Disclosure Statement

For the six months ended 31 December 2016

Kiwibank.

Number 62

Contents

General matters

Details of incorporation

Kiwibank Limited ("**Kiwibank**") is a company domiciled in New Zealand and was incorporated in New Zealand under the Companies Act 1993 on 4 May 2001. On 29 November 2001, Kiwibank was registered as a bank under the Reserve Bank of New Zealand Act 1989 (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 six months ended 31 December 2016, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (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.

Registered office

The registered office is: Kiwibank Limited, New Zealand Post House, Level 8, 7 Waterloo Quay, Wellington 6011, New Zealand.

Address for service

The address for service is: Kiwibank Limited, Ground Floor, New Zealand Post House, 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.

Group structure

On 31 October 2016, NZ Post Limited ("**NZP**"), formerly the sole shareholder of Kiwi Group Holdings Limited ("**KGHL**"), completed the sale of a 47% share of KGHL to the Guardians of the New Zealand Superannuation Fund ("**NZSF**") (as to 25%) and Accident Compensation Corporation ("**ACC**") (as to 22%) (the "**Partial Sale Transaction**"). Both NZSF and ACC are Crown entities. The Partial Sale Transaction reflects the Government's policy position that the Crown remains the sole ultimate shareholder of Kiwibank.

Core banking system

Kiwibank is in the process of modernising its core banking system. This is a significant change programme which will involve a higher level of investment and operating risk over the next 2-3 years, both of which are being actively managed.

Kaikoura earthquake

On 14 November 2016 Kaikoura and the surrounding areas including Wellington were hit by a significant earthquake. The full financial impact of the earthquake is yet to be ascertained but it has resulted in damage to businesses, buildings and homes across this area. Although the consequences of the damage caused by the earthquake are still being considered, they are not currently expected to have a material financial impact on the Banking Group.

Pending proceedings or arbitration

The Board is 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	Current credit rating	Rating outlook
Standard & Poor's (Australia) Pty Limited ("**S&P**")	A+	CreditWatch negative
Moody's Investors Service ("**Moody's**")	Aa3	Rating under review
Fitch Ratings ("**Fitch**")	AA+	Rating watch negative

General matters continued

Conditions of registration

Changes in conditions of registration

The RBNZ issued revised conditions of registration which were effective from 1 October 2016. The revised conditions:

- impose conditions of registration relating to residential mortgage lending nationwide to property and non-property investors; and
- refer to a revised version of Framework for Restrictions of High-LVR Residential Mortgage Lending (BS19), which amends some of the terms and conditions (including exemptions) relating to the LVR conditions of registration.

Directorate

David James Walsh was appointed as an alternate director on 9 August 2016.

Lindsay Wright and Hon. Sir Michael John Cullen resigned as directors on 31 October 2016.

Deborah Jane Taylor was appointed as a director on 31 October 2016.

Scott John Pickering was appointed as a director on 8 November 2016.

Michael Charles John O'Donnell was appointed as a director on 15 November 2016.

Susan Carrel Macken and Kevin Mark Malloy were appointed as directors on 28 November 2016.

Alison Rosemary Gerry resigned as a director on 31 December 2016.

There have been no other changes in the Board since 30 June 2016.

Responsible persons

Robert William Bentley Morrison and Susan Carrel Macken have been authorised in writing to sign this disclosure statement in accordance with Section 82 of the RBNZ Act, on behalf of the directors, being:

Carol Anne Campbell
Susan Carrel Macken
Kevin Mark Malloy
Robert William Bentley Morrison
Michael Charles John O'Donnell
Rhoda Phillippo
Scott John Pickering
Deborah Jane Taylor

David James Walsh (as alternate director for Carol Anne Campbell and Deborah Jane Taylor)

Auditor

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

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.

Further details on the NZP Guarantee can be obtained by referring to Kiwibank's Disclosure Statement for the year ended 30 June 2016 which is available at www.kiwibank.co.nz.

On 31 October 2016, NZP gave notice of the termination of the NZP Guarantee (with an effective date of withdrawal of 28 February 2017). This termination will not affect any payment obligations of Kiwibank that were already guaranteed at the time the guarantee was terminated.

NZP Guarantee

NZP supports Kiwibank as a registered bank.

The following is a summary of the main features of the NZP Guarantee as at 31 December 2016:

i. The address for service of NZP is: Ground Floor, New Zealand Post House, 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+ (stable 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 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively.

Directors' statement

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

1. As at the date on which the Disclosure Statement is signed:
   i. the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and
   ii. the Disclosure Statement is not false or misleading.

2. During the period ended 31 December 2016:
   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; and
   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 Robert William Bentley Morrison and Susan Carrel Macken as directors and responsible persons on behalf of all the directors listed in the Directorate of this Disclosure Statement:

16 February 2017

Interim financial statements

Consolidated income statement

For the six months ended 31 December 2016

Dollars in millions	Note	**Unaudited 6 months ended 31/12/16**	Unaudited 6 months ended 31/12/15	Audited year ended 30/06/16
Interest income		**413**	470	898
Interest expense		**(231)**	(281)	(525)
Net interest income		**182**	189	373
Net gains on financial instruments at fair value	2	**7**	7	3
Gross fee and other income		**100**	97	195
Direct fee expenses		**(41)**	(48)	(94)
Net fee and other income		**59**	49	101
Total operating income		**248**	245	477
Operating expenses		**(164)**	(146)	(301)
Profit before impairment and taxation		**84**	99	176
Impairment reversals/(losses) on loans and advances	4	**2**	(6)	(11)
Profit before taxation		**86**	93	165
Income tax expense		**(23)**	(22)	(41)
Profit after taxation		**63**	71	124

Consolidated statement of comprehensive income

For the six months ended 31 December 2016

Dollars in millions	**Unaudited 6 months ended 31/12/16**	Unaudited 6 months ended 31/12/15	Audited year ended 30/06/16
Profit after taxation	**63**	71	124
Other comprehensive income			
Net (loss)/gain from changes in reserves that may			
subsequently be reclassified to profit or loss			
- Available-for-sale reserve (net of tax)	**(7)**	(3)	3
- Cash flow hedge reserve (net of tax)	**32**	3	9
Other comprehensive income for the period/year	**25**	-	12
Total comprehensive income for the period/year	**88**	71	136

The notes on pages 9 to 24 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of changes in equity

