Kiwi Capital Funding Limited

Interim Financial Statements

For the six months ended 31 December 2015.

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Details of incorporation	Kiwi Capital Funding Limited (the "**Company**") was incorporated in New Zealand under the Companies Act 1993 on 17 March 2014.
Directors	Paul Brock Gary Crawford
Registered Office	Level 12 New Zealand Post House 7 Waterloo Quay Wellington 6011 New Zealand
Communications with Directors	Communications addressed to the directors may be sent to the Address for service: Ground floor New Zealand Post House 7 Waterloo Quay Wellington 6011 New Zealand
Trustee	The New Zealand Guardian Trustee Company Limited Level 7, Vero Centre 48 Shortland Street Auckland 1010 New Zealand
Promoter	Kiwibank Limited Ground floor New Zealand Post House 7 Waterloo Quay Wellington 6011 New Zealand
Registrar	Link Market Services Limited Level 7, Zurich House 21 Queen Street Auckland 1010 New Zealand
Credit rating	The Capital Notes have a credit rating of BB+ from Standard & Poor's (Australia) Pty Limited ("**S&P**"). This is lower than Kiwibank Limited's ("**Kiwibank**") issuer credit rating for long term senior unsecured obligations of A+ (stable outlook) because the returns on the Capital Notes are derived from the performance of convertible subordinated bonds issued by Kiwibank (the "**Kiwibank Bonds**") and held by the Company. The Kiwibank Bonds are subordinated obligations of Kiwibank and may be converted into ordinary shares or written off if a Non-Viability Trigger Event occurs. The Perpetual Capital Notes have a credit rating of BB- from S&P. This is lower than Kiwibank's issuer credit rating for long term senior unsecured obligations of A+ (stable outlook) because the returns on the Perpetual Capital Notes are derived from the performance of perpetual capital notes issued by Kiwibank (the "**Kiwibank Perpetual Bonds**") and held by the Company. The Kiwibank Perpetual Bonds are subordinated obligations of Kiwibank having discretionary interest payments and may be converted into ordinary shares or written off if a Non-Viability Trigger Event occurs.

Interim financial statements

Income statement
For the six months ended 31 December 2015

Dollars in thousands	Note	**Unaudited Six months ended 31 December 2015**	Unaudited Six months ended 31 December 2014	Audited Year ended 30 June 2015
Distributions received – related party	5	**5,438**	-	-
Interest income – related party	5	**3,309**	3,303	6,604
Total income		**8,747**	3,303	6,604
Interest expense		**(8,747)**	(3,303)	(7,638)
Operating profit/(loss) before gains and losses		**-**	-	(1,034)
Net gains on financial instruments designated at fair value		**-**	-	1,034
Profit before tax		**-**	-	-
Income tax		**-**	-	-
Profit after tax attributable to shareholders		**-**	-	-

Statement of comprehensive income
For the six months ended 31 December 2015

Dollars in thousands	**Unaudited Six months ended 31 December 2015**	Unaudited Six months ended 31 December 2014	Audited Year ended 30 June 2015
Profit after tax attributable to shareholders	**-**	-	-
Other comprehensive income that may subsequently be reclassified to profit or loss	**-**	-	-
Total comprehensive income for the period attributable to shareholders	**-**	-	-

Statement of changes in equity
For the six months ended 31 December 2015

Dollars in thousands	**Ordinary Share Capital**	**Retained earnings**	**Total Equity**
Balance at 1 July 2014	-	-	-
Unaudited six months ended 31 December 2014			
Profit for the period	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Transactions with shareholders			
Issue of share capital	-	-	-
Balance at 31 December 2014 (unaudited)	-	-	-
Audited year ended 30 June 2015			
Profit for the year	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Transactions with shareholders			
Issue of share capital	-	-	-
Balance at 30 June 2015 (audited)	-	-	-
Unaudited six months ended 31 December 2015			
Profit for the period	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Transactions with shareholders			
Issue of share capital	-	-	-
Balance at 31 December 2015 (unaudited)	-	-	-

The notes on pages 5 to 10 form part of these interim financial statements.

