Disclosure Statement

For the nine months ended 31 March 2017

Kiwibank.

Number 63

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 nine months ended 31 March 2017, 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.

Deconsolidation of Kiwi Capital Funding Limited (“KCFL”)

On 30 March 2017, changes were made to the KGHL Group governance arrangements which have resulted in KCFL being deconsolidated from the Banking Group effective 30 March 2017 and the Banking Group no longer recognising KCFL’s assets and liabilities as at 31 March 2017. The effect of the deconsolidation is disclosed in note 18.

RBNZ’s decision on Kiwibank’s convertible capital instruments

On 29 May 2017, Kiwibank was informed by the RBNZ that the Kiwibank Bonds, issued to KCFL, did not comply with certain requirements in Document BS2A, Capital Adequacy Framework (Standardised Approach).

As a result, the RBNZ has withdrawn its notices of non-objection to the treatment of the Bonds as capital instruments as at that date. The effect of this decision, and the subscription for $247m of common equity in Kiwibank, is disclosed as a subsequent event to the Capital Adequacy disclosure as at 31 March 2017.

Core banking system

Kiwibank is in the process of modernising its core banking system. This is a significant and complex change programme which is taking longer than anticipated and 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 resulting in damage to businesses, buildings and homes across this area. The head office of Kiwibank was impacted and employees have been moved to various new buildings however the earthquake is not expected to have a material financial impact on the Banking Group.

General matters continued

Pending proceedings or arbitration

The Board are of the opinion that 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. On 16 March 2017 Fair Play on Fees and Kiwibank reached a negotiated settlement of the representative action. Kiwibank does not admit any liability and all claims against it will be withdrawn. Details of the settlement are otherwise confidential.

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	Outlook Stable
Moody's Investors Service ("**Moody's**")	A1	Outlook Stable
Fitch Ratings ("**Fitch**")	AA	Outlook Stable

Conditions of registration

Changes in conditions of registration

There have been no changes to the Kiwibank conditions of registration from those which were in force at 31 December 2016.

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.

Robert William Bentley Morrison and Rhoda Phillippo resigned as directors on 13 April 2017.

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

Responsible persons

Kevin Mark Malloy 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

Michael Charles John O'Donnell
Scott John Pickering
Deborah Jane Taylor

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

Guarantees

As at the date the Board approved this Disclosure Statement, payment obligations of Kiwibank in relation to certain debt securities issued by Kiwibank have the benefit of a guarantee by Kiwi Covered Bond Trustee Limited (the "**Covered Bond Guarantee**"). Also, the payment obligations of Kiwibank owed as at 28 February 2017 and still outstanding have the benefit of a deed poll guarantee by NZP (the "**NZP Guarantee**").

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 did not affect any payment obligations of Kiwibank that were already guaranteed at the time the guarantee was terminated. A summary of the details of each guarantee are set out below.

NZP Guarantee

NZP continues to support Kiwibank as a registered bank through the NZP Guarantee to the extent of guaranteed payment obligations that existed as at 28 February 2017.

The following is a summary of the main features of the NZP Guarantee effective for payment obligations that existed as at 28 February 2017:

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 owing as at 28 February 2017 and still outstanding. The NZP Guarantee has no expiry date in relation to the payment obligations that continue to be guaranteed.

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 (as amended); and
    ii. ii.the Disclosure Statement is not false or misleading.

2. During the period ended 31 March 2017:
    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 Kevin Mark Malloy and Susan Carrel Macken as directors and responsible persons on behalf of all the directors listed in the Directorate of this Disclosure Statement:

K. Malloy

29 May 2017

Interim financial statements

Consolidated income statement

For the nine months ended 31 March 2017

Dollars in millions	Note	**Unaudited 9 months ended 31/03/17**	Unaudited 9 months ended 31/03/16	Audited year ended 30/06/16
Interest income		**617**	689	898
Interest expense		**(346)**	(409)	(525)
Net interest income		**271**	280	373
Net gains on financial instruments at fair value	2	**5**	8	3
Gross fee and other income		**149**	145	195
Direct fee expenses		**(62)**	(71)	(94)
Net fee and other income		**87**	74	101
Total operating income		**363**	362	477
Operating expenses		**(248)**	(219)	(301)
Profit before impairment and taxation		**115**	143	176
Impairment reversals/(losses) on loans and advances	4	**-**	(10)	(11)
Profit before taxation		**115**	133	165
Income tax expense		**(30)**	(33)	(41)
Profit after taxation		**85**	100	124

Consolidated statement of comprehensive income

For the nine months ended 31 March 2017

Dollars in millions	**Unaudited 9 months ended 31/03/17**	Unaudited 9 months ended 31/03/16	Audited year ended 30/06/16
Profit after taxation	**85**	100	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)	**(5)**	3	3
- Cash flow hedge reserve (net of tax)	**28**	(10)	9
Other comprehensive income for the period/year	**23**	(7)	12
Total comprehensive income for the period/year	**108**	93	136

The notes on pages 9 to 18 form part of these interim financial statements.

Interim financial statements continued

Consolidated statement of changes in equity

For the nine months ended 31 March 2017

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 9 months ended 31 March 2016							
Unaudited profit for the period		-	100	-	-	-	100
Other comprehensive income							
Available-for-sale financial assets (net of tax)		-	-	3	-	-	3
Cash flow hedges (net of tax)		-	-	-	(10)	-	(10)
Total other comprehensive income		-	-	3	(10)	-	(7)
Total comprehensive income		-	100	3	(10)	-	93
Transactions with owners							
Dividends paid on ordinary shares		-	(24)	-	-	-	(24)
Distributions to holders of perpetual capital		-	(8)	-	-	-	(8)
Unaudited balance at 31 March 2016		400	600	11	(64)	147	1,094
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 9 months ended 31 March 2017							
Unaudited profit for the period		**-**	**85**	**-**	**-**	**-**	**85**
Other comprehensive income							
Available-for-sale financial assets (net of tax)		**-**	**-**	**(5)**	**-**	**-**	**(5)**
Cash flow hedges (net of tax)		**-**	**-**	**-**	**28**	**-**	**28**
Total other comprehensive income		**-**	**-**	**(5)**	**28**	**-**	**23**
Total comprehensive income		**-**	**85**	**(5)**	**28**	**-**	**108**
Deconsolidation of KCFL	**18**	**-**	**-**	**-**	**-**	**(147)**	**(147)**
Transactions with owners							
Issue of share capital		**90**	**-**	**-**	**-**	**-**	**90**
Dividends paid to non-controlling interest	**10**	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Dividends paid on ordinary shares	**10**	**-**	**(5)**	**-**	**-**	**-**	**(5)**
Distributions paid to holders of perpetual capital		**-**	**(9)**	**-**	**-**	**-**	**(9)**
Unaudited balance at 31 March 2017		**490**	**686**	**6**	**(17)**	**-**	**1,165**

The notes on pages 9 to 18 form part of these interim financial statements.

Interim financial statements continued

Consolidated balance sheet

As at 31 March 2017

Dollars in millions	Note	**Unaudited 31/03/17**	Unaudited 31/03/16	Audited 30/06/16
Assets				
Cash and cash equivalents		**472**	530	509
Due from related parties	11	**90**	78	77
Due from other financial institutions	5	**151**	243	247
Financial assets held for trading		**-**	15	-
Available-for-sale assets		**1,221**	1,159	955
Derivative financial instruments		**427**	693	658
Loans and advances	3	**17,822**	16,439	16,689
Deferred taxation		**13**	33	25
Property, plant and equipment		**28**	20	23
Intangible assets		**181**	146	158
Other assets		**23**	17	16
Total assets		**20,428**	19,373	19,357
Total interest earning and discount bearing assets		***19,704***	*18,458*	*18,434*
Liabilities				
Due to other financial institutions		**66**	107	135
Due to related parties	11	**8**	4	4
Derivative financial instruments		**431**	766	725
Deposits and other borrowings	6	**15,697**	14,656	14,782
Debt securities issued		**2,535**	2,396	2,207
Current tax liability		**15**	-	15
Other liabilities		**106**	91	102
Subordinated debt	7	**405**	259	258
Total liabilities		**19,263**	18,279	18,228
Total interest and discount bearing liabilities		***16,989***	*15,972*	*15,872*
Equity attributable to owners of the parent				
Share capital		**490**	400	400
Reserves		**675**	694	729
Total equity attributable to owners of the parent		**1,165**	1,094	1,129
Total liabilities and shareholders' equity		**20,428**	19,373	19,357