For the six months ended 31 December 2016

Dollars in millions	Note	Fully Paid Ordinary Shares	Retained earnings	Available-For-Sale Reserve	Cash Flow Hedge Reserve	Perpetual Capital Reserve	Total Equity Attributable to Owners of the Parent
Balance at 1 July 2015		400	532	8	(54)	147	1,033
Unaudited 6 months ended 31 December 2015							
Unaudited profit for the period		-	71	-	-	-	71
Other comprehensive income							
Available-for-sale financial assets (net of tax)		-	-	(3)	-	-	(3)
Cash flow hedges (net of tax)		-	-	-	3	-	3
Total other comprehensive income		-	-	(3)	3	-	-
Total comprehensive income		-	71	(3)	3	-	71
Transactions with owners							
Dividends paid on ordinary shares		-	(24)	-	-	-	(24)
Distributions to holders of perpetual capital		-	(6)	-	-	-	(6)
Unaudited balance at 31 December 2015		400	573	5	(51)	147	1,074
Audited year ended 30 June 2016							
Audited profit for the year		-	124	-	-	-	124
Other comprehensive income							
Available-for-sale financial assets (net of tax)		-	-	3	-	-	3
Cash flow hedges (net of tax)		-	-	-	9	-	9
Total other comprehensive income		-	-	3	9	-	12
Total comprehensive income		-	124	3	9	-	136
Transactions with owners							
Dividends paid on ordinary shares		-	(29)	-	-	-	(29)
Distributions to holders of perpetual capital		-	(11)	-	-	-	(11)
Audited balance at 30 June 2016		400	616	11	(45)	147	1,129
Unaudited 6 months ended 31 December 2016							
Unaudited profit for the period		**-**	**63**	**-**	**-**	**-**	**63**
Other comprehensive income							
Available-for-sale financial assets (net of tax)		**-**	**-**	**(7)**	**-**	**-**	**(7)**
Cash flow hedges (net of tax)		**-**	**-**	**-**	**32**	**-**	**32**
Total other comprehensive income		**-**	**-**	**(7)**	**32**	**-**	**25**
Total comprehensive income		**-**	**63**	**(7)**	**32**	**-**	**88**
Transactions with owners							
Issue of share capital		**90**	**-**	**-**	**-**	**-**	**90**
Dividends paid to non-controlling interest	**13**	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Dividends paid on ordinary shares	**13**	**-**	**(5)**	**-**	**-**	**-**	**(5)**
Distributions to holders of perpetual capital		**-**	**(6)**	**-**	**-**	**-**	**(6)**
Unaudited balance at 31 December 2016		**490**	**667**	**4**	**(13)**	**147**	**1,295**

The notes on pages 9 to 24 form part of these interim financial statements.

Interim financial statements continued

Consolidated balance sheet

As at 31 December 2016

Dollars in millions	Note	**Unaudited 31/12/16**	Unaudited 31/12/15	Audited 30/06/16
Assets				
Cash and cash equivalents		**541**	478	509
Due from related parties	14	**89**	77	77
Due from other financial institutions	6	**151**	209	247
Financial assets held for trading		**-**	66	-
Available-for-sale assets		**1,143**	1,165	955
Derivative financial instruments		**422**	451	658
Loans and advances	3	**17,428**	16,349	16,689
Deferred taxation		**11**	27	25
Property, plant and equipment		**25**	20	23
Intangible assets		**174**	138	158
Other assets		**24**	16	16
Total assets		**20,008**	18,996	19,357
Total interest earning and discount bearing assets		***19,319***	*18,326*	*18,434*
Liabilities				
Due to other financial institutions		**88**	82	135
Due to related parties	14	**6**	10	4
Derivative financial instruments		**445**	537	725
Deposits and other borrowings	7	**15,362**	14,430	14,782
Debt securities issued	8	**2,446**	2,507	2,207
Current tax liability		**17**	14	15
Other liabilities		**92**	86	102
Subordinated debt	9	**257**	256	258
Total liabilities		**18,713**	17,922	18,228
Total interest and discount bearing liabilities		**16,433**	15,843	15,872
Equity attributable to owners of the parent				
Share capital		**490**	400	400
Reserves		**805**	674	729
Total equity attributable to owners of the parent		**1,295**	1,074	1,129
Total liabilities and shareholders' equity		**20,008**	18,996	19,357

The notes on pages 9 to 24 form part of these interim financial statements.

Interim financial statements continued

Consolidated cash flow statement

For the six months ended 31 December 2016

Dollars in millions	**Unaudited 6 months ended 31/12/16**	Unaudited 6 months ended 31/12/15	Audited year ended 30/06/16
Cash flows from operating activities			
Interest received	**429**	486	928
Interest paid	**(242)**	(288)	(535)
Fees and other income received	**100**	97	195
Direct fee expenses paid	**(41)**	(48)	(94)
Operating expenses paid	**(176)**	(138)	(255)
Taxes paid	**(16)**	(24)	(45)
Net cash flows from operating activities before changes in operating assets and liabilities	**54**	85	194
Net changes in operating assets and liabilities			
Decrease in financial assets held for trading	**-**	30	97
(Increase)/decrease in available-for-sale assets	**(193)**	56	280
Increase in loans and advances	**(761)**	(766)	(1,140)
(Increase)/decrease in net amounts due from related parties	**(10)**	3	(2)
Decrease/(increase) in balances due from other financial institutions	**96**	(15)	(53)
Increase in deposits and other borrowing	**591**	699	1,059
Decrease in balances due to other financial institutions	**(47)**	(243)	(190)
Net cash flows provided by operating activities	**(270)**	(151)	245
Cash flows from investing activities			
Purchase of property, plant and equipment	**(5)**	(3)	(10)
Purchase of intangible assets	**(28)**	(33)	(65)
Net cash flows from investing activities	**(33)**	(36)	(75)
Cash flows from financing activities			
Issue of ordinary shares	**90**	-	-
Increase/(decrease) in debt securities issued	**257**	204	(109)
Dividends paid to non-controlling interest	**(1)**	-	-
Dividends paid on ordinary shares	**(5)**	(24)	(29)
Distributions paid to holders of perpetual capital	**(6)**	(6)	(11)
Net cash flows from financing activities	**335**	174	(149)
Increase/(decrease) in cash and cash equivalents	**32**	(13)	21
Cash and cash equivalents at beginning of the period/year	**509**	492	492
Effect of exchange translation adjustments	**-**	(1)	(4)
Cash and cash equivalents at end of the period/year	**541**	478	509

The notes on pages 9 to 24 form part of these interim financial statements.

Notes to the interim financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

These consolidated interim financial statements are presented for the "**Banking Group**", which consists of Kiwibank Limited ("**Kiwibank**" or the "**Bank**") and its subsidiaries. Kiwibank is a for-profit 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 banking products and services to individuals and small to medium-sized businesses.

