# Disclosure Statement & Annual Report.

For the year ended 30 June 2015.

Kiwi bank.

Number 56

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# General matters

## Details of incorporation

Kiwibank Limited ("**Kiwibank**") is a company domiciled in New Zealand and was incorporated in New Zealand under the Companies Act 1993 on 4 May 2001. On 29 November 2001, Kiwibank was registered as a bank under the Reserve Bank of New Zealand Act 1989 and was required to comply with the conditions of registration as laid down by the Reserve Bank of New Zealand ("**RBNZ**") from that date onwards.

This Disclosure Statement has been issued by Kiwibank for the year ended 30 June 2015, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the "**Order**"). Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

In this Disclosure Statement, "**Banking Group**" means Kiwibank's financial reporting group, which consists of Kiwibank, all of its wholly owned entities and all other entities consolidated for financial reporting purposes.

## Address for service

The registered office and address for service is: Kiwibank Limited, New Zealand Post House, Level 12, 7 Waterloo Quay, Wellington 6011, New Zealand.

## Ultimate holding company

The ultimate holding company of Kiwibank is New Zealand Post Limited ("**NZP**") whose address for service is: New Zealand Post House, Level 12, 7 Waterloo Quay, Wellington 6011, New Zealand.

## Voting securities and power to appoint directors

There are 400 million voting shares in Kiwibank. Kiwi Group Holdings Limited ("**KGHL**") is the registered and beneficial holder of all voting shares. KGHL, NZP and the New Zealand Crown (being those ministers who hold shares in NZP on behalf of the New Zealand Crown) are the only holders of a direct or indirect qualifying interest in the voting shares of Kiwibank.

KGHL has the ability to directly appoint the Board of Directors of Kiwibank (the "**Board**"). NZP, as the immediate parent of KGHL and the ultimate holding company of Kiwibank, has the ability to indirectly appoint the Board. No appointment of any director, chief executive officer, or executive, who reports or is accountable directly to the chief executive officer, shall be made in respect of Kiwibank unless:

1. the RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee; and
2. the RBNZ has advised that it has no objection to that appointment.

## Other material matters

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

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

## Pending proceedings or arbitration

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

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

# Credit ratings

On 4 November 2014, Standard & Poor's (Australia) Pty Limited ("**S&P**") affirmed Kiwibank's credit rating of A+ with a negative outlook. There have been no changes made to this rating in the two years preceding 30 June 2015. S&P reaffirmed Kiwibank's credit rating of A+ with a negative outlook on 14 August 2015.

On 12 November 2010, Moody's Investors Service granted Kiwibank a credit rating of Aa3 with a stable outlook for long-term senior unsecured obligations payable in New Zealand in New Zealand dollars. There have been no changes made to this rating in the two years preceding 30 June 2015.

On 13 June 2012, Fitch Ratings granted Kiwibank a credit rating of AA+ with a stable outlook for senior unsecured debt obligations payable in New Zealand dollars and a credit rating of AA with a stable outlook for unsecured debt obligations payable in other currencies. On 10 July 2014 Fitch Ratings revised the outlooks to positive.

The following table describes the steps in the applicable rating scales for each rating agency:

| | Standard & Poor's | Moody's Investors Services | Fitch Ratings |
|---|---|---|---|
| Highest credit quality – ability to repay debt obligations is extremely strong | AAA | Aaa | AAA |
| High quality, low credit risk – ability to repay debt obligations is very strong | AA | Aa | AA |
| High quality – ability to repay is strong although may be susceptible to adverse changes in circumstances or in economic conditions | A | A | A |
| Low credit risk – satisfactory ability to repay debt obligations though changes in circumstances or in economic conditions are likely to impair this capacity | BBB | Baa | BBB |
| Ability to repay debt obligations is only adequate and likely to be affected by adverse economic change which might affect timeliness of repayment | BB | Ba | BB |
| Risk of default due to greater vulnerability | B | B | B |
| Significant risk of default. Repayment of debt obligations requires favourable financial conditions | CCC | Caa | CCC |
| Poor protection, highest risk of default | CC to C | Ca to C | CC to C |
| Obligations currently in default | D | - | RD to D |

Credit ratings between AA – CCC by S&P and Fitch Ratings may be modified by the addition of a plus or minus sign (signalling higher and lower ends of the scale respectively). Moody's Investor Services applies numeric modifiers 1, 2 and 3 to each generic rating classification with a 1 indicating a higher rating and a 3 indicating a lower rating within that generic rating category.

# Guarantees

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

## NZP Guarantee

NZP supports Kiwibank as a registered bank.

All payment obligations (excluding any payment obligations, the terms of which expressly provide in writing that they do not have the benefit of the NZP Guarantee) of Kiwibank are guaranteed pursuant to the NZP Guarantee. The following is a summary of the features of the NZP Guarantee as at 30 June 2015:

i. The address for service of NZP is: New Zealand Post House, Level 12, 7 Waterloo Quay, Wellington 6011, New Zealand.

ii. NZP is not a member of the Banking Group (as that term is defined in the Order).

iii. The NZP Guarantee is an unsecured guarantee of the payment obligations (excluding any payment obligations, the terms of which expressly provide in writing that they do not have the benefit of the NZP Guarantee) of Kiwibank. The NZP Guarantee can be terminated on not less than three months' notice being given to creditors (as that term is defined in the NZP Guarantee). Any such termination does not affect any existing payment obligations owed under the NZP Guarantee at the termination date. The NZP Guarantee has no expiry date.

iv. There are no limits on the amount of the payment obligations guaranteed.

v. There are no material conditions applying to the NZP Guarantee.

vi. There are no material legislative or regulatory restrictions in New Zealand, which would have the effect of subordinating the claims under the NZP Guarantee of any of the creditors of Kiwibank on the assets of NZP, to other claims on NZP, in a winding up of NZP. The net tangible assets of NZP were $950m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2014. There were no modifications in the audit report accompanying the Annual Report.

NZP has a credit rating applicable to its long term unsecured obligations payable in New Zealand, in New Zealand dollars, from S&P of A+ with a negative outlook, granted on 30 October 2012.

For an explanation of S&P's credit rating scale see page 2.

## Covered Bond Guarantee

Certain debt securities ("**Covered Bonds**") issued by Kiwibank are guaranteed by Kiwi Covered Bond Trustee Limited (the "**Covered Bond Guarantor**"), solely in its capacity as Trustee of Kiwi Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of Covered Bonds, pursuant to a guarantee which is secured over a pool of assets. The Covered Bond Guarantor's address for service is Level 9, 34 Shortland Street, Auckland, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group. The Covered Bonds have been assigned a long term rating of Aaa and AAA by Moody's Investors Service and Fitch Ratings respectively.

# Directorate

## Independent Non-executive director, chair

**Robert William Bentley Morrison**

BCom

Company director
Country of residence: New Zealand

Director, Tamata Horticulture Limited, Tamata Holdings Limited, Acer Export Partnership Limited, Agriculture General Partner Limited, RWB Nominees Limited, Blind Pig Properties Limited, Kotu Farms Limited, Kotu Management Limited, Falkirk Management Limited, Welnix GP Limited, Investnix Holdings Limited, H.R.L. Morrison & Co Group GP Limited.

## Non-executive directors

**Brian Joseph Roche**

BCA, FCA

Chief Executive, New Zealand Post Limited
Country of residence: New Zealand

Director, Datam Limited, Kiwi Group Holdings Limited, Express Couriers Limited, Converga Holdings Pty Limited, Converga Pty Limited, Speedscan Group Holdings Pty Limited, Speedscan Pty Limited, New Zealand Post Australia Holdings Pty Limited, New Zealand Post Group Finance Limited, Converga Inc., Valley Road Forest Limited, Converga Group Limited, Hurricanes GP Limited, Kiwi Wealth Management Limited, New Zealand Post CX Limited, Speedscan Limited, Datacap Limited, Wellington Gateway General Partnership No 1 Limited, Wellington Gateway General Partnership No 2 Limited, New Zealand Post Holdings Limited.

David James Walsh was appointed as an alternate director for Brian Joseph Roche on 20 April 2015.

Mark Yeoman was an alternate director for Brian Joseph Roche until his resignation on 12 December 2014.

**Hon. Sir Michael John Cullen**

MA, Ph.D

Company director
Country of residence: New Zealand

Chair, New Zealand Post Limited,
Alternate Director, Couriers Please Holdings Pty Limited.

**Carol Anne Campbell**

BCom, CA

Company director
Country of residence: New Zealand

Director, New Zealand Post Limited, The Business Advisory Group Ltd, Hick Bros Holdings Limited, Turners & Growers Limited, AlphaXRT Limited, Woodford Properties Limited, Brave Star Media Limited, Kingfish Limited, Marlin Global Limited, Barramundi Limited, Key Assets NZ Limited, Fostering First New Zealand Limited, Matata Limited, Galavest Holdings Limited, Michelle Alexander Trustees Limited, TBAG Trustees RITT Limited, Flint Administration Services Limited, AOE JEZ28 Trustees Limited, TBAG Trustees Me Limited, TBAG Trustees KA Limited, TBAG Trustee CY Limited, HFC Investments Limited, MH2 Trustees Limited, Hodhop Trustee Company Limited, Morrow Trustees Limited, TBAG Trustees Ellefred Limited, Multiply Publishing Holdings Limited, Farrimond Trustees Limited, TBAG Trustees AFT Limited, Moore Nominees Limited, Munio Holdings Limited, Hick Bros Earthmoving Limited, Hick Earthmoving Contractors Limited, Hick Bros Earthmoving Contractors Limited, HBI Limited, Hick Bros Civil Construction Limited, Hick Bros Heavy Haulage Limited, Shortland Trustees (Mawhiti 2010) Limited, Forge Fleet Services Limited, Scorpio Trustee Company Limited, Pohuta K Trustee Company Limited, Alilou Trustees Limited, Spencer Street Trustees Limited, Tbag Trustees (Glanfield) Limited, NPT Limited.

David Stephen Willis resigned as a director on 16 June 2015.

# Directorate continued

## Independent non-executive directors

**Catherine Maria Savage**
BCA, CA

Company director
Country of residence: New Zealand

Director, CMS Capital Limited, Comrad Holdings Limited, Comrad Trustee Limited, Savage Group Limited, Radsoft Holdings Limited, Comrad Medical Systems Limited, Safco Limited, Annuitas Management Limited, Todd Family Office Limited, Pathfinder Asset Management Limited, The Griffin Savage Coy. Limited, Waiwhetu Distributors Limited, Industrial Distributors Limited, Savage Capital Limited, Savage Capital Holdings Limited, Hyklene Limited, Courtenay Nominees Limited.

**Alison Rosemary Gerry**
BMS (Hons), MAppFin

Company director
Country of residence: New Zealand

Director, Lindis Crossing Vineyard Limited, Glendora Holdings Limited, Glendora Avocados Limited, Random Walk (2010) Limited, Pioneer Generation Limited, Television New Zealand Limited, NZX Limited, New Zealand Clearing and Depository Corporation Limited, Infratil Limited.

**Lindsay Wright**
BCom

Investment Manager
Country of residence: Hong Kong

## Finance, Audit and Disclosures Committee Members

| | |
|---|---|
| Alison Rosemary Gerry (Chair) | Independent non-executive director |
| Lindsay Wright | Independent non-executive director |
| Carol Anne Campbell | Non-executive director |

The charter of the Finance, Audit and Disclosures Committee provides that the membership of the Committee shall be at least three members of the Board who are non-executive directors, a majority of whom must also be independent.

## Executive directors

None of the directorate are executive directors of Kiwibank.

## Communications with directors

Communications addressed to the directors and responsible persons may be sent to Level 12, New Zealand Post House, 7 Waterloo Quay, Wellington 6011, New Zealand.

## Policy for avoiding and dealing with conflicts of interests

The policy and current practice of the Board is that conflicts of interest which may arise from the personal, professional or business interests of the directors or any of them, must be disclosed to the Board. Directors are not entitled to vote on any matter in which they have an interest. Nor can they be counted in the quorum for the part of the Board meeting in respect of which they have a conflict, unless Kiwibank's shareholders have agreed by ordinary resolution (or written notice signed by a majority of shareholders) to waive this requirement or unless the matter is one in respect of which the directors are required to provide a certificate under the Companies Act 1993.

The Companies Act 1993 requires each director to cause to be entered in the interests register and disclosed to the Board:

a) the nature and monetary value of the director's interest in a transaction or proposed transaction if its monetary value is able to be quantified; or

b) the nature and extent of the director's interest in a transaction or proposed transaction if its monetary value is not able to be quantified.

## Directors' benefits

There is no transaction which any director or immediate relative or close business associate of any director has with Kiwibank which either has been entered into on terms other than those which would, in the ordinary course of business of Kiwibank, be given to any other person of like circumstances or means, or could otherwise be reasonably likely to influence materially the exercise of that director's duties.

## Auditors

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

# Directors' statement

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

1. As at the date on which the Disclosure Statement is signed:
   i. the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014; and
   ii. the Disclosure Statement is not false or misleading.
2. During the year ended 30 June 2015:
   i. Kiwibank has complied with the conditions of registration applicable during the period, except as stated below;
   ii. credit exposures to connected persons were not contrary to the interests of the Banking Group;
   iii. Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

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

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

20 August 2015

# Historical summary of financial statements

| The Banking Group | | | | | |
|---|---|---|---|---|---|
| Dollars in millions | **Audited year ended 30/06/15** | Audited year ended 30/06/14 | Audited year ended 30/06/13 | Audited year ended 30/06/12 | Audited year ended 30/06/11 |
| **Financial performance** | | | | | |
| Interest income | **957** | 798 | 790 | 773 | 720 |
| Interest expense | **(596)** | (505) | (514) | (516) | (529) |
| Net gains/(losses) on financial instruments at fair value | **5** | 3 | - | 5 | 16 |
| Net fee income ❶ | **107** | 104 | 106 | 96 | 92 |
| Operating expenses ❶ | **(284)** | (265) | (240) | (212) | (188) |
| Impairment reversals/(losses) on loans and advances | **(13)** | 4 | (7) | (35) | (79) |
| Profit before taxation | **176** | 139 | 135 | 111 | 32 |
| Income tax expense | **(49)** | (39) | (38) | (32) | (11) |
| **Net profit after taxation** | **127** | 100 | 97 | 79 | 21 |
| Net profit after taxation attributable to non-controlling interests | **-** | - | - | - | - |
| Dividends paid on ordinary shares | **(22)** | - | - | - | - |
| Dividends paid to non-controlling interest | **(9)** | (9) | (9) | (9) | (8) |

| | **Audited As at 30/06/15** | Audited As at 30/06/14 | Audited As at 30/06/13 | Audited As at 30/06/12 | Audited As at 30/06/11 |
|---|---|---|---|---|---|
| **Balance sheet** | | | | | |
| Total assets | **18,344** | 16,676 | 15,209 | 14,745 | 13,875 |
| Of which individually impaired assets | **23** | 44 | 54 | 84 | 106 |
| Total liabilities | **17,311** | 15,673 | 14,351 | 13,998 | 13,267 |
| Equity attributable to owners of parent | **1,033** | 854 | 709 | 598 | 458 |
| Non-controlling interest | **-** | 149 | 149 | 149 | 150 |

❶ Net fee income and operating expenses have been restated to align the presentation with current year disclosures

# Financial Statements


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# Financial statements

## Income statements

**For the year ended 30 June 2015**

| | | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|---|
| Dollars in millions | Note | **Year ended 30/06/15** | Year ended 30/06/14 | **Year ended 30/06/15** | Year ended 30/06/14 |
| Interest income | 2 | **957** | 798 | **1,001** | 832 |
| Interest expense | 2 | **(596)** | (505) | **(644)** | (546) |
| Net interest income | | **361** | 293 | **357** | 286 |
| Net gains/(losses) on financial instruments at fair value | 3 | **5** | 3 | **(10)** | (1) |
| Gross fee and other income | 4 | **194** | 183 | **193** | 184 |
| Direct fee expenses | 4 | **(87)** | (79) | **(87)** | (78) |
| Net fee and other income | 4 | **107** | 104 | **106** | 106 |
| **Total operating income** | | **473** | 400 | **453** | 391 |
| Operating expenses | 5 | **(284)** | (265) | **(282)** | (261) |
| Impairment reversals/(losses) on loans and advances | 24 | **(13)** | 4 | **(13)** | 4 |
| **Profit before taxation** | | **176** | 139 | **158** | 134 |
| Income tax expense | 6 | **(49)** | (39) | **(48)** | (39) |
| **Profit after taxation** | | **127** | 100 | **110** | 95 |
| Attributable to: | | | | | |
| Owners of the parent | | **127** | 100 | **110** | 95 |
| Non-controlling interest | | **-** | - | **-** | - |

## Statements of comprehensive income

**For the year ended 30 June 2015**

| | | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|---|
| Dollars in millions | Note | **Year ended 30/06/15** | Year ended 30/06/14 | **Year ended 30/06/15** | Year ended 30/06/14 |
| **Profit after taxation** | | **127** | 100 | **110** | 95 |
| **Other comprehensive income** | | | | | |
| Net gain/(loss) from changes in reserves that may subsequently be reclassified to profit or loss | | | | | |
| Available-for-sale reserve (net of tax) | 23 | **10** | (4) | **10** | (4) |
| **Cash flow hedge reserve (net of tax)** | 23 | **(74)** | 18 | **(74)** | 18 |
| **Other comprehensive income for the year** | | **(64)** | 14 | **(64)** | 14 |
| **Total comprehensive income for the year** | | **63** | 114 | **46** | 109 |
| Attributable to: | | | | | |
| Owners of the parent | | **63** | 114 | **46** | 109 |
| Non-controlling interest | | **-** | - | **-** | - |

The notes on pages 15 to 97 form part of these financial statements.

# Financial statements continued

## Statements of changes in equity

**For the year ended 30 June 2015**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | **The Banking Group** | | | | | | | |
| Dollars in millions | **Note** | **Fully Paid Ordinary Shares** | **Retained earnings** | **Available-For-Sale Reserve** | **Cash Flow Hedge Reserve** | **Perpetual Capital Reserve** | **Total Equity Attributable to Owners of the Parent** | **Non-Controlling Interest** | **Total** |
| **Balance at 1 July 2013** | | 360 | 345 | 2 | 2 | - | 709 | 149 | 858 |
| **Year ended 30 June 2014** | | | | | | | | | |
| Profit for the year | | - | 100 | - | - | - | 100 | - | 100 |
| **Other comprehensive income** | | | | | | | | | |
| Available-for-sale financial assets (net of tax) | | - | - | (4) | - | - | (4) | - | (4) |
| Cash flow hedges (net of tax) | | - | - | - | 18 | - | 18 | - | 18 |
| **Total other comprehensive income** | | - | - | (4) | 18 | - | 14 | - | 14 |
| **Total comprehensive income** | | - | 100 | (4) | 18 | - | 114 | - | 114 |
| **Transactions with owners** | | | | | | | | | |
| Issue of share capital | | 40 | - | - | - | - | 40 | - | 40 |
| Transaction with non-controlling interest | | - | - | - | - | - | - | - | - |
| Dividends paid to non-controlling interest | | - | (9) | - | - | - | (9) | - | (9) |
| **Balance at 30 June 2014** | | 400 | 436 | (2) | 20 | - | 854 | 149 | 1,003 |
| **Year ended 30 June 2015** | | | | | | | | | |
| Profit for the year | | **-** | **127** | **-** | **-** | **-** | **127** | **-** | **127** |
| **Other comprehensive income** | | | | | | | | **-** | |
| Available-for-sale financial assets (net of tax) | | **-** | **-** | **10** | **-** | **-** | **10** | **-** | **10** |
| Cash flow hedges (net of tax) | | **-** | **-** | **-** | **(74)** | **-** | **(74)** | **-** | **(74)** |
| **Total other comprehensive income** | | **-** | **-** | **10** | **(74)** | **-** | **(64)** | **-** | **(64)** |
| **Total comprehensive income** | | **-** | **127** | **10** | **(74)** | **-** | **63** | **-** | **63** |
| **Transactions with owners** | | | | | | | | | |
| Repurchase of perpetual preference shares | 23 | **-** | **-** | **-** | **-** | **-** | **-** | **(150)** | **(150)** |
| Issue of perpetual capital | | **-** | **-** | **-** | **-** | **147** | **147** | **-** | **147** |
| Transaction with non-controlling interest | | **-** | **-** | **-** | **-** | **-** | **-** | **1** | **1** |
| Dividends paid on ordinary shares | | **-** | **(22)** | **-** | **-** | **-** | **(22)** | **-** | **(22)** |
| Dividends paid to non-controlling interest | | **-** | **(9)** | **-** | **-** | **-** | **(9)** | **-** | **(9)** |
| **Balance at 30 June 2015** | | **400** | **532** | **8** | **(54)** | **147** | **1,033** | **-** | **1,033** |

