

Disclosure Statement.

For the three months ended 30 September 2014.

**Kiwi
bank.**

Number
53

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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 (the “**RBNZ Act**”) 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 three months ended 30 September 2014, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (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.

Other material matters

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

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

Pending proceedings or arbitration

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

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

Credit ratings

Kiwibank has the following credit ratings applicable to its long term unsecured obligations payable in New Zealand, in New Zealand dollars:

Rating agency	Credit rating and outlook
Standard & Poor’s (Australia) Pty Limited (“ S&P ”)	A+ (negative outlook)
Moody’s Investors Service	Aa3 (stable outlook)
Fitch Ratings	AA+ (positive outlook)

Conditions of registration

Non-compliance with conditions of registration

Lindsay Wright was appointed to the boards of certain sister companies of Kiwibank on 18 August 2014. The Reserve Bank has confirmed that these appointments do not disqualify her from being considered an independent director of Kiwibank. However, this confirmation was not obtained until 15 October 2014 and the Reserve Bank considers that Kiwibank was in breach of condition 6(c) of its conditions of registration during the intervening period.

Changes in conditions of registration

With effect from 1 July 2014, the Bank’s conditions of registration were amended to refer to revised versions of Capital Adequacy Framework (Standardised Approach) (BS2A), Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19) and several other handbook documents, make a technical update to the definition of banking group and update cross references.

The RBNZ has issued revised conditions of registration effective from 1 July 2014. The new conditions refer to revised versions of Connected Exposures Policy (BS8) and Framework for Restrictions on High-LVR Residential Mortgage Lending (BS19).

Directorate

There have been no changes in the Board during the period ended 30 September 2014.

Responsible persons

Rob Morrison and Alison Gerry have been authorised in writing to sign this disclosure statement in accordance with Section 82 of the RBNZ Act, on behalf of the other directors, being:

Robert William Bentley Morrison	Hon. Sir Michael John Cullen
Alison Rosemary Gerry	Brian Joseph Roche
Catherine Maria Savage	David Stephen Willis
Carol Anne Campbell	Lindsay Wright
Mark David Yeoman	
(as alternate director for Brian Joseph Roche)	

Guarantees

As at the date the Board approved this Disclosure Statement, the payment obligations of Kiwibank have the benefit of a deed poll guarantee by NZP (the “**NZP Guarantee**”) and (in relation to certain debt securities issued by Kiwibank) a guarantee by Kiwi Covered Bond Trustee Limited (the “**Covered Bond Guarantee**”). A summary of the details of each guarantee are set out below.

In addition, as at the reporting date, fixed rate bonds issued by Kiwibank on 20 October 2009 had the benefit of 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**”). These fixed rate bonds matured on 20 October 2014.

Further details on the NZP Guarantee and the Crown Wholesale Guarantee can be obtained by referring to Kiwibank’s Disclosure Statement for the year ended 30 June 2014 which is available at www.kiwibank.co.nz.

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.

The following is a summary of the main features of the NZP Guarantee as at 30 September 2014:

- 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 all 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.

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+ (negative outlook).

Covered Bond Guarantee

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

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

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

The fixed rate bonds to which the Facility applied matured and were fully repaid on 20 October 2014.

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 2014; and
 - ii. the Disclosure Statement is not false or misleading.
2. During the period ended 30 September 2014:
 - i. Kiwibank has complied with the conditions of registration applicable during the period, except as stated below;
 - ii. credit exposures to connected persons were not contrary to the interests of the Banking Group;
 - iii. Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

Lindsay Wright was appointed to the boards of certain sister companies of Kiwibank on 18 August 2014. The Reserve Bank has confirmed that these appointments do not disqualify her from being considered an independent director of Kiwibank. However, this confirmation was not obtained until 15 October 2014 and the Reserve Bank considers that Kiwibank was in breach of condition 6(c) of its conditions of registration during the intervening period.