Kiwibank's immediate parent company is Kiwi Group Holdings Limited ("**KGHL**"). KGHL is owned by New Zealand Post Limited ("**NZP**") (53%), the Guardians of the New Zealand Superannuation Fund ("**NZSF**") (25%) and Accident Compensation Corporation ("**ACC**") (22%). The ultimate shareholder of Kiwibank is the New Zealand Crown (the "**Crown**").

1.2 Basis of preparation

These interim financial statements are for the Banking Group for the six months ended 31 December 2016 and have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for a for-profit entity. 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 (as amended) (the "**Order**"). These interim financial statements should be read in conjunction with the Banking Group's financial statements for the year ended 30 June 2016.

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 2016.

1.4 Basis of consolidation

The consolidated interim financial statements of the Banking Group comprise the interim financial statements of Kiwibank and its subsidiaries for the period ended 31 December 2016, 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.

1.6 Comparative amounts

Certain comparative balances relating to impairment losses and related party amounts have been reclassified in Note 4 (Asset Quality) and Note 14 (Related Parties) respectively to ensure consistency with the current period's presentation. The reclassification of impairment losses provides further detail by splitting out the impairment losses per the income statement across the classes of retail unsecured lending, residential mortgage loans and business exposures.

The amounts due from or to related parties include an additional disclosure of amounts included within derivative financial instruments.

The reclassifications and additional disclosures have no impact on net profit after taxation.

Notes to the interim financial statements continued

2. Net gains on financial instruments at fair value

Dollars in millions	**Unaudited 6 months ended 31/12/16**	Unaudited 6 months ended 31/12/15	Audited year ended 30/06/16
Derivative financial instruments held for trading	**-**	1	(1)
Financial assets held for trading	**-**	-	1
Net ineffectiveness on qualifying fair value hedges	**9**	1	-
Cumulative gain transferred from available-for-sale reserve	**4**	5	8
Cumulative loss transferred from cash flow hedge reserve	**(7)**	-	(5)
Net foreign exchange gains	**1**	-	-
Total gains on financial instruments	**7**	7	3

Net ineffectiveness on qualifying cash flow hedges is $0.0m (31 December 2015: $0.0m; 30 June 2016: $0.0m). Net ineffectiveness on qualifying fair value hedges is $9.1m (31 December 2015: $1.1m; 30 June 2016: $0.2m).

3. Loans and advances

Dollars in millions	**Unaudited as at 31/12/16**	Unaudited as at 31/12/15	Audited as at 30/06/16
Residential	**15,329**	14,354	14,642
Other retail	**415**	409	400
Corporate	**1,733**	1,639	1,702
Gross loans and advances	**17,477**	16,402	16,744
Collective allowance for impairment losses	**(41)**	(44)	(44)
Allowance for individually impaired assets	**(7)**	(9)	(9)
Fair value hedge adjustments	**(1)**	-	(2)
Net loans and advances	**17,428**	16,349	16,689
Current	**1,294**	1,155	1,267
Non-current	**16,134**	15,194	15,422

4. Asset quality

Impairment losses per income statement

Dollars in millions	**Retail unsecured lending**	**Residential mortgage loans**	**Business exposures**	**Total**
Unaudited period ended 31 December 2016				
Collective impairment (reversals)/losses	**-**	**(2)**	**(1)**	**(3)**
Individual impairment losses/(reversals)	**3**	**(1)**	**(1)**	**1**
Total impairment losses/(reversals) per income statement	**3**	**(3)**	**(2)**	**(2)**
Audited year ended 30 June 2016				
Collective impairment losses/(reversals)	2	8	(7)	3
Individual impairment losses/(reversals)	8	1	(1)	8
Total impairment losses/(reversals) per income statement	10	9	(8)	11
Unaudited period ended 31 December 2015				
Collective impairment losses/(reversals)	2	7	(6)	3
Individual impairment (reversals)/losses	-	(1)	4	3
Total impairment losses/(reversals) per income statement	2	6	(2)	6

Notes to the interim financial statements continued

4. Asset quality continued

Summary of lending

Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Unaudited as at 31 December 2016				
Neither past due nor impaired	**478**	**16,180**	**681**	**17,339**
Past due but not impaired (a)	**35**	**90**	**4**	**129**
Impaired (b)	**1**	**5**	**3**	**9**
Gross	**514**	**16,275**	**688**	**17,477**
Collective allowance for impairment (c)	**(11)**	**(23)**	**(7)**	**(41)**
Individual allowance for impairment (d)	**(1)**	**(2)**	**(4)**	**(7)**
Fair value hedge adjustments	**-**	**(1)**	**-**	**(1)**
Net loans and advances	**502**	**16,249**	**677**	**17,428**

a: Loans and advances past due but not impaired

Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Unaudited as at 31 December 2016				
Past due less than 30 days	**26**	**74**	**2**	**102**
Past due 30 - 59 days	**5**	**7**	**2**	**14**
Past due 60 - 89 days	**2**	**2**	**-**	**4**
Past due 90 days or greater	**2**	**7**	**-**	**9**
Total past due but not impaired	**35**	**90**	**4**	**129**

b: Impaired assets

Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Unaudited 6 months ended 31 December 2016				
Gross impaired				
Balance at beginning of the period	**2**	**8**	**5**	**15**
Transfers from performing	**3**	**-**	**4**	**7**
Transfers to performing	**-**	**-**	**-**	**-**
Asset realisations and loans repaid	**(1)**	**(3)**	**(6)**	**(10)**
Amounts written off	**(3)**	**-**	**-**	**(3)**
Balance at end of the period	**1**	**5**	**3**	**9**
Individual allowance for impairment	**(1)**	**(2)**	**(4)**	**(7)**
Total net impaired assets	**-**	**3**	**(1)**	**2**

c: Reconciliation of collective allowance for impairment losses by asset class

Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Unaudited 6 months ended 31 December 2016				
Balance at beginning of the period	**11**	**25**	**8**	**44**
Impairment reversals on loans not at fair value through profit or loss	**-**	**(2)**	**(1)**	**(3)**
Total collective allowance for impairment losses	**11**	**23**	**7**	**41**

Notes to the interim financial statements continued

4. Asset quality continued

d: Reconciliation of individual allowance for impairment losses by asset class

Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Unaudited 6 months ended 31 December 2016				
Balance at beginning of the period	1	3	5	9
Impairment losses on loans and advances	4	-	2	6
Amounts written off	(3)	-	-	(3)
Reversals of previously recognised impaired assets	(1)	(1)	(3)	(5)
Total individual allowance for impairment losses	1	2	4	7

e: Asset quality of loans and advances:

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the period. There are no real estate or other assets acquired through the enforcement of security/collateral held at 31 December 2016 (31 December 2015: nil; 30 June 2016: nil). There are no assets under administration as at 31 December 2016 (31 December 2015: nil; 30 June 2016: nil).