# Financial statements continued

## Statements of changes in equity

**For the year ended 30 June 2015**

| | | Kiwibank Limited | | | | | |
|---|---|---|---|---|---|---|---|
| Dollars in millions | Note | Fully Paid Ordinary Shares | Retained earnings | Available-For-Sale Reserve | Cash Flow Hedge Reserve | Perpetual Preference Shares | Total |
| **Balance at 1 July 2013** | | 360 | 348 | 2 | 2 | 150 | 862 |
| **Year ended 30 June 2014** | | | | | | | |
| Profit for the year | | - | 95 | - | - | - | 95 |
| **Other comprehensive income** | | | | | | | |
| Available-for-sale financial assets (net of tax) | | - | - | (4) | - | - | (4) |
| Cash flow hedges (net of tax) | | - | - | - | 18 | - | 18 |
| **Total other comprehensive income** | | - | - | (4) | 18 | - | 14 |
| **Total comprehensive income** | | - | 95 | (4) | 18 | - | 109 |
| **Transactions with owners** | | | | | | | |
| Issue of share capital | | 40 | - | - | - | - | 40 |
| Transaction with non-controlling interest | | - | - | - | - | - | - |
| Dividends paid to non-controlling interest | | - | (9) | - | - | - | (9) |
| **Balance at 30 June 2014** | | 400 | 434 | (2) | 20 | 150 | 1,002 |
| **Year ended 30 June 2015** | | | | | | | |
| Profit for the year | | **-** | **110** | **-** | **-** | **-** | **110** |
| **Other comprehensive income** | | | | | | | |
| Available-for-sale financial assets (net of tax) | | **-** | **-** | **10** | **-** | **-** | **10** |
| Cash flow hedges (net of tax) | | **-** | **-** | **-** | **(74)** | **-** | **(74)** |
| **Total other comprehensive income** | | **-** | **-** | **10** | **(74)** | **-** | **(64)** |
| **Total comprehensive income** | | **-** | **110** | **10** | **(74)** | **-** | **46** |
| **Transactions with owners** | | | | | | | |
| Repurchase of perpetual preference shares | 23 | **-** | **-** | **-** | **-** | **(150)** | **(150)** |
| Dividends paid on ordinary shares | | **-** | **(22)** | **-** | **-** | **-** | **(22)** |
| Dividends paid to non-controlling interest | | **-** | **(9)** | **-** | **-** | **-** | **(9)** |
| **Balance at 30 June 2015** | | **400** | **513** | **8** | **(54)** | **-** | **867** |

# Financial statements continued

## Balance sheets
**As at 30 June 2015**

| | | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|---|
| Dollars in millions | Note | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **Assets** | | | | | |
| Cash and cash equivalents | 8 | **492** | 461 | **492** | 460 |
| Due from NZP related parties | 25 | **77** | 77 | **1,103** | 1,048 |
| Due from other financial institutions | 9 | **194** | 121 | **194** | 121 |
| Financial assets held for trading | 10 | **96** | 44 | **96** | 44 |
| Available-for-sale assets | 11 | **1,222** | 1,093 | **1,222** | 1,093 |
| Loans and advances | 12 | **15,598** | 14,630 | **15,528** | 14,572 |
| Derivative financial instruments | 13 | **480** | 130 | **480** | 130 |
| Investment in subsidiaries | 14 | **-** | - | **4** | 4 |
| Property, plant and equipment | 15 | **20** | 13 | **20** | 13 |
| Intangible assets | 16 | **116** | 86 | **116** | 86 |
| Deferred taxation | 7 | **32** | 5 | **32** | 5 |
| Other assets | 17 | **17** | 16 | **17** | 16 |
| **Total assets** | | **18,344** | 16,676 | **19,304** | 17,592 |
| **Liabilities** | | | | | |
| Due to other financial institutions | 18 | **325** | 185 | **325** | 185 |
| Due to NZP related parties | 25 | **6** | 27 | **924** | 945 |
| Deposits and other borrowings | 19 | **13,740** | 12,751 | **13,741** | 12,753 |
| Derivative financial instruments | 13 | **475** | 236 | **535** | 236 |
| Debt securities issued | 20 | **2,397** | 2,143 | **2,397** | 2,143 |
| Current tax liability | | **21** | 8 | **21** | 7 |
| Other liabilities | 21 | **92** | 76 | **92** | 74 |
| Subordinated debt | 22 | **255** | 247 | **402** | 247 |
| **Total liabilities** | | **17,311** | 15,673 | **18,437** | 16,590 |
| **Equity attributable to owners of the parent** | | | | | |
| Share capital | 23 | **400** | 400 | **400** | 550 |
| Reserves | 23 | **633** | 454 | **467** | 452 |
| **Total equity attributable to owners of the parent** | | **1,033** | 854 | **867** | 1,002 |
| Non-controlling interest | 23 | **-** | 149 | **-** | - |
| **Total equity** | | **1,033** | 1,003 | **867** | 1,002 |
| **Total liabilities and shareholders equity** | | **18,344** | 16,676 | **19,304** | 17,592 |

The board of directors of Kiwibank Limited authorised these financial statements for issue on 20 August 2015.

Robert Morrison

Alison Gerry

The notes on pages 15 to 97 form part of these financial statements.

# Financial statements continued

## Cash flow statements

**For the year ended 30 June 2015**

| | | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|---|
| Dollars in millions | Note | **Year ended 30/06/15** | Year ended 30/06/14 | **Year ended 30/06/15** | Year ended 30/06/14 |
| **Cash flows from operating activities** | | | | | |
| Interest received | | **974** | 805 | **1,012** | 839 |
| Interest paid | | **(575)** | (502) | **(623)** | (543) |
| Fees and other income | | **194** | 183 | **196** | 184 |
| Operating expenses paid | | **(330)** | (311) | **(326)** | (307) |
| Taxes paid | | **(38)** | (38) | **(37)** | (38) |
| **Net cash flows from operating activities before changes in operating assets and liabilities** | | **225** | 137 | **222** | 135 |
| **Net changes in operating assets and liabilities** | | | | | |
| (Increase)/decrease in financial assets held for trading | | **(47)** | 111 | **(47)** | 111 |
| (Increase)/decrease in available-for-sale assets | | **(114)** | (132) | **(114)** | (132) |
| (Increase) in loans and advances | | **(973)** | (1,406) | **(973)** | (1,387) |
| (Increase)/decrease in amounts due from related parties | | **(19)** | 12 | **(15)** | - |
| (Increase)/decrease in balances due from other financial institutions | | **(72)** | 37 | **(72)** | 37 |
| Increase in deposits and other borrowing | | **967** | 632 | **967** | 634 |
| Increase/(decrease) in balances due to other financial institutions | | **139** | (85) | **139** | (85) |
| **Net cash flows from operating activities** | | **106** | (694) | **107** | (687) |
| **Cash flows from investing activities** | | | | | |
| Decrease in investment in subsidiaries | | **-** | - | **-** | - |
| Purchase of property, plant and equipment | | **(13)** | (3) | **(13)** | (3) |
| Purchase of intangible assets | | **(51)** | (40) | **(51)** | (40) |
| **Net cash flows from investing activities** | | **(64)** | (43) | **(64)** | (43) |
| **Cash flows from financing activities** | | | | | |
| Issue of share capital | | **-** | 40 | **-** | 40 |
| Increase/(decrease) in debt securities issued | | **14** | 719 | **14** | 713 |
| Net issue of subordinated debt | | **-** | 40 | **-** | 40 |
| Net issue of perpetual capital notes/bonds | | **147** | - | **147** | - |
| Repurchase of perpetual preference shares | | **(150)** | - | **(150)** | - |
| Dividends paid on ordinary shares | | **(22)** | - | **(22)** | - |
| Dividends paid to non-controlling interest | | **(9)** | (9) | **(9)** | (9) |
| **Net cash flows from financing activities** | | **(20)** | 790 | **(20)** | 784 |
| **Increase in cash and cash equivalents** | | **22** | 53 | **23** | 54 |
| Cash and cash equivalents at beginning of the year | | **461** | 415 | **460** | 413 |
| Effect of exchange translation adjustments | | **9** | (7) | **9** | (7) |
| **Cash and cash equivalents at end of the year** | 8 | **492** | 461 | **492** | 460 |

The notes on pages 15 to 97 form part of these financial statements.

# Financial statements continued

## Cash flow statements continued

**For the year ended 30 June 2015**

| Dollars in millions | The Banking Group<br>**Year ended 30/06/15** | The Banking Group<br>Year ended 30/06/14 | Kiwibank Limited<br>**Year ended 30/06/15** | Kiwibank Limited<br>Year ended 30/06/14 |
|---|---|---|---|---|
| **Reconciliation of net profit after taxation to net cash flows from operating activities** | | | | |
| Net profit after taxation | **127** | 100 | **110** | 95 |
| **Non cash movements and non-operating activities** | | | | |
| Unrealised fair value adjustments | **(1)** | 8 | **14** | 12 |
| Depreciation | **6** | 5 | **6** | 5 |
| Amortisation of intangibles | **20** | 19 | **20** | 19 |
| Decrease in deferred expenditure | **22** | 13 | **19** | 13 |
| (Decrease) in provision for credit impairment | **(6)** | (14) | **(6)** | (14) |
| Lending losses written off | **19** | 10 | **19** | 10 |
| Intangible work in progress written off | **-** | - | **-** | - |
| Decrease in deferred taxation | **2** | 3 | **2** | 3 |
| **Movements in operating assets and liabilities** | | | | |
| Decrease/(increase) in financial assets held for trading | **(52)** | 109 | **(52)** | 109 |
| (Increase)/decrease in available-for-sale assets | **(115)** | (133) | **(115)** | (133) |
| (Increase) in loans and advances | **(971)** | (1,414) | **(970)** | (1,396) |
| Decreases in balances due from other financial institutions | **(73)** | 37 | **(73)** | 37 |
| Increase in deposits and other borrowing | **967** | 632 | **966** | 634 |
| Decrease/(increase) in balances with related parties | **(19)** | 12 | **(14)** | - |
| (Decrease) in balances due to other financial institutions | **139** | (85) | **139** | (85) |
| Increase in accrued operating expenses | **18** | 9 | **19** | 9 |
| Increase/(decrease) in interest payable | **21** | 3 | **21** | 3 |
| (Increase) in interest receivable | **(5)** | (6) | **(5)** | (6) |
| Increase/(decrease) in balances with related parties | **(1)** | 2 | **(1)** | 2 |
| (Decrease) in current taxation | **9** | (2) | **9** | (2) |
| (Increase) in other assets | **(1)** | (2) | **(1)** | (2) |
| **Net cash flows from operating activities** | **106** | (694) | **107** | (687) |

The notes on pages 15 to 97 form part of these financial statements.

# Notes to the financial statements

## 1. Summary of significant accounting policies

### 1.1 Reporting entity

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

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

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

These financial statements for the year ended 30 June 2015 have been approved for issue by the Board of Directors on 20 August 2015.

### 1.2 Basis of preparation

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with New Zealand Equivalents to International Financial Reporting Standards ("**NZ IFRS**") and other applicable Financial Reporting Standards, as appropriate for profit oriented entities, the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (the "**Order**"). The financial statements comply with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

The preparation of these financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although Kiwibank has internal control systems in place to ensure 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. Revisions to accounting estimates are recognised in the year in which the estimate is revised and any future years affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 1.29.

**Measurement base**

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

**Accounting period**

The audited financial statements are for the year ended 30 June 2015.

**Comparative amounts**

Comparative amounts are from the audited financial statements for the year ended 30 June 2014. Certain amounts in the comparative information have been reclassified to ensure consistency with the current year's presentation. Where appropriate, further information has been included within the relevant note disclosures.

**Voluntary changes to disclosure policy**

The Bank and the Banking Group have amended the presentation of the income statement in relation to the disclosure of direct fee expenses. This change is in accordance with NZ IAS 1 and has been implemented to improve the presentation for users of the financial statements.

### 1.3 New Accounting Standards and Interpretations

*Standards and interpretations effective in the current period:*

The following new standards and amendments to standards are mandatory for financial years commencing on or after 1 July 2014 and have been adopted in these financial statements:

| Standard | Requirement | Impact on financial statements |
|---|---|---|
| NZ IAS 32 (Amendment) – *Financial Instruments: Presentation* – Offsetting Financial Assets and Financial Liabilities | These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the NZ IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. | The adoption of this standard did not have any impact on the financial position or performance of Kiwibank or the Banking Group. |

# Notes to the financial statements continued

## 1. Summary of significant accounting policies continued

### 1.3 New Accounting Standards and Interpretations continued

No new standards, amendments or interpretations to existing standards that are not yet effective, have been early adopted by the Banking Group 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 2017 |

The Directors expect to adopt the above Standards and Interpretations in the period in which they become mandatory.

The directors anticipate that the above standards, amendments and interpretations will have no material impact on the financial statements of the Bank or the Banking Group 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 Bank is currently assessing the impact of adopting NZ IFRS 9. Given the nature of the Bank and the Banking Group's operations, NZ IFRS 9 is expected to have a significant impact on the financial statements. In particular the calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances. However, as the impact of adoption depends on the financial instruments held by the Bank at the date of adoption, it is not currently practical to quantify the effect.

**NZ IFRS 15: *Revenue from Contracts with Customers***

NZ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including NZ IAS 18 Revenue, NZ IAS 11 *Construction Contracts* and NZ IFRIC *Customer Loyalty Programmes*.

The Bank is assessing the potential impact on the financial statements of adopting NZ IFRS 15.

### 1.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of Kiwibank and its subsidiaries for the year ended 30 June 2015. Subsidiaries are entities that are controlled by the Banking Group. Control is achieved when the Banking Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically the Banking Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Banking Group has less than a majority of the voting or similar rights of an investee, the Banking Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangements with other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Banking Group's voting rights and potential voting rights.

Structured entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the Banking Group has power over such entities in which it has an interest, the Banking Group also considers factors such as:

- the purpose and design of the entity;
- its practical ability to direct the relevant activities of the entity;
- the nature of the relationship with the entity; and
- the size of its exposure to the variability of returns of the entity.

The Banking Group reassesses whether it controls an investee if facts and circumstances indicate that there have been changes to one or more of the three elements of control.

Consolidation of a subsidiary begins when the Banking Group obtains control over the subsidiary and ceases when the Banking Group loses control of the subsidiary. On the date of acquisition of a subsidiary, identifiable assets and liabilities acquired are initially measured at fair value. The excess of the cost of acquisition over the fair value of the Banking Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Banking Group's share of the net assets acquired the difference is recognised directly in the income statement.

Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the date of acquisition, allocated to each of the Banking Group's cash-generating units that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

# Notes to the financial statements continued

## 1. Summary of significant accounting policies continued

### 1.4 Basis of consolidation continued

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

The interest of non-controlling shareholders is stated at their proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned directly or indirectly by the Bank. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

All intra-group balances, transactions, income or expenses are fully eliminated on consolidation. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Banking Group's accounting policies.

### 1.5 Associates and joint arrangements

An associate is an entity over which the Banking Group has a significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over these polices.

A joint arrangement, where the Banking Group and one or more other parties have joint control, is either a joint operation or a joint venture. In a joint operation, the Banking Group and other party or parties with joint control have rights to the assets and obligations for the liabilities of the arrangement resulting in each party recognising its relative share of the joint operation's assets, liabilities, revenues and expenses. In a joint venture, the Banking Group and other party or parties with joint control have rights to the net assets of the arrangement and each party uses the equity method.

### 1.6 Segment 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 segments has been identified as the Kiwibank Leadership Team ("**KBLT**"), which consists of the Chief Executive and his direct reports. A reportable business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

### 1.7 Foreign currency translation

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement. At the reporting date, foreign denominated monetary assets and liabilities are translated at the closing exchange rate, with exchange variations arising from these translations being recognised in the income statement.

**Functional and presentation currency**

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

### 1.8 Fair value measurement

The Banking Group measures certain financial instruments at fair value at each reporting date. Additionally, the fair values of certain financial instruments which are measured at amortised cost are disclosed in note 30.

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 Banking Group 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 Banking Group 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 30, 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 Banking Group 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 Banking Group 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.

### 1.9 Financial instruments

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

# Notes to the financial statements continued

## 1. Summary of significant accounting policies continued

### 1.9 Financial instruments continued

**Recognition**

The Banking Group initially recognises loans and advances, deposits and other borrowings, certain debt securities issued and subordinated debt on the date on which they were originated. All other financial instruments are recognised on trade-date – the date on which the Banking Group becomes a party to the contractual provisions of the instrument.

Financial instruments are measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs directly attributable to its acquisition or issue.

**Financial assets**

Financial assets are classified in the following categories: financial assets at fair value through profit or loss; loans and receivables; and available-for-sale financial assets. Management determines the classification of financial assets upon initial recognition.

***Financial assets at fair value through profit or loss ("FVTPL")***

This category has two sub-classes: financial assets held for trading; and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are categorised as held for trading unless they are designated as hedges. 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 dividends.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method. Loans and receivables issued with duration less than 12 months are recognised at cost less impairment. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the income statement. Loans and receivables include loans and advances, amounts due from other financial institutions, cash and cash equivalents, amounts due from related parties and other assets.

***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Available-for-sale financial assets are subsequently recorded at fair value with any resultant fair value gains or losses recognised directly in equity except for impairment losses, any interest calculated using the effective interest method and, in the case of monetary items (such as debt securities), foreign exchange gains and losses which are all recognised in the statement of comprehensive income. For non-monetary available-for-sale financial assets (e.g. equity instruments) the fair value movements recognised in equity include any related foreign exchange component. On derecognition the cumulative fair value gain or loss previously recognised directly in equity is recognised in the income statement.

***Derecognition of financial assets***

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 Banking Group 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 Banking Group has transferred substantially all the risks and rewards of the asset, or the Banking Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A situation may arise where the Banking Group transfers its right to receive cash flows from an asset or has entered into a pass-through arrangement. In some cases the Banking Group would have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of these assets. Should this occur to the extent that the Banking Group has continuing involvement in the asset, the asset continues to be recognised on the balance sheet.

**Financial liabilities**

Financial liabilities are classified as either at fair value through profit or loss or at amortised cost. Financial liabilities held for trading and 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.

Other financial liabilities, including borrowings, are subsequently measured at amortised cost using the effective interest rate method. Amortisation and foreign exchange gains and losses, are recognised in the income statement as is any gain or loss when the liability is derecognised.

European Commercial Paper issued has been designated at fair value through profit or loss as the Banking Group holds related derivatives at fair value through profit or loss, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise. Financial liabilities held for trading are derivative financial instruments. All other financial liabilities are at amortised cost.

***Derecognition of financial liabilities***

The Banking Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

**Compound financial instruments**

A compound financial instrument is one which contains both a liability and an equity component. Compound financial instruments issued by the Bank comprise Perpetual Capital Bonds. There are no compound financial instruments issued by the Banking Group.

# Notes to the financial statements continued

## 1. Summary of significant accounting policies continued

### 1.9 Financial instruments continued

The liability and equity components of compound financial instruments are separated on the date of issue of the instrument. A portion of the net proceeds of the instrument is allocated to the liability component at the date of issue based on its fair value (which is generally determined by discounting the contractual cash flows at the original coupon rate). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest rate method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

**Derivative financial instruments and hedge accounting**

Kiwibank uses derivatives as part of its asset and liability management activities to manage exposures to interest rate and foreign currency, including exposures arising from forecast transactions. These derivatives include swaps, futures, forwards, options and other contingent or exchange traded contracts in the interest rate and foreign exchange markets.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are presented as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on the nature of the item being hedged. Kiwibank designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (a "**fair value hedge**"); or, (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (a "**cash flow hedge**"). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

Kiwibank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Kiwibank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

***Fair value hedge***

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

***Cash flow hedge***

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

**Derivatives held for trading**

Certain derivative instruments do not qualify for hedge accounting. These include derivatives transacted as part of the trading activity of Kiwibank, as well as derivatives transacted as economic hedges but not qualifying for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

### 1.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 1.11 Repurchase and reverse repurchase agreements

Under Repurchase Agreements, collateral in the form of securities is advanced to a third party and the Bank receives cash in exchange. The counterparty is allowed to sell or re-pledge the collateral advanced under Repurchase Agreements in the absence of default by the bank, but they have an obligation to return the collateral at the maturity of the contract. The Bank has determined that it retains substantially all the risks and rewards of the securities advanced and therefore they are not derecognised and are retained within the relevant security portfolio and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

A Reverse Repurchase Agreement is the same transaction as a Repurchase Agreement except the Bank is receiving the collateral in the form of securities and giving cash in exchange. The Bank may sell or re-pledge any collateral received, but has an obligation to return the collateral at the maturity of the contract and the counterparty retains substantially all the risks and rewards of ownership. Consequently the collateral is not recognised by the Bank which instead records a receivable for the cash given. The difference between the purchase and sale price represents interest income and is recognised in the income statement over the term of the reverse repurchase agreement.

# Notes to the financial statements continued

## 1. Summary of significant accounting policies continued

### 1.12 Impairment of financial assets

At each reporting date an assessment is made as to whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Banking Group about the following loss events:

- significant financial difficulty of the issuer or obligator;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Banking Group granting to the borrower, for economic or legal reasons relating to the borrowers financial difficulty, a concession that the Banking Group would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Banking Group, including:
  a) adverse changes in the payment status of borrowers in the Banking Group; or
  b) national or local economic conditions that correlate with defaults on the assets in the Banking Group.

***Assets classified as available-for-sale***

In the case of financial assets classified as available-for-sale, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

***Assets carried at amortised cost***

Management assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Banking Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such financial assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the financial assets being evaluated. In some instances Kiwibank uses loan mortgage insurance on origination of loans where the loan to valuation ratio is greater than 80%.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed. The amount of the reversal, not exceeding what the amortised cost would have been had the impairment not been recognised, is recognised in the income statement.

When a loan is uncollectable, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised through the income statement.

# Notes to the financial statements continued

## 1. Summary of significant accounting policies continued

### 1.13 Asset quality

**Definitions**

"Impaired asset" means any credit exposures against which an individually assessed provision has been recorded in accordance with NZ IAS 39 – *Financial Instruments: Recognition and Measurement*.

A "90 day past due asset" is any loan which has not been operated by the borrower within its key terms for at least 90 days and which is not an impaired asset.

An "asset under administration" is any credit exposure which is not an impaired asset or a past due asset, but which is to a counterparty who is in receivership, liquidation, bankruptcy, statutory management or any form of administration. These are classified as "other assets under administration" and reported separately.

### 1.14 Property, plant and equipment

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation on plant and equipment is calculated on a straight-line basis so as to expense the cost of the assets, less any estimated residual values, over their estimated useful lives:

| Asset classes | Estimated useful lives |
|---|---|
| Furniture and fittings | 10 years |
| Motor vehicles | 5 to 10 years |
| Computer hardware | 3 to 5 years |
| Other data processing equipment | 3 to 7 years |

Profit or loss on sale of property, plant and equipment, which is determined as the difference between the carrying amount of property, plant and equipment at the time of disposal and the sale proceeds, is treated as other income or expense.

