Kiwi Capital Funding Limited

Annual Report and Financial Statements

For the year ended 30 June 2016.

Contents

Directory

Directors	Paul Brock Gary Crawford
Registered Office	Level 8 New Zealand Post House 7 Waterloo Quay Wellington 6011 New Zealand
Trustee	The New Zealand Guardian Trustee Company Limited| Level 14, 191 Queen Street Auckland 1010 New Zealand
Promoter	Kiwibank Limited Level 8 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
Auditor	The auditor whose report is referred to in this Annual Report 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.

Directors' Report

The Directors have pleasure in presenting the annual report of Kiwi Capital Funding Limited (the "**Company**"), incorporating the financial statements and auditor's report, for the year ended 30 June 2016.

With the agreement of the shareholder, the Company has taken advantage of the concessions available to it under section 211 (3) of the Companies Act 1993.

The Directors authorised the financial statements presented on pages 4 to 20 for issue on 16 August 2016.

For and on behalf of the Board

Paul Brock
Director

Gary Crawford
Director

Financial statements

Income statement
For the year ended 30 June 2016

Dollars in thousands	Note	**Year ended 30 June 2016**	Year ended 30 June 2015
Distributions received - related party		**10,875**	-
Interest income - related party	3	**6,611**	6,604
Total income		**17,486**	6,604
Interest expense	4	**(17,486)**	(7,638)
Operating profit/(loss) before gains and losses		**-**	(1,034)
Net gains on financial instruments designated at fair value	5	**-**	1,034
Profit before tax		**-**	-
Income tax	9	**-**	-
Profit after tax attributable to shareholders		**-**	-

Statement of comprehensive income
For the year ended 30 June 2016

Dollars in thousands	**Year ended 30 June 2016**	Year ended 30 June 2015
Net profit after tax attributable to shareholders	**-**	-
Other comprehensive income that may subsequently be reclassified to profit or loss	**-**	-
Total comprehensive income for the year attributable to shareholders	**-**	-

Statement of changes in equity
For the year ended 30 June 2016

Dollars in thousands	**Share Capital**	**Accumulated Losses**	**Total Equity**
Balance at 1 July 2014	-	-	-
Year ended 30 June 2015	-	-	-
Profit for the period	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Transactions with shareholders	-	-	-
Issue of share capital	-	-	-
Balance at 30 June 2015	-	-	-
Year ended 30 June 2016	-	-	-
Profit for the year	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Transactions with shareholders	-	-	-
Issue of share capital	-	-	-
Balance at 30 June 2016	-	-	-

The notes on pages 7 to 20 form part of these financial statements.

Financial statements continued

Balance sheet
As at 30 June 2016

Dollars in thousands	Note	**Year ended 30 June 2016**	Year ended 30 June 2015
Assets			
Convertible subordinated bonds	6	**108,008**	108,340
Perpetual capital bonds	6	**157,950**	156,000
Total assets		**265,958**	264,340
Liabilities			
Capital notes	7	**108,008**	108,340
Perpetual capital notes	7	**157,950**	156,000
Total liabilities		**265,958**	264,340
Equity			
Share capital	10	**-**	-
Accumulated losses		**-**	-
Total equity		**-**	-
Total equity and liabilities		**265,958**	264,340

The Directors of Kiwi Capital Funding Limited authorised these financial statements for issue on 16 August 2016.

Paul Brock
Director

Gary Crawford
Director

The notes on pages 7 to 20 form part of these financial statements.

Financial statements continued

Cash flow statement

For the year ended 30 June 2016

Dollars in thousands	**Year ended 30 June 2016**	Year ended 30 June 2015
Cash flows from operating activities		
Distribution received	**5,437**	-
Interest received	**-**	706
Interest paid	**(5,437)**	(706)
Net cash flows from operating activities	**-**	-
Cash flows from investing activities		
Purchase of convertible subordinated bonds	**-**	-
Purchase of perpetual capital bonds	**-**	(150,000)
Net cash flows from investing activities	**-**	(150,000)
Cash flows from financing activities		
Proceeds from issue of capital notes	**-**	-
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 year	**-**	-
Cash and cash equivalents at end of the year	**-**	-

The notes on pages 7 to 20 form part of these financial statements.

Notes to the financial statements

1. Reporting entity

These financial statements are for Kiwi Capital Funding Limited (the "**Company**"), for the year ended 30 June 2016 and were approved for issue by the Board of Directors on 16 August 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.