Interim financial statements continued

Balance sheet

As at 31 December 2015

Dollars in thousands	Note	**Unaudited As at 31 December 2015**	Unaudited As at 31 December 2014	Audited As at 30 June 2015
ASSETS				
Convertible subordinated bonds	3	**108,142**	106,357	108,340
Perpetual capital bonds	3	**158,534**	-	156,000
Total assets		**266,676**	106,357	264,340
LIABILITIES				
Capital notes	4	**108,142**	106,357	108,340
Perpetual capital notes	4	**158,534**	-	156,000
Total liabilities		**266,676**	106,357	264,340
EQUITY				
Share capital		**-**	-	-
Retained earnings		**-**	-	-
Total equity		**-**	-	-
Total equity and liabilities		**266,676**	106,357	264,340

The Directors of Kiwi Capital Funding Limited authorised these interim financial statements for issue on 23 February 2016.

Gary Crawford
Director

Paul Brock
Director

The notes on pages 5 to 10 form part of these interim financial statements.

Interim financial statements continued

Cash flow statement

For the six months ended 31 December 2015

Dollars in thousands	**Unaudited Six months ended 31 December 2015**	Unaudited Six months ended 31 December 2014	Audited Year ended 30 June 2015
Cash flows from operating activities			
Interest received	-	706	706
Interest paid	-	(706)	(706)
Net cash flows from operating activities	-	-	-
Cash flows from investing activities			
Purchase of Perpetual Capital Bonds	-	-	(150,000)
Net cash flows from investing activities	-	-	(150,000)
Cash flows from financing activities			
Proceeds from issue of Perpetual Capital Notes	-	-	150,000
Net cash flows from financing activities	-	-	150,000
Increase in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of the period/year	-	-	-
Cash and cash equivalents at end of the period/year	-	-	-

The notes on pages 5 to 10 form part of these interim financial statements.

Notes to the interim financial statements

1. Reporting entity

These interim financial statements are for Kiwi Capital Funding Limited (the "**Company**"), for the six months ended 31 December 2015 and were approved for issue by the Board of Directors on 23 February 2016.

The Company is incorporated in New Zealand, is wholly owned by Kiwi Group Holdings Limited ("**KGHL**") and the ultimate parent company is New Zealand Post Limited ("**NZP**"). The Company is a wholly controlled subsidiary of Kiwibank Limited ("**Kiwibank**").

The principal activity of the Company is to issue debt securities to the New Zealand public and utilising the proceeds to subscribe for regulatory capital instruments issued by Kiwibank.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Company is an issuer for the purposes of the Financial Reporting Act 2013.

The interim financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("**NZ GAAP**"). They comply with NZ IAS 34 – *Interim Financial Reporting* and IAS 34 – *Interim Financial Reporting*.

These interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended 30 June 2015, which comply with International Financial Reporting Standards ("**IFRS**").

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 financial instruments held at fair value through profit or loss.

2.2 Accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 30 June 2015.

2.3 Functional and presentation currency

The functional and presentation currency of the Company is New Zealand dollars. All amounts are expressed in thousands of New Zealand dollars, unless otherwise stated.

2.4 Comparative balances

Comparative balances presented are from the audited financial statements for the year ended 30 June 2015 and the unaudited interim financial statements for the six months ended 31 December 2014.

During the period the Company has amended the presentation of distributions received on Perpetual Capital Bonds. Comparative balances have been amended to align with the revised disclosure policy.

