residential mortgages total on-balance sheet exposures	12,471
Corporate lending residentially secured	(942)
Unsecured loans	292
Deferred arrangement fees	46
Collective allowance for impairment	(24)
Individual allowances for impairment	(11)
Net loans and advances to retail customers	**11,832**

Operational risk

30/06/13 Dollars in millions	The Banking Group Implied risk weighted exposure	Total operational risk capital requirement
Operational risk	951	76

Market risk

	The Banking Group			
	Implied risk weighted exposure		Aggregate capital charge	
30/06/13 Dollars in millions	End of period	Peak end-of-day	End of period	Peak end-of-day
Interest rate risk	308	380	25	30
Foreign currency risk	1	3	-	-
Equity risk	-	-	-	-

Capital adequacy continued

Total capital requirements

30/06/13 Dollars in millions	The Banking Group Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital requirement
Credit risk	**45,703**	**6,193**	**495**
Operational risk	**n/a**	**951**	**76**
Market risk	**n/a**	**309**	**25**
Total Pillar 1 Risk	**45,703**	**7,453**	**596**

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 (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 30/06/13	30/06/12
Capital adequacy ratios		
Common Equity Tier 1 capital ratio	**8.4%**	n/a
Tier 1 capital ratio	**10.4%**	10.4%
Total capital ratio	**12.6%**	11.3%
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	**3.9%**	n/a
Buffer requirement (effective from 1 January 2014)	**2.5%**	n/a

	Kiwibank Limited 30/06/13	30/06/12
Capital adequacy ratios		
Common Equity Tier 1 capital ratio	**8.3%**	n/a
Tier 1 capital ratio	**10.3%**	10.2%
Total capital ratio	**12.5%**	11.1%

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 30 June 2013, are as follows:

Conditions of registration as from 30 June 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 percent;

   b) the Tier 1 capital ratio of the Banking Group is not less than 6 percent;

   c) the Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5 percent; and

   d) the Total capital of the Banking Group is not less than $30 million.

   e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated March 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 March 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 March 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 March 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.

Conditions of registration continued

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.

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 per cent 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 March 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.

Conditions of registration continued

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
    - 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

Conditions of registration continued

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.

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the registered 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.

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).

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.

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, "de minimis", "partial freeze", "customer liability account", "frozen and unfrozen funds", "Implementation Plan", "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 June 2013.

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.

Amendments to conditions of registration

With effect from 30 June 2013, the Bank's conditions of registration were amended to incorporate a change to the Reserve Bank's Banking Supervision Handbook, with a new BS17 document "Open Bank Resolution Pre-positioning Requirements Policy (BS17)" that came into effect on 30 June 2013.

Non-compliance with conditions of registration

On 18 June 2013, Grant Andrew Patterson resigned as a director due to ill health. As a result, and from that date, the Bank has not been in compliance with condition of registration 6 (c). The Reserve Bank were notified immediately and are considering whether they will take any action against the Bank.

This non-compliance will be rectified with the appointment of a new independent director, a process for which is underway.

Independent Auditor's Report

To the readers of Kiwibank Limited and Banking Group's Disclosure Statement for the year ended 30 June 2013

The Auditor-General is the auditor of Kiwibank Limited (the "Bank") and the Banking Group (the "Banking Group") comprising the Bank and the entities it controlled at 30 June 2013 or from time-time during the year. The Auditor-General has appointed me, Chris Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the following on her behalf:

- audit of the financial statements on pages 8 to 94 of the Disclosure Statement of the Bank and the Banking Group, that comprise the balance sheets as at 30 June 2013, the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year ended on that date and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information;
- audit the supplementary information included in notes 24, 26, 27, 29, 32, 36, 37, 38 and 39 prescribed by Schedules 4, 7, 13, 14, 15, and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2013 (the "Order") for the year ended 30 June 2013;
- report on whether we have obtained all the information and explanations that we have required, and whether the Bank and the Banking Group have kept proper accounting records; and
- review the supplementary information relating to Capital Adequacy on pages 95 to 101 that is required to be prepared in accordance with the Bank's Conditions of Registration and disclosed in accordance with Schedule 9 of the Order for the year ended 30 June 2013. A review is not an audit, in that a review provides limited assurance whereas an audit provides reasonable assurance.