These financial statements are prepared for the year ended 30 June 2016 with the comparative results for the year ended 30 June 2015. During the year the Company has amended the presentation of distributions received on Perpetual Capital Bonds as outlined in Note 2.8. Comparative balances have been amended to align with the revised disclosure policy. This has resulted in a reclassification of $1,034k from Interest Income to Net gains on financial instruments designated at fair value in the Income Statement. There has been no material impact on the Income Statement, and no impact on the Statement of Comprehensive Income, Statement of Changes in Equity, Balance sheet or Cash Flow Statement.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

2.1 Basis of preparation

These financial statements are general purpose financial reports prepared in accordance with the Companies Act 1993, the Financial Reporting Act ("**FRA 2013**") and the Financial Markets Conduct Act 2013 ("FMCA 2013"). The Company is a Financial Market Conduct reporting entity for the purposes of the FMCA 2013.

The financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ("**NZ GAAP**"). They comply with New Zealand equivalents to International Financial Reporting Standards ("**NZ IFRS**"), International Financial Reporting Standards ("**IFRS**") and other applicable Financial Reporting Standards, as appropriate for a for-profit entity.

Historical cost convention

The financial statements have been prepared under the historical cost convention, as modified by the application of fair value measurements for financial instruments held at fair value through profit or loss.

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. While management believe that estimates can be reliably measured, actual amounts may differ from those estimates. It is not anticipated that such differences would be material. Estimates and underlying assumptions are reviewed on an ongoing basis.

Fair value of convertible subordinated bonds and perpetual capital bonds not quoted in an active market

The fair value of convertible subordinated bonds and perpetual capital bonds not quoted in an active market is determined by the Company by using its own models, which are usually based on valuation methods and techniques consistent with market practice. The models are based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit and market risk factors. The models use observable data, to the extent practicable. The determination of what constitutes 'observable' requires judgement by the Company. The Company considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.2 Standards and interpretations effective in the current period

No new mandatory standards have been adopted in these financial statements.

No new standards, amendments or interpretations to existing standards that are not yet effective, have been early adopted by the Company in these financial statements.

At the date of authorisation, the following new standards, amendments or interpretations to existing standards were in issue but not yet effective:

Standard	Effective for annual reporting periods beginning on or after:
NZ IFRS 9 – Financial Instruments	1 January 2018
NZ IFRS 15 – Revenue from Contracts with Customers	1 January 2018
NZ IFRS 16 – Leases	1 January 2019

The Directors expect to adopt the above Standards and Interpretations in the period in which they become mandatory. The Directors anticipate that NZ IFRS 16 will not have a material impact on the financial statements of the Company in the period of initial application.

NZ IFRS 9: Financial Instruments

NZ IFRS 9, issued in September 2014, replaces existing guidance in NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairments on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from NZ IAS 39.

The Company is currently assessing the impact of adopting NZ IFRS 9.

NZ IFRS 15: Revenue from Contracts with Customers

NZ IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under NZ IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in NZ IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under NZ IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018 with early adoption permitted.

The Company is still assessing the impact of adopting NZ IFRS 15.

NZ IFRS 16: Leases

NZ IFRS 16 introduces a single, on-balance sheet accounting model for lessees. It is anticipated this will result in the Company recognising a right-of-use asset on its balance sheet in relation to certain leases. The Company is assessing the potential impact of adopting NZ IFRS 16.

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.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.4 Fair value measurement

The Company measures certain financial instruments at fair value at each reporting date.

Fair value 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Company must have access to the principal or the most advantageous market.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their own economic best interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, as described in note 11, based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Company determines whether any transfers between levels in the hierarchy has occurred by re-assessing categorisation at the end of each reporting period.

For the purposes of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The designation of financial instruments into categories is determined by the business purpose of the financial instrument, policies and practices for its management, its relationship with other instruments and the reporting costs and benefits associated with each designation.

Recognition and measurement

Financial assets and financial liabilities are designated, upon initial recognition, as at fair value through profit or loss as this designation eliminates or significantly reduces a potential measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch'). All financial instruments are recognised initially and subsequently measured at fair value.

Financial assets

Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses exclude interest and distributions.