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



19 November 2014

Interim financial statements

Consolidated income statement

For the three months ended 30 September 2014

The Banking Group				
Dollars in millions	Note	Unaudited 3 months ended 30/09/14	Unaudited 3 months ended 30/09/13	Audited year ended 30/06/14
Interest income		232	192	798
Interest expense		(144)	(123)	(505)
Net interest income		88	69	293
Net gains/(losses) on financial instruments at fair value	2	1	1	3
Other income		50	44	183
Total operating income		139	114	479
Operating expenses		(88)	(80)	(344)
Impairment (losses)/reversals on loans and advances	8	(3)	2	4
Profit before taxation		48	36	139
Income tax expense		(13)	(10)	(39)
Profit after taxation		35	26	100
Attributable to:				
Owners of the parent		35	26	100
Non-controlling interest		-	-	-

Consolidated statement of comprehensive income

For the three months ended 30 September 2014

The Banking Group				
Dollars in millions		Unaudited 3 months ended 30/09/14	Unaudited 3 months ended 30/09/13	Audited year ended 30/06/14
Profit after taxation		35	26	100
Other comprehensive income				
Net gain/(loss) from changes in reserves that may subsequently be reclassified to profit or loss:				
Available-for-sale reserve (net of tax)		2	(3)	(4)
Cash flow hedge reserve (net of tax)		(15)	5	18
Other comprehensive income for the period/year		(13)	2	14
Total comprehensive income for the period/year		22	28	114
Attributable to:				
Owners of the parent		22	28	114
Non-controlling interest		-	-	-

The notes on pages 8 to 17 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of changes in equity

For the three months ended 30 September 2014

The Banking Group							
Dollars in millions	Fully Paid Ordinary Shares	Retained earnings	Available-For-Sale Reserve	Cash Flow Hedge Reserve	Total Equity Attributable to Owners of the Parent	Non-Controlling Interest	Total
Balance at 1 July 2013	360	345	2	2	709	149	858
Unaudited 3 months ended 30 September 2013							
Unaudited profit for the period	-	26	-	-	26	-	26
Other comprehensive income							
Available-for-sale financial assets (net of tax)	-	-	(3)	-	(3)	-	(3)
Cash flow hedges (net of tax)	-	-	-	5	5	-	5
Total other comprehensive income	-	-	(3)	5	2	-	2
Total comprehensive income	-	26	(3)	5	28	-	28
Transactions with owners							
Dividends paid to non-controlling interest	-	(2)	-	-	(2)	-	(2)
Unaudited balance at 30 September 2013	360	369	(1)	7	735	149	884
Audited year ended 30 June 2014							
Audited profit for the year	-	100	-	-	100	-	100
Other comprehensive income							
Available-for-sale financial assets (net of tax)	-	-	(4)	-	(4)	-	(4)
Cash flow hedges (net of tax)	-	-	-	18	18	-	18
Total other comprehensive income	-	-	(4)	18	14	-	14
Total comprehensive income	-	100	(4)	18	114	-	114
Transactions with owners							
Issue of share capital	40	-	-	-	40	-	40
Dividends paid to non-controlling interest	-	(9)	-	-	(9)	-	(9)
Audited balance at 30 June 2014	400	436	(2)	20	854	149	1,003
Unaudited 3 months ended 30 September 2014							
Unaudited profit for the period	-	35	-	-	35	-	35
Other comprehensive income							
Available-for-sale financial assets (net of tax)	-	-	2	-	2	-	2
Cash flow hedges (net of tax)	-	-	-	(15)	(15)	-	(15)
Total other comprehensive income	-	-	2	(15)	(13)	-	(13)
Total comprehensive income	-	35	2	(15)	22	-	22
Transactions with owners							
Dividends paid on ordinary shares	-	(1)	-	-	(1)	-	(1)
Dividends paid to non-controlling interest	-	(2)	-	-	(2)	-	(2)
Unaudited balance at 30 September 2014	400	468	-	5	873	149	1,022

The notes on pages 8 to 17 form part of these interim financial statements.