The notes on pages 9 to 18 form part of these interim financial statements.

Interim financial statements continued

Consolidated cash flow statement

For the nine months ended 31 March 2017

Dollars in millions	**Unaudited 9 months ended 31/03/17**	Unaudited 9 months ended 31/03/16	Audited year ended 30/06/16
Cash flows from operating activities			
Interest received	**642**	711	928
Interest paid	**(336)**	(414)	(535)
Fees and other income received	**149**	145	195
Direct fee expenses paid	**(62)**	(71)	(94)
Operating expenses paid	**(231)**	(191)	(255)
Taxes paid	**(27)**	(52)	(45)
Net cash flows from operating activities before changes in operating assets and liabilities	**135**	128	194
Net changes in operating assets and liabilities			
Decrease in financial assets held for trading	**-**	82	97
(Increase)/decrease in available-for-sale assets	**(269)**	76	280
Increase in loans and advances	**(1,180)**	(883)	(1,140)
Increase in net amounts due from related parties	**(9)**	(4)	(2)
Decrease/(increase) in balances due from other financial institutions	**96**	(49)	(53)
Increase in deposits and other borrowing	**903**	926	1,059
Decrease in balances due to other financial institutions	**(69)**	(218)	(190)
Net cash flows provided by operating activities	**(393)**	58	245
Cash flows from investing activities			
Purchase of property, plant and equipment	**(10)**	(5)	(10)
Purchase of intangible assets	**(41)**	(46)	(65)
Net cash flows from investing activities	**(51)**	(51)	(75)
Cash flows from financing activities			
Issue of ordinary shares	**90**	-	-
Increase/(decrease) in debt securities issued	**329**	64	(109)
Dividends paid to non-controlling interest	**(1)**	-	-
Dividends paid on ordinary shares	**(5)**	(24)	(29)
Distributions paid to holders of perpetual capital	**(9)**	(8)	(11)
Net cash flows from financing activities	**404**	32	(149)
(Decrease)/increase in cash and cash equivalents	**(40)**	39	21
Cash and cash equivalents at beginning of the period/year	**509**	492	492
Effect of exchange translation adjustments	**3**	(1)	(4)
Cash and cash equivalents at end of the period/year	**472**	530	509

The notes on pages 9 to 18 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. Kiwi Capital Funding Limited ("**KCFL**") was previously consolidated as a subsidiary of Kiwibank but, effective 30 March 2017, KCFL was deconsolidated due to changes made to the KGHL Group governance arrangements as noted in 'Other material matters' on page 1. The effect of the deconsolidation is disclosed in note 18.

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 nine months ended 31 March 2017 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 March 2017, 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

The comparative amounts due from or to related parties in Note 11 have been amended to include an additional disclosure of amounts included within derivative financial instruments.

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

Dollars in millions	**Unaudited 9 months ended 31/03/17**	Unaudited 9 months ended 31/03/16	Audited year ended 30/06/16
Derivative financial instruments held for trading	**(3)**	1	(1)
Financial assets held for trading	**-**	1	1
Net ineffectiveness on qualifying fair value hedges	**12**	1	-
Cumulative gain transferred from available-for-sale reserve	**4**	7	8
Cumulative loss transferred from cash flow hedge reserve	**(9)**	(2)	(5)
Net foreign exchange gains	**1**	-	-
Total gains on financial instruments	**5**	8	3

Net ineffectiveness on qualifying cash flow hedges is $0.0m (31 March 2016: ($0.0m); 30 June 2016: ($0.0m)). Net ineffectiveness on qualifying fair value hedges is $12.5m (31 March 2016: ($0.5m); 30 June 2016: ($0.2m)).

