Kiwibank's Disclosure Statement.

For the nine months ended 31 March 2012.

Number 43

Kiwibank.

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 nine months ended 31 March 2012, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2012 (the "Order"). Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

Address for service

The 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 securities of Kiwibank. Kiwi Group Holdings Limited is the registered and beneficial holder of all those voting securities. Kiwi Group Holdings Limited, NZP and the Crown (being those ministers who hold shares in NZP on behalf of the Crown) are the only holders of a direct or indirect qualifying interest in the voting securities of Kiwibank.

Kiwi Group Holdings Limited has the ability to directly appoint 100% of the board of directors of Kiwibank. NZP, as the immediate parent of Kiwi Group Holdings Limited and the ultimate holding company of Kiwibank, has the ability to indirectly appoint 100% of the board of directors of Kiwibank. No appointment of any director, chief executive officer, or executive, who reports or is accountable directly to the chief executive officer, shall be made in respect of Kiwibank unless:

1. the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
2. the Reserve Bank has advised that it has no objection to that appointment.

Other material matters

Kiwibank's directors are of the opinion that there are no matters relating to the business or affairs of Kiwibank, which would, if disclosed in this 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.

Pending proceedings or arbitration

Kiwibank's directors are of the opinion that there are no pending legal proceedings or arbitration concerning Kiwibank, whether in New Zealand or elsewhere, that may have a material adverse effect on Kiwibank.

Directorate

Richard Gordon Alexander Westlake resigned as director on 31 October 2011. Catherine Maria Savage and Grant Andrew Paterson have been appointed directors effective 20 December 2011 and 23 March 2012 respectively. There have been no other changes to the composition of the Bank's Board of Directors since 30 June 2011.

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

Robert William Bentley Morrison
Hon. Dr. Michael John Cullen
Alison Rosemary Gerry
Murray Ian David Gribben
Grant Andrew Paterson
Brian Joseph Roche
Catherine Maria Savage
David Stephen Willis
Mark David Yeoman (as alternate director for Brian Joseph Roche)

Credit ratings

On 29 November 2001, Standard & Poor's (Australia) Pty Limited granted Kiwibank a credit rating of AA- for long-term senior unsecured obligations payable in New Zealand, in New Zealand dollars. On 31 January 2012, this credit rating was reaffirmed as AA- and the outlook was 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.

Guarantees

As at the date the directors signed this Disclosure Statement, the payment obligations of Kiwibank have the benefit of certain guarantees: a deed poll guarantee by Kiwibank's ultimate holding company NZP (the "NZP Guarantee") and (in relation to the fixed rate bonds issued by Kiwibank on 20 October 2009) a Crown deed of guarantee entered into by the New Zealand Government under the New Zealand wholesale funding guarantee scheme (the "Crown Wholesale Guarantee"). Details of each guarantee are set out below.

NZP Guarantee

NZP supports Kiwibank as a registered bank. By way of example, NZP has contracted with Kiwibank to offer banking services through NZP's existing retail network for an unlimited period.

All payment obligations (excluding any payment obligations, the terms of which expressly provide in writing that they do not have the benefit of the NZP Guarantee) of Kiwibank are guaranteed pursuant to the NZP Guarantee. The following is a summary of the features of the NZP Guarantee as at 31 March 2012:

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

ii. NZP is not a member of the Kiwibank 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 month's 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, 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 $958m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2011. 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 Standard & Poor's (Australia) Pty Limited of AA-. On 31 January 2012, this credit rating was reaffirmed as AA- and the outlook was revised to negative from stable. For an explanation of Standard & Poor's (Australia) Pty Limited's credit rating scale see the Crown Wholesale Guarantee section below.

Crown Retail Guarantee

The Crown Retail Guarantee expired at 12:01am on 12 October 2010. No claims have been made by Kiwibank under the terms of the Crown Retail Guarantee scheme.

Crown Wholesale Guarantee

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

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

On 30 April 2010 the Crown wholesale funding guarantee scheme was withdrawn by the New Zealand Government. However, the Crown Wholesale Guarantee still applies in relation to fixed rate bonds 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:

a) 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").

b) 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.

Guarantees continued

Crown Wholesale Guarantee continued

c) 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

d) 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.

e) The Crown Wholesale Guarantee does not extend to debt securities held by related parties. Related parties of Kiwibank include Kiwi Group Holdings Limited's subsidiaries and its ultimate parent, NZP.