There are no unrecognised impaired assets as at 31 December 2016 (31 December 2015: nil; 30 June 2016: nil). The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired is $1.9m at 31 December 2016 (31 December 2015: $0.7m; 30 June 2016: $2.9m).

f: 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 interim financial statements continued

5. Concentration of credit risk

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

Dollars in millions	Unaudited as at 31/12/16
New Zealand	
Government, local authorities and services	**1,007**
Finance, investment and insurance	**1,299**
Households	**15,630**
Transport and storage	**60**
Communications	**38**
Electricity, gas and water	**4**
Construction	**221**
Property and business services	**1,103**
Agriculture	**30**
Health and community services	**87**
Personal and other services	**72**
Retail and wholesale trade	**92**
Food & other manufacturing	**104**
Overseas	
Finance, investment and insurance	**75**
	19,822
Less allowances for impairment losses	**(48)**
Other financial assets	**17**
Total financial assets	**19,791**

Dollars in millions	Maximum exposure	Collateral	Net exposure
Unaudited as at 31 December 2016			
Credit risk relating to balance sheet assets			
Fixed rate lending at amortised cost	**13,197**	**(13,192)**	**5**
Variable rate lending	**3,864**	**(3,862)**	**2**
Unsecured lending	**415**	**-**	**415**
Due from other financial institutions	**151**	**-**	**151**
Balances with related parties	**89**	**-**	**89**
Derivative financial instruments	**422**	**(56)**	**366**
Financial assets held for trading	**-**	**-**	**-**
Available-for-sale assets	**1,143**	**-**	**1,143**
Cash and cash equivalents	**541**	**-**	**541**
Other financial assets	**17**	**-**	**17**
	19,839	**(17,110)**	**2,729**
Less allowance for impairment	**(48)**	**-**	**(48)**
Total financial assets	**19,791**	**(17,110)**	**2,681**

The table above represents a worst case scenario of credit risk exposure to the Banking Group at 31 December 2016. The exposures set out are based on net carrying amounts as reported in the balance sheet. Australian and New Zealand Standard Industrial Classification ("**ANZSIC**") codes have been used as the basis for disclosing customer industry sectors.

Notes to the interim financial statements continued

5. Concentration of credit risk continued

The exposure of the Banking Group derived from loans and advances to retail and corporate customers is 88% of the total maximum exposure (31 December 2015: 87%; 30 June 2016: 87%).

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

The Banking Group is potentially exposed to credit risk for undrawn loan commitments (note 18) for an amount equal to the undrawn balance.

6. Due from other financial institutions

Dollars in millions	**Unaudited as at 31/12/16**	Unaudited as at 31/12/15	Audited as at 30/06/16
Unsettled receivables	**-**	-	42
Short term advances due from other financial institutions	**61**	33	40
Collateralised loans	**90**	176	165
Total amounts due from other financial institutions - Current	**151**	209	247

As at 31 December 2016, included within the balance above, is $90.2m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (31 December 2015: $176.3m; 30 June 2016: $164.7m).

7. Deposits and other borrowings

Dollars in millions	**Unaudited as at 31/12/16**	Unaudited as at 31/12/15	Audited as at 30/06/16
Demand deposits non-interest bearing	**1,688**	1,426	1,505
Demand deposits bearing interest	**3,249**	2,999	3,135
Term deposits	**10,425**	10,005	10,142
Total deposits from customers	**15,362**	14,430	14,782
Current	**14,924**	13,968	14,340
Non-current	**438**	462	442

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.

On 31 October 2016, NZP gave notice of the termination of the NZP Guarantee (with an effective date of withdrawal of 28 February 2017). This termination will not affect any payment obligations of Kiwibank that were already guaranteed at the time the guarantee was terminated.

The Kiwibank PIE Unit Trust (the "**Trust**"), established in May 2008, operates three funds; the PIE Term Deposit Fund, the Notice Saver and PIE Online Call Fund. Kiwibank Investment Management Limited is the Issuer and Manager (the "**Manager**"), Trustees Executors Limited is the Trustee and Kiwibank is the Promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Trust is invested exclusively in term and call deposits with Kiwibank. At 31 December 2016, $3,235m of the Trust's funds were invested in Kiwibank products or securities (31 December 2015: $3,723m; 30 June 2016: $3,525m).

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

8. Debt securities issued

Dollars in millions	**Unaudited as at 31/12/16**	Unaudited as at 31/12/15	Audited as at 30/06/16
Short term debt			
Commercial paper at fair value through profit or loss	**508**	600	290
Certificates of deposit	**175**	360	227
Long term debt			
Medium term notes	**1,534**	1,302	1,441
Covered bonds	**210**	220	215
Fair value hedge adjustment	**19**	25	34
Total debt securities issued	**2,446**	2,507	2,207
Current	**1,168**	1,145	810
Non-current	**1,278**	1,362	1,397

In the event of the liquidation of Kiwibank, holders of these debt securities, with the exception of covered bonds, will rank equally with all other creditors but ahead of subordinated debt holders and shareholders. In addition, all payment obligations of Kiwibank, excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of a deed poll guarantee (the "**NZP Guarantee**") provided by NZP, are guaranteed under the NZP Guarantee.

On 31 October 2016, NZP gave notice of the termination of the NZP Guarantee (with an effective date of withdrawal of 28 February 2017). This termination will not affect any payment obligations of Kiwibank that were already guaranteed at the time the guarantee was terminated.

Further information on the guarantee arrangements and other details relating to covered bonds are disclosed in note 15.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to debt securities issued during the period (period ended 31 December 2015: none; year ended 30 June 2016: none).

9. Subordinated debt

Dollars in millions	**Unaudited as at 31/12/16**	Unaudited as at 31/12/15	Audited as at 30/06/16
Subordinated bonds	**150**	150	150
Capital notes	**107**	106	108
Total subordinated debt	**257**	256	258
Current	**4**	4	3
Non-current	**253**	252	255

As at 31 December 2016, $208m (31 December 2015: $208m; 30 June 2016: $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 the NZP Guarantee.

The Banking Group has neither issued or called any subordinated debt nor had any defaults of principal, interest or other breaches with respect to these liabilities during the period (period ended 31 December 2015: none; year ended 30 June 2016: 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.