Notes to the interim financial statements continued

3. Loans and advances

Dollars in millions	**Unaudited as at 31/03/17**	Unaudited as at 31/03/16	Audited as at 30/06/16
Residential	**15,684**	14,424	14,642
Other retail	**421**	406	400
Corporate	**1,765**	1,659	1,702
Gross loans and advances	**17,870**	16,489	16,744
Collective allowance for impairment losses	**(41)**	(44)	(44)
Allowance for individually impaired assets	**(7)**	(9)	(9)
Fair value hedge adjustments	**-**	3	(2)
Net loans and advances	**17,822**	16,439	16,689
Current	**1,312**	1,177	1,267
Non-current	**16,510**	15,262	15,422

The table above presents gross loans and advances split by type of product. The Corporate category includes business loan products that are secured by residential property.

4. Asset quality

Dollars in millions	**Retail unsecured lending**	**Residential mortgage loans**	**Business exposures**	**Total**
Unaudited 9 months ended 31 March 2017				
Collective impairment (reversals)/losses	**(1)**	**(2)**	**-**	**(3)**
Individual impairment losses/(reversals)	**5**	**(1)**	**(1)**	**3**
Total impairment losses/(reversals) per income statement	**4**	**(3)**	**(1)**	**-**
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 9 months ended 31 March 2016				
Collective impairment losses/(reversals)	2	7	(6)	3
Individual impairment losses/(reversals)	8	1	(2)	7
Total impairment losses/(reversals) per income statement	10	8	(8)	10

Dollars in millions	**Retail unsecured lending**	**Residential mortgage loans**	**Business exposures**	**Total**
Unaudited 9 months ended 31 March 2017				
Collective allowance for impairment loss	**10**	**23**	**8**	**41**
Past due assets >90 days but not impaired	**2**	**5**	**-**	**7**
Impaired assets				
Gross impaired assets	**1**	**5**	**3**	**9**
Individual allowance for impaired assets	**(1)**	**(2)**	**(4)**	**(7)**
Total net impaired assets	**-**	**3**	**(1)**	**2**

Notes to the interim financial statements continued

5. Due from other financial institutions

Dollars in millions	**Unaudited as at 31/03/17**	Unaudited as at 31/03/16	Audited as at 30/06/16
Unsettled receivables	**29**	4	42
Short term advances due from other financial institutions	**40**	61	40
Collateralised loans	**82**	178	165
Total amounts due from other financial institutions - Current	**151**	243	247

As at 31 March 2017, included within the balance above, is $82.0m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (31 March 2016: $178.0m; 30 June 2016: $164.7m).

6. Deposits and other borrowings

Dollars in millions	**Unaudited as at 31/03/17**	Unaudited as at 31/03/16	Audited as at 30/06/16
Demand deposits non-interest bearing	**1,709**	1,441	1,505
Demand deposits bearing interest	**3,209**	3,074	3,135
Term deposits	**10,779**	10,141	10,142
Total deposits from customers	**15,697**	14,656	14,782
Current	**15,340**	14,185	14,340
Non-current	**357**	471	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 covered by the NZP Guarantee that existed at the time the NZP Guarantee was terminated on 28 February 2017 are guaranteed under the NZP Guarantee but only in relation to and to the extent of those obligations.