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

g) There are no material conditions applicable to the guarantee.

h) The minimum Tier One capital ratio under the Crown Wholesale Guarantee is 6% of risk weighted exposures.

i) 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

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 Standard & Poor's and Fitch Ratings may be modified by the addition of a plus or minus sign (signalling higher and lower end of the scale respectively).

Moody's Investor Services applies numeric 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.

Conditions of registration

There have been no changes to the Bank's Conditions of Registration since the signing of the previous Disclosure Statement dated 31 December 2011.

Directors' statement

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

1. As at the date on which this Disclosure Statement is signed:
   - i. this Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2012; and
   - ii. this Disclosure Statement is not false or misleading.
2. During the nine months ended 31 March 2012:
   - i. Kiwibank has complied with the conditions of registration applicable during the period;
   - ii. credit exposures to connected persons were not contrary to the interests of the Banking Group;
   - iii. Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

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

30 May 2012

Interim Financial Statements

Interim financial statements continued

Consolidated statement of comprehensive income

For the nine months ended 31 March 2012

		The Banking Group		
Dollars in millions	Note	**Unaudited 9 months ended 31/03/12**	Unaudited 9 months ended 31/03/11	Audited 12 months ended 30/06/11
Interest income		**574**	534	720
Interest expense		**(386)**	(393)	(529)
Net interest income		**188**	141	191
Gains on financial instruments at fair value		**3**	11	16
Other income		**119**	107	146
Total operating income		**310**	259	353
Operating expenses		**(198)**	(181)	(242)
Impairment losses on loans and advances	6	**(27)**	(57)	(79)
Profit before taxation		**85**	21	32
Income tax expense		**(24)**	(6)	(11)
Profit after taxation		**61**	15	21
Attributable to:				
Owners of the parent		**61**	15	21
Non controlling interest		**–**	–	–
Other comprehensive income				
Gross gain/(loss) from changes in reserves				
Available-for-sale reserve		**4**	1	4
Cash flow hedge reserve		**21**	(5)	5
Income tax (expense)/credit relating to components of other comprehensive income		**(7)**	1	(2)
Other comprehensive income for the period		**18**	(3)	7
Total comprehensive income for the period		**79**	12	28
Attributable to:				
Owners of the parent		**79**	12	28
Non controlling interest		**–**	–	–

The notes on pages 10 to 15 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of changes in equity

For the nine months ended 31 March 2012

The Banking Group Dollars in millions	**Fully Paid Ordinary Shares**	**Retained Earnings**	**Available For Sale Reserve**	**Cash Flow Hedge Reserve**	**Non Controlling Interest**	**Total**
Balance at 1 July 2010	310	174	–	(46)	150	588
Nine months ended 31 March 2011						
Profit for the period	–	15	–	–	–	15
Other comprehensive income						
Available for sale financial assets (net of tax)	–	–	1	–	–	1
Cash flow hedges (net of tax)	–	–	–	(4)	–	(4)
Total other comprehensive income	–	–	1	(4)	–	(3)
Total comprehensive income	–	15	1	(4)	–	12
Transactions with owners						
Dividends paid to non controlling interest	–	(6)	–	–	–	(6)
Balance at 31 March 2011 (unaudited)	310	183	1	(50)	150	594
Year ended 30 June 2011						
Profit for the period	–	21	–	–	–	21
Other comprehensive income						
Available for sale financial assets (net of tax)	–	–	3	–	–	3
Cash flow hedges (net of tax)	–	–	–	4	–	4
Total other comprehensive income	–	–	3	4	–	7
Total comprehensive income	–	21	3	4	–	28
Transactions with owners						
Dividends paid to non controlling interest	–	(8)	–	–	–	(8)
Balance at 30 June 2011 (audited)	310	187	3	(42)	150	608
Nine months ended 31 March 2012						
Profit for the period	**–**	**61**	**–**	**–**	**–**	**61**
Other comprehensive income						
Available for sale financial assets (net of tax)	**–**	**–**	**2**	**–**	**–**	**2**
Cash flow hedges (net of tax)	**–**	**–**	**–**	**16**	**–**	**16**
Total other comprehensive income	**–**	**–**	**2**	**16**	**–**	**18**
Total comprehensive income	**–**	**61**	**2**	**16**	**–**	**79**
Transactions with owners						
Issue of share capital	**50**	**–**	**–**	**–**	**–**	**50**
Transaction with non controlling interest	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Dividends paid to non controlling interest	**–**	**(7)**	**–**	**–**	**–**	**(7)**
Balance at 31 March 2012 (unaudited)	**360**	**241**	**5**	**(26)**	**149**	**729**