Notes to the interim financial statements continued

9. Subordinated debt continued

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	Credit rating
Subordinated bonds	10 December 2012	150	5.80% p.a.	15 December 2017	15 December 2022	BB+
Capital notes	6 June 2014	100	6.61% p.a.	15 July 2019	15 July 2024	BB+

Capital Notes

The Capital Notes have been issued by Kiwi Capital Funding Limited ("KCFL") which is part of the consolidated Banking Group. The entire proceeds from the issue of Capital Notes were 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.

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	Level 1	Level 2	Level 3	Total
Unaudited as at 31 December 2016				
Financial assets				
Financial assets held for trading	**-**	**-**	**-**	**-**
Available-for-sale financial assets	**419**	**724**	**-**	**1,143**
Derivative financial instrument assets	**-**	**422**	**-**	**422**
Total financial assets at fair value	**419**	**1,146**	**-**	**1,565**
Financial liabilities				
Derivative financial instrument liabilities	**-**	**445**	**-**	**445**
Debt securities issued	**-**	**508**	**-**	**508**
Total financial liabilities at fair value	**-**	**953**	**-**	**953**

There have been no transfers between levels 1 and 2 during the period ended 31 December 2016 (period ended 31 December 2015: no transfers; year ended 30 June 2016: no transfers). There were also no transfers into/out of level 3 during the period ended 31 December 2016 (period ended 31 December 2015: no transfers; year ended 30 June 2016: no transfers).

Dollars in millions	Level 1	Level 2	Level 3	Total
Unaudited as at 31 December 2015				
Financial assets				
Financial assets held for trading	2	64	-	66
Available-for-sale financial assets	579	586	-	1,165
Derivative financial instrument assets	-	451	-	451
Total financial assets at fair value	581	1,101	-	1,682
Financial liabilities				
Derivative financial instrument liabilities	-	537	-	537
Debt securities issued	-	600	-	600
Total financial liabilities at fair value	-	1,137	-	1,137

Dollars in millions	Level 1	Level 2	Level 3	Total
Audited as at 30 June 2016				
Financial assets				
Financial assets held for trading	-	-	-	-
Available-for-sale financial assets	462	493	-	955
Derivative financial instrument assets	-	658	-	658
Total financial assets at fair value	462	1,151	-	1,613
Financial liabilities				
Derivative financial instrument liabilities	-	725	-	725
Debt securities issued	-	290	-	290
Total financial liabilities at fair value	-	1,015	-	1,015

Notes to the interim financial statements continued

10. Financial instruments continued

Dollars in millions	Unaudited as at 31/12/16		Unaudited as at 31/12/15		Audited as at 30/06/16	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets						
Due from related parties	**89**	**89**	77	77	77	77
Financial assets held for trading	**-**	**-**	66	66	-	-
Available-for-sale assets	**1,143**	**1,143**	1,165	1,165	955	955
Derivative financial instruments	**422**	**422**	451	451	658	658
Loans and advances	**17,428**	**17,469**	16,349	16,458	16,689	16,804
Liabilities						
Due to related parties	**(6)**	**(6)**	(10)	(10)	(4)	(4)
Derivative financial instruments	**(445)**	**(445)**	(537)	(537)	(725)	(725)
Deposits and other borrowings	**(15,362)**	**(15,378)**	(14,430)	(14,447)	(14,782)	(14,796)
Debt securities issued	**(2,446)**	**(2,456)**	(2,507)	(2,515)	(2,207)	(2,213)
Subordinated debt	**(257)**	**(258)**	(256)	(259)	(258)	(261)

The carrying values of the following financial instruments are a reasonable approximation of fair value because 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. 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

12. 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. ANZSIC codes have been used as the basis for disclosing industry sectors. An analysis of financial liabilities by industry sector and geography at the reporting date is as follows:

Dollars in millions	Unaudited as at 31/12/16
Analysis by industry sector	
New Zealand	
Transport and storage	**165**
Finance, investment and insurance	**3,613**
Electricity, gas and water	**12**
Food & other manufacturing	**113**
Construction	**157**
Communications	**30**
Government, local authorities and services	**437**
Agriculture	**107**
Health and community services	**300**
Personal and other services	**179**
Property and business services	**480**
Education	**183**
Retail and wholesale trade	**65**
Households	**11,193**
Overseas	
Finance, investment and insurance - Australia	**99**
Finance, investment and insurance - rest of world	**1,193**
Households - Australia	**37**
Households - rest of world	**241**
	18,604
Other financial liabilities	**68**
Total financial liabilities	**18,672**

13. Dividends paid

During the period ended 31 December 2016 Kiwibank paid ordinary dividends of $5.0m to KGHL (period ended 31 December 2015: $24m; year ended 30 June 2016: $29m) and $1.3m to non-controlling interests in a subsidiary (period ended 31 December 2015: nil; year ended 30 June 2016: nil).

14. Related parties

NZP has a credit facility with the Banking Group, allowing NZP to draw down to the extent that the Banking Group does not exceed credit exposure to connected persons of 15% of Tier 1 capital, as required in its banking conditions of registration. When loans are drawn down the transaction is undertaken at market interest rates. As at 31 December 2016 the amount owed by NZP to the Banking Group under the credit facility was $76m (31 December 2015: $76m; 30 June 2016: $76m). This does not exceed the 15% of Tier 1 capital requirement.

On 31 October 2016, the Crown entered into a $300m uncalled capital facility with KGHL that allows the Banking Group to draw down capital for contingent events around Kiwibank's conditions of registration. The annualised cost of this facility on charged to Kiwibank is $3.0m. This facility replaced the one provided by the Crown to NZP which was withdrawn on 31 October 2016. This previous facility with NZP included the same conditions and the on charged cost of this facility to Kiwibank was an annualised cost of $3.6m.

Notes to the interim financial statements continued

14. Related parties continued

Dollars in millions	**Unaudited as at 31/12/16**	Unaudited as at 31/12/15	Audited as at 30/06/16
Outstanding balances			
Due to related parties	**6**	10	4
Included in derivative financial instruments - liabilities	**4**	3	5
Included in deposits	**90**	26	39
Included in debt securities issued	**5**	-	-
Total balances due to related parties	**105**	39	48
Receivables			
Due from related parties	**89**	77	77
Included in derivative financial instruments - assets	**2**	1	2
Included in loans and advances	**4**	2	3
Total balances due from related parties	**95**	80	82

15. 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, 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 conduct insurance business. However, certain insurance products which are marketed through the Banking Group's retail network are underwritten by Kiwi Insurance Limited, a wholly owned subsidiary of KGHL, Kiwibank's immediate parent company.

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 31 December 2016 is $316m (31 December 2015: $316m; 30 June 2016: $316m). These securities are ring fenced to ensure they are not used as collateral outside of agreements established in relation to the Covered Bond Trust.