Property, plant and equipment is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impaired asset's carrying amount is written down immediately to its recoverable amount which is the higher of the asset's fair value less selling costs or the asset's value in use.

### 1.15 Intangible assets

**Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring the assets to use. These costs are amortised on a straight line basis over the estimated useful lives of the licences (being 3 to 5 years). Developed software assets expected to generate net economic benefits beyond 12 months are recognised as intangible assets. The cost of developed software assets includes the cost of all materials used in construction, direct labour on the project, and an appropriate proportion of variable and fixed overheads. Developed software intangible assets are amortised over their estimated useful lives (being 3 to 5 years).

### 1.16 Equity

**Share capital**

***i) Ordinary shares***

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

***ii) Perpetual preference shares***

Perpetual preference shares are recognised at the amount paid up per perpetual preference share, net of directly attributable issue costs.

***iii) Distributions***

Dividends distributed in respect of shares are recognised as a liability in the financial statements in the reporting period in which the dividend distribution is approved.

**Perpetual capital reserve**

***i) Perpetual capital notes***

Amounts received on the issue of perpetual capital notes are recognised in equity, net of directly attributable issue costs.

***ii) Discretionary distributions***

Discretionary distributions made in respect of perpetual capital notes are recognised as a liability in the financial statements in the reporting period in which the distribution is approved and are recognised as deductions from equity.

**Other reserves**

***i) Available-for-sale reserve***

The available-for-sale reserve includes changes in the fair value of available-for-sale financial assets, net of tax. When the asset is derecognised these changes in fair value are transferred to the income statement. If an available-for-sale financial asset is impaired the associated impairment charge is recognised in the income statement.

***ii) Cash flow hedge reserve***

The cash flow hedge reserve includes the fair value gains or losses associated with the effective portion of designated cash flow hedging instruments.

# Notes to the financial statements continued

## 1. Summary of significant accounting policies continued

### 1.17 Impairment of non-financial assets

Intangible assets with indefinite useful lives are tested for impairment at least annually at the reporting date, and whenever there are indicators of impairment. Where the asset's recoverable amount is less than its carrying amount an impairment loss is recognised in the income statement for the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The carrying amounts of all other non-financial assets, including intangible assets with finite useful lives, are reviewed at least annually to determine if there is any indication of impairment. Where such an indication exists the asset is impairment tested and any impairment losses are recognised in the income statement. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### 1.18 Taxation

The income tax expense charged to the income statement includes both current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the current year using tax rates enacted or substantively enacted at the reporting date after taking advantage of all allowable deductions under current taxation legislation and any adjustment to tax payable in previous years.

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 benefit 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.

Current or deferred tax related to fair value measurement of available-for-sale assets and cash flow hedges, which is charged or credited to other comprehensive income is subsequently recognised in the income statement if and when the deferred gain or loss on the related asset or liability affects profit or loss.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

### 1.19 Operating leases

Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in the income statement in a systematic manner over the term of the lease. Leasehold improvements are capitalised and the cost is amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is shorter. Lease incentives received are recognised evenly over the term of the lease as a reduction in rental expense.

### 1.20 Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Banking Group and that revenue can be reliably measured. The principal sources of revenue are interest income and fees.

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 financial assets evenly in proportion to the amount outstanding over the period to maturity.

Fees are generally recognised on an accrual basis when the service has been provided.

### 1.21 Expense recognition

All expenses, other than those specifically disclosed in other sections of note 1, are recognised in the income statement on an accrual basis.

**Direct fee expenses**

Direct fee expenses consist of those expenses directly attributable to the generation of revenue such as transaction fees or commissions paid.

### 1.22 Recognition of loan related fees and costs for loans (not at fair value through profit or loss)

Commitment fees are deferred, and if the commitment is exercised, recognised in income over the life of the loan as an adjustment of yield or, if unexercised, recognised in income upon expiration of the commitment. Where commitment fees are retrospectively determined and nominal in relation to market interest rates on related loans, commitment fees are recognised in income when charged. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised in income over the commitment period.

Direct loan origination costs are recognised over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

# Notes to the financial statements continued

## 1. Summary of significant accounting policies continued

### 1.23 Employee benefits

Employees are not entitled to any superannuation or long service entitlements. Annual leave is accrued and provided for based on an employee's base remuneration package. The Banking Group makes employer contributions to KiwiSaver scheme's on an accrual basis.

### 1.24 Securitisation and funds under management

A subsidiary of the Banking Group acts as manager for a number of unit trusts and investment funds.

The assets and liabilities of these trusts and funds are not included in the consolidated financial statements when the Banking Group does not have control of the trusts and funds. Fees earned in respect of these activities are included in Other Income.

Securitised assets are derecognised when the right to receive cash flows have expired or the Banking Group has transferred substantially all the risks and rewards of ownership (see note 35).

### 1.25 Cash flow statements

The following are definitions of the terms used in the cash flow statements:

i. Cash and cash equivalents is considered to be cash on hand, current accounts in banks, ATM's, overnight bank deposits, net of bank overdrafts and inter-bank balances arising from the daily RBNZ settlement process.

ii. Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment, intangibles, equity or debt instruments of other entities and other long-term assets.

iii. Financing activities are those activities which result in changes in the size and composition of the capital structure of the Banking Group. This includes both equity and debt not falling within the definition of cash.

iv. Operating activities include all transactions and other events that are not investing or financing activities.

v. Certain cash flows have been netted to provide more meaningful disclosure, including changes in loans and advances to customers, deposits held by customers, balances with other banks, debt securities issued, available-for-sale assets and financial assets held for trading. Many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group.

### 1.26 Deferred settlement liabilities

Deferred settlement liabilities are recognised in the balance sheet at fair value and are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### 1.27 Provisions

A provision is recognised in the balance sheet when the Banking Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### 1.28 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet, but are disclosed unless the likelihood of payment is remote.

### 1.29 Critical accounting estimates and judgements

**Fair value estimation**

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the end of the reporting date or determined using market accepted valuation models as appropriate (including discounted cash flow models) based on observable market quotes. The quoted market price used for financial assets held is the current bid price. The appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not quoted in an active market is determined by using valuation techniques. Management use a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

Asset backed securities not traded in active markets are valued using observable external third party inputs.

**Impairment losses on loans and advances**

Loan portfolios are assessed for impairment on at least a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, judgements are made as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

# Notes to the financial statements continued

## 1. Summary of significant accounting policies continued

### 1.29 Critical accounting estimates and judgements continued

The total provision comprises a specific impairment and collective impairment provision. Specific provisions have been raised where objective evidence of impairment exists. If no objective evidence of impairment exists exposures are included in a group of financial assets (personal markets and business markets lending) and collectively assessed for impairment. Collective impairment calculations have been determined by a provisioning model, historical loss experience and management's experience of economic stress factors. Key macro economic assumptions considered in the collective provisioning assessment are geographical concentration risk, personal savings levels, unemployment levels, property price discounts and insurance recoveries.

**Securitisation and the consolidation of SPV's**

The Banking Group sponsors the formation of SPV's in the ordinary course of business, primarily to provide funding. SPV's are typically set up for a single, pre-defined purpose, have a limited life and generally are not operating entities nor do they have employees. The most common form of SPV structure involves the acquisition of financial assets by the SPV that are funded by the issuance of securities to external investors (securitisation). Repayment of the issued securities is determined by the performance of the financial assets acquired by the SPV.

An SPV is consolidated and reported as part of the Banking Group if it is controlled by the Bank. The definition of control is outlined in note 1.4. As it can sometimes be difficult to determine whether the Banking Group controls an SPV, management makes judgements about the Banking Group's power over an SPV, its exposure to variable returns and its ability to affect those returns by exercising its power.

# Notes to the financial statements continued

## 2. Interest

| Dollars in millions | The Banking Group Year ended 30/06/15 | The Banking Group Year ended 30/06/14 | Kiwibank Limited Year ended 30/06/15 | Kiwibank Limited Year ended 30/06/14 |
|---|---|---|---|---|
| **Interest income** | | | | |
| Loans and advances at amortised cost | **885** | 760 | **879** | 756 |
| Government and local authority securities | **21** | 19 | **21** | 19 |
| Other securities ❶ | **28** | 4 | **28** | 4 |
| Cash and liquid assets | **14** | 8 | **14** | 8 |
| Balances with NZP related parties | **6** | 4 | **56** | 42 |
| Interest income on impaired assets | **3** | 3 | **3** | 3 |
| **Total interest income** | **957** | 798 | **1,001** | 832 |
| **Total interest income derived from financial assets** | | | | |
| Not at fair value through profit or loss ❷ | **956** | 797 | **1,000** | 831 |
| At fair value through profit or loss ❷ | **1** | 1 | **1** | 1 |
| **Total interest income** | **957** | 798 | **1,001** | 832 |
| **Interest expense** | | | | |
| Deposits by customers | **469** | 414 | **469** | 414 |
| Other issues | **123** | 88 | **119** | 88 |
| Balances with NZP related parties | **4** | 3 | **56** | 44 |
| **Total interest expense** | **596** | 505 | **644** | 546 |
| **Total interest expense on financial liabilities** | | | | |
| Not at fair value through profit or loss ❷ | **570** | 483 | **618** | 524 |
| At fair value through profit or loss ❷ | **26** | 22 | **26** | 22 |
| **Total interest expense** | **596** | 505 | **644** | 546 |

❶ Interest income from other securities includes the net income and expenses on interest rate swaps which may result in a debit balance.
❷ Based on underlying balance sheet classification

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

| Dollars in millions | The Banking Group Year ended 30/06/15 | The Banking Group Year ended 30/06/14 | Kiwibank Limited Year ended 30/06/15 | Kiwibank Limited Year ended 30/06/14 |
|---|---|---|---|---|
| Derivative financial instruments held for trading | **(6)** | (2) | **(18)** | (7) |
| Financial assets held for trading | **5** | 2 | **5** | 2 |
| Net ineffectiveness on qualifying fair value hedges | **(1)** | - | **(1)** | - |
| Cumulative gain transferred from available-for-sale reserve | **2** | 1 | **2** | 1 |
| Cumulative gain/(loss) transferred from cash flow hedge reserve | **3** | 1 | **3** | 1 |
| Net foreign exchange gains/(losses) | **2** | 1 | **(1)** | 2 |
| **Total gains on financial instruments** | **5** | 3 | **(10)** | (1) |

Net ineffectiveness on qualifying cash flow hedges is ($0.1m) (30 June 2014: $0.1m). Net ineffectiveness on qualifying fair value hedges is ($1.1m) (30 June 2014: $0.4m).

# Notes to the financial statements continued

## 4. Other income

| Dollars in millions | The Banking Group<br>**Year ended 30/06/15** | The Banking Group<br>Year ended 30/06/14 | Kiwibank Limited<br>**Year ended 30/06/15** | Kiwibank Limited<br>Year ended 30/06/14 |
|---|---|---|---|---|
| Lending and credit fee income | **56** | 52 | **56** | 56 |
| Transaction and other fees | **99** | 93 | **96** | 90 |
| Agency services fee income | **39** | 38 | **39** | 38 |
| Dividends received | **-** | - | **2** | - |
| Gross fee and other income | **194** | 183 | **193** | 184 |
| Direct fee expenses | **(87)** | (79) | **(87)** | (78) |
| **Total fee and other income** | **107** | 104 | **106** | 106 |

## 5. Operating expenses

| Dollars in millions | The Banking Group<br>**Year ended 30/06/15** | The Banking Group<br>Year ended 30/06/14 | Kiwibank Limited<br>**Year ended 30/06/15** | Kiwibank Limited<br>Year ended 30/06/14 |
|---|---|---|---|---|
| Included in operating expenses are the following items: | | | | |
| Operating lease and rental costs | **11** | 12 | **11** | 12 |
| Depreciation | **6** | 5 | **6** | 5 |
| Amortisation of intangibles | **20** | 19 | **20** | 19 |
| Salaries and wages | **123** | 117 | **122** | 116 |
| Computer and office costs | **39** | 35 | **39** | 35 |
| Termination payments | **-** | 3 | **-** | 3 |
| Dollars in thousands | | | | |
| **Auditors remuneration** | | | | |
| Audit and review of financial statements | **731** | 737 | **614** | 539 |
| Other advisory services ❶ | **351** | 373 | **351** | 373 |
| Assurance services ❷ | **57** | 78 | **21** | 43 |
| **Directors' fees** | | | | |
| Directors' fees | **466** | 370 | **466** | 370 |

❶ Other advisory services relate to advice provided on projects (PricewaterhouseCoopers Australia), accounting opinions and tax advice.

❷ These services relate to off-quarter Disclosure Statement agreed upon procedures, registry audits and trustee reporting.

# Notes to the financial statements continued

## 6. Taxation

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **Year ended 30/06/15** | Year ended 30/06/14 | **Year ended 30/06/15** | Year ended 30/06/14 |
| Profit before tax | **176** | 139 | **158** | 134 |
| Tax calculated at a rate of 28% | **(49)** | (39) | **(44)** | (37) |
| Other taxable income | **-** | - | **(4)** | (2) |
| **Taxation charge as per the income statement** | **(49)** | (39) | **(48)** | (39) |
| Represented by: | | | | |
| Current income tax | **(46)** | (35) | **(45)** | (35) |
| Deferred income tax | **(3)** | (4) | **(3)** | (4) |
| **Taxation charge as per the income statement** | **(49)** | (39) | **(48)** | (39) |
| The deferred tax charge in the income statement comprises the following temporary differences: | | | | |
| Accelerated tax depreciation | **(1)** | (1) | **(1)** | (1) |
| Allowances for credit and impairment losses | **(1)** | (4) | **(1)** | (4) |
| Other provisions and accruals | **(1)** | 1 | **(1)** | 1 |
| **Total temporary differences** | **(3)** | (4) | **(3)** | (4) |

### Imputation credit account

The amount of imputation credits available to the Banking Group, which are attributable to Kiwi Capital Securities Limited, as at the reporting date is $Nil (30 June 2014: $1m). Kiwibank Limited does not maintain an imputation credit account as it is part of the NZP tax group.

## 7. Deferred taxation

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **Deferred tax** | | | | |
| Balance at beginning of year | **5** | 16 | **5** | 16 |
| Prior period adjustment | **1** | - | **1** | - |
| Temporary differences for the year | **(3)** | (4) | **(3)** | (4) |
| Tax on profits taken to reserves | **29** | (7) | **29** | (7) |
| **Balance at end of year** | **32** | 5 | **32** | 5 |
| **Deferred income tax assets** | | | | |
| Cash flow hedges | **21** | - | **21** | - |
| Other provisions and accruals | **3** | 3 | **3** | 3 |
| Allowance for loan impairment | **15** | 16 | **15** | 16 |
| **Total deferred income tax assets** | **39** | 19 | **39** | 19 |
| **Deferred income tax liabilities** | | | | |
| Cash flow hedges | **-** | (8) | **-** | (8) |
| Accelerated tax depreciation | **(7)** | (6) | **(7)** | (6) |
| **Total deferred income tax liabilities** | **(7)** | (14) | **(7)** | (14) |
| **Net deferred taxation** | **32** | 5 | **32** | 5 |
| **Deferred tax assets and liabilities to be used within 12 months** | **37** | 10 | **37** | 10 |
| **Deferred tax assets and liabilities to be used after 12 months** | **(5)** | (5) | **(5)** | (5) |

# Notes to the financial statements continued

## 8. Cash and cash equivalents

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Cash in hand | **32** | 31 | **32** | 31 |
| Cash with central banks | **393** | 353 | **393** | 353 |
| Call and overnight advances to financial institutions | **67** | 77 | **67** | 76 |
| **Total cash and cash equivalents – Current** | **492** | 461 | **492** | 460 |

## 9. Due from other financial institutions

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Unsettled receivables | **32** | 5 | **32** | 5 |
| Short term advances due from other financial institutions | **23** | 20 | **23** | 20 |
| Collateralised loans | **139** | 96 | **139** | 96 |
| **Total amounts due from other financial institutions – Current** | **194** | 121 | **194** | 121 |

As at 30 June 2015, included within the above balance, is $138.5m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (30 June 2014: $95.9m).

## 10. Financial assets held for trading

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Other securities | **96** | 44 | **96** | 44 |
| **Total financial assets held for trading – Current** | **96** | 44 | **96** | 44 |

## 11. Available-for-sale assets

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Government stock and multilateral development banks | **765** | 640 | **765** | 640 |
| Treasury bills | **187** | 38 | **187** | 38 |
| Local authority securities | **22** | 13 | **22** | 13 |
| Other debt securities | **248** | 402 | **248** | 402 |
| **Total available-for-sale assets – Current** | **1,222** | 1,093 | **1,222** | 1,093 |

# Notes to the financial statements continued

## 12. Loans and advances

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Gross loans and advances | **15,651** | 14,689 | **15,580** | 14,631 |
| Allowance for impairment losses (note 24) | **(53)** | (59) | **(52)** | (59) |
| **Total net loans and advances** | **15,598** | 14,630 | **15,528** | 14,572 |
| **Current** | **1,059** | 1,102 | **1,036** | 1,081 |
| **Non-current** | **14,539** | 13,528 | **14,492** | 13,491 |

## 13. Derivative financial instruments

The Banking Group uses the following derivative instruments for both hedging and non-hedging purposes.

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.
- Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, the Banking Group assesses counterparties using the same techniques as for its lending activities.
- Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Banking Group and a customer over-the-counter. The Banking Group is exposed to credit risk on purchased options only and only to the extent of their carrying amount, which is their fair value.
- The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Banking Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair value of derivative instruments is set out on page 30.

### Fair value hedges

**Gain/(loss) on fair value hedges attributable to the hedged risk**

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **Year ended 30/06/15** | Year ended 30/06/14 | **Year ended 30/06/15** | Year ended 30/06/14 |
| Gain/(loss) arising from fair value hedges: | | | | |
| Hedged item | **(20)** | (4) | **(20)** | (4) |
| Hedging instrument | **19** | 4 | **19** | 4 |
| **Net ineffectiveness on qualifying fair value hedges** | **(1)** | - | **(1)** | - |

# Notes to the financial statements continued

## 13. Derivative financial instruments continued

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | 30/06/15 | | | 30/06/14 | | |
| | Notional Principal Amount | Fair values | | Notional Principal Amount | Fair values | |
| Dollars in millions | | Assets | Liabilities | | Assets | Liabilities |
| **Derivatives held for trading** | | | | | | |
| Foreign exchange derivatives | **1,051** | **51** | **(22)** | 1,569 | 6 | (75) |
| Interest rate derivatives | **40,381** | **291** | **(311)** | 26,639 | 96 | (104) |
| **Total derivatives held for trading** | **41,432** | **342** | **(333)** | 28,208 | 102 | (179) |
| **Derivatives held for hedging** | | | | | | |
| **Designated as cash flow hedges** | | | | | | |
| Interest rate derivatives | **8,240** | **8** | **(120)** | 7,322 | 23 | (19) |
| Exchange rate derivatives | **678** | **123** | **(19)** | 510 | - | (37) |
| **Total derivatives designated as cash flow hedges** | **8,918** | **131** | **(139)** | 7,832 | 23 | (56) |
| **Designated as fair value hedges** | | | | | | |
| Interest rate derivatives | **261** | **7** | **(3)** | 442 | 5 | (1) |
| **Total derivatives designated as fair value hedges** | **261** | **7** | **(3)** | 442 | 5 | (1) |
| **Total derivatives held for hedging** | **9,179** | **138** | **(142)** | 8,274 | 28 | (57) |
| **Total derivative financial instruments** | **50,611** | **480** | **(475)** | 36,482 | 130 | (236) |
| **Current** | | **345** | **(350)** | | 116 | (183) |
| **Non-current** | | **135** | **(125)** | | 14 | (53) |

| | Kiwibank Limited | | | | | |
|---|---|---|---|---|---|---|
| | 30/06/15 | | | 30/06/14 | | |
| | Notional Principal Amount | Fair values | | Notional Principal Amount | Fair values | |
| Dollars in millions | | Assets | Liabilities | | Assets | Liabilities |
| **Derivatives held for trading** | | | | | | |
| Foreign exchange derivatives | **1,243** | **51** | **(82)** | 1,760 | 6 | (75) |
| Interest rate derivatives | **40,381** | **291** | **(311)** | 26,639 | 96 | (104) |
| **Total derivatives held for trading** | **41,624** | **342** | **(393)** | 28,399 | 102 | (179) |
| **Derivatives held for hedging** | | | | | | |
| **Designated as cash flow hedges** | | | | | | |
| Interest rate derivatives | **8,240** | **8** | **(120)** | 7,322 | 23 | (19) |
| Exchange rate derivatives | **678** | **123** | **(19)** | 510 | - | (37) |
| **Total derivatives designated as cash flow hedges** | **8,918** | **131** | **(139)** | 7,832 | 23 | (56) |
| **Designated as fair value hedges** | | | | | | |
| Interest rate derivatives | **261** | **7** | **(3)** | 442 | 5 | (1) |
| **Total derivatives designated as fair value hedges** | **261** | **7** | **(3)** | 442 | 5 | (1) |
| **Total derivatives held for hedging** | **9,179** | **138** | **(142)** | 8,274 | 28 | (57) |
| **Total derivative financial instruments** | **50,803** | **480** | **(535)** | 36,673 | 130 | (236) |
| **Current** | | **345** | **(410)** | | 116 | (183) |
| **Non-current** | | **135** | **(125)** | | 14 | (53) |

# Notes to the financial statements continued

## 13. Derivative financial instruments continued

### Fair value hedges

The Banking Group enters into interest rate swaps to hedge interest rate risk resulting from any potential change or movement in the fair value of fixed rate coupon bonds. The Banking Group hedges this risk through the use of pay fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate financial instruments and interest rate swaps. The fair value gains and losses are recorded through the income statement as incurred. When a fair value hedging relationship is de-designated, the fair value adjustments to the balance sheet carrying value are amortised to the income statement over the remaining period to the maturity date of the fixed rate financial instrument.