The notes on pages 10 to 15 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of financial position

As at 31 March 2012

		The Banking Group		
Dollars in millions	Note	**Unaudited 31/03/12**	Unaudited 31/03/11	Audited 30/06/11
Assets				
Cash and cash equivalents		**238**	202	296
Due from NZP related parties	7	**45**	–	4
Due from other financial institutions	3	**254**	410	440
Financial assets held for trading		**285**	745	325
Available-for-sale assets		**1,310**	1,093	1,123
Loans and advances	2	**12,309**	11,185	11,495
Derivative financial instruments		**100**	91	74
Property, plant and equipment		**21**	23	25
Intangible assets		**48**	50	48
Current taxation receivable		**–**	3	–
Deferred taxation		**31**	37	36
Other assets		**11**	7	9
Total assets		**14,652**	13,846	13,875
Interest earning and discount bearing assets		***14,632***	*13,793*	*13,840*
Liabilities				
Due to other financial institutions		**269**	179	796
Due to NZP related parties	7	**1**	8	–
Deposits and other borrowings	4	**11,488**	10,874	10,586
Derivative financial instruments		**140**	195	183
Debt securities issued		**1,909**	1,810	1,510
Current taxation payable		**6**	–	8
Other liabilities		**47**	45	41
Term subordinated debt	5	**63**	141	143
Total liabilities		**13,923**	13,252	13,267
Interest and discount bearing liabilities		***13,869***	*13,203*	*13,218*
Equity attributable to owners of the parent				
Share capital		**360**	310	310
Reserves		**220**	134	148
Total equity attributable to owners of the parent		**580**	444	458
Non controlling interest		**149**	150	150
Total equity		**729**	594	608
Total liabilities and shareholder's equity		**14,652**	13,846	13,875

The notes on pages 10 to 15 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of cash flows

For the nine months ended 31 March 2012

	The Banking Group		
Dollars in millions	**Unaudited 9 months ended 31/03/12**	Unaudited 9 months ended 31/03/11	Audited 12 months ended 30/06/11
Cash flows from operating activities			
Interest income	**580**	525	718
Fees and other income	**118**	108	156
Operating expenses paid	**(174)**	(153)	(216)
Interest paid	**(391)**	(399)	(536)
Taxes paid	**(27)**	(28)	(27)
Net cash flows from operating activities before changes in operating assets and liabilities	**106**	53	95
Net changes in operating assets and liabilities:			
Decrease /(increase) in financial assets held for trading	**42**	(69)	353
Increase in available-for-sale assets	**(183)**	(537)	(575)
Increase in loans and advances	**(893)**	(872)	(1,194)
Increase in amounts due from related parties	**(45)**	–	–
Decrease/(increase) in balances due from other financial institutions	**186**	(253)	(284)
Increase in deposits and other borrowings	**902**	581	298
Decrease in amounts due to related parties	**–**	(5)	(10)
(Decrease)/increase in balances due to other financial institutions	**(526)**	15	632
Net cash flows provided by operating activities	**(411)**	(1,087)	(685)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(2)**	(9)	(13)
Purchase of intangible software assets	**(13)**	(14)	(16)
Net cash flows from investing activities	**(15)**	(23)	(29)
Cash flows from financing activities			
Issue of ordinary shares	**50**	–	–
Issue of shares to non controlling interest	**1**	–	–
Increase in debt securities issued	**324**	1,014	714
Dividend paid to non controlling interest	**(7)**	(6)	(8)
Net cash flows from financing activities	**368**	1,008	706
Decrease in cash and cash equivalents	**(58)**	(102)	(8)
Cash and cash equivalents at beginning of the period	**296**	304	304
Cash and cash equivalents at end of the period	**238**	202	296

The notes on pages 10 to 15 form part of these interim financial statements.

Notes to the interim financial statements

1. Statement of accounting policies

Reporting entity and statutory base

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

The principal activity of the Banking Group is the provision of retail and banking products and services to individuals and small to medium-sized businesses.