Kiwibank RMBS Trust Series 2009-1

The purpose of the Kiwibank RMBS Trust Series 2009-1 (the "**RMBS Trust**") is to provide an in-house residential mortgage-backed securities facility to issue securities as collateral for borrowing from the Reserve Bank of New Zealand. As at 31 December 2016, included within Loans and advances to customers on the Banking Group's consolidated balance sheet were housing loans with a carrying value of $1,100m held by the RMBS Trust (31 December 2015: $600m; 30 June 2016: $1,100m). 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.

Notes to the interim financial statements continued

16. Segment analysis

For the purposes of determining reportable operating segments, the chief operating decision-maker has been identified as the Kiwibank Leadership Team ("KBLT"), which consists of the Chief Executive and his direct reports. The KBLT reviews the Banking Group's internal reporting pack on a regular basis to assess performance and to allocate resources. A reportable operating 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 segments. The business segments are defined by the customers that they service and the services they provide.

The KBLT 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. 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.

A summarised description of each business unit is shown below:

- Personal– 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– 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.

Dollars in millions	Personal Markets	Business Markets	Total
Unaudited 6 months ended 31 December 2016			
External revenues	**267**	**(19)**	**248**
Intersegment revenues	**(102)**	**102**	**-**
Total revenues	**165**	**83**	**248**
Profit before taxation	**46**	**40**	**86**
Unaudited 6 months ended 31 December 2015			
External revenues	260	(15)	245
Intersegment revenues	(105)	105	-
Total revenues	155	90	245
Profit before taxation	42	51	93
Year ended 30 June 2016			
External revenues	522	(45)	477
Intersegment revenues	(212)	212	-
Total revenues	310	167	477
Profit before taxation	76	89	165

17. 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 2016.

18. Liquidity

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

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

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

Notes to the interim financial statements continued

18. Liquidity continued

	Unaudited as at 31/12/16						
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	(88)	-	-	-	-	(88)	(88)
Due to related parties	(6)	-	-	-	-	(6)	(6)
Deposits and other borrowings	(5,795)	(4,539)	(4,694)	(458)	-	(15,486)	(15,362)
Debt securities issued	(266)	(474)	(472)	(1,355)	(34)	(2,601)	(2,446)
Other financial liabilities	(68)	-	-	-	-	(68)	(68)
Subordinated debt	(3)	-	(12)	(61)	(279)	(355)	(257)
Total financial liabilities	**(6,226)**	**(5,013)**	**(5,178)**	**(1,874)**	**(313)**	**(18,604)**	**(18,227)**
Assets							
Cash and cash equivalents	541	-	-	-	-	541	541
Due from related parties	11	31	1	46	-	89	89
Due from other financial institutions	90	41	20	-	-	151	151
Financial assets held for trading	-	-	-	-	-	-	-
Available-for-sale assets	1	195	200	804	-	1,200	1,143
Loans and advances	167	402	1,071	3,927	29,517	35,084	17,428
Other financial assets	17	-	-	-	-	17	17
Total financial assets	**827**	**669**	**1,292**	**4,777**	**29,517**	**37,082**	**19,369**
Net non-derivative cash flows	**(5,399)**	**(4,344)**	**(3,886)**	**2,903**	**29,204**	**18,478**	**1,142**
Derivative cash flows - net							
Interest rate derivatives	(5)	(15)	(33)	(2)	(2)	(57)	
Total	**(5)**	**(15)**	**(33)**	**(2)**	**(2)**	**(57)**	
Derivative cash flows - gross							
Foreign exchange derivatives							
Inflow	186	659	341	671	34	1,891	
Outflow	(188)	(655)	(363)	(620)	(40)	(1,866)	
Total	**(2)**	**4**	**(22)**	**51**	**(6)**	**25**	
Off balance sheet cash flows							
Capital commitments	-	(4)	(1)	-	-	(5)	
Undrawn loan commitments	(2,813)	-	-	-	-	(2,813)	
Lease commitments	-	(1)	(5)	(25)	(20)	(51)	
Total	**(2,813)**	**(5)**	**(6)**	**(25)**	**(20)**	**(2,869)**	
Net cash flows	**(8,219)**	**(4,360)**	**(3,947)**	**2,927**	**29,176**	**15,577**	
Cumulative net cash flows	**(8,219)**	**(12,579)**	**(16,526)**	**(13,599)**	**15,577**	**15,577**	

Notes to the interim financial statements continued

18. Liquidity continued

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	Unaudited as at 31/12/16
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	**108**
Government bonds and treasury bills	**412**
Local body stock and bonds	**70**
Other bonds	**481**
Total	**1,523**

19. Interest repricing

The table below summarises the Banking Group's exposure to interest rate risk. It includes financial instruments at their carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The fair value adjustment on the revaluation of financial instruments is categorised in the appropriate repricing category.

	Unaudited as at 31/12/16						
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	541	46	495	-	-	-	-
Due from related parties	89	13	45	-	31	-	-
Due from other financial institutions	151	-	131	20	-	-	-
Available-for-sale assets	1,143	-	281	43	120	134	565
Derivative financial instruments	422	422	-	-	-	-	-
Loans and advances	17,428	(26)	5,372	1,427	3,239	5,693	1,723
Other financial assets	17	17	-	-	-	-	-
Total financial assets	**19,791**	**472**	**6,324**	**1,490**	**3,390**	**5,827**	**2,288**
Financial liabilities							
Due to other financial institutions	(88)	(32)	(56)	-	-	-	-
Due to related parties	(6)	(6)	-	-	-	-	-
Derivative financial instruments	(445)	(445)	-	-	-	-	-
Deposits and other borrowings	(15,362)	(1,688)	(8,758)	(2,930)	(1,571)	(245)	(170)
Debt securities issued	(2,446)	-	(1,458)	(108)	(92)	(16)	(772)
Other financial liabilities	(68)	(68)	-	-	-	-	-
Subordinated debt	(257)	-	-	-	(150)	-	(107)
Total financial liabilities	**(18,672)**	**(2,239)**	**(10,272)**	**(3,038)**	**(1,813)**	**(261)**	**(1,049)**
On-balance sheet gap	**1,119**	**(1,767)**	**(3,948)**	**(1,548)**	**1,577**	**5,566**	**1,239**
Net derivative notional principals	**15**	**-**	**3,909**	**970**	**(806)**	**(4,053)**	**(5)**
Net effective interest rate gap	**1,134**	**(1,767)**	**(39)**	**(578)**	**771**	**1,513**	**1,234**

Notes to the interim financial statements continued

20. Capital expenditure commitments

Capital expenditure commitments contracted for as at 31 December 2016, but not provided for in these interim financial statements, total $4.9m; (31 December 2015: $5.8m; 30 June 2016: $6.3m) of which $0.4m (31 December 2015: $0.6m; 30 June 2016: $0.5m) are due between one and five years from the reporting date and the balance due within 12 months.