Financial liabilities

Financial liabilities designated at fair value through profit or loss are measured at fair value with any realised and unrealised gains or losses recognised in the income statement.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.5 Financial instruments continued

Derecognition
A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full, without material delay, to a third party under a 'pass-through' arrangement and cannot sell or re-pledge the asset other than to the transferee; or
- either the Company has transferred substantially all the risks and rewards of the asset, or the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

2.6 Share capital

Ordinary shares are classified as equity.

2.7 Taxation

Income tax is recognised in the income statement.

Current tax is the expected tax payable on the taxable income for the period using tax rates enacted or substantively enacted at reporting date after taking advantage of all allowable deductions under current taxation legislation.

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date. A deferred taxation asset is recognised only to the extent that it is probable that a future taxable profit will be available against which the temporary differences can be utilised. Tax losses are offset against taxable income of Kiwibank Limited

2.8 Revenue recognition

Interest income
Interest income is accrued using the effective interest rate method. The effective interest rate method discounts estimated future cash receipts through the expected life of a financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period. The application of this method has the effect of recognising income on the financial asset evenly in proportion to the amount outstanding over the period to maturity.

Distribution income
Distribution income is recognised when the right to receive payment has been established.

2.9 Expenses

Interest expense
Interest expense is accrued using the effective interest rate method. The effective interest rate method discounts estimated future cash payments through the expected life of a financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense in each period. The application of this method has the effect of recognising expense on the financial liability evenly in proportion to the amount outstanding over the period to repayment.

Notes to the financial statements continued

2. Summary of significant accounting policies continued

2.10 Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

(a) Investing activities are those relating to the acquisition, holding and disposal of investments not falling within the definition of cash.

(b) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Company. This includes equity and debt not falling within the definition of cash.

(c) Operating activities include all transactions and other events that are not investing or financing activities.

2.11 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.

3. Interest income

Dollars in thousands	**Year ended 30 June 2016**	Year ended 30 June 2015
Interest income - related party	**6,611**	6,604
Total interest income	**6,611**	6,604

4. Interest expense

Dollars in thousands	**Year ended 30 June 2016**	Year ended 30 June 2015
Capital notes	**6,611**	6,604
Perpetual capital notes	**10,875**	1,034
Total interest expense	**17,486**	7,638

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

Dollars in thousands	**Year ended 30 June 2016**	Year ended 30 June 2015
Net gains/(losses) arising on:		
Convertible subordinated debt	**(332)**	4,896
Capital Notes	**332**	(4,896)
Perpetual capital bonds	**1,950**	6,000
Perpetual capital notes	**(1,950)**	(4,966)
Total	**-**	1,034

Notes to the financial statements continued

6. Financial assets

Dollars in thousands	**Year ended 30 June 2016**	Year ended 30 June 2015
Convertible subordinated bonds	**108,008**	108,340
Perpetual capital bonds	**157,950**	156,000
Total	**265,958**	264,340
Current	**4,084**	4,084
Non-current	**261,874**	260,256
Total	**265,958**	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).

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.

Notes to the financial statements continued

6. Financial assets continued

Convertible subordinated bonds continued

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 New Zealand Post Limited, Kiwi Group Holdings Limited, 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 in the Convertible subordinated bonds section above.

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 New Zealand Post Limited, Kiwi Group Holdings Limited, the Crown or any other person.

Notes to the financial statements continued

7. Financial liabilities

Dollars in thousands	**Year ended 30 June 2016**	Year ended 30 June 2015
Capital notes	**108,008**	108,340
Perpetual capital notes	**157,950**	156,000
Total	**265,958**	264,340
Current	**4,084**	4,084
Non-current	**261,874**	260,256
Total	**265,958**	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.

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.

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.

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.

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).

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 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.

Notes to the financial statements continued

7. Financial liabilities continued

Capital Notes continued

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 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. 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 financial statements continued

8. Related party transactions

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 New Zealand Crown (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.

During the year Kiwibank made certain cash payments on behalf of the Company with respect to amounts payable by the Company to holders of the 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.