The Banking Group also partially hedges the interest rate risk arising from any potential change in the fair value of fixed rate subordinated debt issuances and medium term notes. The Banking Group hedges this risk through the use of receive fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate liability and interest rate swap. The fair value gains and losses are recorded through the income statement as incurred. When a fair value hedging relationship is de-designated, the fair value adjustments to the balance sheet carrying value are amortised to the income statement over the remaining period to the maturity date of the fixed rate liability.

### Cash flow hedges

The Banking Group hedges the short term future reissuance of fixed rate loan customers and future retail term deposits through the use of interest rate swaps. Gains and losses deferred in the cash flow hedge reserve will be reclassified to the income statement over the next one to five years, as the cash flows under the hedged transactions occur.

### Dual fair value and cash flow hedges

The Banking Group hedges fixed rate foreign currency denominated medium term debt issuances using cross currency swaps, designated as fair value hedges of foreign interest rates and cash flow hedges of foreign exchange rates.

## 14. Investment in subsidiaries and trusts

Kiwibank's investment in subsidiaries comprises shares at cost. The subsidiaries comprise:

| | | Interest held by Kiwibank Limited | |
|---|---|---|---|
| Name of entity | Principal activity | **30/06/15** | 30/06/14 |
| Kiwibank Nominees Limited | Provision of custodial services to customers in respect of assets that are beneficially owned by those customers | **100%** | 100% |
| New Zealand Home Lending Limited | Agency services for mortgage lending through the New Zealand Home Loans Company Limited | **100%** | 100% |
| AMP Home Loans Limited | Agency services for mortgage lending through the AMP Advisor network | **100%** | 100% |
| Kiwibank Investment Management Limited | Provision of investment management services | **100%** | 100% |
| KB Custodial Services Limited | Funds management | **100%** | 100% |
| Kiwi Asset Finance Limited | Asset finance company | **70%** | 70% |
| Kiwi Capital Management Limited | Issuance management company | **N/A** | - |
| Kiwi Capital Securities Limited | Issuer of perpetual preference shares | **N/A** | - |
| Kiwi Capital Funding Limited* | Issuer of debt instruments | **-** | - |
| Kiwibank PIE Unit Trust * ("PIE Unit Trust") | Provision of investment management services | **-** | - |
| Kiwibank RMBS Trust Series 2009-1* | Securitisation finance entity | **-** | - |
| Kiwi Covered Bond Trust* | Securitisation finance entity | **-** | - |

* The Banking Group consolidates the PIE Unit Trust, the Kiwibank RMBS Trust Series 2009-1, Kiwi Covered Bond Trust and Kiwi Capital Funding Limited on the basis that Kiwibank is deemed to control these entities.

All entities have a reporting date of 30 June and are incorporated and/or domiciled in New Zealand.

In October 2011, Kiwibank disposed of a 20% shareholding in Kiwi Asset Finance Limited ("KAFL") and in October 2012, Kiwibank disposed of a further 10% of its shareholding to the same non-controlling shareholder. A deferred settlement liability has been recorded as Kiwibank is obliged to repurchase the 30% holding between 2016 and 2018 (note 21).

# Notes to the financial statements continued

## 14. Investment in subsidiaries and trusts continued

On 25 June 2015 Kiwi Capital Management Limited ("KCML") and Kiwi Capital Securities Limited ("KCSL") were amalgamated with KGHL, which was/is the legal parent of KCML, KCSL and Kiwibank. KCSL and KCML were de-consolidated from the Banking Group on the date of amalgamation as the Banking Group was deemed to have lost control from that date.

## 15. Property, plant and equipment

| | The Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **30/06/15** | | | | 30/06/14 | | | |
| Dollars in millions | **Furniture and fittings** | **Computer hardware** | **Work in progress** | **Total** | Furniture and fittings | Computer hardware | Work in progress | Total |
| Cost brought forward | **13** | **55** | **-** | **68** | 12 | 52 | 1 | 65 |
| Accumulated depreciation brought forward | **(7)** | **(48)** | **-** | **(55)** | (5) | (45) | - | (50) |
| Opening net book value | **6** | **7** | **-** | **13** | 7 | 7 | 1 | 15 |
| Additions | **1** | **8** | **4** | **13** | 1 | 2 | - | 3 |
| Transfers from work in progress | **1** | **-** | **(1)** | **-** | - | 1 | (1) | - |
| Disposals | **-** | **(1)** | **-** | **(1)** | - | - | - | - |
| Depreciation | **(1)** | **(5)** | **-** | **(6)** | (2) | (3) | - | (5) |
| Depreciation released on disposal | **-** | **1** | **-** | **1** | - | - | - | - |
| **Closing net book value** | **7** | **10** | **3** | **20** | 6 | 7 | - | 13 |

| | Kiwibank Limited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **30/06/15** | | | | 30/06/14 | | | |
| Dollars in millions | **Furniture and fittings** | **Computer hardware** | **Work in progress** | **Total** | Furniture and fittings | Computer hardware | Work in progress | Total |
| Cost brought forward | **13** | **55** | **-** | **68** | 12 | 52 | 1 | 65 |
| Accumulated depreciation brought forward | **(7)** | **(48)** | **-** | **(55)** | (5) | (45) | - | (50) |
| Opening net book value | **6** | **7** | **-** | **13** | 7 | 7 | 1 | 15 |
| Additions | **1** | **8** | **4** | **13** | 1 | 2 | - | 3 |
| Transfers from work in progress | **1** | **-** | **(1)** | **-** | - | 1 | (1) | - |
| Disposals | **-** | **(1)** | **-** | **(1)** | - | - | - | - |
| Depreciation | **(1)** | **(5)** | **-** | **(6)** | (2) | (3) | - | (5) |
| Depreciation released on disposal | **-** | **1** | **-** | **1** | - | - | - | - |
| **Closing net book value** | **7** | **10** | **3** | **20** | 6 | 7 | - | 13 |

# Notes to the financial statements continued

## 16. Intangible assets

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | **30/06/15** | | | 30/06/14 | | |
| | **Internally developed** | | | Internally developed | | |
| Dollars in millions | **Computer software** | **Computer software work in progress** | **Total** | Computer software | Computer software work in progress | Total |
| Cost brought forward | **153** | **39** | **192** | 124 | 27 | 151 |
| Accumulated depreciation brought forward | **(106)** | **-** | **(106)** | (87) | - | (87) |
| Opening net book value | **47** | **39** | **86** | 37 | 27 | 64 |
| Additions | **4** | **47** | **51** | 3 | 39 | 42 |
| Transfers from computer software work in progress | **20** | **(20)** | **-** | 26 | (26) | - |
| Amortisation | **(20)** | **-** | **(20)** | (19) | - | (19) |
| Amortisation released on disposal | **22** | **-** | **22** | - | - | - |
| Disposals | **(23)** | **-** | **(23)** | - | (1) | (1) |
| **Closing net book value** | **50** | **66** | **116** | 47 | 39 | 86 |

| | Kiwibank Limited | | | | | |
|---|---|---|---|---|---|---|
| | **30/06/15** | | | 30/06/14 | | |
| | **Internally developed** | | | Internally developed | | |
| Dollars in millions | **Computer software** | **Computer software work in progress** | **Total** | Computer software | Computer software work in progress | Total |
| Cost brought forward | **153** | **39** | **192** | 124 | 27 | 151 |
| Accumulated depreciation brought forward | **(106)** | **-** | **(106)** | (87) | - | (87) |
| Opening net book value | **47** | **39** | **86** | 37 | 27 | 64 |
| Additions | **4** | **47** | **51** | 3 | 39 | 42 |
| Transfers from computer software work in progress | **20** | **(20)** | **-** | 26 | (26) | - |
| Amortisation | **(20)** | **-** | **(20)** | (19) | - | (19) |
| Amortisation released on disposal | **22** | **-** | **22** | - | - | - |
| Disposals | **(23)** | **-** | **(23)** | - | (1) | (1) |
| **Closing net book value** | **50** | **66** | **116** | 47 | 39 | 86 |

## 17. Other assets

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Prepayments | **6** | 6 | **6** | 6 |
| Trade and other receivables | **11** | 10 | **11** | 10 |
| **Total other assets – Current** | **17** | 16 | **17** | 16 |

# Notes to the financial statements continued

## 18. Due to other financial institutions

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Repurchase agreements | **176** | 170 | **176** | 170 |
| Cash collateral received | **120** | - | **120** | - |
| Short term borrowing | **-** | 6 | **-** | 6 |
| Unsettled payables | **21** | 5 | **21** | 5 |
| Transaction balances with other financial institutions | **8** | 4 | **8** | 4 |
| **Total amounts due to other financial institutions – Current** | **325** | 185 | **325** | 185 |

## 19. Deposits and other borrowing

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Demand deposits non-interest bearing | **1,255** | 1,078 | **1,255** | 1,079 |
| Demand deposits bearing interest | **2,747** | 2,553 | **2,748** | 2,554 |
| Term deposits | **9,738** | 9,120 | **9,738** | 9,120 |
| **Total deposits from customers** | **13,740** | 12,751 | **13,741** | 12,753 |
| **Current** | **13,385** | 12,398 | **13,386** | 12,400 |
| **Non-current** | **355** | 353 | **355** | 353 |

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

The Kiwibank PIE Unit Trust (the "**Trust**"), established under the Unit Trusts Act 1960 in May 2008, operates three funds; the PIE Term Deposit Fund, the Notice Saver and PIE Online Call Fund. Kiwibank Investment Management Limited is the Issuer and Manager (the "**Manager**"), Trustees Executors Limited is the Trustee and Kiwibank is the Promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Trust is invested exclusively in term and call deposits with Kiwibank. At 30 June 2015, $3,735m of the Trust's funds were invested in Kiwibank products or securities (30 June 2014: $3,679m).

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

# Notes to the financial statements continued

## 20. Debt securities issued

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **Short term debt** | | | | |
| Commercial paper at fair value through profit or loss | **615** | 731 | **615** | 731 |
| Certificates of deposit | **191** | 206 | **191** | 206 |
| **Long term debt** | | | | |
| Medium term notes | **1,328** | 1,005 | **1,328** | 1,005 |
| Covered bonds | **236** | 191 | **236** | 191 |
| Fair value hedge adjustment | **27** | 10 | **27** | 10 |
| **Total debt securities issued** | **2,397** | 2,143 | **2,397** | 2,143 |
| **Current** | **836** | 1,212 | **836** | 1,212 |
| **Non-current** | **1,561** | 931 | **1,561** | 931 |

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

The guarantee arrangements and other details relating to covered bonds are disclosed in note 35.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to debt securities issued during the year (year ended 30 June 2014: none).

## 21. Other liabilities

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Trade and other payables | **36** | 29 | **36** | 27 |
| Employee entitlements | **25** | 20 | **25** | 20 |
| Deferred settlement obligation to non-controlling interest | **3** | 3 | **3** | 3 |
| Other liabilities | **28** | 24 | **28** | 24 |
| **Total other liabilities** | **92** | 76 | **92** | 74 |
| **Current** | **89** | 73 | **89** | 71 |
| **Non-current** | **3** | 3 | **3** | 3 |

In the event of liquidation, these creditors rank in priority to subordinated debt holders and shareholders and will rank equally with deposit holders and other creditors.

Kiwibank has disposed of a 30% shareholding in KAFL, however it is required to purchase this non-controlling shareholding back between July 2016 and 2018. The Banking Group has recognised a deferred settlement liability for this obligation. The fair value of the liability is $3.3m (30 June 2014: $3.1m) and is calculated by applying discounted cash flows analysis at a pre tax discount rate of 10.63% per annum (30 June 2014: 11.59%).

# Notes to the financial statements continued

## 22. Subordinated debt

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Subordinated bonds | **149** | 149 | **149** | 149 |
| Convertible subordinated bonds | **-** | - | **106** | 98 |
| Capital notes | **106** | 98 | **-** | - |
| Perpetual bonds | **-** | - | **147** | - |
| **Total subordinated debt** | **255** | 247 | **402** | 247 |
| **Current** | **3** | 1 | **3** | 1 |
| **Non-current** | **252** | 246 | **399** | 246 |

During the year, Kiwibank issued $150m of perpetual subordinated bonds and called $nil of subordinated debt (year ended 30 June 2014: $100m of subordinated debt was issued and $60m was called).

During the year, the Banking Group issued or called $nil of subordinated debt (year ended 30 June 2014: $100m was issued and $60m was called).

As at 30 June 2015, $208m (30 June 2014: $208m) of the subordinated bonds qualified as Tier 2 capital and $147m (30 June 2014: $nil) of the perpetual bonds qualified as Additional Tier 1 capital for Capital Adequacy calculation purposes.

The contractual terms of subordinated debt instruments on issue expressly provide that they do not have the benefit of the NZP Guarantee.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to these liabilities during the year (year ended 30 June 2014: none).

The subordinated debt instruments on issue are subordinate to all other general liabilities of Kiwibank Limited or the Banking Group and are denominated in New Zealand dollars.

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

| Instrument | Issue date | Amount $m's | | Coupon rates | Call dates | Maturity date | Credit rating |
|---|---|---|---|---|---|---|---|
| | | The Banking Group | Kiwibank Limited | | | | |
| Subordinated bonds | 10 December 2012 | 150 | 150 | 5.80% p.a. | 15 December 2017 | 15 December 2022 | BB+ |
| Capital notes | 6 June 2014 | 100 | N/A | 6.61% p.a. | 15 July 2019 | 15 July 2024 | BB+ |
| Convertible subordinated bonds | 6 June 2014 | N/A | 100 | 6.61% p.a. | 15 July 2019 | 15 July 2024 | N/A |
| Perpetual bonds | 27 May 2015 | N/A | 150 | 7.25% p.a. | 27 May 2020 | N/A | N/A |

### Kiwibank Limited – Convertible Subordinated Bonds

The convertible subordinate bonds issued by Kiwibank (the "Kiwibank Bonds") have been issued solely to Kiwi Capital Funding Limited ("KCFL"), an entity controlled by Kiwibank and which is part of the consolidated Banking Group. Interest on the Kiwibank Bonds is payable semi-annually at an initial rate of 6.61% p.a. subject to the condition that Kiwibank and the Banking Group is solvent after each payment. The Kiwibank Bonds may be required to be converted into ordinary shares of Kiwibank Limited (or written off if conversion into ordinary shares is not possible) if certain events occur. The Kiwibank Bonds have a maturity date of 15 July 2024, however, Kiwibank may elect to make early repayment on 15 July 2019 or any semi-annual interest payment date thereafter.

### The Banking Group – Capital Notes

The Capital Notes have been issued by KCFL. Interest on the Capital Notes is payable semi-annually at an initial rate of 6.61% p.a. subject to the condition that KCFL receives a corresponding payment of interest from Kiwibank on its investment in the Kiwibank Bonds. KCFL's obligation to pay interest changes or will terminate should any of the Kiwibank Bonds be converted into ordinary shares or written off. The Capital Notes have a maturity date of 15 July 2024, however, KCFL will make early repayment of the Capital Notes should Kiwibank elect to make early repayment of the Kiwibank Bonds as outlined above. KCFL's obligation to repay the capital notes changes or will terminate should any of the Kiwibank Bonds be converted into ordinary shares or written off.

# Notes to the financial statements continued

## 22. Subordinated debt continued

### Kiwibank Limited – Perpetual Bonds

The perpetual, subordinated, unsecured, convertible bonds issued by Kiwibank (the "Perpetual Bonds") have been issued solely to KCFL. Interest on the Perpetual Bonds is scheduled to be paid quarterly at an initial rate of 7.25% p.a. subject to the absolute discretion of Kiwibank. Interest payments are non-cumulative, which means that should Kiwibank not make a scheduled payment of interest it will not be paid at a later date and KCFL, as holder, will have no right to receive it at all or to take any action against Kiwibank in respect of that interest.

The Perpetual Bonds may be required to be converted into ordinary shares of Kiwibank Limited (or written off if conversion into ordinary shares is not possible) if certain events occur. The Perpetual Bonds do not have a maturity date, however, Kiwibank may elect to make repayment on 27 July 2020 or any reset date thereafter (reset dates occur at 5-yearly intervals, commencing 27 May 2020).

The Perpetual Bonds contain both liability and equity components, represented by the obligation to deliver a variable number of ordinary shares (if certain events occur) and Kiwibank's discretion over whether a scheduled interest payment is made, respectively. The Perpetual Bonds are deemed to be a compound financial instrument. The events which would result in conversion (the contingent trigger event) are beyond the control of Kiwibank, and should they occur Kiwibank cannot avoid settlement of the full principal amount of the Perpetual Bonds. As such, the fair value of the liability component on the date of issue is equal to the face value and the equity component is $nil.

## 23. Equity

The total authorised number of ordinary shares in Kiwibank at the reporting date was 400 million (30 June 2014: 400 million). 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.

On 31 March 2014, 40,000,000 ordinary shares were issued for cash at $1 per share to KGHL.

### Perpetual preference shares

On 4 May 2010 Kiwibank issued 150,000,000 perpetual preference shares (the "PPS") to KCML for cash at $1 per PPS and on 5 May 2015 Kiwibank repurchased all 150,000,000 PPS for cash at $1 per PPS. The PPS carried no voting rights. Dividends were paid quarterly in arrears at the discretion of the Board. During the year, Kiwibank paid a dividend of $8.8m to KCML (year ended 30 June 2014: $8.8m). No provision was made for a variation or suspension of dividend payments.

### Non-controlling interest

The non-controlling interest comprised perpetual callable non-cumulative preference shares (the "KCSL PPS") issued by KCSL. On 4 May 2010 KCSL issued 150,000,000 KCSL PPS for cash at $1 per KCSL PPS and on 5 May 2015 KCSL repurchased all 150,000,000 KCSL PPS for cash at $1 per KCSL PPS. The KCSL PPS carried no voting rights other than in respect of amendments relating to the rights, privileges, limitations and conditions attaching to the KCSL PPS. The KCSL PPS had no maturity date, however, in certain circumstances KGHL, the immediate parent of Kiwibank, had the right (the Call) to require holders of KCSL PPS to transfer all of their KCSL PPS to KGHL or a purchaser nominated by KGHL. The Call was exercised on 5 May 2015. Dividends were paid quarterly in arrears at the discretion of the Board of KCSL. The gross dividend was calculated using the annual interest rate of 8.15% and was paid quarterly. A dividend would not be paid if the Board of KCSL in its sole discretion did not resolve to pay a dividend. A dividend must not have been paid on the KCSL PPS if: a) the Board of KCSL were not satisfied on reasonable grounds that KCSL would satisfy the solvency test (in section 4 of the Companies Act 1993) immediately after the payment; or b) a dividend on the PPS was not paid on the corresponding dividend payment date for the PPS. The costs associated with this share issue were netted against the perpetual preference share capital in the balance sheet.

### Perpetual capital reserve

On 27 May 2015 KCFL issued 150,000,000 perpetual, non-cumulative, unsecured, subordinated, loss absorbing debt securities ("PCN") for cash at $1 per PCN and utilised the proceeds to purchase all 150,000,000 Perpetual Bonds issued by Kiwibank, for cash at $1 per Perpetual Bond. The PCN's are perpetual in nature and do not have a maturity date, however, some or all of the PCN's may be repaid on a reset date (reset dates occur at 5-yearly intervals, commencing 27 May 2020). KCFL's obligation to pay interest on the PCN's is dependent on the receipt of a payment of interest from Kiwibank on the Perpetual Bonds on an equivalent payment date. Therefore, the Banking Group has no contractual obligation in respect of the PCN's and they are classified as equity. The costs associated with the issue are netted against the Perpetual capital reserve in the balance sheet.

### Capital

The Banking Group's regulatory capital is analysed in two tiers:

- Tier 1 capital, which includes ordinary shares, retained earnings including current year profit, the available-for-sale reserve and perpetual preference shares.
- Tier 2 capital, which includes subordinated debt.

# Notes to the financial statements continued

## 23. Equity continued

The Bank maintains an actively managed capital base to cover risks inherent in the business and meet the capital adequacy requirements of the RBNZ. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the RBNZ in supervising the Bank. Further details can be found in the Capital Adequacy section of this Disclosure Statement.

During both the years ended 30 June 2015 and 2014, the Bank was not in compliance with one condition of its externally imposed conditions of registration regarding the number of independent directors appointed (separate breaches). The instances of non-compliance were rectified during the years ended 30 June 2015 and 2014.

### Capital management

The primary objectives of the Bank's capital management policy are to ensure that the Bank complies with externally imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business.

The Bank manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes have been made to the objectives, policies and processes from the previous year. However, they are under constant review by the Board.