These financial statements are for the Banking Group for the nine months ended 31 March 2012. They have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand as appropriate for profit oriented entities, the requirements of NZ IAS 34 Interim Financial Reporting and the Order, and should be read in conjunction with the Banking Group's financial statements for the year ended 30 June 2011. These financial statements comply with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board.

Accounting Policies

The accounting policies adopted by the Banking Group are consistent with those adopted and disclosed in the previous full year Disclosure Statement with the following new accounting policy for deferred settlement liabilities.

Deferred settlement liabilities are recognised in the statement of financial position 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.

Measurement base

These interim financial statements are based on the general principles of historic cost accounting, modified by the application of fair value measurements for available-for-sale financial assets, financial instruments held at fair value through profit or loss and all derivative contracts. Notwithstanding the new accounting policy for deferred settlement liabilities, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2011.

Currency of presentation

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

Reclassification of financial information

Certain comparative balances have been reclassified to align with the current periods presentation. These reclassifications have no impact on the overall financial performance or financial position of the comparative reporting periods.

	The Banking Group		
Dollars in millions	**Unaudited as at 31/03/12**	Unaudited as at 31/03/11	Audited as at 30/06/11
2. Loans and advances			
Loans and advances designated upon initial recognition at fair value through profit or loss	**179**	483	448
Loans and advances at amortised cost	**12,222**	10,769	11,134
Allowance for impairment losses (note 6)	**(92)**	(67)	(87)
Total net loans and advances	**12,309**	11,185	11,495
Current	**1,083**	1,006	1,028
Non-current	**11,226**	10,179	10,467
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value though profit or loss.	**0.1**	0.3	0.3

The above change in the fair value of the loans and advances that is attributable to changes in the credit risk of the financial assets 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.

Loans and advances include $106m of New Zealand Earthquake Commission payments relating to the Canterbury and Christchurch earthquakes. These payments have been applied to outstanding customer balances.

Notes to the interim financial statements continued

Dollars in millions	The Banking Group **Unaudited as at 31/03/12**	Unaudited as at 31/03/11	Audited as at 30/06/11
3. Due from other financial institutions			
Unsettled receivables	**68**	238	210
Short term advances due from other financial institutions	**154**	115	175
Collateralised loans	**32**	57	55
Total – current	**254**	410	440

As at 31 March 2012, included within the balance above, is $32.4m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties. (31 March 2011: $56.5m; 30 June 2011: $55.1m).

4. Deposits and other borrowings

Retail deposits	**8,599**	7,799	7,902
Wholesale deposits	**2,889**	3,075	2,684
Total	**11,488**	10,874	10,586
New Zealand	**11,248**	10,636	10,352
Overseas	**240**	238	234
Total deposits and other borrowings at amortised cost	**11,488**	10,874	10,586
Current	**11,165**	10,607	10,267
Non-current	**323**	267	319

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 a deed poll guarantee (the "Guarantee") provided by Kiwibank's ultimate parent company, NZP.

The Kiwibank PIE Unit Trust, established under the Unit Trusts Act 1960 in May 2008, operates three funds; the PIE Term Deposit Fund, Notice Saver and the PIE Online Call Fund. Kiwibank Investment Management Limited is the issuer and manager of the Unit Trust. Trustees Executors Limited is the trustee of the Unit Trust. Kiwibank is the promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Unit Trust is invested exclusively in term and call deposits with Kiwibank. At 31 March 2012, $3,020m of PIE funds were invested in Kiwibank's own products or securities (31 March 2011: $2,321m; 30 June 2011: $2,598m).

Kiwibank guarantees the payment obligations of the manager and any amounts owing to Unit Holders under the Trust Deed in respect of their Units and agrees to pay to Unit Holders any shortfall between the amount they may receive on redeeming their Units or in the winding up of the Trust and the balance of their Unit Accounts.

5. Term subordinated debt

Term subordinated debt	**63**	141	143

During the quarter ended 31 March 2012, $75 million of term subordinated debt was called by the Banking Group (31 March 2011: $nil was called).