Dollars in thousands	**Year ended 30 June 2016**	Year ended 30 June 2015
Related party receivable - Kiwibank		
Convertible subordinated bonds	**108,008**	108,340
Perpetual capital bonds	**157,950**	156,000
Total related party receivable	**265,958**	264,340

Dollars in thousands	**Year ended 30 June 2016**	Year ended 30 June 2015
Revenue from related parties - Kiwibank		
Distribution income	**10,875**	-
Interest income	**6,611**	6,604
Total revenue from Kiwibank	**17,486**	6,604
Amounts paid by Kiwibank on behalf of the Company		
Interest expense	**12,048**	3,305
Audit fees - financial statements	**24**	24
Audit fees -other assurance services*	**6**	6
Trustee fees	**17**	1
Registry fees	**77**	56
Other expenses	**6**	123
Issuance costs	**-**	3,096
Total amounts paid by Kiwibank on behalf of the Company	**12,178**	6,611
Total amount of tax losses surrendered to Kiwibank	**5,347**	5,013

* Other assurance services provided by PwC involve services in relation to registry audits and trustee reporting.

9. Taxation

Dollars in thousands	**Year ended 30 June 2016**	Year ended 30 June 2015
Tax expense		
Profit before tax	**-**	-
Prima facie income tax at 28%	**-**	-
Tax effect of:		
Income not subject to tax	**(5,347)**	(5,013)
Tax losses offset	**5,347**	5,013
Tax expense per income statement	**-**	-

Notes to the financial statements continued

10. Equity

The total authorised number of ordinary shares in the Company at the reporting date was 100. All issued ordinary shares are fully paid. All ordinary shares have equal voting rights and share equally in dividends and surpluses on winding up. Ordinary shares do not have a par value. The whole of the issued ordinary share capital is owned by KGHL, which is incorporated in New Zealand.

11. 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. The accounting policy for the determination of fair value of financial instruments is set out in note 2.

a: Measurement basis of financial assets and liabilities

The accounting policies in note 2 describe how financial instruments at fair value through profit or loss are measured, and how income and expenses, including realised and unrealised gains and losses, are recognised. The following tables analyse the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

	As at 30 June 2016	
Dollars in thousands	**Financial assets designated at fair value on initial recognition**	**Financial liabilities designated at fair value on initial recognition**
Convertible subordinated bonds	**108,008**	**-**
Perpetual capital bonds	**157,950**	**-**
Total financial assets	**265,958**	**-**
Capital notes	**-**	**108,008**
Perpetual capital notes	**-**	**157,950**
Total financial liabilities	**-**	**265,958**

	As at 30 June 2015	
Dollars in thousands	Financial assets designated at fair value on initial recognition	Financial liabilities designated at fair value on initial recognition
Convertible subordinated bonds	108,340	-
Perpetual capital bonds	156,000	-
Total financial assets	264,340	-
Capital notes	-	108,340
Perpetual capital notes	-	156,000
Total financial liabilities	-	264,340

b: 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.

Notes to the financial statements continued

11. Financial instruments continued

c: 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.

During the year there were no transfers into/out of levels 1, 2 or 3.

		As at 30 June 2016		
Dollars in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Convertible subordinated bonds	**-**	**108,008**	**-**	**108,008**
Perpetual capital bonds	**-**	**157,950**	**-**	**157,950**
Total financial assets at fair value	**-**	**265,958**	**-**	**265,958**
Financial liabilities at fair value				
Capital notes	**108,008**	**-**	**-**	**108,008**
Perpetual capital notes	**157,950**	**-**	**-**	**157,950**
Total financial liabilities at fair value	**265,958**	**-**	**-**	**265,958**

		As at 30 June 2015		
Dollars in thousands	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Convertible subordinated bonds	-	108,340	-	108,340
Perpetual capital bonds	-	156,000	-	156,000
Total financial assets at fair value	-	264,340	-	264,340
Financial liabilities at fair value				
Capital notes	108,340	-	-	108,340
Perpetual capital notes	156,000	-	-	156,000
Total financial liabilities at fair value	264,340	-	-	264,340

Notes to the financial statements continued

12. Risk management policies

Credit risk

Credit risk is the potential risk of financial loss resulting from the failure of a counterparty to settle its financial and contractual obligations to the Company as they fall due.

Capital notes

The key element of credit risk is the unlikely event that Kiwibank will not make payments on the Kiwibank Bonds as they fall due, which may occur if Kiwibank or the Kiwibank Banking Group would not be solvent after making such a payment on the Kiwibank Bonds. However, other than on maturity, the Company's obligation to make any payments on its Capital Notes is conditional to it receiving a corresponding payment from Kiwibank. More information on the payment conditions is set out in the Master Trust Deed, dated 30 April 2014, and the Supplemental Trust Deed, dated 30 April 2014, in respect of the offer of Capital Notes. The Capital Notes are not guaranteed by KGHL, Kiwibank, NZP, the Crown or any other person.