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 March 2017, $3,160m of the Trust's funds were invested in Kiwibank products or securities (31 March 2016: $3,611m; 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

7. Subordinated debt

Dollars in millions	**Unaudited as at 31/03/17**	Unaudited as at 31/03/16	Audited as at 30/06/16
Subordinated bonds	**257**	152	150
Perpetual capital bonds	**148**	-	-
Capital notes	**-**	107	108
Total subordinated debt	**405**	259	258
Current	**4**	4	3
Non-current	**401**	255	255

During the period ended 31 March 2017, $nil of subordinated debt was issued or called by the Banking Group (period ended 31 March 2016: $nil issued or called; year ended 30 June 2016: $nil issued or called).

As at 31 March 2017, $148m of the subordinated debt qualified as Additional Tier 1 capital (31 March 2016: nil; 30 June 2016: nil) and $208m qualified as Tier 2 capital (31 March 2016: $208m; 30 June 2016: $208m) for Capital Adequacy calculation purposes. The perpetual capital bonds recognised as Additional Tier 1 capital at 31 March 2017 were previously eliminated on consolidation as explained further below. 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 NZP Guarantee was terminated with an effective date of 28 February 2017.

The Banking Group has not had any defaults of principal, interest or other breaches with respect to these liabilities during the period (period ended 31 March 2016: 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.

Effect of deconsolidation of Kiwi Capital Funding Limited ("KCFL") on subordinated debt

KCFL, which is 100% owned by KGHL, was established solely for the purpose of issuing debt securities to the market and using the proceeds to subscribe for regulatory capital instruments issued by Kiwibank. On 30 March 2017, changes were made to the KGHL Group governance arrangements which resulted in KCFL being deconsolidated from the Banking Group. Therefore, the Banking Group no longer recognises KCFL's assets and liabilities as at 31 March 2017.

As a consequence of deconsolidation, debt instruments issued by Kiwibank to KCFL, previously eliminated on consolidation, are now recognised as part of the Banking Group and similarly, debt instruments issued by KCFL are no longer recognised as part of the Banking Group.

This results in the derecognition of capital notes with a carrying value of $105m issued by KCFL and recognition of subordinated bonds of $105m issued by Kiwibank to KCFL ("Kiwibank Bonds") that were funded by KCFL's issuance of the capital notes. Perpetual capital bonds with a carrying value of $148m issued to KCFL by Kiwibank are also now recognised by the Banking Group having been previously eliminated on consolidation. The recognition of the perpetual capital bonds issued to KCFL is offset by the derecognition of $147m of perpetual capital notes that were previously recognised as equity of the Banking Group. The effect of deconsolidation is further disclosed in note 18.

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

Instrument	Issue date	Amount ($m)	Coupon rate	Call date	Maturity date
Subordinated bonds	10 December 2012	150	5.80% p.a.	15 December 2017	15 December 2022
Kiwibank bonds	6 June 2014	100	6.61% p.a.❶	15 July 2019	15 July 2024
Perpetual capital bonds	27 May 2015	150	7.25%p.a.❷	27 May 2020	None

❶ Fixed interest rate which will be reset on 15 July 2019

❷ Fixed interest rate which will be reset on 27 May 2020 and at 5-yearly intervals thereafter

Notes to the interim financial statements continued

8. 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.

Dollars in millions	Level 1	Level 2	Level 3	Total
Unaudited as at 31 March 2017				
Financial assets				
Financial assets held for trading	-	-	-	-
Available-for-sale financial assets	554	667	-	1,221
Derivative financial instrument assets	-	427	-	427
Total financial assets at fair value	554	1,094	-	1,648
Financial liabilities				
Derivative financial instrument liabilities	-	431	-	431
Debt securities issued	-	697	-	697
Total financial liabilities at fair value	-	1,128	-	1,128

There have been no transfers between levels 1 and 2 during the period ended 31 March 2017 (period ended 31 March 2016: no transfers; year ended 30 June 2016: no transfers). There were also no transfers into/out of level 3 during the period ended 31 March 2017 (period ended 31 March 2016: no transfers; year ended 30 June 2016: no transfers).