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **Equity** | | | | |
| Ordinary shares fully paid | **400** | 400 | **400** | 400 |
| Perpetual preference shares | **-** | - | **-** | 150 |
| Non-controlling interest | **-** | 149 | **-** | - |
| Perpetual capital reserve | **147** | - | **-** | - |
| Retained earnings | **532** | 436 | **513** | 434 |
| Cash flow hedging reserve | **(54)** | 20 | **(54)** | 20 |
| **Available-for-sale reserve** | **8** | (2) | **8** | (2) |
| **Total equity** | **1,033** | 1,003 | **867** | 1,002 |
| **Share capital** | | | | |
| Balance at beginning of the year (2015: 400m shares; 2014: 360m shares) | **400** | 360 | **400** | 360 |
| Issued in year (2015: nil shares; 2014: 40m shares) | **-** | 40 | **-** | 40 |
| Balance at end of the year (2015: 400m shares; 2014: 400m shares) | **400** | 400 | **400** | 400 |
| **Perpetual preference shares** | | | | |
| Balance at beginning of the year | **-** | - | **150** | 150 |
| Perpetual preference shares repurchased | **-** | - | **(150)** | - |
| Balance at end of the year | **-** | - | **-** | 150 |
| **Non-controlling interest** | | | | |
| Balance at beginning of the year | **149** | 149 | **-** | - |
| Transactions with non-controlling interests | **1** | - | **-** | - |
| Perpetual preference shares repurchased | **(150)** | - | **-** | - |
| Balance at end of the year | **-** | 149 | **-** | - |
| **Perpetual capital reserve** | | | | |
| Net proceeds from issue of Perpetual Capital Notes | **147** | - | - | - |
| Balance at end of the year | **147** | - | **-** | - |

# Notes to the financial statements continued

## 23. Equity continued

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **Retained earnings** | | | | |
| Balance at beginning of the year | **436** | 345 | **434** | 348 |
| Net profit for the year | **127** | 100 | **110** | 95 |
| Dividends paid on ordinary shares | **(22)** | - | **(22)** | - |
| Dividends paid to non-controlling interest | **(9)** | (9) | **(9)** | (9) |
| Balance at end of the year | **532** | 436 | **513** | 434 |
| **Cash flow hedging reserve ❶** | | | | |
| Balance at beginning of the year | **20** | 2 | **20** | 2 |
| Gross changes in fair value | **(100)** | 26 | **(100)** | 26 |
| Tax on changes in fair value | **28** | (7) | **28** | (7) |
| Cumulative loss transferred to the income statement on disposal of financial assets | **(3)** | (1) | **(3)** | (1) |
| Tax effect of items transferred to income statement | **1** | - | **1** | - |
| Balance at end of the year | **(54)** | 20 | **(54)** | 20 |
| **Available-for-sale reserve ❷** | | | | |
| Balance at beginning of the year | **(2)** | 2 | **(2)** | 2 |
| Gross changes in fair value | **16** | (5) | **16** | (5) |
| Tax on changes in fair value | **(5)** | 2 | **(5)** | 2 |
| Cumulative gain transferred to the income statement on disposal of financial assets | **(2)** | (1) | **(2)** | (1) |
| Tax effect of items transferred to income statement | **1** | - | **1** | - |
| Balance at end of the year | **8** | (2) | **8** | (2) |

❶ The cash flow hedging reserve comprises the effective portion of the cumulative change in the fair value of foreign exchange and interest rate derivative contracts related to hedged forecasted transactions that have not yet occurred.

❷ The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale securities until the investment is derecognised or impaired.

| | | | | |
|---|---|---|---|---|
| **Dividends paid** | | | | |
| **Declared and paid during the year on perpetual preference shares:** | | | | |
| August dividend: 1.46 cents per share (2014: 1.46 cents per share) | **2.2** | 2.2 | **2.2** | 2.2 |
| November dividend: 1.46 cents per share (2014: 1.46 cents per share) | **2.2** | 2.2 | **2.2** | 2.2 |
| February dividend: 1.46 cents per share (2014: 1.46 cents per share) | **2.2** | 2.2 | **2.2** | 2.2 |
| May dividend: 1.46 cents per share (2014: 1.46 cents per share) | **2.2** | 2.2 | **2.2** | 2.2 |
| | **8.8** | 8.8 | **8.8** | 8.8 |
| **Declared and paid during the year on ordinary shares:** | | | | |
| 5.41 cents per share (2014: nil) | **21.7** | - | **21.7** | - |
| **Total dividends paid** | **30.5** | 8.8 | **30.5** | 8.8 |

# Notes to the financial statements continued

## 24. Asset quality

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **Allowance for impairment losses in balance sheet** | | | | |
| Collective allowance for impairment losses | **41** | 37 | **41** | 37 |
| Allowance for individually impaired assets | **12** | 22 | **11** | 22 |
| **Total allowance for impairment losses** | **53** | 59 | **52** | 59 |

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **Year ended 30/06/15** | Year ended 30/06/14 | **Year ended 30/06/15** | Year ended 30/06/14 |
| **Impairment losses per income statement** | | | | |
| Collective impairment (reversals)/losses on loans not at fair value through profit or loss | **4** | (3) | **4** | (3) |
| Individual impairment (reversals)/losses on loans not at fair value through profit or loss | **9** | (1) | **9** | (1) |
| **Total impairment (reversals)/losses per income statement** | **13** | (4) | **13** | (4) |

### Summary of lending

Allocations in the following summary are those used by the Bank and reflect the commercial nature of the loan.

| 30/06/15 | The Banking Group | | | Kiwibank Limited | | |
|---|---|---|---|---|---|---|
| Dollars in millions | **Loans and advances to retail customers** | **Loans and advances to corporate and institutional customers** | **Total** | **Loans and advances to retail customers** | **Loans and advances to corporate and institutional customers** | **Total** |
| Neither past due nor impaired | **13,963** | **1,527** | **15,490** | **13,962** | **1,461** | **15,423** |
| Past due but not impaired | **133** | **5** | **138** | **133** | **1** | **134** |
| Impaired | **8** | **15** | **23** | **8** | **15** | **23** |
| **Gross** | **14,104** | **1,547** | **15,651** | **14,103** | **1,477** | **15,580** |
| Collective allowance for impairment | **(21)** | **(20)** | **(41)** | **(21)** | **(20)** | **(41)** |
| Individual allowance for impairment | **(3)** | **(9)** | **(12)** | **(2)** | **(9)** | **(11)** |
| **Net loans and advances** | **14,080** | **1,518** | **15,598** | **14,080** | **1,448** | **15,528** |

# Notes to the financial statements continued

## 24. Asset quality continued

| 30/06/14 | The Banking Group | | | Kiwibank Limited | | |
|---|---|---|---|---|---|---|
| Dollars in millions | Loans and advances to retail customers | Loans and advances to corporate and institutional customers | Total | Loans and advances to retail customers | Loans and advances to corporate and institutional customers | Total |
| Neither past due nor impaired | 13,026 | 1,477 | 14,503 | 13,026 | 1,419 | 14,445 |
| Past due but not impaired | 138 | 4 | 142 | 138 | 4 | 142 |
| Impaired | 12 | 32 | 44 | 12 | 32 | 44 |
| **Gross** | 13,176 | 1,513 | 14,689 | 13,176 | 1,455 | 14,631 |
| Collective allowance for impairment | (18) | (19) | (37) | (18) | (19) | (37) |
| Individual allowance for impairment | (3) | (19) | (22) | (3) | (19) | (22) |
| **Net loans and advances** | 13,155 | 1,475 | 14,630 | 13,155 | 1,417 | 14,572 |

### a: Loans and advances past due but not impaired

| | The Banking Group | | | |
|---|---|---|---|---|
| **Loans and advances to customers**<br>Dollars in millions | Retail unsecured lending | Residential mortgage loans | Corporate exposures | Total |
| **30/06/15** | | | | |
| Past due less than 30 days | **29** | **69** | **2** | **100** |
| Past due 30 – 59 days | **10** | **8** | **2** | **20** |
| Past due 60 – 89 days | **4** | **3** | **-** | **7** |
| Past due 90 days or greater | **3** | **7** | **1** | **11** |
| **Total** | **46** | **87** | **5** | **138** |
| **30/06/14** | | | | |
| Past due less than 30 days | 29 | 77 | 2 | 108 |
| Past due 30 – 59 days | 7 | 7 | 1 | 15 |
| Past due 60 – 89 days | 3 | 5 | - | 8 |
| Past due 90 days or greater | 4 | 6 | 1 | 11 |
| **Total** | 43 | 95 | 4 | 142 |

# Notes to the financial statements continued

## 24. Asset quality continued

| Loans and advances to customers<br>Dollars in millions | Kiwibank Limited<br>Retail unsecured lending | Residential mortgage loans | Corporate exposures | Total |
|---|---|---|---|---|
| **30/06/15** | | | | |
| Past due less than 30 days | **29** | **69** | **1** | **99** |
| Past due 30 – 59 days | **10** | **8** | **-** | **18** |
| Past due 60 – 89 days | **4** | **4** | **-** | **8** |
| Past due 90 days or greater | **3** | **6** | **-** | **9** |
| **Total** | **46** | **87** | **1** | **134** |
| **30/06/14** | | | | |
| Past due less than 30 days | 29 | 77 | 2 | 108 |
| Past due 30 – 59 days | 7 | 7 | 1 | 15 |
| Past due 60 – 89 days | 3 | 5 | - | 8 |
| Past due 90 days or greater | 4 | 6 | 1 | 11 |
| **Total** | 43 | 95 | 4 | 142 |

### b: Impaired assets

The breakdown of the gross amount of individually impaired loans and advances by class, as defined by the Order, is as follows:

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **Year ended 30/06/15** | Year ended 30/06/14 | **Year ended 30/06/15** | Year ended 30/06/14 |
| **Gross impaired assets – retail unsecured lending** | | | | |
| Balance at beginning of the year | **1** | 1 | **1** | 1 |
| Transfers from performing | **5** | 1 | **5** | 1 |
| Transfers to performing | **-** | - | **-** | - |
| Asset realisations and loans repaid | **-** | - | **-** | - |
| Amounts written off | **(5)** | (1) | **(5)** | (1) |
| **Balance at end of the year** | **1** | 1 | **1** | 1 |
| **Gross impaired assets – residential mortgage loans** | | | | |
| Balance at beginning of the year | **14** | 22 | **14** | 22 |
| Transfers from performing | **6** | 12 | **6** | 12 |
| Transfers to performing | **(2)** | (6) | **(2)** | (6) |
| Asset realisations and loans repaid | **(5)** | (10) | **(5)** | (10) |
| Amounts written off | **(2)** | (4) | **(2)** | (4) |
| **Balance at end of the year** | **11** | 14 | **11** | 14 |

# Notes to the financial statements continued

## 24. Asset quality continued

| Dollars in millions | The Banking Group Year ended 30/06/15 | The Banking Group Year ended 30/06/14 | Kiwibank Limited Year ended 30/06/15 | Kiwibank Limited Year ended 30/06/14 |
|---|---|---|---|---|
| **Gross impaired assets – corporate exposures** | | | | |
| Balance at beginning of the year | **29** | 31 | **29** | 31 |
| Transfers from performing | **9** | 19 | **9** | 19 |
| Transfers to performing | **(2)** | (4) | **(2)** | (4) |
| Asset realisations and loans repaid | **(13)** | (15) | **(13)** | (15) |
| Amounts written off | **(12)** | (2) | **(12)** | (2) |
| **Balance at end of the year** | **11** | 29 | **11** | 29 |
| Total gross impaired assets | **23** | 44 | **23** | 44 |
| Individual allowance for impairment | **(12)** | (22) | **(11)** | (22) |
| **Total net impaired assets** | **11** | 22 | **12** | 22 |

### c: The reconciliation of the collective allowance account for losses on loans and advances by class is as follows:

| Dollars in millions | The Banking Group Retail unsecured lending | Residential mortgage loans | Corporate exposures | Total |
|---|---|---|---|---|
| **Collective allowance for impairment losses** | | | | |
| **Year ended 30 June 2015** | | | | |
| Balance at beginning of the year | **8** | **15** | **14** | **37** |
| Impairment losses/(reversals) on loans not at fair value through profit or loss | **1** | **2** | **1** | **4** |
| Amounts written off | **-** | **-** | **-** | **-** |
| **Balance at end of the year** | **9** | **17** | **15** | **41** |
| Year ended 30 June 2014 | | | | |
| Balance at beginning of the year | 9 | 15 | 20 | 44 |
| Impairment losses/(reversals) on loans not at fair value through profit or loss | 3 | - | (6) | (3) |
| Amounts written off | (4) | - | - | (4) |
| **Balance at end of the year** | 8 | 15 | 14 | 37 |

# Notes to the financial statements continued

## 24. Asset quality continued

| | Kiwibank Limited | | | |
|---|---|---|---|---|
| Dollars in millions | Retail unsecured lending | Residential mortgage loans | Corporate exposures | Total |
| **Collective allowance for impairment losses** | | | | |
| **Year ended 30 June 2015** | | | | |
| **Balance at beginning of the year** | **8** | **15** | **14** | **37** |
| Impairment losses/(reversals) on loans not at fair value through profit or loss | **1** | **2** | **1** | **4** |
| Amounts written off | **-** | **-** | **-** | **-** |
| **Balance at end of the year** | **9** | **17** | **15** | **41** |
| Year ended 30 June 2014 | | | | |
| Balance at beginning of the year | 9 | 15 | 20 | 44 |
| Impairment losses/(reversals) on loans not at fair value through profit or loss | 3 | - | (6) | (3) |
| Amounts written off | (4) | - | - | (4) |
| **Balance at end of the year** | 8 | 15 | 14 | 37 |

### d: Reconciliation of the individual allowance for impairment

| | The Banking Group | | | |
|---|---|---|---|---|
| Dollars in millions | Retail unsecured lending | Residential mortgage loans | Corporate exposures | Total |
| **Individual allowance for impairment losses** | | | | |
| **Year ended 30 June 2015** | | | | |
| Balance at beginning of the year | **1** | **9** | **12** | **22** |
| Impairment losses on loans not at fair value through profit or loss | **5** | **1** | **7** | **13** |
| Amounts written off | **(5)** | **(2)** | **(12)** | **(19)** |
| Reversals of previously recognised impaired assets | **-** | **(3)** | **(1)** | **(4)** |
| **Balance at end of the year** | **1** | **5** | **6** | **12** |
| Year ended 30 June 2014 | | | | |
| Balance at beginning of the year | 1 | 10 | 17 | 28 |
| Impairment losses on loans not at fair value through profit or loss | 1 | 4 | 1 | 6 |
| Amounts written off | (1) | (2) | (2) | (5) |
| Reversals of previously recognised impaired assets | - | (3) | (4) | (7) |
| **Balance at end of the year** | 1 | 9 | 12 | 22 |

# Notes to the financial statements continued

## 24. Asset quality continued

| | Kiwibank Limited | | | |
|---|---|---|---|---|
| Dollars in millions | Retail unsecured lending | Residential mortgage loans | Corporate exposures | Total |
| **Individual allowance for impairment losses** | | | | |
| **Year ended 30 June 2015** | | | | |
| Balance at beginning of the year | **1** | **9** | **12** | **22** |
| Impairment losses on loans not at fair value through profit or loss | **5** | **1** | **6** | **12** |
| Amounts written off | **(5)** | **(2)** | **(12)** | **(19)** |
| Reversals of previously recognised impaired assets | **-** | **(3)** | **(1)** | **(4)** |
| **Balance at end of the year** | **1** | **5** | **5** | **11** |
| Year ended 30 June 2014 | | | | |
| Balance at beginning of the year | 1 | 10 | 17 | 28 |
| Impairment losses on loans not at fair value through profit or loss | 1 | 4 | 1 | 6 |
| Amounts written off | (1) | (2) | (2) | (5) |
| Reversals of previously recognised impaired assets | - | (3) | (4) | (7) |
| **Balance at end of the year** | 1 | 9 | 12 | 22 |

### e: Asset quality of loans and advances:

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the period. There are no real estate or other assets acquired through the enforcement of security/collateral held at 30 June 2015 (30 June 2014: nil). There are no assets under administration as at 30 June 2015 (30 June 2014: nil).

There are no unrecognised impaired assets as at 30 June 2015 (30 June 2014: nil). The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired is $0.5m at 30 June 2015 (30 June 2014: $0.6m).

### f: Credit quality of financial assets neither past due nor impaired

A large portion of the credit exposures, such as residential mortgages, are secured. That is, the fair value of associated security is sufficient to ensure that the Banking Group will recover the entire amount owing over the life of the facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

The credit quality of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the Bank's credit scoring systems. At the origination of loans and advances to Customers, retail advances are credit scored based on a combination of debt servicing ability, behavioural loan characteristics and loan-to-valuation ("LVR") ratios. Non-retail advances are individually risk graded against similar characteristics. These credit scoring characteristics are reviewed periodically for adverse changes during the loan's life. Interest continues to be accrued on all loans. No interest has been foregone.

# Notes to the financial statements continued

## 25. Related parties

Related parties comprise NZP and its subsidiaries (the "**NZP Group**") and key management personnel. In addition, Kiwibank undertakes some transactions with other State-Owned Enterprises and Government departments.

All related party loan transactions were conducted on normal commercial terms and within the Banking Group's approved policies.

Refer to Note 23 for details of dividends paid to stakeholders.

**Transaction with NZP and related entities**

All payment obligations of Kiwibank, excluding any payment obligations, the terms of which expressly provide that they do not have the benefit of the guarantee, are guaranteed under the NZP Guarantee. No consideration is paid to NZP for the NZP guarantee.

Transactions conducted with entities within the NZP Group include:

- Certain shared service activities have been provided to Kiwibank in common with other NZP Group companies. The fee paid for this service is based upon activity and a mutually agreed fee.
- Kiwibank provided Treasury services to NZP under a service level agreement.
- Kiwibank utilises NZP's retail network in its provision of retail banking services to customers. The fee paid for this service is based upon activity and a mutually agreed fee.
- During the year, NZP held a number of property leases on behalf of Kiwibank. Kiwibank reimbursed NZP for the lease charges but had no contractual lease commitments for property charges. At 30 June 2015, Kiwibank holds a property lease with NZP as disclosed in note 40.
- Kiwibank is part of the NZP consolidated tax group, and purchased tax losses from entities within the NZP Group.
- Agency Services fee revenue and expenditure are included in Kiwibank under a management agreement whereby Kiwibank manages the Agency Services activity of NZP. Agency Services activity consists of agency collection and identity verification services.
- The Crown has entered into a $300m uncalled capital facility with NZP where NZP may drawdown capital for contingent events around Kiwibank's conditions of registration. The annualised cost of this facility on charged to Kiwibank by NZP is $3.6m (2014: $3.6m).
- NZP has a credit facility with the Banking Group, allowing NZP to drawdown to the extent that the Banking Group does not exceed credit exposure to connected persons of 15% of Tier 1 capital, as required in Kiwibank's banking conditions of registration. When loans are drawn down the transaction is undertaken at market interest rates. As at 30 June 2015 the amount owed by NZP to Kiwibank was $75.5m (30 June 2014: $75.5m).
- There is a revolving credit agreement between Kiwibank and New Zealand Home Loans Limited ("NZHL"), the balance of which was $1.9m at 30 June 2015 (30 June 2014: $1.1m).
- During the year NZHL received commissions from Kiwibank totalling $12.7m (year ended 30 June 2014: $11.3m).
- During the year Kiwibank received commissions from Kiwi Insurance Limited totalling $1.5m (year ended 30 June 2014: $1.2m).
- During the year the Banking Group transferred the members and assets of the Kiwibank KiwiSaver Scheme to the Kiwi Wealth KiwiSaver Scheme, operated by Kiwi Wealth Limited ("KWL"), a fellow member of the KGHL Group. In compensation for the transfer, the Banking Group received $2.1m from KWL (year ended 30 June 2014: $Nil), which has been recognised in other income.

**Transactions within the Banking Group**

Transactions conducted within the Banking Group include:

- There is a loan agreement between Kiwibank and Kiwi Asset Finance Limited, the balance of which was $61.9m at 30 June 2015 (30 June 2014: $51.1m).
- During the year, Kiwibank received management fees of $3.4m (30 June 2014: $3.4m) and $1.4m (30 June 2014: $1.4m) from the RMBS Trust and the Kiwi Covered Bond Trust, respectively.
- There is a foreign exchange swap between Kiwibank and the Kiwi Covered Bond Trust and there are total return swaps between Kiwibank and the RMBS Trust and the Kiwi Covered Bond Trust.
- During the year, Kiwibank Limited paid a dividend of $8.8m to KCML (30 June 2014: $8.8m).
- At 30 June 2015, $3,735m of PIE funds under management (note 19) were invested in Kiwibank's own products or securities (30 June 2014: $3,679m).
- During the year, Kiwi Investment Management Limited received management fees totalling $0.9m (year ended 30 June 2014: $2.0m) from the Kiwibank KiwiSaver Scheme.
- During the year ended 30 June 2015 the KCSL PPS were repurchased. As at 30 June 2014, 5,000 KCSL PPS were held by related parties of the Banking Group.
- During the year ended 30 June 2015, Kiwibank Limited purchased $2.9m of tax losses from KCML (30 June 2014: $3.4m).

# Notes to the financial statements continued

## 25. Related parties continued

The table below shows revenue and expenditure with individual companies within the NZP Group and other related parties. No provision for credit impairment has been recognised for loans made to related parties.