Opinions

Unmodified audit opinion

In our opinion:

- the financial statements of the Bank and the Banking Group on pages 8 to 94 (excluding the supplementary information included in notes 24, 26, 27, 29, 32, 36, 37, 38 and 39):
  - (i) comply with generally accepted accounting practice in New Zealand;
  - (ii) comply with International Financial Reporting Standards; and
  - (iii) give a true and fair view of the Bank and the Banking Group's:
    - financial position as at 30 June 2013; and
    - financial performance and cash flows for the year ended on that date.
- the supplementary information included in notes 24, 26, 27, 29, 32, 36, 37, 38 and 39 prescribed by Schedules 4, 7, 13, 14, 15, and 17 of the Order:
  - (i) has been prepared in accordance with the guidelines issued under section 78(3) of the Reserve Bank of New Zealand Act 1989 (the "Act) or any Conditions of Registration imposed under section 74 of the Act;
  - (ii) is in accordance with the books and records of the Bank and the Banking Group;
  - (iii) fairly states in all material respects, the matters to which it relates in accordance with those Schedules.

Opinion on other legal and regulatory requirements (excluding supplementary information relating to Capital Adequacy)

We also report in accordance with the requirements of section 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993 and clauses 2(d) and 2(e) of Schedule 1 of the Order. In relation to our audit of the Disclosure Statement (excluding the supplementary information relating to Capital Adequacy (on pages 95 to 101) for the year ended 30 June 2013:

(i) we have obtained all the information and explanations that we have required; and
(ii) in our opinion, proper accounting records have been kept by the Bank and the Banking Group as far as appears from an examination of those records.

Unmodified review opinion relating to Capital Adequacy

In our opinion, nothing has come to our attention which would cause us to believe that the information relating to Capital Adequacy disclosed on pages 95 to 101 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 for the year ended 30 June 2013.

Our audit and review work was completed on 26 August 2013. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinions

Audit Opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 95 to 101) are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that in our judgement are likely to influence a readers' overall understanding of the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 95 to 101). If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 95 to 101). The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 95 to 101) whether due to fraud or error.

In making those risk assessments, we consider internal control relevant to the preparation of the Bank and the Banking Group's financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 95 to 101) that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Bank and the Banking Group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 95 to 101); and
- the overall presentation of the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 95 to 101).

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 95 to 101). Also we did not evaluate the security and controls over the electronic publication of the Disclosure Statement.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Review Opinion

We carried out the review work on the supplementary information relating to Capital Adequacy disclosed on pages 95 to 101 in accordance with review engagement standard RS-1 Statement of Review Engagement Standards issued by the External Reporting Board. Review work is limited primarily to enquiries of the Bank and the Banking Group personnel and analytical procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit on the supplementary information relating to Capital Adequacy disclosed on pages 95 to 101 and, accordingly, we do not express an audit opinion on that supplementary information.

We believe we have obtained sufficient and appropriate evidence to provide a basis for our review opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the Disclosure Statement, which includes financial statements prepared in accordance with Clause 24 of the Order that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Bank and the Banking Group's financial position, financial performance and cash flows.

The Board of Directors is responsible for such internal control as it determines is necessary to enable the preparation of the Disclosure Statement that is free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the Disclosure Statement, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

In addition, the Directors are also responsible for the:

- preparation and fair presentation of the supplementary information (excluding Capital Adequacy) in the Disclosure Statement which complies with Schedules 2, 4, 7, 13, 14, 15, and 17 of the Order; and
- preparation and disclosure of supplementary information relating to Capital Adequacy which complies with Schedule 9 of the Order.

Responsibilities of the Auditor

We are responsible for expressing and reporting to you:

- an independent audit opinion on:
  - (i) the financial statements; and
  - (ii) the supplementary information included in notes 24, 26, 27, 29, 32, 36, 37, 38 and 39 is in accordance with Clause 24 and Schedules 4, 7, 13, 14, 15, and 17 of the Order;
- an independent review opinion on the supplementary information relating to Capital Adequacy on pages 95 to 101 required by Schedule 9 of the Order.

Our responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

In respect of the financial statements (excluding the supplementary information included in notes 24, 26, 27, 29, 32, 36, 37, 38 and 39) we are responsible for their audit in order to state whether they give a true and fair view of matters to which they relate, and for reporting our findings to you.

In respect of the supplementary information (excluding Capital Adequacy) we are responsible for stating whether the information included in notes 24, 26, 27, 29, 32, 36, 37, 38 and 39 fairly states in all material respects the matters to which they relate in accordance Schedules 4, 7, 13, 14, 15, and 17 of the Order.

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

Independence

When carrying out the audit and review we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of taxation advice, other assurance services and accounting advice, which are compatible with those independence requirements. In addition, certain partners and employees of our firm may deal with the Bank and the Banking Group on normal terms within the ordinary course of trading activities of the Bank and the Banking Group. Other than the audit, review, these assignments and any dealings within the ordinary course of trading activity, we have no relationship with or interests in the Bank or the Banking Group.

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

PricewaterhouseCoopers