Notes to the interim financial statements continued

8. Financial instruments continued

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

Dollars in millions	Level 1	Level 2	Level 3	Total
Unaudited as at 31 March 2016				
Financial assets				
Financial assets held for trading	1	14	-	15
Available-for-sale financial assets	483	676	-	1,159
Derivative financial instrument assets	-	693	-	693
Total financial assets at fair value	484	1,383	-	1,867
Financial liabilities				
Derivative financial instrument liabilities	-	766	-	766
Debt securities issued	-	500	-	500
Total financial liabilities at fair value	-	1,266	-	1,266

	Unaudited as at 31/03/17		Unaudited as at 31/03/16		Audited as at 30/06/16	
Dollars in millions	**Carrying amount**	**Estimated fair value**	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets						
Due from related parties	**90**	**90**	78	78	77	77
Financial assets held for trading	**-**	**-**	15	15	-	-
Available-for-sale assets	**1,221**	**1,221**	1,159	1,159	955	955
Derivative financial instruments	**427**	**427**	693	693	658	658
Loans and advances	**17,822**	**17,848**	16,439	16,591	16,689	16,804
Liabilities						
Due to related parties	**(8)**	**(8)**	(4)	(4)	(4)	(4)
Derivative financial instruments	**(431)**	**(431)**	(766)	(766)	(725)	(725)
Deposits and other borrowings	**(15,697)**	**(15,706)**	(14,656)	(14,679)	(14,782)	(14,796)
Debt securities issued	**(2,535)**	**(2,545)**	(2,396)	(2,404)	(2,207)	(2,213)
Subordinated debt	**(405)**	**(414)**	(259)	(262)	(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.

Notes to the interim financial statements continued

9. 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.

10. Dividends paid

During the period ended 31 March 2017 Kiwibank paid ordinary dividends of $5.0m to the immediate parent company, KGHL (period ended 31 March 2016: $24.0m; year ended 30 June 2016: $29.0m) and $1.3m to non-controlling interests in a subsidiary (period ended 31 March 2016: nil; year ended 30 June 2016: nil).

11. Related parties

Dollars in millions	**Unaudited as at 31/03/17**	Unaudited as at 31/03/16	Audited as at 30/06/16
Outstanding balances			
Due to related parties	**8**	4	4
Included in derivative financial instruments - liabilities	**4**	5	5
Included in deposits	**85**	26	39
Total balances due to related parties	**97**	35	48
Receivables			
Due from related parties	**90**	78	77
Included in derivative financial instruments - assets	**1**	2	2
Included in loans and advances	**4**	3	3
Total balances due from related parties	**95**	83	82

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 March 2017 the amount owed by NZP to the Banking Group including loans and other transactional accounts was $89.2m (31 March 2016: $77m; 30 June 2016: $76.9m). This does not exceed the credit exposure to connected persons limit of 15% of Tier 1 capital.

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 the facility to Kiwibank was an annualised cost of $3.6m.

12. 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.

Notes to the interim financial statements continued

12. Fiduciary activities and securitisation continued

Kiwi Covered Bond Trust

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

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

The carrying value of the Covered Bond Trust pool at 31 March 2017 is $316m (31 March 2016: $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 March 2017, 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 March 2016: $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.

13. 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.
- 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.

Notes to the interim financial statements continued

13. Segment analysis continued

Dollars in millions	Personal Markets	Business Markets	Total
Unaudited 9 months ended 31 March 2017			
External revenues	**395**	**(32)**	**363**
Intersegment revenues	**(151)**	**151**	**-**
Total revenues	**244**	**119**	**363**
Profit before taxation	**65**	**50**	**115**
Unaudited 9 months ended 31 March 2016			
External revenues	391	(29)	362
Intersegment revenues	(159)	159	-
Total revenues	232	130	362
Profit before taxation	60	73	133
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

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 2016.