Interim financial statements continued

Consolidated balance sheet

As at 30 September 2014

The Banking Group				
Dollars in millions	Note	Unaudited 30/09/14	Unaudited 30/09/13	Audited 30/06/14
Assets				
Cash and cash equivalents		510	274	461
Due from NZP related parties	3	78	76	77
Due from other financial institutions	4	202	246	121
Financial assets held for trading		81	43	44
Available-for-sale assets		1,056	1,348	1,093
Loans and advances	5	14,729	13,446	14,630
Derivative financial instruments		185	123	130
Property, plant and equipment		12	15	13
Intangible assets		90	68	86
Deferred taxation		10	13	5
Other assets		19	12	16
Total assets		16,972	15,664	16,676
Liabilities				
Due to other financial institutions		165	306	185
Due to NZP related parties	3	5	13	27
Deposits and other borrowings	6	12,932	12,157	12,751
Derivative financial instruments		209	192	236
Debt securities issued		2,300	1,889	2,143
Current tax liability		20	14	8
Other liabilities		68	58	76
Subordinated debt	7	251	151	247
Total liabilities		15,950	14,780	15,673
Equity attributable to owners of the parent				
Share capital		400	360	400
Reserves		473	375	454
Total equity attributable to owners of the parent		873	735	854
Non-controlling interest		149	149	149
Total equity		1,022	884	1,003
Total liabilities and shareholders equity		16,972	15,664	16,676

The notes on pages 8 to 17 form part of these interim financial statements.

Interim financial statements continued

Consolidated cash flow statement For the three months ended 30 September 2014

Dollars in millions	The Banking Group		
	Unaudited 3 months ended 30/09/14	Unaudited 3 months ended 30/09/13	Audited year ended 30/06/14
Cash flows from operating activities			
Interest received	228	189	805
Interest paid	(130)	(113)	(502)
Fees and other income	50	44	183
Operating expenses paid	(95)	(81)	(311)
Taxes paid	-	(6)	(38)
Net cash flows from operating activities before changes in operating assets and liabilities	53	33	137
Net changes in operating assets and liabilities			
(Increase)/decrease in financial assets held for trading	(35)	110	111
Decrease/(increase) in available-for-sale assets	47	(380)	(132)
Increase in loans and advances	(116)	(189)	(1,406)
(Increase)/decrease in net amounts due from related parties	(24)	1	12
(Increase)/decrease in balances due from other financial institutions	(80)	(88)	37
Increase in deposits and other borrowing	164	31	632
(Decrease)/increase in balances due to other financial institutions	(20)	36	(85)
Net cash flows provided by operating activities	(11)	(446)	(694)
Cash flows from investing activities			
Purchase of property, plant and equipment	(1)	(1)	(3)
Purchase of intangible assets	(9)	(9)	(40)
Net cash flows from investing activities	(10)	(10)	(43)
Cash flows from financing activities			
Issue of share capital	-	-	40
Increase in debt securities held	67	380	719
Net (redemption)/issue of subordinated debt	-	(60)	40
Dividends paid on ordinary shares	(1)	-	-
Dividends paid to non-controlling interest	(2)	(2)	(9)
Net cash flows from financing activities	64	318	790
Increase in cash and cash equivalents	43	(138)	53
Cash and cash equivalents at beginning of the period/year	461	415	415
Effect of exchange translation adjustments	6	(3)	(7)
Cash and cash equivalents at end of the period/year	510	274	461

The notes on pages 8 to 17 form part of these interim financial statements.

Notes to the interim financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

In these interim financial statements, the reporting entity is Kiwibank Limited (“**Kiwibank**” or the “**Bank**”). The “**Banking Group**” consists of Kiwibank and its subsidiaries. Kiwibank is a profit oriented entity incorporated and domiciled in New Zealand under the Companies Act 1993 and is registered as a bank under the Reserve Bank of New Zealand Act 1989.