3. Financial assets

Dollars in thousands	**Unaudited As at 31 December 2015**	Unaudited As at 31 December 2014	Audited As at 30 June 2015
Convertible subordinated bonds	**108,142**	106,357	108,340
Perpetual capital bonds	**158,534**	-	156,000
Total	**266,676**	106,357	264,340
Current	**4,088**	3,054	4,084
Non-current	**262,588**	103,303	260,256
Total	**266,676**	106,357	264,340

Convertible subordinated bonds

The convertible subordinated bonds ("**Kiwibank Bonds**") are debt securities issued by Kiwibank. The Kiwibank Bonds have a maturity date of 15 July 2024 and interest is receivable semi-annually in arrears at an initial rate of 6.61% p.a. The interest rate on the Kiwibank Bonds is the same as the interest rate on the Capital Notes. The receipt of interest, other than on the maturity date, is subject to the condition that Kiwibank and its Banking Group would be solvent after the payment is made. If interest is not received when due it will continue to accrue and will be payable by Kiwibank when it is able to do so and remain solvent or on the maturity date (whichever is the earlier).

Kiwibank has an early repayment option whereby it may, after obtaining the consent of the Reserve Bank of New Zealand ("**RBNZ**"), elect to make early repayment of the Kiwibank Bonds:

(a) on 15 July 2019 and each scheduled interest payment date thereafter; or

(b) if a tax or regulatory event has occurred (as described in the Deed Poll).

Notes to the interim financial statements continued

3. Financial assets continued

The Kiwibank Bonds count as Tier 2 Capital for Kiwibank under the RBNZ's prudential standards and therefore are able to absorb losses by either converting into ordinary shares of Kiwibank or being written off if Kiwibank becomes non-viable. The Kiwibank Bonds may be required to be converted into ordinary shares (or written off if conversion into ordinary shares is not possible) if a Non-Viability Trigger Event occurs.

A Non-Viability Trigger Event is defined as the earlier of:

(a) a direction given, by notice in writing, to Kiwibank by the RBNZ under section 113 of the RBNZ Act, on the basis that the financial position of Kiwibank is such that it meets any of the grounds in subsections 113(1)(a)-(e) of the RBNZ Act, requiring Kiwibank to exercise its right of conversion or write off of its capital instruments; or

(b) Kiwibank being made subject to statutory management by an Order in Council issued pursuant to section 117 of the RBNZ Act and the statutory manager deciding that Kiwibank exercise its right of conversion or write off of Kiwibank's capital instruments.

The grounds on which a direction may be given by the RBNZ are that the RBNZ has reasonable grounds to believe:

(a) Kiwibank is insolvent or is likely to become insolvent;

(b) Kiwibank is about to suspend payment or is unable to meet its obligations as and when they fall due;

(c) the affairs of Kiwibank are being conducted in a manner prejudicial to the soundness of the financial system;

(d) the circumstances of Kiwibank are such as to be prejudicial to the soundness of the financial system; or

(e) the business of Kiwibank has not been, or is not being, conducted in a prudent manner.

Kiwibank (in consultation with the RBNZ) or a statutory manager will determine how many Kiwibank Bonds are converted but it must be sufficient to satisfy the RBNZ or a statutory manager of Kiwibank that Kiwibank is viable without further conversion or write off. If Kiwibank has more than one loss absorbing capital instrument on issue, Kiwibank will, to the extent that it is able, convert or write off:

(a) first, any Tier 1 capital instruments that have loss absorbing terms; and

(b) second, if the conversion or write off of all Tier 1 capital instruments having loss absorbing terms is insufficient, any Tier 2 capital instruments having loss absorbing terms (including the Kiwibank Bonds), on an approximately pro rata basis.

If, following a Non-Viability Trigger Event, conversion of the Kiwibank Bonds into ordinary shares is not possible within five business days of the date on which the Non-Viability Trigger Event occurred those Kiwibank Bonds will not be converted, but instead will be written off. Conversion will not be possible if Kiwibank is prevented from converting any Kiwibank Bonds into ordinary shares, including by applicable law or order of any court or action of any governmental agency (including regarding the dissolution or statutory management of Kiwibank).

The Kiwibank Bonds are not guaranteed by NZP, KGHL, the Crown or any other person.