15. 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	Unaudited as at 31/03/17
The Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy.	
Cash on hand and with central banks	**388**
Certificates of deposit	**72**
Government bonds and treasury bills	**546**
Local body stock and bonds	**13**
Other bonds	**524**
Total	**1,543**

The Bank also held unencumbered residential mortgage backed securities which would entitle the Banking Group to enter into repurchase transactions with a value of NZ$855 million at 31 March 2017.

16. Capital expenditure commitments

Capital expenditure commitments contracted for as at 31 March 2017, but not provided for in these interim financial statements, total $3.6m; (31 March 2016: $5.6m; 30 June 2016: $6.3m) of which $0.3m (31 March 2016: $0.6m; 30 June 2016: $0.5m) are due between one and five years from the reporting date.

Notes to the interim financial statements continued

17. Contingent liabilities and loan commitments

There are no material contingent liabilities as at 31 March 2017 (31 March 2016: nil; 30 June 2016: nil).

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

Dollars in millions	**Unaudited as at 31/03/17**	Unaudited as at 31/03/16	Audited as at 30/06/16
Loan commitments	**2,919**	2,626	2,650

18. Deconsolidation of Kiwi Capital Funding Limited ("KCFL")

On 30 March 2017, changes were made to the KGHL Group governance arrangements which have resulted in KCFL being deconsolidated from the Banking Group effective 30 March 2017 and the Banking Group no longer recognising KCFL's assets and liabilities as at 31 March 2017. No consideration was received in relation to the changes that led to the deconsolidation of KCFL.

KCFL, which is 100% owned by KGHL, was established solely for the purpose of issuing debt securities to the market and using the proceeds to subscribe for regulatory capital instruments issued by Kiwibank. The debt issued by KCFL has substantially the same terms as the debt issued by Kiwibank to KCFL and the impact of deconsolidation is limited to differences in accounting treatment of the debt issuances by KCFL and Kiwibank.

Perpetual capital notes issued by KCFL were previously treated as equity of the Banking Group and deconsolidation resulted in a reduction of $147m in the Banking Group's perpetual capital reserve. This decrease in equity was offset by an increase in subordinated debt liabilities due to the recognition of the perpetual capital bonds issued by Kiwibank to KCFL that were previously eliminated upon consolidation. The perpetual capital bonds are carried at amortised cost with a value at 31 March 2017 of $148m including unamortised issuance costs of $2m.

The subordinated debt issued by Kiwibank to KCFL and by KCFL to the market had the same accounting treatment by both entities therefore the deconsolidation of these instruments had no effect on the Banking Group.

Dollars in millions	**Unaudited as at 31/03/17**
Effect of deconsolidation of subsidiary	
Liabilities	
Perpetual capital bonds	**(148)**
Equity	
Perpetual capital reserve (perpetual capital notes)	**147**
Net assets deconsolidated	**(1)**
Loss on deconsolidation of subsidiary	
Net assets deconsolidated	**(1)**
Fair value of interest retained	**-**
Consideration received upon deconsolidation	**-**
Loss on deconsolidation of subsidiary	**(1)**

The loss on deconsolidation of $1.1m arises due to the recognition of the perpetual capital bond issuance costs amortised to date by Kiwibank having been previously eliminated upon consolidation. The loss on deconsolidation is reflected within operating expenses.

19. Events subsequent to the reporting date

Issuance of additional ordinary shares

On 10 April 2017, Kiwibank issued a further 247m ordinary shares for consideration of $247m to KGHL. This additional capital investment increased the Banking Group's assets by $247m.

On 29 May 2017, Kiwibank was informed by the RBNZ that the Kiwibank Bonds, issued to KCFL, did not comply with certain requirements in Document BS2A, Capital Adequacy Framework (Standardised Approach).

As a result, the RBNZ has withdrawn its notices of non-objection to the treatment of the Bonds as capital instruments as at that date. The effect of this decision, and the subscription for $247m of common equity in Kiwibank, is disclosed as a subsequent event to the Capital Adequacy disclosure as at 31 March 2017.