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

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

1.2 Basis of preparation

These interim financial statements are for the Banking Group for the three months ended 30 September 2014 and have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for profit oriented entities. They comply with NZ IAS 34 *Interim Financial Reporting*, IAS 34 *Interim Financial Reporting* and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the “**Order**”). These interim financial statements should be read in conjunction with the Banking Group’s financial statements for the year ended 30 June 2014, which comply with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board.

Measurement base

These interim financial statements are based on the general principles of historic cost accounting, modified by the application of fair value measurements for available-for-sale financial assets, financial instruments held at fair value through profit or loss and all derivative contracts. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

1.3 Accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Banking Group’s annual financial statements for the year ended 30 June 2014, except for the adoption of new standards and interpretations effective as of 1 July 2014.

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

NZ IAS 32 (Amendment) – *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*.

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

1.4 Basis of consolidation

The consolidated interim financial statements of the Banking Group comprise the interim financial statements of Kiwibank and its subsidiaries for the period ended 30 September 2014, using the acquisition method. Subsidiaries are entities that are controlled by Kiwibank.

1.5 Functional and presentation currency

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

Notes to the interim financial statements continued

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

Dollars in millions	The Banking Group		
	Unaudited 3 months ended 30/09/14	Unaudited 3 months ended 30/09/13	Audited year ended 30/06/14
Derivative financial instruments held for trading	(1)	(1)	(2)
Financial assets held for trading	1	-	2
Cumulative gain transferred from available-for-sale reserve	-	2	1
Cumulative loss transferred from cash flow hedge reserve	(1)	-	1
Net foreign exchange gains	2	-	1
Total gains on financial instruments	1	1	3

Net ineffectiveness on qualifying cash flow hedges is \$0.0m (30 September 2013: \$0.0m; 30 June 2014: \$0.1m). Net ineffectiveness on qualifying fair value hedges is \$0.1m (30 September 2013: (\$0.1m); 30 June 2014: \$0.4m).

3. Related parties

Dollars in millions	The Banking Group
	Unaudited as at 30/09/14
Outstanding balances	
Due to NZP related parties	5
Included in deposits	84
Included in subordinated debt	1
Included in non-controlling interest	1
Total balances due to related parties	91
Receivables	
Due from NZP related parties	78
Included in loans and advances	3
Total balances due from related parties	81

NZP has a credit facility with the Banking Group, allowing NZP to draw down to the extent that the Banking Group does not exceed credit exposure to connected persons of 15% of Tier 1 capital, as required in its banking conditions of registration. When loans are drawn down the transaction is undertaken at market interest rates. As at 30 September 2014 the amount owed by NZP to the Banking Group was \$76m (30 September 2013: \$76m; 30 June 2014: \$76m). This does not exceed the 15% of Tier 1 capital requirement.

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

Notes to the interim financial statements continued

4. Due from other financial institutions

Dollars in millions	The Banking Group		
	Unaudited as at 30/09/14	Unaudited as at 30/09/13	Audited as at 30/06/14
Unsettled receivables	1	67	5
Short term advances due from other financial institutions	117	113	20
Collateralised loans	84	66	96
Total - current	202	246	121

As at 30 September 2014, included within the balance above, is \$84.2m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (30 September 2013: \$65.9m; 30 June 2014: \$95.9m).

5. Loans and advances

Dollars in millions	The Banking Group		
	Unaudited as at 30/09/14	Unaudited as at 30/09/13	Audited as at 30/06/14
Loans and advances at amortised cost	14,786	13,515	14,689
Allowance for impairment losses (note 8)	(57)	(69)	(59)
Total net loans and advances	14,729	13,446	14,630
Current	1,051	1,019	1,102
Non-current	13,678	12,427	13,528

6. Deposits and other borrowing

Dollars in millions	The Banking Group		
	Unaudited as at 30/09/14	Unaudited as at 30/09/13	Audited as at 30/06/14
Demand deposits non-interest bearing	1,131	974	1,078
Demand deposits bearing interest	2,555	2,394	2,553
Term deposits	9,246	8,789	9,120
Total deposits from customers	12,932	12,157	12,751
Current	12,562	11,829	12,398
Non-current	370	328	353

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 September 2014, \$3,680m of the Trust’s funds were invested in Kiwibank products or securities (30 September 2013: \$3,498m; 30 June 2014: \$3,679m).