21. Contingent liabilities and loan commitments

In June 2013, a group called Fair Play on Fees announced plans for a representative action against banks in New Zealand in relation to certain default fees charged to New Zealand customers. In November 2013, the group issued proceedings against 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 31 December 2016 (31 December 2015: nil; 30 June 2016: nil).

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

Dollars in millions	**Unaudited as at 31/12/16**	Unaudited as at 31/12/15	Audited as at 30/06/16
Loan commitments	**2,813**	2,541	2,650

22. Events subsequent to the reporting date

There are no 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.

Ordinary shares

The ordinary shares issued by the Bank, which are fully paid, are included within CET 1 capital. The material terms and conditions of the ordinary shares are:

a) each share contains a single right to vote;

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

c) there is no predetermined dividend rate;

d) there is no maturity date; and

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

Perpetual bonds

The Perpetual bonds, issued by the Bank and which are fully paid, are included within AT1. The Perpetual bond issue is subordinate to other term subordinated debt issues and all other general liabilities of the Banking Group and is denominated in New Zealand dollars. The material terms and conditions are:

a) the Perpetual bonds constitute direct, perpetual, convertible, non-cumulative, unsecured, subordinated debt securities issued by Kiwibank;

b) interest on the Perpetual bonds is payable quarterly at an initial rate of 7.25% p.a. subject to the absolute discretion of Kiwibank;

c) interest is non-cumulative;

d) the Perpetual bonds may be required to be converted into ordinary shares of Kiwibank Limited (or written off if conversion into ordinary shares is not possible) if certain events occur;

e) the Perpetual bonds do not have a maturity date, however, after obtaining the consent of the RBNZ, Kiwibank may elect to make early repayment on 27 May 2020 or any reset date thereafter (reset dates occur at 5-yearly intervals, commencing on 27 May 2020) or if a tax or regulatory event has occurred (as described in the Deed Poll); and

f) the Perpetual 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.

Subordinated bonds

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

Subordinated debt issued 10 December 2012:

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

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

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

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

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

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

Capital adequacy continued

Convertible subordinated bonds

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

a) the convertible subordinated bonds constitute direct, unsecured, subordinated debt obligations of Kiwibank;

b) interest on the convertible subordinated bonds is payable semi-annually at an initial rate of 6.61% p.a. subject to the condition that Kiwibank and the Banking Group is solvent after each payment;

c) the convertible subordinated bonds may be required to be converted into ordinary shares of Kiwibank Limited (or written off if conversion into ordinary shares is not possible) if certain events occur;

d) the convertible subordinated bonds have a maturity date of 15 July 2024, however, Kiwibank may elect to make early repayment on 15 July 2019 or any semi-annual interest payment date thereafter; and

e) the convertible 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.

Risk exposures

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

The Bank's current prudential capital requirements based on assessments of its material risk classes (commonly referred to as "Pillar I" risk classes under Basel III) can be summarised as follows:

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

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

The capital adequacy tables set out on pages 26 to 31 summarise the composition of regulatory capital and capital adequacy ratios for the period ended 31 December 2016. Throughout the period Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

Regulatory capital ratios

				The Banking Group
	Regulatory minima	**31/12/16**	31/12/15	30/06/16
Capital adequacy ratios				
Common Equity Tier 1 capital ratio	**4.5%**	**9.8%**	9.0%	9.1%
Tier 1 capital ratio	**6.0%**	**11.3%**	10.6%	10.7%
Total capital ratio	**8.0%**	**13.4%**	12.8%	12.9%
Buffer ratios				
Buffer ratio	**2.5%**	**5.3%**	4.5%	4.6%

Capital adequacy continued

Regulatory capital ratios continued

	Kiwibank Limited		
	31/12/16	31/12/15	30/06/16
Capital adequacy ratios			
Common Equity Tier 1 capital ratio	**9.4%**	8.6%	8.6%
Tier 1 capital ratio	**10.9%**	10.1%	10.1%
Total capital ratio	**12.9%**	12.3%	12.3%

Regulatory capital

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

Dollars in millions	**31/12/16**	31/12/15	30/06/16
Common Equity Tier 1 capital			
Issued and fully paid up share capital	**490**	400	400
Retained earnings (net of appropriations)	**667**	573	616
Accumulated other comprehensive income and other disclosed reserves ❶❷	**(9)**	(46)	(34)
Less deductions from Common Equity Tier 1 capital			
Intangible assets	**(174)**	(138)	(158)
Cash flow hedge reserve	**13**	51	45
Deferred tax assets	**(6)**	(8)	(8)
Total Common Equity Tier 1 capital	**981**	832	861
Additional Tier 1 capital			
Perpetual bonds ❸	**147**	147	147
Total Additional Tier 1 capital	**147**	147	147
Total Tier 1 capital	**1,128**	979	1,008
Tier 2 capital			
Subordinated debt	**208**	208	208
Total Tier 2 capital	**208**	208	208
Total capital	**1,336**	1,187	1,216

❶ Includes Available for Sale Reserve of $4m. 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.

❷ Includes cash flow hedge reserve of ($13m). 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).

❸ Perpetual bonds issued by Kiwibank Limited are classified as Tier 1 capital of the Banking Group for regulatory reporting purposes.

Capital adequacy continued

On-balance sheet exposures

	31/12/16			
Dollars in millions	Total exposure	Risk weighting	Risk weighted exposure	Minimum Pillar I capital requirement
On-balance sheet exposures				
Cash and gold bullion	46	0%	-	-
Sovereigns and central banks	838	0%	-	-
Multilateral development banks and other international organisations	261	0%	-	-
Public sector entities	77	20%	15	1
	4	100%	4	-
Banks	518	20%	104	8
	88	50%	44	4
Corporate	83	50%	42	3
	700	100%	700	56
Residential mortgages not past due	9,895	35%	3,463	277
	4,822	40%	1,929	154
	916	50%	458	37
	249	70%	174	14
	73	75%	55	4
	52	90%	47	4
	135	100%	135	11
Impaired assets	4	100%	4	-
Past due residential mortgages > 90 days	6	100%	6	-
Other past due assets	1	150%	2	-
Non risk weighted assets	606	0%	-	-
Other assets	634	100%	634	51
Total on-balance sheet exposures	**20,008**		**7,816**	**624**