Perpetual capital notes

The Company does not have any credit exposure on the Kiwibank Perpetual Bonds as the Company's obligation to make any payments on its Perpetual Capital Notes is conditional to it receiving a corresponding payment from Kiwibank. Therefore credit exposure is transferred to the holders of the Perpetual Capital Notes.

More information on the payment conditions is set out in the Master Trust Deed, dated 30 April 2014, and the Supplemental Trust Deed, dated 19 April 2015, in respect of the offer of Perpetual Capital Notes. The Perpetual Capital Notes are not guaranteed by KGHL, Kiwibank, NZP, the Crown or any other person.

The maximum exposure to credit risk arising from both the Kiwibank Bonds and the Kiwibank Perpetual Bonds is equal to the carrying amount. This represents 100% of the Company's credit exposures. Kiwibank is the only closely related counterparty to which the Company has a credit exposure which exceeds 10% of equity.

The Company does not have any foreign currency credit exposure as this was a domestic issuance and is listed on the domestic debt market.

Credit risk has been deemed not to be a driver in the valuation of the Company's financial assets and liabilities.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

Interest rate risk primarily results from exposures to changes in the level, slope and curvature of the yield curve, the volatility of interest rates and credit spreads. The Company's exposure to cash flow and fair value interest rate risk is managed by fixing the interest rates on its financial instruments for a five year term and by aligning the interest rates receivable on its financial assets and payable on its financial liabilities. As a result, changes in interest rates do not have an impact on net profit or loss or equity.

Liquidity risk

Liquidity risk arises from mismatches in the maturity profiles of financial assets and financial liabilities, plus their settlement characteristics. Maintaining adequate liquidity to meet the current and future payment obligations at a reasonable cost is a core objective of the Company.

The Company manages liquidity risk by aligning the interest rates receivable on its financial assets and payable on its financial liabilities and matching the timing of interest receipts and payments.

Maturity profile

The table below presents the Company's cash flows by remaining contractual maturities as at the reporting date.

The gross cash flows disclosed in the table below are contractual undiscounted cash flows and therefore will not agree to the carrying values on the balance sheet. Actual cash flows can differ significantly from contractual cash flows as a result of future actions of the Company and its counterparty.

Notes to the financial statements continued

12. Risk management policies continued

As at 30 June 2016 Dollars in thousands	No later than 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Gross cash inflow/ (outflow)
Financial assets						
Convertible subordinated bonds	**3,305**	**-**	**3,305**	**26,440**	**123,135**	**156,185**
Perpetual capital bonds	**-**	**2,719**	**8,156**	**43,500**	**150,000**	**204,375**
Total cash inflows	**3,305**	**2,719**	**11,461**	**69,940**	**273,135**	**360,560**
Financial liabilities						
Capital notes	**(3,305)**	**-**	**(3,305)**	**(26,440)**	**(123,135)**	**(156,185)**
Perpetual capital notes	**-**	**(2,719)**	**(8,156)**	**(43,500)**	**(150,000)**	**(204,375)**
Total cash outflows	**(3,305)**	**(2,719)**	**(11,461)**	**(69,940)**	**(273,135)**	**(360,560)**
Net cash flows	**-**	**-**	**-**	**-**	**-**	**-**
Cumulative net cash flows	**-**	**-**	**-**	**-**	**-**	**-**

As at 30 June 2015 Dollars in thousands	No later than 1 month	1 - 3 months	3 - 12 months	1 - 5 years	More than 5 years	Gross cash inflow/ (outflow)
Financial assets						
Convertible subordinated bonds	3,305	-	3,305	26,440	129,745	162,795
Perpetual capital bonds	-	2,719	8,156	43,500	150,000	204,375
Total cash inflows	3,305	2,719	11,461	69,940	279,745	367,170
Financial liabilities						
Capital notes	(3,305)	-	(3,305)	(26,440)	(129,745)	(162,795)
Perpetual capital notes	-	(2,719)	(8,156)	(43,500)	(150,000)	(204,375)
Total cash outflows	(3,305)	(2,719)	(11,461)	(69,940)	(279,745)	(367,170)
Net cash flows	-	-	-	-	-	-
Cumulative net cash flows	-	-	-	-	-	-

Included within Subordinated debt are Perpetual Bonds which have no maturity date therefore the cash flows for the period beyond 5 years cannot be reliably estimated. The principal amounts of the perpetual capital bonds and perpetual capital notes have been included in the "More than 5 years" column. Cash flows in relation to Perpetual Capital Notes are conditional upon the Company receiving a corresponding cash flow in relation to Perpetual Capital Bonds.