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **Year ended 30 June** | | | | |
| **Revenue** | | | | |
| NZP | **43** | 41 | **43** | 41 |
| Other controlled entities of Kiwibank | **-** | - | **54** | 44 |
| Other subsidiaries within the NZP Group | **1** | 1 | **1** | 1 |
| **Expenditure** | | | | |
| NZP | **85** | 71 | **85** | 71 |
| Other subsidiaries within the NZP Group | **14** | 12 | **14** | 12 |
| Other controlled entities of Kiwibank | **-** | - | **215** | 180 |
| **As at 30 June** | | | | |
| **Outstanding balances** | | | | |
| NZP | **6** | 25 | **6** | 25 |
| Other subsidiaries within the NZP Group | **-** | 2 | **-** | 2 |
| RMBS Trust (note 35) | **-** | - | **601** | 601 |
| Kiwi Covered Bond Trust (note 35) | **-** | - | **317** | 317 |
| **Total per balance sheet – Due to NZP related parties** | **6** | 27 | **924** | 945 |
| NZP Superannuation Plan (deposits) | **16** | 15 | **16** | 15 |
| Kiwibank KiwiSaver Scheme (deposits) | **-** | 37 | **-** | 37 |
| Kiwi Wealth KiwiSaver Scheme (deposits) | **-** | 23 | **-** | 23 |
| Kiwi Wealth KiwiSaver Scheme (subordinated debt) | **-** | 1 | **-** | 1 |
| Kiwi Wealth KiwiSaver Scheme (KCSL PPS) | **-** | 1 | **-** | - |
| Kiwi Capital Funding Limited (Convertible subordinated bonds) | **-** | - | **100** | 100 |
| Kiwi Capital Funding Limited (Perpetual bonds) | **-** | - | **150** | - |
| Pie Unit Trust (note 19) | **-** | - | **3,735** | 3,679 |
| Balances owed to NZP related parties | **12** | 11 | **12** | 11 |
| Other controlled entities of Kiwibank | **-** | - | **1** | 3 |
| **Total balances due to related parties** | **34** | 115 | **4,938** | 4,814 |
| **Receivables** | | | | |
| Other controlled entities of Kiwibank | **-** | - | **62** | 51 |
| NZP | **76** | 76 | **76** | 76 |
| RMBS Trust (note 35) | **-** | - | **601** | 602 |
| Kiwi Covered Bond Trust (note 35) | **-** | - | **363** | 318 |
| Other subsidiaries within the NZP Group | **1** | 1 | **1** | 1 |
| **Total per balance sheet – Due from NZP related parties** | **77** | 77 | **1,103** | 1,048 |
| Loans to NZP related parties (note 12) | **2** | 1 | **2** | 1 |
| Loans to other controlled entities of Kiwibank (note 12) | **-** | - | **2** | 2 |
| **Total related party receivables** | **79** | 78 | **1,107** | 1,051 |

# Notes to the financial statements continued

## 25. Related parties continued

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **Balances with NZP related parties per balance sheet** | | | | |
| Payables – Current | **6** | 27 | **8** | 29 |
| Payables – Non-current | **-** | - | **916** | 916 |
| Receivables – Current | **47** | 47 | **71** | 62 |
| Receivables – Non-current | **30** | 30 | **1,032** | 986 |

### Transactions with key management personnel

Loans made to and deposits held by key management personnel (including personally related parties) are made in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees or customers. Loans are on terms of repayment that range between fixed and variable, all of which have been made in accordance with the Banking Group's lending policies. No provision for credit impairment has been recognised for loans made to key management personnel (30 June 2014: $nil).

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. This includes the Board and members of the senior executive team.

The table below shows the amount of benefits paid to key management personnel within the Banking Group. It also shows loans to and deposits from key management personnel.

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **Key management personnel** | | | | |
| Salaries and short term benefits | **5** | 6 | **5** | 6 |
| | **5** | 6 | **5** | 6 |
| Loans to key management personnel | **-** | 1 | **-** | 1 |
| Deposits from key management personnel | **2** | 3 | **2** | 3 |

# Notes to the financial statements continued

## 26. Concentration of credit risk

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

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **New Zealand** | | | | |
| Government, local authorities and services | **1,244** | 1,019 | **1,244** | 1,018 |
| Finance, investment and insurance | **1,279** | 858 | **2,304** | 1,827 |
| Households | **13,906** | 12,876 | **13,906** | 12,876 |
| Transport and storage | **44** | 52 | **14** | 27 |
| Professional scientific and technical services | **41** | 64 | **41** | 64 |
| Electricity, gas and water | **4** | 25 | **4** | 25 |
| Construction | **165** | 156 | **165** | 142 |
| Property and business services | **1,015** | 1,020 | **1,015** | 1,020 |
| Agriculture | **25** | 35 | **20** | 32 |
| Health and community services | **68** | 80 | **68** | 80 |
| Personal and other services | **79** | 85 | **79** | 85 |
| Retail and wholesale trade | **74** | 87 | **68** | 82 |
| Food & other manufacturing | **203** | 184 | **175** | 175 |
| **Overseas** | | | | |
| Finance, investment and insurance | **65** | 74 | **64** | 74 |
| | **18,212** | 16,615 | **19,167** | 17,527 |
| Less allowance for impairment losses | **(53)** | (59) | **(52)** | (59) |
| Other financial assets | **10** | 10 | **10** | 10 |
| Total financial assets | **18,169** | 16,566 | **19,125** | 17,478 |

Comparative balances have been restated to align with the current period's presentation, due to the reassessment of ANZIC Codes for loans and advances.

# Notes to the financial statements continued

## 26. Concentration of credit risk continued

### Maximum exposure to credit risk and collateral held

| | The Banking Group | | | Kiwibank Limited | | |
|---|---|---|---|---|---|---|
| **As at 30 June 2015**<br>Dollars in millions | **Maximum exposure** | **Collateral** | **Net exposure** | **Maximum exposure** | **Collateral** | **Net exposure** |
| **Credit risk relating to balance sheet assets** | | | | | | |
| Fixed rate lending at amortised cost | **11,387** | **(11,378)** | **9** | **11,316** | **(11,308)** | **8** |
| Variable rate lending | **3,883** | **(3,880)** | **3** | **3,883** | **(3,880)** | **3** |
| Unsecured lending | **381** | **-** | **381** | **381** | **-** | **381** |
| Due from other financial institutions | **194** | **-** | **194** | **194** | **-** | **194** |
| Balances with related parties | **77** | **-** | **77** | **1,103** | **-** | **1,103** |
| Derivative financial instruments | **480** | **(120)** | **360** | **480** | **(120)** | **360** |
| Financial assets held for trading | **96** | **-** | **96** | **96** | **-** | **96** |
| Available-for-sale assets | **1,222** | **-** | **1,222** | **1,222** | **-** | **1,222** |
| Cash and cash equivalents | **492** | **-** | **492** | **492** | **-** | **492** |
| Other financial assets | **10** | **-** | **10** | **10** | **-** | **10** |
| | **18,222** | **(15,378)** | **2,844** | **19,177** | **(15,308)** | **3,869** |
| Less allowance for impairment | **(53)** | **-** | **(53)** | **(52)** | **-** | **(52)** |
| **Total financial assets** | **18,169** | **(15,378)** | **2,791** | **19,125** | **(15,308)** | **3,817** |

| | The Banking Group | | | Kiwibank Limited | | |
|---|---|---|---|---|---|---|
| As at 30 June 2014<br>Dollars in millions | **Maximum exposure** | **Collateral** | **Net exposure** | **Maximum exposure** | **Collateral** | **Net exposure** |
| **Credit risk relating to balance sheet assets** | | | | | | |
| Fixed rate lending at amortised cost | 9,834 | (9,819) | 15 | 9,776 | (9,761) | 15 |
| Variable rate lending | 4,521 | (4,514) | 7 | 4,521 | (4,514) | 7 |
| Unsecured lending | 334 | - | 334 | 334 | - | 334 |
| Due from other financial institutions | 121 | - | 121 | 121 | - | 121 |
| Balances with related parties | 77 | - | 77 | 1,048 | - | 1,048 |
| Derivative financial instruments | 130 | - | 130 | 130 | - | 130 |
| Financial assets held for trading | 44 | - | 44 | 44 | - | 44 |
| Available-for-sale assets | 1,093 | - | 1,093 | 1,093 | - | 1,093 |
| Cash and cash equivalents | 461 | - | 461 | 460 | - | 460 |
| Other financial assets | 10 | - | 10 | 10 | - | 10 |
| | 16,625 | (14,333) | 2,292 | 17,537 | (14,275) | 3,262 |
| Less allowance for impairment | (59) | - | (59) | (59) | - | (59) |
| **Total financial assets** | 16,566 | (14,333) | 2,233 | 17,478 | (14,275) | 3,203 |

The table above represents a worst case scenario of credit risk exposure to the Banking Group at 30 June 2015. The exposures set out are based on net carrying amounts as reported in the balance sheet.

# Notes to the financial statements continued

## 26. Concentration of credit risk continued

Australian and New Zealand Standard Industrial Classification ("ANZIC") codes have been used as the basis for disclosing customer industry sectors.

The exposure of the Banking Group derived from loans and advances to retail and corporate customers is 86% of the total maximum exposure (30 June 2014: 88%).

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

The Banking Group is potentially exposed to credit risk for undrawn loan commitments (note 33) for an amount equal to the undrawn balance.

## 27. Concentration of funding

Concentrations of funding arise where the Banking Group and Kiwibank are funded by industries of a similar nature or in particular geographies. ANZIC codes have been used as the basis for disclosing industry sectors. An analysis of financial liabilities by industry sector and geography at the reporting date is as follows:

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| **Analysis by industry sector** | | | | |
| **New Zealand** | | | | |
| Transport and storage | **114** | 86 | **114** | 86 |
| Finance, investment and insurance | **3,727** | 2,845 | **4,850** | 3,761 |
| Electricity, gas and water | **6** | 33 | **6** | 33 |
| Food & other manufacturing | **39** | 45 | **39** | 45 |
| Construction | **66** | 43 | **66** | 43 |
| Communications | **23** | 8 | **23** | 8 |
| Government, local authorities and services | **363** | 432 | **364** | 432 |
| Agriculture | **32** | 23 | **32** | 23 |
| Health and community services | **153** | 117 | **153** | 117 |
| Personal and other services | **231** | 237 | **231** | 237 |
| Property and business services | **379** | 399 | **380** | 399 |
| Education | **163** | 139 | **163** | 139 |
| Retail and wholesale trade | **52** | 70 | **52** | 70 |
| Households | **10,200** | 9,300 | **10,200** | 9,300 |
| **Overseas** | | | | |
| Finance, investment and insurance – Australia | **62** | 327 | **62** | 327 |
| Finance, investment and insurance – rest of world | **1,350** | 1,227 | **1,350** | 1,227 |
| Households – Australia | **33** | 32 | **33** | 32 |
| Households – rest of world | **197** | 220 | **197** | 220 |
| | **17,190** | 15,583 | **18,315** | 16,499 |
| Other financial liabilities | **66** | 55 | **67** | 57 |
| **Total financial liabilities** | **17,256** | 15,638 | **18,382** | 16,556 |

Certain comparative balances have been restated to align with the current period's presentation.

# Notes to the financial statements continued

## 28. Segment analysis

During the year, Kiwibank underwent an internal restructuring which resulted in changes to reportable operating segments. As such the comparative segmental information presented has been restated to align to the current reportable operating segments.

For the purposes of this note, the chief operating decision-maker has been identified as the Kiwibank Leadership Team ("**KBLT**"), which consists of the Chief Executive and his direct reports. The KBLT reviews the Banking Group's internal reporting pack on a regular basis to assess performance and to allocate resources. Within the pack, operating segments have primarily been determined with reference to differences in products and services.

Operating segments have been aggregated for reporting purposes where the following criteria have been met:

a) Aggregation is consistent with the core principle of NZ IFRS 8 Operating Segments;

b) Segments have similar economic characteristics; and

c) Segments are similar in each of the following respects:

- nature of the product and services;
- nature of production process;
- type or class of customer for their products and services;
- methods used to distribute their products or provide their services; and
- nature of the regulatory environment.

For the purposes of this note, an operating segment is a distinguishable part of the Banking Group, engaged in providing products and services which are subject to risks and returns that are different from those of other business segments. The business segments are defined by the customers that they service and the services they provide.

The KBLT assesses the performance of the operating segments based on a measure of profit before tax. This measurement basis includes a reallocation of internal overhead expenses from non-income generating cost centres of the business. Net interest income at a segmental level includes an allocation for internal transfer pricing which eliminates to zero at a Banking Group level. Transfer pricing is allocated on a basis which reflects intersegment funding arrangements. A summarised description of each business unit is shown below:

- Personal – Provides banking products and services to the personal banking segment via the Banking Group and NZP distribution channels and the bank's funding reserves.
- Business – Provides banking products and services to the business sector, via the Banking Group and NZP distribution channels. Included within the segment are Business and Treasury services.

Under the current structure, the previously reported Payment Services segment has been split between Personal and Business segments.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Banking Group's total revenue (2014: Nil).

The Banking Group operates predominantly within New Zealand with no significant portion of assets or operations located outside New Zealand.

# Notes to the financial statements continued

## 28. Segment analysis continued

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | 30/06/15 | | | 30/06/14 | | |
| Dollars in millions | **Personal Markets** | **Business Markets** | **Total** | Personal Markets | Business Markets | Total |
| External net interest income | **408** | **(47)** | **361** | 340 | (47) | 293 |
| Net intersegment interest | **(184)** | **184** | **-** | (158) | 158 | - |
| Net interest income | **224** | **137** | **361** | 182 | 111 | 293 |
| Other external operating income | **86** | **26** | **112** | 84 | 23 | 107 |
| Segmental revenue | **310** | **163** | **473** | 266 | 134 | 400 |
| **Profit before taxation** | **95** | **81** | **176** | 69 | 70 | 139 |
| Total assets | **14,177** | **4,167** | **18,344** | 13,211 | 3,465 | 16,676 |
| Total liabilities | **10,904** | **6,407** | **17,311** | 9,993 | 5,680 | 15,673 |
| Acquisition of intangible assets | **41** | **10** | **51** | 34 | 8 | 42 |
| Acquisition of property, plant and equipment | **10** | **3** | **13** | 2 | 1 | 3 |
| Amortisation expense | **14** | **6** | **20** | 14 | 5 | 19 |
| Depreciation expense | **4** | **2** | **6** | 4 | 1 | 5 |
| Impairment losses/(reversals) on loans and advances | **7** | **6** | **13** | 5 | (9) | (4) |

| | Kiwibank Limited | | | | | |
|---|---|---|---|---|---|---|
| | 30/06/15 | | | 30/06/14 | | |
| Dollars in millions | **Personal Markets** | **Business Markets** | **Total** | Personal Markets | Business Markets | Total |
| External net interest income | **408** | **(51)** | **357** | 340 | (54) | 286 |
| Net intersegment interest | **(184)** | **184** | **-** | (158) | 158 | - |
| Net interest income | **224** | **133** | **357** | 182 | 104 | 286 |
| Other external operating income | **87** | **9** | **96** | 84 | 21 | 105 |
| Segmental revenue | **311** | **142** | **453** | 266 | 125 | 391 |
| **Profit before taxation** | **97** | **61** | **158** | 69 | 65 | 134 |
| Total assets | **15,280** | **4,024** | **19,304** | 14,258 | 3,334 | 17,592 |
| Total liabilities | **11,821** | **6,616** | **18,437** | 10,907 | 5,683 | 16,590 |
| Acquisition of intangible assets | **41** | **10** | **51** | 34 | 8 | 42 |
| Acquisition of property, plant and equipment | **10** | **3** | **13** | 2 | 1 | 3 |
| Amortisation expense | **14** | **6** | **20** | 14 | 5 | 19 |
| Depreciation expense | **4** | **2** | **6** | 4 | 1 | 5 |
| Impairment reversals/(losses) on loans and advances | **7** | **5** | **12** | 5 | (9) | (4) |

# Notes to the financial statements continued

## 29. Interest repricing

The tables below summarise the Banking Group's and Kiwibank's exposure to interest rate risk. They include the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. For further details on how interest rate risk is managed refer to note 39.

| | The Banking Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30/06/15 | | | | | | |
| Dollars in millions | Total | Non-interest bearing | Up to 3 months | 3 to 6 months | 6 months to 1 year | Between 1 & 2 years | Over 2 years |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 492 | 32 | 460 | - | - | - | - |
| Due from other financial institutions | 194 | 32 | 139 | 23 | - | - | - |
| Financial assets held for trading | 96 | - | 3 | - | 1 | 1 | 91 |
| Available-for-sale assets | 1,222 | - | 258 | 110 | 51 | - | 803 |
| Loans and advances | 15,598 | (28) | 4,881 | 936 | 2,616 | 5,040 | 2,153 |
| Derivative financial instruments | 480 | 480 | - | - | - | - | - |
| Due from NZP related parties | 77 | 1 | 45 | - | - | 31 | - |
| Other financial assets | 10 | 10 | - | - | - | - | - |
| **Total financial assets** | 18,169 | 527 | 5,786 | 1,069 | 2,668 | 5,072 | 3,047 |
| **Financial liabilities** | | | | | | | |
| Due to other financial institutions | (325) | (28) | (297) | - | - | - | - |
| Deposits and other borrowings | (13,740) | (1,255) | (8,562) | (1,936) | (1,632) | (177) | (178) |
| Derivative financial instruments | (475) | (475) | - | - | - | - | - |
| Debt securities issued | (2,397) | - | (1,306) | (59) | (15) | (112) | (905) |
| Subordinated debt | (255) | - | - | - | - | - | (255) |
| Due to NZP related parties | (6) | (6) | - | - | - | - | - |
| Other financial liabilities | (58) | (58) | - | - | - | - | - |
| **Total financial liabilities** | (17,256) | (1,822) | (10,165) | (1,995) | (1,647) | (289) | (1,338) |
| **On-balance sheet gap** | 913 | (1,295) | (4,379) | (926) | 1,021 | 4,783 | 1,709 |
| **Net derivative notional principals** | 107 | - | 5,681 | 674 | (1,623) | (4,009) | (616) |
| **Net effective interest rate gap** | 1,020 | (1,295) | 1,302 | (252) | (602) | 774 | 1,093 |

# Notes to the financial statements continued

## 29. Interest repricing continued

| | Kiwibank Limited | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30/06/15 | | | | | | |
| Dollars in millions | Total | Non-interest bearing | Up to 3 months | 3 to 6 months | 6 months to 1 year | Between 1 & 2 years | Over 2 years |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 492 | 32 | 460 | - | - | - | - |
| Due from other financial institutions | 194 | 32 | 139 | 23 | - | - | - |
| Financial assets held for trading | 96 | - | 3 | - | 1 | 1 | 91 |
| Available-for-sale assets | 1,222 | - | 258 | 110 | 51 | - | 803 |
| Loans and advances | 15,528 | (27) | 4,881 | 936 | 2,616 | 4,969 | 2,153 |
| Derivative financial instruments | 480 | 480 | - | - | - | - | - |
| Due from NZP related parties | 1,103 | 4 | 785 | 46 | - | 30 | 238 |
| Other financial assets | 10 | 10 | - | - | - | - | - |
| **Total financial assets** | 19,125 | 531 | 6,526 | 1,115 | 2,668 | 5,000 | 3,285 |
| **Financial liabilities** | | | | | | | |
| Due to other financial institutions | (325) | (28) | (297) | - | - | - | - |
| Deposits and other borrowings | (13,741) | (1,255) | (8,564) | (1,935) | (1,632) | (177) | (178) |
| Derivative financial instruments | (535) | (535) | - | - | - | - | - |
| Debt securities issued | (2,397) | - | (1,306) | (59) | (15) | (112) | (905) |
| Subordinated debt | (402) | - | - | - | - | - | (402) |
| Due to NZP related parties | (924) | (8) | (916) | - | - | - | - |
| Other financial liabilities | (58) | (58) | - | - | - | - | - |
| **Total financial liabilities** | (18,382) | (1,884) | (11,083) | (1,994) | (1,647) | (289) | (1,485) |
| **On-balance sheet gap** | 743 | (1,353) | (4,557) | (879) | 1,021 | 4,711 | 1,800 |
| **Net derivative notional principals** | 107 | - | 5,681 | 674 | (1,623) | (4,009) | (616) |
| **Net effective interest rate gap** | 850 | (1,353) | 1,124 | (205) | (602) | 702 | 1,184 |

# Notes to the financial statements continued

## 29. Interest repricing continued

| | The Banking Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30/06/14 | | | | | | |
| Dollars in millions | Total | Non-interest bearing | Up to 3 months | 3 to 6 months | 6 months to 1 year | Between 1 & 2 years | Over 2 years |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 461 | 31 | 430 | - | - | - | - |
| Due from other financial institutions | 121 | 5 | 116 | - | - | - | - |
| Financial assets held for trading | 44 | - | - | - | 1 | - | 43 |
| Available-for-sale assets | 1,093 | - | 373 | - | 414 | 11 | 295 |
| Loans and advances | 14,630 | (37) | 5,907 | 1,498 | 2,322 | 3,173 | 1,767 |
| Derivative financial instruments | 130 | 130 | - | - | - | - | - |
| Due from NZP related parties | 77 | 1 | 45 | - | - | - | 31 |
| Other financial assets | 10 | 10 | - | - | - | - | - |
| **Total financial assets** | 16,566 | 140 | 6,871 | 1,498 | 2,737 | 3,184 | 2,136 |
| **Financial liabilities** | | | | | | | |
| Due to other financial institutions | (185) | (9) | (176) | - | - | - | - |
| Deposits and other borrowings | (12,751) | (1,078) | (7,773) | (1,918) | (1,634) | (213) | (135) |
| Derivative financial instruments | (236) | (236) | - | - | - | - | - |
| Debt securities issued | (2,143) | - | (1,115) | (368) | - | (10) | (650) |
| Subordinated debt | (247) | - | - | | - | - | (247) |
| Due to NZP related parties | (27) | (7) | (20) | - | - | - | - |
| Other financial liabilities | (49) | (49) | - | - | - | - | - |
| **Total financial liabilities** | (15,638) | (1,379) | (9,084) | (2,286) | (1,634) | (223) | (1,032) |
| **On-balance sheet gap** | 928 | (1,239) | (2,213) | (788) | 1,103 | 2,961 | 1,104 |
| **Net derivative notional principals** | (102) | - | 5,507 | (348) | (1,759) | (2,621) | (881) |
| **Net effective interest rate gap** | 826 | (1,239) | 3,294 | (1,136) | (656) | 340 | 223 |

Certain comparative balances have been restated to align with the current period's presentation.