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

Notes to the interim financial statements continued

7. Subordinated debt

Dollars in millions	The Banking Group		
	Unaudited as at 30/09/14	Unaudited as at 30/09/13	Audited as at 30/06/14
Face value	250	150	250
Interest accrued	4	3	1
Transaction costs	(4)	(2)	(4)
Fair value hedge adjustment	1	-	-
Total subordinated debt	251	151	247
Current	4	3	1
Non-current	247	148	246

During the period \$nil of subordinated debt was issued and \$nil of subordinated debt was called by the Banking Group (period ended 30 September 2013: \$nil was issued and \$60m was called; year ended 30 June 2014: \$100m was issued and \$60m was called).

As at 30 September 2014, \$208m (30 September 2013: \$108m; 30 June 2014: \$208m) of the subordinated debt qualified as Tier 2 capital for Capital Adequacy calculation purposes.

The contractual terms of subordinated debt instruments on issue expressly provide that they do not have the benefit of a deed poll guarantee (the “**NZP Guarantee**”) provided by NZP. The debts are also not covered by the Crown Guarantee scheme.

The Banking Group has not had any defaults of principal, interest or other breaches with respect to these liabilities during the period (period ended 30 September 2013: none; year ended 30 June 2014: none).

The subordinated debt instruments on issue are subordinate to all other general liabilities of the Banking Group and are denominated in New Zealand dollars. The subordinated debt instruments held outside the Banking Group carry a BB+ credit rating from S&P as at the reporting date.

The terms and conditions of the subordinated debt instruments on issue are as follows.

Instrument	Issue date	Amount \$m's	Coupon rate	Call date	Maturity date
Subordinated bonds	10 December 2012	150	5.80% p.a.	15 December 2017	15 December 2022
Capital notes	6 June 2014	100	6.61% p.a.	15 July 2019	15 July 2024

Capital Notes

The Capital Notes have been issued by Kiwi Capital Funding Limited (“**KCFL**”), an entity controlled by Kiwibank and which is part of the consolidated Banking Group. The entire proceeds from the issue of Capital Notes was used to purchase convertible subordinate bonds issued by Kiwibank (the “**Kiwibank Bonds**”). Interest on the Capital Notes is payable semi-annually at an initial rate of 6.61% p.a. subject to the condition that KCFL receives a corresponding payment of interest from Kiwibank on its investment

in the Kiwibank Bonds. KCFL's obligation to pay interest changes or will terminate should any of the Kiwibank Bonds be converted into ordinary shares or written off. The Capital Notes have a maturity date of 15 July 2024, however, KCFL will make early repayment of the Capital Notes should Kiwibank elect to make early repayment of the Kiwibank Bonds as outlined above. KCFL's obligation to repay the capital notes changes or will terminate should any of the Kiwibank Bonds be converted into ordinary shares or written off.

Notes to the interim financial statements continued

8. Asset quality

Dollars in millions	The Banking Group		
	Unaudited as at 30/09/14	Unaudited as at 30/09/13	Audited as at 30/06/14
Allowance for impairment losses in balance sheet			
Collective allowance for impairment losses	39	43	37
Allowance for individually impaired assets	18	26	22
Total allowance for impairment losses	57	69	59

Dollars in millions	The Banking Group		
	Unaudited 3 months ended 30/09/14	Unaudited 3 months ended 30/09/13	Audited year ended 30/06/14
Impairment losses per income statement			
Collective impairment/(reversals) on loans not at fair value through profit or loss	3	(1)	(3)
Individual impairment/(reversals) on loans not at fair value through profit or loss	-	(1)	(1)
Total impairment losses/(reversals) per income statement	3	(2)	(4)