There were 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

	Regulatory minima	31/03/17	31/03/16	30/06/16
Capital adequacy ratios				
Common Equity Tier 1 capital ratio	**4.5%**	**10.0%**	9.1%	9.1%
Tier 1 capital ratio	**6.0%**	**11.4%**	10.7%	10.7%
Total capital ratio	**8.0%**	**13.5%**	12.9%	12.9%
Buffer ratios				
Buffer ratio	**2.5%**	**5.4%**	4.6%	4.6%

Regulatory capital

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

Dollars in millions	31/03/17	31/03/16	30/06/16
Common Equity Tier 1 capital ❶❷	**1,165**	947	982
Less deductions from Common Equity Tier 1 capital	**(170)**	(90)	(121)
Total Common Equity Tier 1 capital	**995**	857	861
Additional Tier 1 capital ❸❹	**148**	147	147
Total Tier 1 capital	**1,143**	1,004	1,008
Tier 2 capital❹	**208**	208	208
Total capital	**1,351**	1,212	1,216

❶ Includes Available for Sale Reserve of $6m. 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 ($17m). 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 Additional Tier 1 capital consists of perpetual capital bonds, which are classified as debt for financial reporting purposes.

❹ As noted in the Other Material Matters, on 29 May 2017, Kiwibank was informed by the Reserve Bank that the Alternative Tier 1 capital and $100m of Tier 2 capital issued to KCFL were not eligible capital instruments.

Capital adequacy continued

Pillar I capital requirements

Dollars in millions	31/03/17 Pillar I capital requirement
On-balance sheet credit risk	
Residential mortgages (including past due)	510
Corporate	62
Claims on other banks	11
Other	52
Total on-balance sheet credit risk	**635**
Other capital requirements	
Off-balance sheet credit exposures	31
Operational risk	96
Market risk	39
Total other capital requirements	**166**
Total Pillar I capital requirement	**801**

Residential mortgages by loan-to-value ratio

	31/03/17		
Dollars in millions	On-balance sheet	Off-balance sheet	Total
LVR 0% - 80%	15,157	382	15,539
LVR >80% - 90%	1,117	14	1,131
LVR 90% +	237	10	247
Total	**16,511**	**406**	**16,917**

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 March 2017, of the loans with an LVR greater than 80%, $407m 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 $47m. The other material risks identified by the Bank include regulatory environment risk, reputational risk, systems risk and liquidity risk.

Capital adequacy continued

Subsequent Events

On 10 April 2017, NZ Post, the NZ Super Fund and ACC subscribed, through Kiwi Group Holdings Limited, for $247 million of common equity in Kiwibank. The investment was made following a preliminary decision by the Reserve Bank of New Zealand that the Kiwibank Bonds issued to KCFL did not comply with certain requirements in Document BS2A, Capital Adequacy Framework (Standardised Approach). The purpose of the investment was to ensure that Kiwibank's capital ratios would be maintained if the Reserve Bank finalised its view that the convertible capital instruments were not compliant.

On 29 May 2017, Kiwibank was informed by the RBNZ that the Kiwibank Bonds, issued to KCFL, did not comply with certain requirements in Document BS2A, Capital Adequacy Framework (Standardised Approach). As a result, the RBNZ has withdrawn its notices of non-objection to the treatment of the Bonds as capital instruments as at that date. The impact of the capital injection and the withdrawal of the RBNZ's notice of non-objection on the Banking Group's capital position is shown below:

	Regulatory minima	As at 31/3/2017	Effect of 10 April $247m capital injection on 31 March Capital Ratios	Effect of 29 May RBNZ notification on 31 March Capital Ratios
Capital adequacy ratios				
Common Equity Tier 1 capital ratio	**4.5%**	**10.0%**	**12.4%**	**12.4%**
Tier 1 capital ratio	**6.0%**	**11.4%**	**13.9%**	**12.4%**
Total capital ratio	**8.0%**	**13.5%**	**16.0%**	**13.5%**
Buffer ratios				
Buffer ratio	**2.5%**	**5.4%**	**7.9%**	**5.5%**