# Notes to the financial statements continued

## 29. Interest repricing continued

| | Kiwibank Limited | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30/06/14 | | | | | | |
| Dollars in millions | Total | Non-interest bearing | Up to 3 months | 3 to 6 months | 6 months to 1 year | Between 1 & 2 years | Over 2 years |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 460 | 31 | 429 | - | - | - | - |
| Due from other financial institutions | 121 | 5 | 116 | - | - | - | - |
| Financial assets held for trading | 44 | - | - | - | 1 | - | 43 |
| Available-for-sale assets | 1,093 | - | 373 | - | 414 | 11 | 295 |
| Loans and advances | 14,572 | (36) | 5,907 | 1,498 | 2,322 | 3,114 | 1,767 |
| Derivative financial instruments | 130 | 130 | - | - | - | - | - |
| Due from NZP related parties | 1,048 | 3 | 769 | 46 | - | - | 230 |
| Other financial assets | 10 | 10 | - | - | - | - | - |
| **Total financial assets** | 17,478 | 143 | 7,594 | 1,544 | 2,737 | 3,125 | 2,335 |
| **Financial liabilities** | | | | | | | |
| Due to other financial institutions | (185) | (9) | (176) | - | - | - | - |
| Deposits and other borrowings | (12,753) | (1,079) | (7,775) | (1,918) | (1,634) | (212) | (135) |
| Derivative financial instruments | (236) | (236) | - | - | - | - | - |
| Debt securities issued | (2,143) | - | (1,115) | (368) | - | (10) | (650) |
| Subordinated debt | (247) | - | - | - | - | - | (247) |
| Due to NZP related parties | (945) | (9) | (936) | - | - | - | - |
| Other financial liabilities | (47) | (47) | - | - | - | - | - |
| **Total financial liabilities** | (16,556) | (1,380) | (10,002) | (2,286) | (1,634) | (222) | (1,032) |
| **On-balance sheet gap** | 922 | (1,237) | (2,408) | (742) | 1,103 | 2,903 | 1,303 |
| **Net derivative notional principals** | (102) | - | 5,507 | (348) | (1,759) | (2,621) | (881) |
| **Net effective interest rate gap** | 820 | (1,237) | 3,099 | (1,090) | (656) | 282 | 422 |

Certain comparative balances have been restated to align with the current period's presentation.

# Notes to the financial statements continued

## 30. 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 Banking Group or Kiwibank has access (at that date). The accounting policy for the determination of fair value of financial instruments is set out in note 1.

### a: Measurement basis of financial assets and liabilities

The accounting policies in note 1 describe how different classes of financial instruments are measured, and how income and expenses, including fair value 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.

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| 30 June 2015 | | | Assets at fair value through profit or loss | | | |
| Dollars in millions | Loans and receivables | Available-for-sale | Held for trading | Designated at FVTPL | Derivatives used for hedging | Total |
| Cash and cash equivalents | **492** | **-** | **-** | **-** | **-** | **492** |
| Due from other financial institutions | **194** | **-** | **-** | **-** | **-** | **194** |
| Financial assets held for trading | **-** | **-** | **96** | **-** | **-** | **96** |
| Available-for-sale assets | **-** | **1,222** | **-** | **-** | **-** | **1,222** |
| Loans and advances | **15,598** | **-** | **-** | **-** | **-** | **15,598** |
| Derivative financial instruments | **-** | **-** | **342** | **-** | **138** | **480** |
| Due from NZP related parties | **77** | **-** | **-** | **-** | **-** | **77** |
| Other financial assets | **10** | **-** | **-** | **-** | **-** | **10** |
| **Total financial assets** | **16,371** | **1,222** | **438** | **-** | **138** | **18,169** |

| | Liabilities at fair value through profit or loss | | | | |
|---|---|---|---|---|---|
| Dollars in millions | Held for trading | Designated at FVTPL | Derivatives used for hedging | Other financial liabilities at amortised cost | Total |
| Due to other financial institutions | **-** | **-** | **-** | **325** | **325** |
| Deposits and other borrowings | **-** | **-** | **-** | **13,740** | **13,740** |
| Derivative financial instruments | **333** | **-** | **142** | **-** | **475** |
| Debt securities issued | **-** | **615** | **-** | **1,782** | **2,397** |
| Subordinated debt | **-** | **-** | **-** | **255** | **255** |
| Due to NZP related parties | **-** | **-** | **-** | **6** | **6** |
| Other financial liabilities | **-** | **-** | **-** | **58** | **58** |
| **Total financial liabilities** | **333** | **615** | **142** | **16,166** | **17,256** |

# Notes to the financial statements continued

## 30. Financial instruments continued

| 30 June 2015 | Kiwibank Limited | | | | | |
|---|---|---|---|---|---|---|
| | | | Assets at fair value through profit or loss | | | |
| Dollars in millions | Loans and receivables | Available-for-sale | Held for trading | Designated at FVTPL | Derivatives used for hedging | Total |
| Cash and cash equivalents | 492 | - | - | - | - | 492 |
| Due from other financial institutions | 194 | - | - | - | - | 194 |
| Financial assets held for trading | - | - | 96 | - | - | 96 |
| Available-for-sale assets | - | 1,222 | - | - | - | 1,222 |
| Loans and advances | 15,528 | - | - | - | - | 15,528 |
| Derivative financial instruments | - | - | 342 | - | 138 | 480 |
| Due from NZP related parties | 1,103 | - | - | - | - | 1,103 |
| Other financial assets | 10 | - | - | - | - | 10 |
| **Total financial assets** | **17,327** | **1,222** | **438** | **-** | **138** | **19,125** |

| | Liabilities at fair value through profit or loss | | | | |
|---|---|---|---|---|---|
| Dollars in millions | Held for trading | Designated at FVTPL | Derivatives used for hedging | Other financial liabilities at amortised cost | Total |
| Due to other financial institutions | - | - | - | 325 | 325 |
| Deposits and other borrowings | - | - | - | 13,741 | 13,741 |
| Derivative financial instruments | 393 | - | 142 | - | 535 |
| Debt securities issued | - | 615 | - | 1,782 | 2,397 |
| Subordinated debt | - | - | - | 402 | 402 |
| Due to NZP related parties | - | - | - | 924 | 924 |
| Other financial liabilities | - | - | - | 58 | 58 |
| **Total financial liabilities** | **393** | **615** | **142** | **17,232** | **18,382** |

# Notes to the financial statements continued

## 30. Financial instruments continued

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| 30 June 2014 | | | Assets at fair value through profit or loss | | | |
| Dollars in millions | Loans and receivables | Available-for-sale | Held for trading | Designated at FVTPL | Derivatives used for hedging | Total |
| Cash and cash equivalents | 461 | - | - | - | - | 461 |
| Due from other financial institutions | 121 | - | - | - | - | 121 |
| Financial assets held for trading | - | - | 44 | - | - | 44 |
| Available-for-sale assets | - | 1,093 | - | - | - | 1,093 |
| Loans and advances | 14,630 | - | - | - | - | 14,630 |
| Derivative financial instruments | - | - | 102 | - | 28 | 130 |
| Due from NZP related parties | 77 | - | - | - | - | 77 |
| Other financial assets | 10 | - | - | - | - | 10 |
| **Total financial assets** | 15,299 | 1,093 | 146 | - | 28 | 16,566 |

| | Liabilities at fair value through profit or loss | | | | |
|---|---|---|---|---|---|
| Dollars in millions | Held for trading | Designated at FVTPL | Derivatives used for hedging | Other financial liabilities at amortised cost | Total |
| Due to other financial institutions | - | - | - | 185 | 185 |
| Deposits and other borrowings | - | - | - | 12,751 | 12,751 |
| Derivative financial instruments | 179 | - | 57 | - | 236 |
| Debt securities issued | - | 731 | - | 1,412 | 2,143 |
| Subordinated debt | - | - | - | 247 | 247 |
| Due to NZP related parties | - | - | - | 27 | 27 |
| Other financial liabilities | - | - | - | 49 | 49 |
| **Total financial liabilities** | 179 | 731 | 57 | 14,671 | 15,638 |

# Notes to the financial statements continued

## 30. Financial instruments continued

| 30 June 2014 | Kiwibank Limited | | | | | |
|---|---|---|---|---|---|---|
| | | | Assets at fair value through profit or loss | | | |
| Dollars in millions | Loans and receivables | Available-for-sale | Held for trading | Designated at FVTPL | Derivatives used for hedging | Total |
| Cash and cash equivalents | 460 | - | - | - | - | 460 |
| Due from other financial institutions | 121 | - | - | - | - | 121 |
| Financial assets held for trading | - | - | 44 | - | - | 44 |
| Available-for-sale assets | - | 1,093 | - | - | - | 1,093 |
| Loans and advances | 14,572 | - | - | - | - | 14,572 |
| Derivative financial instruments | - | - | 102 | - | 28 | 130 |
| Due from NZP related parties | 1,048 | - | - | - | - | 1,048 |
| Other financial assets | 10 | - | - | - | - | 10 |
| **Total financial assets** | 16,211 | 1,093 | 146 | - | 28 | 17,478 |

| | Liabilities at fair value through profit or loss | | | | |
|---|---|---|---|---|---|
| Dollars in millions | Held for trading | Designated at FVTPL | Derivatives used for hedging | Other financial liabilities at amortised cost | Total |
| Due to other financial institutions | - | - | - | 185 | 185 |
| Deposits and other borrowings | - | - | - | 12,753 | 12,753 |
| Derivative financial instruments | 179 | - | 57 | - | 236 |
| Debt securities issued | - | 731 | - | 1,412 | 2,143 |
| Subordinated debt | - | - | - | 247 | 247 |
| Due to NZP related parties | - | - | - | 945 | 945 |
| Other financial liabilities | - | - | - | 47 | 47 |
| **Total financial liabilities** | 179 | 731 | 57 | 15,589 | 16,556 |

# Notes to the financial statements continued

## 30. Financial instruments continued

### b: Fair values of financial assets and liabilities

The following tables summarise the carrying values of financial assets and liabilities presented on the Banking Group's and Kiwibank's balance sheets. The fair values presented in the tables are at a specific date and may be significantly different from the amounts which will actually be paid or received on the maturity or settlement date.

| | The Banking Group | | | |
|---|---|---|---|---|
| | **30/06/15** | | 30/06/14 | |
| Dollars in millions | **Carrying amount** | **Estimated fair value** | Carrying amount | Estimated fair value |
| **Financial assets** | | | | |
| Financial assets held for trading | **96** | **96** | 44 | 44 |
| Available-for-sale assets | **1,222** | **1,222** | 1,093 | 1,093 |
| Loans and advances | **15,598** | **15,704** | 14,630 | 14,613 |
| Derivative financial instruments | **480** | **480** | 130 | 130 |
| Due from NZP related parties | **77** | **77** | 77 | 77 |
| **Financial liabilities** | | | | |
| Deposits and other borrowings | **(13,740)** | **(13,759)** | (12,751) | (12,753) |
| Derivative financial instruments | **(475)** | **(475)** | (236) | (236) |
| Debt securities issued | **(2,397)** | **(2,405)** | (2,143) | (2,154) |
| Subordinated debt | **(255)** | **(262)** | (247) | (249) |
| Due to NZP related parties | **(6)** | **(6)** | (27) | (27) |

| | Kiwibank Limited | | | |
|---|---|---|---|---|
| | **30/06/15** | | 30/06/14 | |
| Dollars in millions | **Carrying amount** | **Estimated fair value** | Carrying amount | Estimated fair value |
| **Financial assets** | | | | |
| Financial assets held for trading | **96** | **96** | 44 | 44 |
| Available-for-sale assets | **1,222** | **1,222** | 1,093 | 1,093 |
| Loans and advances | **15,528** | **15,635** | 14,572 | 14,556 |
| Derivative financial instruments | **480** | **480** | 130 | 130 |
| Due from NZP related parties | **1,103** | **1,116** | 1,048 | 1,050 |
| **Financial liabilities** | | | | |
| Deposits and other borrowings | **(13,741)** | **(13,760)** | (12,753) | (12,755) |
| Derivative financial instruments | **(535)** | **(535)** | (236) | (236) |
| Debt securities issued | **(2,397)** | **(2,405)** | (2,143) | (2,154) |
| Subordinated debt | **(402)** | **(415)** | (247) | (249) |
| Due to NZP related parties | **(924)** | **(929)** | (945) | (948) |

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

# Notes to the financial statements continued

## 30. 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.

There have been no transfers between levels 1 and 2 during the year (year ended 30 June 2014: no transfers). There were also no transfers into/out of level 3 during the year (year ended 30 June 2014: no transfers).

### d: 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.

#### Held for trading and available-for-sale securities

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

#### Debt securities issued

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

#### Derivative financial instruments

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

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

| | The Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 30/06/15 | | | | 30/06/14 | | | |
| Dollars in millions | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets at fair value** | | | | | | | | |
| Derivative financial assets | **1** | **479** | **-** | **480** | - | 130 | - | 130 |
| Financial assets held for trading | **58** | **38** | **-** | **96** | 44 | - | - | 44 |
| Available-for-sale financial assets | **664** | **558** | **-** | **1,222** | 534 | 559 | - | 1,093 |
| **Total financial assets at fair value** | **723** | **1,075** | **-** | **1,798** | 578 | 689 | - | 1,267 |
| **Financial liabilities at fair value** | | | | | | | | |
| Derivative financial liabilities | **-** | **475** | **-** | **475** | - | 236 | - | 236 |
| Debt securities issued | **-** | **615** | **-** | **615** | - | 731 | - | 731 |
| **Total financial liabilities at fair value** | **-** | **1,090** | **-** | **1,090** | - | 967 | - | 967 |

# Notes to the financial statements continued

## 30. Financial instruments continued

| | Kiwibank Limited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 30/06/15 | | | | 30/06/14 | | | |
| Dollars in millions | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets at fair value** | | | | | | | | |
| Derivative financial assets | **1** | **479** | **-** | **480** | - | 130 | - | 130 |
| Financial assets held for trading | **58** | **38** | **-** | **96** | 44 | - | - | 44 |
| Available-for-sale financial assets | **664** | **558** | **-** | **1,222** | 534 | 559 | - | 1,093 |
| **Total financial assets at fair value** | **723** | **1,075** | **-** | **1,798** | 578 | 689 | - | 1,267 |
| **Financial liabilities at fair value** | | | | | | | | |
| Derivative financial liabilities | **-** | **535** | **-** | **535** | - | 236 | - | 236 |
| Debt securities issued | **-** | **615** | **-** | **615** | - | 731 | - | 731 |
| **Total financial liabilities at fair value** | **-** | **1,150** | **-** | **1,150** | - | 967 | - | 967 |

### e: Financial assets and liabilities carried at amortised cost

#### Valuation methodology

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

#### Loans and advances

The Banking Group provides loans and advances to corporate and retail customers at both fixed and variable rates. The carrying value of the variable rate loans and advances is assumed to be their fair value. For fixed rate lending, several techniques are used to estimate fair value taking into account expected credit losses, prevailing market interest rates and expected future cash flows. For retail exposures, fair value is principally estimated by discounting anticipated cash flows (including interest at contractual rates) at market rates for similar loans offered by the Banking Group and other financial institutions. Certain loans secured on residential properties are made at a fixed rate for a limited period, typically six months to five years, after which loans revert to the relevant variable rate. The fair value of such loans is estimated by reference to the market rates for similar loans of maturity equal to the remaining fixed interest rate period. The fair value of corporate loans is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk.

***Impaired and past due loans and advances***

For impaired loans as well as past due loans, fair value is estimated by discounting the expected future cash flows using current market interest rates incorporating an appropriate risk factor or, where such loans are collateralised and have been written down to the current market value of the collateral, the estimated fair value is based on the written down carrying value.

#### Deposits by customers

For fixed term deposits by customers, fair values have been estimated using a discounted cash flow model with reference to market interest rates. For other deposits by customers, the carrying amount is a reasonable estimate of fair value.

#### Debt securities issued and subordinated debt

The fair values of these instruments are calculated based on quoted market prices, where available. For those instruments where quoted market prices are not available, a discounted cash flow model is used based on inputs including an interest rate yield curve developed from quoted rates and market observable credit spreads.

# Notes to the financial statements continued

## 30. Financial instruments continued

| | The Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **30/06/15** | | | | 30/06/14 | | | |
| Dollars in millions | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets at amortised cost** | | | | | | | | |
| Loans and advances | **-** | **-** | **15,704** | **15,704** | - | - | 14,613 | 14,613 |
| Due from NZP related parties | **-** | **-** | **77** | **77** | - | - | 77 | 77 |
| **Financial liabilities at amortised cost** | | | | | | | | |
| Deposits and other borrowings | **-** | **-** | **13,759** | **13,759** | - | - | 12,753 | 12,753 |
| Debt securities issued | **-** | **1,790** | **-** | **1,790** | - | 1,423 | - | 1,423 |
| Subordinated debt | **-** | **262** | **-** | **262** | - | 249 | - | 249 |
| Due to NZP related parties | **-** | **-** | **6** | **6** | - | - | 27 | 27 |

| | Kiwibank Limited | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **30/06/15** | | | | 30/06/14 | | | |
| Dollars in millions | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets at amortised cost** | | | | | | | | |
| Loans and advances | **-** | **-** | **15,635** | **15,635** | - | - | 14,556 | 14,556 |
| Due from NZP related parties | **-** | **-** | **1,116** | **1,116** | - | - | 1,050 | 1,050 |
| **Financial liabilities at amortised cost** | | | | | | | | |
| Deposits and other borrowings | **-** | **-** | **13,760** | **13,760** | - | - | 12,755 | 12,755 |
| Debt securities issued | **-** | **1,790** | **-** | **1,790** | - | 1,423 | - | 1,423 |
| Subordinated debt | **-** | **415** | **-** | **415** | - | 249 | - | 249 |
| Due to NZP related parties | **-** | **-** | **929** | **929** | - | - | 948 | 948 |

# Notes to the financial statements continued

## 31. Offsetting financial assets and liabilities

The following tables set out the effect or potential effect of netting arrangements on the Banking Group and Kiwibank's financial position. This includes the effect or potential effect of rights of set-off associated with the Banking Group or Kiwibank's recognised financial assets and recognised financial liabilities that are subject to an enforceable master netting arrangement, irrespective of whether they are set off in accordance with the accounting policy in note 1.10.

The following financial instruments are subject to offsetting, enforceable master netting arrangements.

| The Banking Group | | | | | | | |
|---|---|---|---|---|---|---|---|
| 30 June 2015 | | | | | Related amounts not set off in the balance sheet | | |
| Dollars in millions | Note | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of financial assets presented in the balance sheet | Financial instruments | Cash collateral received | Net amount |
| Derivative financial assets | 13 | **480** | **-** | **480** | **(331)** | **(120)** | **29** |
| **Total** | | **480** | **-** | **480** | **(331)** | **(120)** | **29** |
| | | | | | Related amounts not set off in the balance sheet | | |
| | Note | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of financial liabilities presented in the balance sheet | Financial instruments | Cash collateral received | Net amount |
| Derivative financial liabilities | 13 | 475 | - | 475 | (331) | (139) | 5 |
| Repurchase agreements | 18 | 176 | - | 176 | (176) | - | - |
| **Total** | | 651 | - | 651 | (507) | (139) | 5 |

| Kiwibank Limited | | | | | | | |
|---|---|---|---|---|---|---|---|
| 30 June 2015 | | | | | Related amounts not set off in the balance sheet | | |
| Dollars in millions | Note | Gross amounts of recognised financial assets | Gross amounts of recognised financial liabilities set off in the balance sheet | Net amounts of financial assets presented in the balance sheet | Financial instruments | Cash collateral received | Net amount |
| Derivative financial assets | 13 | **480** | **-** | **480** | **(331)** | **(120)** | **29** |
| **Total** | | **480** | **-** | **480** | **(331)** | **(120)** | **29** |
| | | | | | Related amounts not set off in the balance sheet | | |
| | Note | Gross amounts of recognised financial liabilities | Gross amounts of recognised financial assets set off in the balance sheet | Net amounts of financial liabilities presented in the balance sheet | Financial instruments | Cash collateral received | Net amount |
| Derivative financial liabilities | 13 | 535 | - | 535 | (331) | (139) | 65 |
| Repurchase agreements | 18 | 176 | - | 176 | (176) | - | - |
| **Total** | | 711 | - | 711 | (507) | (139) | 65 |

# Notes to the financial statements continued

## 31. Offsetting financial assets and liabilities continued

| | | The Banking Group | | | | | |
|---|---|---|---|---|---|---|---|
| **30 June 2014** | | | | | **Related amounts not set off in the balance sheet** | | |
| Dollars in millions | Note | **Gross amounts of recognised financial assets** | **Gross amounts of recognised financial liabilities set off in the balance sheet** | **Net amounts of financial assets presented in the balance sheet** | **Financial instruments** | **Cash collateral pledged** | **Net amount** |
| Derivative financial assets | 13 | **130** | **-** | **130** | **(125)** | **-** | **5** |
| **Total** | | **130** | **-** | **130** | **(125)** | **-** | **5** |
| | | | | | **Related amounts not set off in the balance sheet** | | |
| | Note | **Gross amounts of recognised financial liabilities** | **Gross amounts of recognised financial assets set off in the balance sheet** | **Net amounts of financial liabilities presented in the balance sheet** | **Financial instruments** | **Cash collateral pledged** | **Net amount** |
| Derivative financial liabilities | 13 | 236 | - | 236 | (125) | (96) | 15 |
| Repurchase agreements | 18 | 170 | - | 170 | (170) | - | - |
| **Total** | | 406 | - | 406 | (295) | (96) | 15 |

| | | Kiwibank Limited | | | | | |
|---|---|---|---|---|---|---|---|
| **30 June 2014** | | | | | **Related amounts not set off in the balance sheet** | | |
| Dollars in millions | Note | **Gross amounts of recognised financial assets** | **Gross amounts of recognised financial liabilities set off in the balance sheet** | **Net amounts of financial assets presented in the balance sheet** | **Financial instruments** | **Cash collateral received** | **Net amount** |
| Derivative financial assets | 13 | **130** | **-** | **130** | **(125)** | **-** | **5** |
| **Total** | | **130** | **-** | **130** | **(125)** | **-** | **5** |
| | | | | | **Related amounts not set off in the balance sheet** | | |
| | Note | **Gross amounts of recognised financial liabilities** | **Gross amounts of recognised financial assets set off in the balance sheet** | **Net amounts of financial liabilities presented in the balance sheet** | **Financial instruments** | **Cash collateral pledged** | **Net amount** |
| Derivative financial liabilities | 13 | 236 | - | 236 | (125) | (96) | 15 |
| Repurchase agreements | 18 | 170 | - | 170 | (170) | - | - |
| **Total** | | 406 | - | 406 | (295) | (96) | 15 |