Perpetual capital bonds

The Perpetual Capital bonds ("**Kiwibank Perpetual Bonds**") are debt securities issued by Kiwibank. The Kiwibank Perpetual Bonds have no maturity date and interest is receivable, at the absolute discretion of Kiwibank, quarterly in arrears at an initial rate of 7.25% p.a., subject to the condition that Kiwibank and its Banking Group would be solvent after the payment is made. The interest rate on the Kiwibank Perpetual Bonds is the same as the interest rate on the Perpetual Capital Notes.

Kiwibank has a repayment option whereby it may, after obtaining the consent of the RBNZ, elect to make early repayment of the Kiwibank Perpetual Bonds:

(a) on 27 May 2020 and each scheduled reset date thereafter; or

(b) if a tax or regulatory event has occurred (as described in the Deed Poll).

The Kiwibank Perpetual Bonds count as Additional Tier 1 Capital for Kiwibank under the RBNZ's prudential standards and therefore are able to absorb losses by either converting into ordinary shares of Kiwibank or being written off if Kiwibank does not hold enough Common Equity Tier 1 Capital or suffers severe financial difficulty. The Kiwibank Perpetual Bonds may be required to be converted into ordinary shares (or written off if conversion into ordinary shares is not possible) if a Trigger Event occurs. The Trigger Events are a Common Equity Capital Trigger Event or a Non-Viability Trigger Event.

A Common Equity Capital Trigger Event means Kiwibank determines, or the RBNZ has notified Kiwibank in writing that it believes, that the Common Equity Tier 1 Capital Ratio of the Kiwibank Banking Group is less than 5.125%. The Common Equity Tier 1 Capital Ratio is the ratio of Common Equity Tier 1 Capital to risk-weighted assets.

A Non-Viability Trigger Event is defined as the earlier of:

(a) a direction given, by notice in writing, to Kiwibank by the RBNZ under section 113 of the RBNZ Act, on the basis that the financial position of Kiwibank is such that it meets any of the grounds in subsections 113(1)(a)-(e) of the RBNZ Act, requiring Kiwibank to exercise its right of conversion or write off of its capital instruments; or

(b) Kiwibank being made subject to statutory management by an Order in Council issued pursuant to section 117 of the RBNZ Act and the statutory manager deciding that Kiwibank exercise its right of conversion or write off of Kiwibank's capital instruments.

The grounds on which a direction may be given by the RBNZ are that the RBNZ has reasonable grounds to believe:

(a) Kiwibank is insolvent or is likely to become insolvent;

(b) Kiwibank is about to suspend payment or is unable to meet its obligations as and when they fall due;

(c) the affairs of Kiwibank are being conducted in a manner prejudicial to the soundness of the financial system;

Notes to the interim financial statements continued

3. Financial assets continued

(d) the circumstances of Kiwibank are such as to be prejudicial to the soundness of the financial system; or

(e) the business of Kiwibank has not been, or is not being, conducted in a prudent manner.

Kiwibank (in consultation with the RBNZ) or a statutory manager will determine how many Kiwibank Perpetual Bonds are converted but it must be sufficient to satisfy the RBNZ or a statutory manager of Kiwibank that Kiwibank is viable without further conversion or write off. If Kiwibank has more than one loss absorbing capital instrument on issue, Kiwibank will, to the extent that it is able, convert or write off:

(a) first, any Tier 1 capital instruments that have loss absorbing terms whose terms require or permit them to be converted or written off before the Kiwibank Perpetual Bonds; and

(b) second, if the conversion or write off of those Tier 1 capital instruments having loss absorbing terms is insufficient, any other Tier 1 capital instruments having loss absorbing terms (including the Kiwibank Perpetual Bonds) on an approximately pro rata basis.

The Kiwibank Perpetual Bonds will be converted or written off before any Tier 2 capital instruments are converted or written off.

If, following a Non-Viability Trigger Event, conversion of the Kiwibank Perpetual Bonds into ordinary shares is not possible within five business days of the date on which the Non-Viability Trigger Event occurred those Kiwibank Perpetual Bonds will not be converted, but instead will be written off. Conversion will not be possible if Kiwibank is prevented from converting any Kiwibank Perpetual Bonds into ordinary shares, including by applicable law or order of any court or action of any governmental agency (including regarding the dissolution or statutory management of Kiwibank).