Dollars in millions	The Banking Group			
	Residential unsecured lending	Residential mortgage loans	Corporate exposures	Total
Unaudited as at 30 September 2014				
Collective allowance for impairment loss	8	16	15	39
Past due assets >90 days but not impaired	3	8	1	12
Impaired assets				
Gross impaired assets	1	13	18	32
Individual allowance for impaired assets	(1)	(8)	(9)	(18)
Total net impaired assets	-	5	9	14
Unaudited 3 months ended 30 September 2014				
Impairment losses per income statement				
Collective allowance charge	1	1	1	3
Individual allowance charge	-	-	-	-
Total impairment losses	1	1	1	3

Notes to the interim financial statements continued

9. Segment analysis

Dollars in millions	The Banking Group			Total
	Personal markets	Business markets	Payment services	
Unaudited 3 months ended 30 September 2014				
External revenues	127	(9)	21	139
Intersegment revenues	(45)	45	-	-
Total revenues	82	36	21	139
Profit before taxation	25	17	6	48
Unaudited 3 months ended 30 September 2013				
External revenues	102	(5)	17	114
Intersegment revenues	(35)	35	-	-
Total revenues	67	30	17	114
Profit before taxation	17	16	3	36
Audited year ended 30 June 2014				
External revenues	448	(37)	68	479
Intersegment revenues	(159)	159	-	-
Total revenues	289	122	68	479
Profit before taxation	71	60	8	139

There have been no changes to the segments as defined in the Banking Group's annual financial statements for the year ended 30 June 2014.

10. Financial instruments

Fair value measurement

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the quality and reliability of information used to determine the fair values. The three levels of the fair value hierarchy are defined as follows:

- Level 1 – Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 – Fair value measurements are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.
- Level 3 – Fair value measurements where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

Valuation methodology

The fair values of assets and liabilities carried at fair value were determined by application of the following methods and assumptions.

Held for trading and available-for-sale securities

Estimates of fair value for both held for trading and available-for-sale securities are based on quoted market prices or determined using market accepted valuation models as appropriate (including discounted cash flow models) with inputs including an interest rate yield curve developed from quoted rates and market observable credit spreads.

Debt securities issued

Debt securities issued that are classified at fair value through profit or loss are short term in nature. For these liabilities fair value has been determined using a discounted cash flow model with inputs including an interest rate yield curve developed from quoted rates and market observable credit spreads.

Derivative financial instruments

Where the Banking Group's derivative financial assets and liabilities are not traded on an exchange, they are valued using valuation techniques, including discounted cash flow and option pricing models, as appropriate. The types of derivatives classified as level 2 and the valuation techniques used include:

- Interest rate swaps which are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from quoted rates.
- Foreign exchange derivatives that do not contain options which are priced using rates available from publicly quoted sources.

Notes to the interim financial statements continued

10. Financial instruments continued

Dollars in millions	The Banking Group			
	Level 1	Level 2	Level 3	Total
Unaudited as at 30 September 2014				
Financial assets				
Derivative financial assets	-	185	-	185
Financial assets held for trading	42	39	-	81
Available-for-sale financial assets	541	515	-	1,056
Total financial assets at fair value	583	739	-	1,322
Financial liabilities				
Derivative financial liabilities	-	209	-	209
Debt securities issued	-	687	-	687
Total financial liabilities at fair value	-	896	-	896

Dollars in millions	The Banking Group			
	Level 1	Level 2	Level 3	Total
Audited as at 30 June 2014				
Financial assets				
Derivative financial assets	-	130	-	130
Financial assets held for trading	44	-	-	44
Available-for-sale financial assets	534	559	-	1,093
Total financial assets at fair value	578	689	-	1,267
Financial liabilities				
Derivative financial liabilities	-	236	-	236
Debt securities issued	-	731	-	731
Total financial liabilities at fair value	-	967	-	967