Notes to the interim financial statements continued

6. Asset quality

Allowance for impairment losses

Dollars in millions	The Banking Group **Unaudited 31/03/12**	Unaudited 31/03/11	Audited 30/06/11
Allowance for impairment losses in statement of financial position			
Unaudited as at 31 March 2012			
Collective allowance for impairment losses	**48**	29	37
Individually impaired assets	**44**	38	50
Allowance for impairment losses	**92**	67	87
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value through profit or loss[1]	**–**	–	–
Total allowance for impairment losses	**92**	67	87
Impairment losses per statement of comprehensive income			
Unaudited 9 months ended 31 March 2012			
Collective impairment losses on loans not at fair value through profit or loss	**14**	20	31
Charge to statement of comprehensive income for individually impaired assets	**13**	37	48
Total impairment losses per statement of comprehensive income	**27**	57	79

Unaudited as at 31 March 2012	Residential unsecured lending	Residential mortgage loans	Corporate exposures	**Total**
Collective allowance for impairment loss	(4)	(21)	(23)	**(48)**
Past due assets > 90 days but not impaired	3	24	2	**29**
Impaired assets				
Gross impaired assets	1	23	70	**94**
Individual allowance for impaired assets	(1)	(10)	(33)	**(44)**
Total net impaired assets	–	13	37	**50**
Unaudited 9 months ended 31 March 2012				
Impairment losses per statement of comprehensive income				
Collective allowance charge	3	3	8	**14**
Individual allowance charge	1	6	6	**13**
Total impairment losses	4	9	14	**27**

1 The total credit risk adjustment on residential mortgage loans at FVTPL is $0.1m as at 31 March 2012 (31 March 2011: $0.3m; 30 June 2011: $0.3m). The credit risk unwind in the 9 months to 31 March 2012 is $0.2m.

Notes to the interim financial statements continued

7. Related parties

The table below shows balances with individual companies within the NZP group and other related parties as at reporting date.

	The Banking Group		
Dollars in millions	**Unaudited 31/03/12**	Unaudited 31/03/11	Audited 30/06/11
9 months ended 31 March 2012			
Revenue			
NZP	**29**	31	41
Other subsidiaries within the NZP Group	**1**	1	1
Expenditure			
NZP	**44**	40	53
Other subsidiaries within the NZP Group	**10**	9	12
Associates of the NZP Group	**5**	5	7
As at 31 March 2012			
Outstanding balances			
Total per statement of financial position	**1**	8	–
Related party deposits	**36**	13	15
Total balances due to related parties	**37**	21	15
Receivables			
Total per statement of financial position	**45**	–	4
Loans to NZP related parties	**4**	3	2
Total related party receivables	**49**	3	6

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 One capital, as required in its banking conditions of registration. When loans are drawn down the transaction is undertaken on an arm's length basis at market interest rates. As at 31 March 2012 the amount owed by NZP to Kiwibank was $44.5m (31 March 2011: $nil; 30 June 2011: $nil).

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

8. Liquidity

The Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy.

Dollars in millions	**Unaudited as at 31/03/12**
Cash on hand and with central banks	**234**
Certificates of deposit	**139**
Government, local body stock and bonds	**310**
Government treasury bills	**334**
Other bonds	**902**
Total	**1,919**

Notes to the interim financial statements continued

9. Credit exposure concentrations

Credit exposure to individual counterparties

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

There are no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A- or above), where the period end and peak end-of-day aggregate actual credit exposures, net of individual credit impairment allowances (which were nil), equaled or exceeded 10% of the Banking Group's shareholder's equity as at reporting date.

10. Fiduciary activities

Provision of financial services

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

Insurance business

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

11. Risk Management

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 30 June 2011.

12. Segment analysis

Dollars in millions	Personal banking	Business banking	Payment services	Total
Unaudited 9 months ended 31 March 2012				
External revenues	**298**	**(35)**	**47**	**310**
Intersegment revenues	**(110)**	**110**	**–**	**–**
Total revenues	**188**	**75**	**47**	**310**
Profit before taxation	**55**	**18**	**12**	**85**
Unaudited 9 months ended 31 March 2011				
External revenues	281	(65)	43	259
Intersegment revenues	(126)	126	–	–
Total revenues	155	61	43	259
Profit/(loss) before taxation	25	(15)	11	21
Audited 12 months ended 30 June 2011				
External revenues	376	(82)	59	353
Intersegment revenues	(163)	163	–	–
Total revenues	213	81	59	353
Profit/(loss) before taxation	34	(17)	15	32

There have been no changes to the segments as defined in the annual financial statements for the year ended 30 June 2011.

Notes to the interim financial statements continued

13. Capital expenditure commitments

Capital expenditure commitments contracted for as at 31 March 2012, but not provided for in these interim financial statements, total $3.0m (31 March 2011: $3.1m; 30 June 2011: $0.4m). All such commitments are due no later than one year from reporting date.