The Kiwibank Perpetual Bonds are not guaranteed by NZP, KGHL, the Crown or any other person.

4. Financial liabilities

Dollars in thousands	**Unaudited As at 31 December 2015**	Unaudited As at 31 December 2014	Audited As at 30 June 2015
Capital notes	**108,142**	106,357	108,340
Perpetual capital notes	**158,534**	-	156,000
Total	**266,676**	106,357	264,340
Current	**4,088**	3,054	4,084
Non-current	**262,588**	103,303	260,256
Total	**266,676**	106,357	264,340

Capital Notes

Capital Notes are unsecured, subordinated, cumulative, loss absorbing debt securities issued by the Company.

The Company has used the proceeds from the issue of the Capital Notes to invest in Kiwibank Bonds. The Company's ability to make payments on Capital Notes is entirely dependent on the Company receiving payments from Kiwibank on its investment in the Kiwibank Bonds. The Kiwibank Bonds may be required to convert into ordinary shares in Kiwibank if a Non-Viability Trigger Event occurs (as described in note 3). The Capital Notes are not convertible in any circumstances, but the returns on them will change if the Kiwibank Bonds are converted into ordinary shares.

The Capital Notes have terms (such as interest rate, interest payment dates and maturity date) that match the terms of the Kiwibank Bonds, unless the Kiwibank Bonds are converted into ordinary shares. Should the Kiwibank Bonds be converted into ordinary shares, interest will only be paid on Capital Notes if the Company receives a dividend payment from Kiwibank on the ordinary shares it would then hold. The payment of dividends would be at the discretion of the board of Kiwibank and so there is no certainty that dividends will be paid in the future, particularly following a Non-Viability Trigger Event (as described in note 3).

If the Kiwibank Bonds are converted into ordinary shares, the Capital Notes will only be repaid if there is a sale of, or capital reduction involving, the ordinary shares issued to the Company on conversion of the Kiwibank Bonds. If it is not possible for Kiwibank Bonds to convert into ordinary shares when required, then those Kiwibank Bonds will be written off. If the Kiwibank Bonds are written off in part or in whole, a corresponding amount of the Capital Notes will be written off (including any accrued but unpaid interest).

The Capital notes have a maturity date of 15 July 2024, however the Company's obligation to repay Capital Notes changes or will terminate if the Kiwibank Bonds are converted into ordinary shares or are written-off. The Company will make early repayment of the Capital Notes if it receives early repayment on the Kiwibank Bonds. Note holders do not have the right to request the Capital Notes be repaid early for any reason.

Interest on the Capital Notes will be paid semi-annually in arrears at an initial fixed rate of 6.61% p.a. with the interest rate re-set date being 15 July 2019. The Company's obligation to pay interest on the Capital Notes (other than on the maturity date) is subject to the condition that the Company receives a corresponding payment of interest on its investment in the Kiwibank Bonds. If interest is not paid when due on the Capital Notes it will continue to accrue

Notes to the interim financial statements continued

4. Financial liabilities continued

and will be payable should the Company receive a corresponding payment of interest on the Kiwibank Bonds or on the maturity date (whichever is the earlier). The Company's obligation to pay interest on the Capital Notes changes or will terminate if the Kiwibank Bonds are converted into ordinary shares or written off.

The returns on the Capital Notes are derived from the returns the Company receives on its investment in Kiwibank Bonds. This means that if all of the Kiwibank Bonds held by the Company are converted into ordinary shares, the returns on Capital Notes will change. In particular:

- Capital Notes will no longer have a maturity date;
- interest will no longer be payable on scheduled dates and at a fixed rate. Interest on the Capital Notes will only be paid if and to the extent the Company receives a dividend payment on the ordinary shares issued to the Company on conversion of the Kiwibank Bonds;
- the Capital Notes will only be repaid if and to the extent that the Company receives the proceeds of a sale of, or capital reduction involving, the ordinary shares issued to the Company on a conversion of the Kiwibank Bonds; and
- the Company has no liability to pay any accrued but unpaid interest on the Capital Notes as at the date the Kiwibank Bonds are converted into ordinary shares.