Capital adequacy continued

Off-balance sheet exposures and market related exposures

Dollars in millions	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weighting	Risk weighted exposure	Minimum Pillar I capital requirement
	31/12/16					
Direct credit substitute	8	100%	8	100%	8	1
Asset sale with recourse	-	100%	-	-	-	-
Forward asset purchase	-	100%	-	-	-	-
Commitment with certain drawdown	44	100%	44	100%	44	4
Note issuance facility	-	50%	-	-	-	-
Revolving credit facility	343	50%	172	40%	69	6
Revolving credit facility	1,147	20%	229	38%	87	7
Revolving credit facility	125	0%	-	-	-	-
Performance-related contingency	2	50%	1	100%	1	-
Other commitments where original maturity is greater than one year	372	50%	186	50%	93	7
Other commitments where original maturity is less than or equal to one year	-	20%	-	100%	-	-
Other commitments where original maturity is less than or equal to one year	-	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	780	0%	-	-	-	-
Market related contracts: ❶						
(a) Foreign exchange contracts	1,828	n/a	114	49%	56	4
(b) Interest rate contracts	46,049	n/a	489	36%	176	14
(c) CVA					127	10
Total off-balance sheet exposures	**50,698**		**1,243**		**661**	**53**

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

Residential mortgages by loan-to-value ratio

Dollars in millions	On-balance sheet	Off-balance sheet	Total
	31/12/16		
LVR 0% - 80%	14,717	375	15,092
LVR >80% - 90%	1,165	15	1,180
LVR 90% +	272	11	283
Total	**16,154**	**401**	**16,555**

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

At 31 December 2016, of the loans with an LVR greater than 80%, $399m relates to "Welcome Home" loans, whose credit risk is mitigated by the New Zealand Crown. Of the remaining loans with an LVR greater than 80%, Kiwibank uses lenders' mortgage insurance on selected loans.

Capital adequacy continued

Reconciliation of residential mortgage-related amounts

Dollars in millions	31/12/16
Residential mortgages total on-balance sheet exposures	16,154
Collective allowance for impairment	23
Deferred arrangement fees	98
Gross residential mortgage loans per asset quality (note 4)	**16,275**
Corporate lending residentially secured	(946)
Gross residential loans and advances to customers per loans and advances (note 3)	**15,329**

Credit risk mitigation

	31/12/16			
Dollars in millions	Total value of on- and off-balance sheet exposures covered by eligible collateral (after haircutting)	Total value of on- and off-balance sheet exposures covered by guarantees or credit derivatives	Risk weighted exposure	Minimum Pillar I capital requirement
Sovereign or central bank	-	-	-	-
Multilateral development bank	-	-	-	-
Public sector entities	-	-	-	-
Bank	(45,933)	-	(272)	(22)
Corporate	-	-	-	-
Residential mortgage	-	-	-	-
Other	-	-	-	-
	(45,933)	-	(272)	(22)

Operational risk

	31/12/16	
Dollars in millions	Implied risk weighted exposure	Total operational risk capital requirement
Operational risk	1,177	94

Capital adequacy continued

Market risk

	31/12/16			
	Implied risk weighted exposure		Aggregate capital charge	
Dollars in millions	End of period	Peak end-of-day	End of period	Peak end-of-day
Interest rate risk	**580**	**690**	**46**	**55**
- of which relates to trading book	**32**	**63**	**3**	**5**
Foreign currency risk	**8**	**13**	**1**	**1**
Equity risk	**-**	**-**	**-**	**-**

The aggregate market risk exposure above is derived in accordance with BS2A.

The peak end-of-day aggregate capital charge is the maximum over the half year accounting period at the close of each business day.

Total capital requirements

	31/12/16		
Dollars in millions	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital
Credit risk	**24,773**	**8,205**	**655**
Operational risk	**n/a**	**1,177**	**94**
Market risk	**n/a**	**588**	**47**
Total Pillar I risk	**n/a**	**9,970**	**796**

Other material risk (Pillar II)

The Bank has made an internal capital allocation of $47m (31 December 2015: $44m; 30 June 2016: $44m). The other material risks identified by the Bank include regulatory environment risk, reputational risk, systems risk and liquidity risk.

Independent Review Report

To the readers of Kiwibank Limited and the Banking Group's Disclosure Statement for the six months ended 31 December 2016

The Auditor-General is the auditor of Kiwibank Limited (the "Bank") and the entities it controlled as at 31 December 2016 or from time-to-time during the period (the "Banking Group"). The Auditor-General has appointed me, Chris Barber, using the staff and resources of PwC, to carry out the annual audit of the Bank and the Banking Group, on his behalf.

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

- interim financial statements on pages 5 to 24 of the Disclosure Statement of the Banking Group for the six months ended 31 December 2016 which comprise the balance sheet as at 31 December 2016, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six month period ended 31 December 2016 and selected explanatory notes; and
- supplementary information as required by Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") for the six months ended 31 December 2016.

Review conclusion

Based on our review, nothing has come to our attention that causes us to believe that:

- the interim financial statements on pages 5 to 24 (excluding supplementary information included in notes 4, 5, 11, 12, 15, 17, 18, and 19), are not prepared, in all material respects in accordance with New Zealand Equivalents to International Accounting Standard 34: *Interim Financial Reporting*;
- the supplementary information disclosed in notes 4, 5, 11, 12, 15, 17, 18, and 19 prescribed by Schedules 5, 7, 13, 16 and 18 of the Order does not fairly state the matters to which it relates in accordance with those Schedules; and
- the supplementary information relating to Capital Adequacy disclosed on pages 25 to 31 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.

The review was completed on 16 February 2017, and is the date at which our review conclusion is expressed.

Responsibilities of the Board of Directors

The Directors of Kiwibank Limited (the "Directors") are responsible on behalf of the Bank, for the preparation and fair presentation of the half-year Disclosure Statement which includes interim financial statements in accordance with Clause 25 of the Order. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of the half-year Disclosure Statement that is free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible on behalf of the Bank, for including supplementary information in the half-year Disclosure Statement that complies with schedules 3, 5, 7, 9, 13, 16 and 18 of the Order.

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

Responsibilities of the Reviewer
We are responsible for reviewing the interim financial statements and supplementary information disclosed in accordance with Clause 25 and Schedules 5, 7, 9, 13, 16 and 18 of the Order, presented by the Directors.

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

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

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

We conducted our review in accordance with New Zealand Standard on Review Engagements 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410"). As the auditor of the Bank, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with the Auditor-General's Auditing Standards and the International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim financial statements.

Independence
In completing our review we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

We are independent of the Bank and the Banking Group. We have carried out assignments in the areas of assurance and advisory services, 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. These matters have not impaired our independence. Other than in our capacity as auditor acting on behalf of the Auditor-General, 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