14. Contingent liabilities

There are no material contingent liabilities as at 31 March 2012 (31 March 2011: nil; 30 June 2011: nil).

15. Events subsequent to reporting period date

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

Capital adequacy

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

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

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

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

Regulatory capital

Regulatory capital consists of Tier One and Tier Two capital. Tier One capital consists primarily of Shareholder's Equity less intangible assets. Tier Two Capital is comprised primarily of subordinated debt.

The ordinary shares, which are fully paid, are included within Tier One capital. The material terms and conditions of the ordinary shares are:

a) each share contains a single right to vote;

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

c) there is no predetermined dividend rate;

d) there is no maturity date; and

e) there are no options to be granted pursuant to any agreement.

The perpetual preference shares, which are fully paid, are included within Tier One capital. Their material terms and conditions are:

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

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

c) there is a predetermined dividend rate of 8.15%;

d) there is no maturity date;

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

f) there are no options to be granted pursuant to any agreement.

Risk exposures

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

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

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

- **Credit risk** – The vulnerability of the Banking Group's lending and investment portfolios to systemic counterparty default. The risk based capital allocation is computed based on RBNZ standardised approach Credit Risk methodology (BS2A).
- **Interest rate risk in the banking book** – The vulnerability of earnings to movements in interest rates and currency volatility. The risk based capital allocation is computed based on RBNZ standardised approach to Interest Rate Risk (BS2A).
- **Operational risk –** The risk of loss, resulting from inadequate or failed internal processes (including legal risks), people and systems and from external events. The risk based capital allocation is computed based on RBNZ standardised approach to Operational Risk methodology (BS2A).

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

- **Earnings risk** – The current or prospective risk to earnings and growth targets arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.
- **Access to capital** – The risk to the Banking Group's earnings and business objectives arising from an imbalanced internal capital structure in relation to the nature and size of the Bank, or from difficulties with raising additional capital in a timely manner.

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

The capital adequacy tables set out below summarise the composition of regulatory capital and capital adequacy ratios for the period ended 31 March 2012. Throughout the period Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

Capital adequacy continued

	The Banking Group		
Dollars in millions	**Unaudited as at 31/03/12**	Unaudited as at 31/03/11	Audited as at 30/06/11
Capital			
Tier one capital (before deductions)	**712**	594	608
Total tier one capital (net of all deductions and adjustments)	**684**	593	602
Total tier two capital	**83**	136	135
Total tier one capital and tier two capital	**767**	729	737
Deductions from total capital and other adjustments	**-**	-	-
Capital	**767**	729	737
Capital adequacy ratios			
Tier one capital ratio	**9.8%**	9.0%	9.0%
Total capital (Pillar 1) ratio	**11.0%**	11.1%	11.0%
Total capital ratio (Pillar 1 and 2) ratio	**10.5%**	10.5%	10.5%

Pillar 1 capital requirement

On-balance sheet credit risk			
Residential mortgages (including past due)	**355**	326	334
Corporate	**8**	9	5
Claims on banks	**14**	23	18
Other	**75**	74	82
Total on-balance sheet credit risk	**452**	432	439
Other capital requirements			
Off-balance sheet credit exposures	**17**	19	18
Operational risk	**68**	59	61
Market risk	**20**	16	20
Total other capital requirements	**105**	94	99
Total Pillar 1 capital requirement	**557**	526	538

Capital requirements for other material risk (Pillar 2)

Total capital requirement (Pillar 2)	**26**	28	26

Capital requirements for the other material risks covers risks associated with earnings, funding and credit lending.

Capital adequacy continued

The Banking Group

Residential mortgages by loan-to-value ratio

Dollars in millions	Unaudited as at 31/03/12
LVR 0%-80%	**9,394**
LVR >80%-90%	**1,649**
LVR 90% +	**391**

The LVR classification above is calculated in line with the Bank's Pillar 1 Capital requirement which includes capital relief for "Welcome Home" loans that are guaranteed by the Crown. Loans with an LVR greater than 80% are presented after the mitigation of credit risk from third party lenders' mortgage insurance, where applicable.

At 31 March 2012, of the loans with an LVR greater than 80%, $483m relates to "Welcome Home" loans, whose credit risk is mitigated by the Crown. Of the remaining loans with an LVR greater than 80%, third party lenders mortgage insurance is used to mitigate credit risk.