It is possible that, if a Non-Viability Trigger Event (as described in note 3) occurs, some but not all of the Kiwibank Bonds will be converted into ordinary shares or written off. In that case, the number of Capital Notes outstanding will remain the same, but the returns on a part only of each of the Capital Notes (equal to the proportion of the Kiwibank Bonds that are converted into ordinary shares or written off) will change or be written off to reflect the partial conversion or write off of the Kiwibank Bonds.

The Capital Notes are not guaranteed by any person, and none of Kiwibank, KGHL, NZP nor any other person guarantees the obligations of the Company. The Capital Notes are unsecured.

Perpetual Capital Notes

Perpetual Capital Notes are perpetual, non-cumulative, unsecured, subordinated, loss absorbing debt securities issued by the Company. The Perpetual Capital Notes have no fixed maturity date and will remain on issue indefinitely unless repaid. The Company has used the proceeds from the issue of the Perpetual Capital Notes to invest in Kiwibank Perpetual Bonds.

Kiwibank will use the proceeds of the Kiwibank Perpetual Bonds issued to the Company to help meet its regulatory capital requirements. The Kiwibank Perpetual Bonds held by the Company count as Additional Tier 1 Capital for Kiwibank under the RBNZ's prudential standards.

The Company's ability to make payments on Perpetual Capital Notes is entirely dependent on the Company receiving payments from Kiwibank on its investment in the Kiwibank Perpetual Bonds. The Kiwibank Perpetual Bonds may be required to convert into ordinary shares in Kiwibank if a Non-Viability Trigger Event occurs (as described in note 3). The Perpetual Capital Notes are not convertible in any circumstances, but the returns on them will change if the Kiwibank Perpetual Bonds are converted into ordinary shares.

The Perpetual Capital Notes have terms that match the terms of the Kiwibank Perpetual Bonds, unless the Kiwibank Perpetual Bonds are converted into ordinary shares.

Interest on the Perpetual Capital Notes is scheduled to be paid quarterly in arrears at an initial fixed rate of 7.25% p.a. with the interest rate re-set date being 27 May 2020. The Company's obligation to pay interest on the Perpetual Capital Notes is subject to the condition that the Company receives a corresponding payment of interest on its investment in the Kiwibank Perpetual Bonds. Interest payments on the Kiwibank Perpetual Bonds are subject to Kiwibank's absolute discretion. Interest payments are non-cumulative. If interest is not paid on the Perpetual Capital Notes on an Interest Payment Date, because a corresponding payment of interest was not made on the Kiwibank Perpetual Bonds, that interest will never be paid.

The returns on the Perpetual Capital Notes are derived from the returns the Company receives on its investment in Kiwibank Perpetual Bonds. This means that if all of the Kiwibank Perpetual Bonds held by the Company are converted into ordinary shares, the returns on Perpetual Capital Notes will change. In particular:

- interest will no longer be payable on scheduled dates and at a fixed rate. Interest on the Perpetual Capital Notes will only be paid if and to the extent the Company receives a dividend payment from Kiwibank on the Ordinary Shares issued to the Company on conversion of the Kiwibank Perpetual Bonds held by the Company. The payment of dividends is at the discretion of the board of Kiwibank and so there is no certainty that dividends will be paid in the future, particularly following a Trigger Event; and
- Perpetual Capital Notes will only be repaid if and to the extent that the Company receives the proceeds of a sale of, or capital reduction involving, the Ordinary Shares issued to the Company on a conversion of the Kiwibank Perpetual Bonds held by the Company.

If it is not possible for Kiwibank Perpetual Bonds to convert into ordinary shares when required, then those Kiwibank Perpetual Bonds will be written off. If the Kiwibank Perpetual Bonds are written off in part or in whole, a corresponding amount of the Perpetual Capital Notes will be written off.