Dollars in millions	The Banking Group			
	Level 1	Level 2	Level 3	Total
Unaudited as at 30 September 2013				
Financial assets				
Derivative financial assets	-	123	-	123
Financial assets held for trading	23	20	-	43
Available-for-sale financial assets	712	636	-	1,348
Total financial assets at fair value	735	779	-	1,514
Financial liabilities				
Derivative financial liabilities	-	192	-	192
Debt securities issued	-	597	-	597
Total financial liabilities at fair value	-	789	-	789

There have been no transfers between levels 1 and 2 during the period ended 30 September 2014. There were also no transfers into/out of level 3 during the period ended 30 September 2014.

Notes to the interim financial statements continued

10. Financial instruments continued

Dollars in millions	The Banking Group					
	Unaudited as at 30/09/14		Unaudited as at 30/09/13		Audited as at 30/06/14	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets						
Financial assets held for trading	81	81	43	43	44	44
Available-for-sale assets	1,056	1,056	1,348	1,348	1,093	1,093
Loans and advances	14,729	14,741	13,446	13,445	14,630	14,613
Derivative financial instruments	185	185	123	123	130	130
Due from NZP related parties	78	78	76	76	77	77
Liabilities						
Deposits and other borrowings	(12,932)	(12,935)	(12,157)	(12,169)	(12,751)	(12,753)
Derivative financial instruments	(209)	(209)	(192)	(192)	(236)	(236)
Debt securities issued	(2,300)	(2,311)	(1,889)	(1,893)	(2,143)	(2,154)
Subordinated debt	(251)	(255)	(151)	(151)	(247)	(249)
Due to NZP related parties	(5)	(5)	(13)	(13)	(27)	(27)

The carrying values of the following financial instruments are a reasonable approximation of fair value because, for example, they are short-term in nature or reprice to current market rates frequently: cash and cash equivalents, due from other financial institutions, other financial assets, due to other financial institutions and other financial liabilities.

11. Liquidity

The Banking Group holds a diversified portfolio of high quality liquid securities to support its liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy and includes items both classified as cash and cash equivalents and those classified as operating assets in the consolidated cash flow statement.

Dollars in millions	The Banking Group
	Unaudited as at 30/09/14
The Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy.	
Cash on hand and with central banks	452
Certificates of deposit	72
Government bonds and treasury bills	549
Local body stock and bonds	20
Other bonds	875
Total	1,968

12. Credit exposure concentrations

Credit exposures to individual counterparties

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

There are no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A-, A3 or its equivalent or above), where the period end and peak end-of-day aggregate actual credit exposures, net of individual credit impairment allowances (which were nil), equalled or exceeded 10% of the Banking Group's shareholder equity as at the reporting date.

Notes to the interim financial statements continued

13. Fiduciary activities and securitisation

Provision of financial services

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

Insurance business

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

Kiwi Covered Bond Trust

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

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

The carrying value of the Covered Bond Trust pool at 30 September 2014 is \$316m (30 September 2013: \$316m; 30 June 2014: \$316m). These securities are ring fenced to ensure they are not used as collateral outside of agreements established in relation to the Covered Bond Trust.

Kiwibank RMBS Trust Series 2009-1

The purpose of the Kiwibank RMBS Trust Series 2009-1 (the “**RMBS Trust**”) is to provide an in-house residential mortgage-backed securities facility to issue securities as collateral for borrowing from the Reserve Bank of New Zealand. As at 30 September 2014, included within Loans and advances to customers on the Banking Group’s consolidated balance sheet were housing loans with a carrying value of \$600m held by the RMBS Trust (30 September 2013: \$600m; 30 June 2014: \$600m). These housing loans do not qualify for derecognition as the Bank retains substantially all of the risks and rewards of ownership. The RMBS Trust is consolidated within the Banking Group.

14. 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 2014.