13. Sensitivity analysis

The Company has been established as a pass through entity and, as such, does not have any sensitivity to changes in interest rates.

14. Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at the reporting date (30 June 2015: same).

15. 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.

General Disclosures

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+ (CreditWatch negative) because the returns on the Capital Notes are derived from the performance of the convertible subordinated bonds issued by Kiwibank (the "**Kiwibank Bonds**") held by Kiwi Capital Funding Limited (the "**Company**"), which 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 Standard & Poor's (Australia) Pty Limited ("**S&P**"). This is lower than Kiwibank's issuer credit rating for long term senior unsecured obligations of A+ (CreditWatch negative) because the returns on the Perpetual Capital Notes are derived from the performance of the Kiwibank Perpetual Bonds held by the Company, which 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.

On 5 April 2016, S&P placed Kiwibank's A+ long-term issuer credit rating on CreditWatch negative.

S&P gives ratings from "AAA" through to "D". Credit ratings of "AAA" to "BBB" are considered to be investment grade. Credit ratings below "BBB" are regarded by S&P as having significant speculative characteristics. "BB" indicates the least degree of speculation. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. An obligation rated "BB" is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

A credit rating is not a recommendation to buy, sell or hold Capital Notes or Perpetual Capital Notes. S&P may withdraw, revise or suspend its credit rating or change the methodology by which securities are rated.

NZX Limited ("NZX")

The Capital Notes and the Perpetual Capital Notes are listed on the NZX Debt Market. No disciplinary action has been exercised by NZX against the Company under Listing Rule 5.4.2.

Substantial security holder

At 30 June 2016 there were no substantial security holders of the Company.

Distribution of Capital Notes as at 31 July 2016:

Size of Holding	No. of holders	Capital Notes held	% of total number of Capital Notes issued
1 to 5,000	123	611,000	0.6%
5,001 to 10,000	417	4,090,000	4.1%
10,001 to 100,000	837	28,414,000	28.4%
100,001 and over	74	66,885,000	66.9%
Total	1,451	100,000,000	100.0%

Distribution of Perpetual Capital Notes as at 31 July 2016:

Size of Holding	No. of holders	Perpetual Capital Notes held	% of total number of Perpetual Capital Notes issued
1 to 5,000	125	625,000	0.4%
5,001 to 10,000	437	4,213,000	2.8%
10,001 to 100,000	1,497	51,657,000	34.4%
100,001 and over	132	93,505,000	62.4%
Total	2,191	150,000,000	100.0%

Corporate Governance Statement

The chief operating decision maker has been identified as the Board of the Company (the "Board").

The key features of the Company's corporate governance are:

- the Board is responsible for the overall corporate governance of the Company.
- the Board may delegate certain powers. In view of the size and nature of the business, the Board has not established an audit committee or a remuneration committee. However, the company follows the corporate governance framework established by Kiwibank, a related party of the Company.
- the Company has in place risk management policies to ensure all relevant risks are effectively monitored.
- the business or activity of the Company is governed by the Constitution.
- the Directors also ensure that all relevant laws and regulations are complied with at all times.

Independent Auditor's Report

to the readers of Kiwi Capital Funding Limited's financial statements for the year ended 30 June 2016

The Auditor-General is the auditor of Kiwi Capital Funding Limited (the "Company"). The Auditor-General has appointed me, Chris Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Company on her behalf.

Opinion

We have audited the financial statements of the Company on pages 4 to 20, that comprise the balance sheet as at 30 June 2016, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Company:

- present fairly, in all material respects:
    - its financial position as at 30 June 2016; and
    - its financial performance and cash flows for the year then ended; and
- comply with generally accepted accounting practice in New Zealand in accordance with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 16 August 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Company's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Company that comply with generally accepted accounting practice in New Zealand, New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Markets Conduct Act 2013.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit we have carried out assignments in the areas of other assurance services relating to trustee and registry reporting, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Company.

Chris Barber

Chris Barber
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

PricewaterhouseCoopers