Some or all of the Perpetual Capital Notes may be repaid on a Reset Date (Reset Dates occur at 5-yearly intervals, commencing on 27 May 2020) or if a Tax Event or Regulatory Event occurs, but only if specified conditions are satisfied, including obtaining RBNZ consent.

The Perpetual Capital Notes are not guaranteed by any person, and none of Kiwibank, KGHL, NZP nor any other person guarantees the obligations of the Company. The Perpetual Capital Notes are unsecured.

Notes to the interim financial statements continued

5. Related parties

The Company is wholly owned by KGHL, however, the Company is deemed to be controlled by, and therefore is a subsidiary of, Kiwibank. The ultimate parent company is NZP and the ultimate shareholder is the Crown.

The Company and Kiwibank have entered into an Administration Agreement under which Kiwibank has agreed to pay, on behalf of the Company, all costs incurred by the Company in relation to its entry into and performance of its obligations with the exception of amounts payable by the Company to holders of the Capital Notes and the Perpetual Capital Notes.

The following tables summarise balances with related parties at the reporting date, transactions with related parties during the period and amounts paid by related parties on behalf of the Company.

Related party balances Dollars in thousands	**Unaudited As at 31 December 2015**	Unaudited As at 31 December 2014	Audited As at 30 June 2015
Related party receivable – Kiwibank			
Convertible subordinated bonds	**108,142**	106,357	108,340
Perpetual capital bonds	**158,534**	-	156,000
Total related party receivable	**266,676**	106,357	264,340

Related party transactions Dollars in thousands	**Unaudited Six Months ended 31 December 2015**	Unaudited Six months ended 31 December 2014	Audited Year ended 30 June 2015
Revenue from related parties – Kiwibank			
Distributions received	**5,438**	-	-
Interest income	**3,309**	3,303	6,604
Amounts paid by Kiwibank on behalf of the Company			
Interest expense	**8,747**	-	3,305
Audit fees	**-**	-	21
Trustee fees	**-**	-	1
Registry fees	**38**	8	56
Other expenses	**4**	101	132
Issuance costs	**-**	-	3,096
Total	**8,789**	109	6,611

Notes to the interim financial statements continued

6. Financial instruments

The term "financial instruments" includes both financial assets and financial liabilities. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date in the principal, or in its absence, the most advantageous market to which the Company has access at that date.

a: Measurement basis of financial assets and liabilities

Financial assets at fair value are $266,676k (31 December 2014: $106,357k; 30 June 2015: $264,340k), Financial liabilities at fair value are $266,676k (31 December 2014: $106,357k; 30 June 2015: $264,340k). For both financial assets and liabilities, carrying value is equal to estimated fair value.

b: 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.

Unless otherwise noted the following disclosures are provided separately for assets and liabilities at fair value and those carried at amortised cost.

c: Financial assets and liabilities carried at fair value

Valuation methodology

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

Financial assets designated at fair value through profit or loss

Estimates of fair value for financial assets designated at fair value through profit or loss are 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.

Financial liabilities designated at fair value through profit or loss

Estimates of fair value for financial liabilities designated at fair value through profit or loss are determined using quoted market prices.

All financial assets designated at fair value through profit or loss are classified as level 2 in the Fair Value hierarchy (31 December 2014 and 30 June 2015: level 2). There have been no transfers between levels 1 and 2, nor transfers into/out of level 3 during the period (31 December 2014 and 30 June 2015: same).

All financial liabilities designated at fair value through profit or loss are classified as level 1 in the Fair Value hierarchy (31 December 2014: level 2; 30 June 2015: level 1). There have been no transfers between levels 1 and 2, nor transfers into/out of level 3 during the period. During the year ended 30 June 2015, the Capital Notes were transferred from level 2 to level 1 based on the availability of unadjusted quoted prices in an active market.

7. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of the Company. The Company operates in only one operating segment, being the issuance of debt securities to the New Zealand public.

8. Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at the reporting date.

9. Events subsequent to the reporting date

No material events occurred subsequent to the reporting date that requires recognition or additional disclosure in these financial statements.