15. Interest earning and discount bearing assets and liabilities

	The Banking Group
	Unaudited as at 30/09/14
Dollars in millions	
Interest earning and discount bearing assets	16,655
Interest and discount bearing liabilities	14,513

16. Capital expenditure commitments

Capital expenditure commitments contracted for as at 30 September 2014, but not provided for in these interim financial statements, total \$8.2m; (30 September 2013: \$0.3m; 30 June 2014: \$8.0m) of which \$2.8m (30 September 2013: \$nil; 30 June 2014: \$2.8m) are due between one and five years from the reporting date.

Notes to the interim financial statements continued

17. Contingent liabilities and loan commitments

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

Other than the above, there are no material contingent liabilities as at 30 September 2014 (30 September 2013: nil; 30 June 2014: nil).

Undrawn loan commitments as at the reporting date are as follows:

Dollars in millions	The Banking Group		
	Unaudited as at 30/09/14	Unaudited as at 30/09/13	Audited as at 30/06/14
Loan commitments	2,231	1,956	2,089

18. Events subsequent to the reporting date

On 20 October 2014, fixed rate bonds with a face value of AUD250m matured.

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

Capital adequacy

The “**Banking Group**” consists of Kiwibank Limited and its subsidiaries. The Banking Group is subject to the capital adequacy requirements for registered banks as specified by the Reserve Bank of New Zealand (“**RBNZ**”). The RBNZ has set minimum acceptable regulatory capital requirements that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision.

The Bank must comply with RBNZ minimum capital adequacy ratios, as calculated under the Basel III framework in accordance with the RBNZ document Capital Adequacy Framework (Standardised Approach) (BS2A), as determined in its conditions of registration.

Regulatory capital ratios

	The Banking Group	
	Regulatory minima	30/09/14
Capital adequacy ratios		
Common Equity Tier 1 capital ratio	4.5%	9.3%
Tier 1 capital ratio	6.0%	10.7%
Total capital ratio	8.0%	13.2%
Buffer ratios		
Buffer ratio	2.5%	4.7%

Regulatory capital

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

	The Banking Group
Dollars in millions	30/09/14
Common Equity Tier 1 capital ^{1,2}	873
Less deductions from Common Equity Tier 1 capital	(107)
Total Common Equity Tier 1 capital	766
Additional Tier 1 capital ³	117
Total Tier 1 capital	883
Tier 2 capital	208
Total capital	1,091

- 1 Includes Available for Sale Reserve of \$nil. 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 \$5m. The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of foreign exchange and interest rate derivative contracts related to hedged forecasted transactions that have not yet occurred. The cash flow hedge reserve is not eligible for inclusion in capital under BS2A 7 (3)(c).
- 3 Represents the face value of perpetual preference shares, which are classified as equity for financial reporting purposes, less the amount ineligible under Basel III transitional arrangements and issue costs.

Capital adequacy continued

Pillar I capital requirements

	The Banking Group
	30/09/14 Pillar I capital requirement
Dollars in millions	
On-balance sheet credit risk	
Residential mortgages (including past due)	421
Corporate	4
Claims on other banks	11
Other	77
Total on-balance sheet credit risk	513
Other capital requirements	
Off-balance sheet credit exposures	36
Operational risk	83
Market risk	29
Total other capital requirements	148
Total Pillar I capital requirement	661

Residential mortgages by loan-to-value ratio

	The Banking Group		
	30/09/14		
Dollars in millions	On-balance sheet	Off-balance sheet	Total
LVR 0% – 80%	11,807	277	12,084
LVR >80% – 90%	1,740	15	1,755
LVR 90% +	314	9	323
Total	13,861	301	14,162

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 September 2014, of the loans with an LVR greater than 80%, \$497m 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.

Other material risk (Pillar II)

The Bank has made an internal capital allocation of \$46m. The other material risks identified by the Bank include regulatory environment risk, reputational risk, systems risk and liquidity risk.