The 'Financial instruments' column identifies financial assets and liabilities that are subject to set off under netting arrangements such as ISDA Master agreements. The arrangement between the Banking Group or Kiwibank and the counterparty allows for net settlement of the relevant financial assets or financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis. However, each party to the master agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

# Notes to the financial statements continued

## 32. Foreign exchange risk

The Banking Group and Kiwibank take on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for overnight positions, which are monitored daily. The table below summarises the Banking Group's exposure to foreign currency exchange rate risk as at the reporting date. Included in the table are financial instruments at NZD carrying amounts, categorised by currency.

| | The Banking Group | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30/06/15 | | | | | | | | | | |
| Dollars in millions | NZD | JPY | SGD | HKD | CHF | CAD | AUD | USD | GBP | EUR | Total |
| **Assets** | | | | | | | | | | | |
| Cash and cash equivalents | 428 | 1 | - | - | - | 2 | 12 | 31 | 11 | 7 | 492 |
| Due from other financial institutions | 194 | - | - | - | - | - | - | - | - | - | 194 |
| Financial assets held for trading | 96 | - | - | - | - | - | - | - | - | - | 96 |
| Available-for-sale assets | 1,222 | - | - | - | - | - | - | - | - | - | 1,222 |
| Loans and advances | 15,597 | - | - | - | - | - | - | - | - | 1 | 15,598 |
| Derivative financial instruments | (857) | 11 | 18 | 45 | 561 | 9 | 244 | 440 | 4 | 5 | 480 |
| Due from NZP related parties | 77 | - | - | - | - | - | - | - | - | - | 77 |
| Other financial assets | 10 | - | - | - | - | - | - | - | - | - | 10 |
| **Total financial assets** | 16,767 | 12 | 18 | 45 | 561 | 11 | 256 | 471 | 15 | 13 | 18,169 |
| **Liabilities** | | | | | | | | | | | |
| Due to other financial institutions | (325) | - | - | - | - | - | - | - | - | - | (325) |
| Deposits and other borrowings | (13,655) | (1) | - | - | (1) | (2) | (14) | (42) | (14) | (11) | (13,740) |
| Derivative financial instruments | (473) | 76 | (2) | - | (1) | (9) | (1) | (62) | (1) | (2) | (475) |
| Debt securities issued | (1,110) | (85) | (16) | (45) | (537) | - | (237) | (367) | - | - | (2,397) |
| Subordinated debt | (255) | - | - | - | - | - | - | - | - | - | (255) |
| Due to NZP related parties | (6) | - | - | - | - | - | - | - | - | - | (6) |
| Other financial liabilities | (58) | - | - | - | - | - | - | - | - | - | (58) |
| **Total financial liabilities** | (15,882) | (10) | (18) | (45) | (539) | (11) | (252) | (471) | (15) | (13) | (17,256) |
| **Net on balance sheet financial position** | 885 | 2 | - | - | 22 | - | 4 | - | - | - | 913 |

# Notes to the financial statements continued

## 32. Foreign exchange risk continued

| | Kiwibank Limited | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30/06/15 | | | | | | | | | | |
| Dollars in millions | NZD | JPY | SGD | HKD | CHF | CAD | AUD | USD | GBP | EUR | Total |
| **Assets** | | | | | | | | | | | |
| Cash and cash equivalents | 428 | 1 | - | - | - | 2 | 12 | 31 | 11 | 7 | 492 |
| Due from other financial institutions | 194 | - | - | - | - | - | - | - | - | - | 194 |
| Financial assets held for trading | 96 | - | - | - | - | - | - | - | - | - | 96 |
| Available-for-sale assets | 1,222 | - | - | - | - | - | - | - | - | - | 1,222 |
| Loans and advances | 15,527 | - | - | - | - | - | - | - | - | 1 | 15,528 |
| Derivative financial instruments | (857) | 11 | 18 | 45 | 561 | 9 | 244 | 440 | 4 | 5 | 480 |
| Due from NZP related parties | 865 | - | - | - | 238 | - | - | - | - | - | 1,103 |
| Other financial assets | 10 | - | - | - | - | - | - | - | - | - | 10 |
| **Total financial assets** | 17,485 | 12 | 18 | 45 | 799 | 11 | 256 | 471 | 15 | 13 | 19,125 |
| **Liabilities** | | | | | | | | | | | |
| Due to other financial institutions | (325) | - | - | - | - | - | - | - | - | - | (325) |
| Deposits and other borrowings | (13,656) | (1) | - | - | - | (2) | (15) | (42) | (14) | (11) | (13,741) |
| Derivative financial instruments | (271) | 76 | (2) | - | (263) | (9) | (1) | (62) | (1) | (2) | (535) |
| Debt securities issued | (1,110) | (85) | (16) | (45) | (537) | - | (237) | (367) | - | - | (2,397) |
| Subordinated debt | (402) | - | - | - | - | - | - | - | - | - | (402) |
| Due to NZP related parties | (924) | - | - | - | - | - | - | - | - | - | (924) |
| Other financial liabilities | (58) | - | - | - | - | - | - | - | - | - | (58) |
| **Total financial liabilities** | (16,746) | (10) | (18) | (45) | (800) | (11) | (253) | (471) | (15) | (13) | (18,382) |
| **Net on balance sheet financial position** | 739 | 2 | - | - | (1) | - | 3 | - | - | - | 743 |

# Notes to the financial statements continued

## 32. Foreign exchange risk continued

| | The Banking Group | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30/06/14 | | | | | | | | | | |
| Dollars in millions | NZD | JPY | SGD | HKD | CHF | CAD | AUD | USD | GBP | EUR | Total |
| **Assets** | | | | | | | | | | | |
| Cash and cash equivalents | 388 | 1 | - | - | - | 1 | 13 | 37 | 12 | 9 | 461 |
| Due from other financial institutions | 121 | - | - | - | - | - | - | - | - | - | 121 |
| Financial assets held for trading | 44 | - | - | - | - | - | - | - | - | - | 44 |
| Available-for-sale assets | 1,093 | - | - | - | - | - | - | - | - | - | 1,093 |
| Loans and advances | 14,629 | - | - | - | - | - | - | - | - | 1 | 14,630 |
| Derivative financial instruments | 106 | (6) | - | - | - | (18) | 2 | 46 | - | - | 130 |
| Due from NZP related parties | 77 | - | - | - | - | - | - | - | - | - | 77 |
| Other financial assets | 10 | - | - | - | - | - | - | - | - | - | 10 |
| **Total financial assets** | 16,468 | (5) | - | - | - | (17) | 15 | 83 | 12 | 10 | 16,566 |
| **Liabilities** | | | | | | | | | | | |
| Due to other financial institutions | (185) | - | - | - | - | - | - | - | - | - | (185) |
| Deposits and other borrowings | (12,673) | (1) | - | - | - | (1) | (12) | (43) | (12) | (9) | (12,751) |
| Derivative financial instruments | (1,743) | 87 | - | - | 436 | 33 | 369 | 517 | 66 | (1) | (236) |
| Debt securities issued | (635) | (79) | - | - | (426) | (15) | (365) | (557) | (66) | - | (2,143) |
| Subordinated debt | (247) | - | - | - | - | - | - | - | - | - | (247) |
| Due to NZP related parties | (27) | - | - | - | - | - | - | - | - | - | (27) |
| Other financial liabilities | (49) | - | - | - | - | - | - | - | - | - | (49) |
| **Total financial liabilities** | (15,559) | 7 | - | - | 10 | 17 | (8) | (83) | (12) | (10) | (15,638) |
| **Net on balance sheet financial position** | 909 | 2 | - | - | 10 | - | 7 | - | - | - | 928 |

# Notes to the financial statements continued

## 32. Foreign exchange risk continued

| | Kiwibank Limited | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30/06/14 | | | | | | | | | | |
| Dollars in millions | NZD | JPY | SGD | HKD | CHF | CAD | AUD | USD | GBP | EUR | Total |
| **Assets** | | | | | | | | | | | |
| Cash and cash equivalents | 387 | 1 | - | - | - | 1 | 13 | 37 | 12 | 9 | 460 |
| Due from other financial institutions | 121 | - | - | - | - | - | - | - | - | - | 121 |
| Financial assets held for trading | 44 | - | - | - | - | - | - | - | - | - | 44 |
| Available-for-sale assets | 1,093 | - | - | - | - | - | - | - | - | - | 1,093 |
| Loans and advances | 14,571 | - | - | - | - | - | - | - | - | 1 | 14,572 |
| Derivative financial instruments | 308 | (6) | - | - | (202) | (18) | 2 | 46 | - | - | 130 |
| Due from NZP related parties | 848 | - | - | - | 200 | - | - | - | - | - | 1,048 |
| Other financial assets | 10 | - | - | - | - | - | - | - | - | - | 10 |
| **Total financial assets** | 17,382 | (5) | - | - | (2) | (17) | 15 | 83 | 12 | 10 | 17,478 |
| **Liabilities** | | | | | | | | | | | |
| Due to other financial institutions | (185) | - | - | - | - | - | - | - | - | - | (185) |
| Deposits and other borrowings | (12,674) | (1) | - | - | - | (2) | (12) | (43) | (12) | (9) | (12,753) |
| Derivative financial instruments | (1,743) | 87 | - | - | 436 | 33 | 369 | 517 | 66 | (1) | (236) |
| Debt securities issued | (636) | (79) | - | - | (426) | (14) | (365) | (557) | (66) | - | (2,143) |
| Subordinated debt | (247) | - | - | - | - | - | - | - | - | - | (247) |
| Due to NZP related parties | (945) | - | - | - | - | - | - | - | - | - | (945) |
| Other financial liabilities | (47) | - | - | - | - | - | - | - | - | - | (47) |
| **Total financial liabilities** | (16,477) | 7 | - | - | 10 | 17 | (8) | (83) | (12) | (10) | (16,556) |
| **Net on balance sheet financial position** | 905 | 2 | - | - | 8 | - | 7 | - | - | - | 922 |

# Notes to the financial statements continued

## 33. Liquidity risk

The Banking Group Liquidity Policy is approved by the Board and defines the core principles for measuring, managing and monitoring liquidity risk across the Banking Group. Further details of the Banking Group's policies for managing liquidity risk are set out in note 39.

### Liquidity risk management process

The Banking Group's liquidity management responsibilities include:

- Day-to-day liquidity requirements. RBNZ liquidity ratios are calculated and monitored daily to ensure that the Group:
  - is compliant with part 11 of the Conditions of Registration and the RBNZ "Liquidity policy" (BS13).
  - maintains a prudent level of cash and highly liquid assets ("primary liquid assets") and marketable assets of limited credit risk ("secondary liquid assets") to meet both expected and projected outflows under severe funding stress from the wholesale and retail balance sheet over a one week and one month period.
  - Maintains a diversified stable funding base.
- Securing an appropriately matched profile of future cash flows from maturing assets and liabilities.
- Implementing the bank's funding plan which includes the development of sustainable wholesale funding capacity.
- Stress testing the bank's funding and liquidity position with a range of adverse events covering:
  - a Kiwibank name crisis
  - an international credit crisis
  - a Kiwibank Name event combined with domestic funding stress

### Non-derivative cash flows

The tables below summarise the cash flows payable by the Banking Group and Kiwibank under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Banking Group does not manage liquidity risk on the basis of the information provided below.

### Derivative cash flows

a) Derivatives settled on a net basis

The tables on pages 73 to 76 analyses the Banking Group's and Kiwibank's derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

b) Derivatives settled on a gross basis

The tables on pages 73 to 76 analyses the Banking Group's and Kiwibank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

# Notes to the financial statements continued

## 33. Liquidity risk continued

| | The Banking Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30/06/15 | | | | | | |
| Dollars in millions | On demand | Up to 3 months | 3 to 12 months | Between 1 & 5 years | More than 5 years | Gross nominal inflow/outflow | Carrying amount |
| **Non-derivative cash flows** | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | (325) | - | - | - | - | (325) | (325) |
| Deposits and other borrowings | (5,385) | (4,525) | (3,683) | (412) | - | (14,005) | (13,740) |
| Debt securities issued | (423) | (325) | (133) | (1,416) | (333) | (2,630) | (2,397) |
| Subordinated debt | (3) | - | (12) | (48) | (293) | (356) | (255) |
| Due to NZP related parties | (6) | - | - | - | - | (6) | (6) |
| Other financial liabilities | (58) | - | - | - | - | (58) | (58) |
| **Total financial liabilities** | (6,200) | (4,850) | (3,828) | (1,876) | (626) | (17,380) | (16,781) |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 492 | - | - | - | - | 492 | 492 |
| Due from other financial institutions | 194 | - | - | - | - | 194 | 194 |
| Financial assets held for trading | - | 1 | 6 | 87 | 15 | 109 | 96 |
| Available-for-sale assets | 34 | 99 | 252 | 932 | - | 1,317 | 1,222 |
| Loans and advances | 173 | 328 | 987 | 3,705 | 27,541 | 32,734 | 15,598 |
| Due from NZP related parties | - | 1 | 47 | 32 | - | 80 | 77 |
| Other financial assets | 10 | - | - | - | - | 10 | 10 |
| **Total financial assets** | 903 | 429 | 1,292 | 4,756 | 27,556 | 34,936 | 17,689 |
| **Net non-derivative cash flows** | (5,297) | (4,421) | (2,536) | 2,880 | 26,930 | 17,556 | |
| **Derivative cash flows – net** | | | | | | | |
| Interest rate derivatives | (3) | (12) | (48) | (68) | (3) | (134) | |
| **Total** | (3) | (12) | (48) | (68) | (3) | (134) | |
| **Derivative cash flows – gross** | | | | | | | |
| Foreign exchange derivatives | | | | | | | |
| Inflow | 378 | 382 | 184 | 572 | 333 | 1,849 | |
| Outflow | (356) | (374) | (197) | (547) | (240) | (1,714) | |
| **Total** | 22 | 8 | (13) | 25 | 93 | 135 | |
| **Off balance sheet cash flows** | | | | | | | |
| Capital commitments | - | (3) | (1) | (2) | - | (6) | |
| Undrawn loan commitments | (2,442) | - | - | - | - | (2,442) | |
| Lease commitments | - | (1) | (4) | (18) | - | (23) | |
| **Total** | (2,442) | (4) | (5) | (20) | - | (2,471) | |
| **Net cash flows** | (7,720) | (4,429) | (2,602) | 2,817 | 27,020 | 15,086 | |
| **Cumulative net cash flows** | (7,720) | (12,149) | (14,751) | (11,934) | 15,086 | 15,086 | |

# Notes to the financial statements continued

## 33. Liquidity risk continued

| | Kiwibank Limited | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30/06/15 | | | | | | |
| Dollars in millions | On demand | Up to 3 months | 3 to 12 months | Between 1 & 5 years | More than 5 years | Gross nominal inflow/outflow | Carrying amount |
| **Non-derivative cash flows** | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | (325) | - | - | - | - | (325) | (325) |
| Deposits and other borrowings | (5,385) | (4,525) | (3,683) | (412) | - | (14,005) | (13,741) |
| Debt securities issued | (423) | (324) | (133) | (1,416) | (333) | (2,629) | (2,397) |
| Subordinated debt[1] | (3) | - | (12) | (48) | (293) | (356) | (402) |
| Due to NZP related parties | (3) | (7) | (30) | (179) | (1,949) | (2,168) | (924) |
| Other financial liabilities | (58) | - | - | - | - | (58) | (58) |
| **Total financial liabilities** | (6,197) | (4,856) | (3,858) | (2,055) | (2,575) | (19,541) | (17,847) |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 492 | - | - | - | - | 492 | 492 |
| Due from other financial institutions | 194 | - | - | - | - | 194 | 194 |
| Financial assets held for trading | - | 1 | 6 | 87 | 15 | 109 | 96 |
| Available-for-sale assets | 34 | 99 | 252 | 932 | - | 1,317 | 1,222 |
| Loans and advances | 173 | 321 | 982 | 3,692 | 27,541 | 32,709 | 15,528 |
| Due from NZP related parties | 127 | 5 | 66 | 138 | 1,803 | 2,139 | 1,103 |
| Other financial assets | 10 | - | - | - | - | 10 | 10 |
| **Total financial assets** | 1,030 | 426 | 1,306 | 4,849 | 29,359 | 36,970 | 18,645 |
| **Net non-derivative cash flows** | (5,167) | (4,430) | (2,552) | 2,794 | 26,784 | 17,429 | |
| **Derivative cash flows – net** | | | | | | | |
| Interest rate derivatives | (3) | (12) | (48) | (68) | (3) | (134) | |
| **Total** | (3) | (12) | (48) | (68) | (3) | (134) | |
| **Derivative cash flows – gross** | | | | | | | |
| Foreign exchange derivatives | | | | | | | |
| Inflow | 380 | 383 | 191 | 609 | 529 | 2,092 | |
| Outflow | (356) | (374) | (200) | (558) | (533) | (2,021) | |
| **Total** | 24 | 9 | (9) | 51 | (4) | 71 | |
| **Off balance sheet cash flows** | | | | | | | |
| Capital commitments | - | (3) | (1) | (2) | - | (6) | |
| Undrawn loan commitments | (2,442) | - | - | - | - | (2,442) | |
| Lease commitments | - | (1) | (4) | (18) | - | (23) | |
| **Total** | (2,442) | (4) | (5) | (20) | - | (2,471) | |
| **Net cash flows** | (7,588) | (4,437) | (2,614) | 2,757 | 26,777 | 14,895 | |
| **Cumulative net cash flows** | (7,588) | (12,025) | (14,639) | (11,882) | 14,895 | 14,895 | |

[1] 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 amount of the Perpetual Bonds has been included in the More than 5 years column.

# Notes to the financial statements continued

## 33. Liquidity risk continued

| | The Banking Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30/06/14 | | | | | | |
| Dollars in millions | On demand | Up to 3 months | 3 to 12 months | Between 1 & 5 years | More than 5 years | Gross nominal inflow/outflow | Carrying amount |
| **Non-derivative cash flows** | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | (185) | - | - | - | - | (185) | (185) |
| Deposits and other borrowings | (4,570) | (4,164) | (3,668) | (413) | - | (12,815) | (12,751) |
| Debt securities issued | (304) | (643) | (298) | (803) | (319) | (2,367) | (2,143) |
| Subordinated debt | (1) | - | (12) | (52) | (304) | (369) | (247) |
| Due to NZP related parties | (27) | - | - | - | - | (27) | (27) |
| Other financial liabilities | (49) | - | - | - | - | (49) | (49) |
| **Total financial liabilities** | (5,136) | (4,807) | (3,978) | (1,268) | (623) | (15,812) | (15,402) |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 461 | - | - | - | - | 461 | 461 |
| Due from other financial institutions | 121 | - | - | - | - | 121 | 121 |
| Financial assets held for trading | - | - | 3 | 43 | 7 | 53 | 44 |
| Available-for-sale assets | 53 | 157 | 486 | 475 | - | 1,171 | 1,093 |
| Loans and advances | 163 | 316 | 939 | 3,372 | 25,775 | 30,565 | 14,630 |
| Due from NZP related parties | - | - | 1 | 48 | 32 | 81 | 77 |
| Other financial assets | 10 | - | - | - | - | 10 | 10 |
| **Total financial assets** | 808 | 473 | 1,429 | 3,938 | 25,814 | 32,462 | 16,436 |
| **Net non-derivative cash flows** | (4,328) | (4,334) | (2,549) | 2,670 | 25,191 | 16,650 | |
| **Derivative cash flows – net** | | | | | | | |
| Interest rate derivatives | (1) | (14) | 21 | (3) | (3) | - | |
| **Total** | (1) | (14) | 21 | (3) | (3) | - | |
| **Derivative cash flows – gross** | | | | | | | |
| Foreign exchange derivatives | | | | | | | |
| Inflow | 422 | 534 | 384 | 511 | 299 | 2,150 | |
| Outflow | (430) | (543) | (447) | (588) | (257) | (2,265) | |
| **Total** | (8) | (9) | (63) | (77) | 42 | (115) | |
| **Off balance sheet cash flows** | | | | | | | |
| Capital commitments | (4) | - | (1) | (3) | - | (8) | |
| Undrawn loan commitments | (2,089) | - | - | - | - | (2,089) | |
| Lease commitments | - | (1) | (4) | (18) | (4) | (27) | |
| **Total** | (2,093) | (1) | (5) | (21) | (4) | (2,124) | |
| **Net cash flows** | (6,430) | (4,358) | (2,596) | 2,569 | 25,226 | 14,411 | |
| **Cumulative net cash flows** | (6,430) | (10,788) | (13,384) | (10,815) | 14,411 | 14,411 | |

Comparative balances have been restated to align with the current period's presentation, due to the reclassification of a deposit from "on demand" to "Up to 3 months".

# Notes to the financial statements continued

## 33. Liquidity risk continued

| | Kiwibank Limited | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30/06/14 | | | | | | |
| Dollars in millions | On demand | Up to 3 months | 3 to 12 months | Between 1 & 5 years | More than 5 years | Gross nominal inflow/outflow | Carrying amount |
| **Non-derivative cash flows** | | | | | | | |
| **Liabilities** | | | | | | | |
| Due to other financial institutions | (185) | - | - | - | - | (185) | (270) |
| Deposits and other borrowings | (4,570) | (4,164) | (3,668) | (413) | - | (12,815) | (12,120) |
| Debt securities issued | (304) | (643) | (298) | (803) | (319) | (2,367) | (1,508) |
| Subordinated debt | (1) | - | (12) | (52) | (304) | (369) | (210) |
| Due to NZP related parties | (24) | (8) | (36) | (225) | (2,185) | (2,478) | (930) |
| Other financial liabilities | (47) | - | - | - | - | (47) | (47) |
| **Total financial liabilities** | (5,131) | (4,815) | (4,014) | (1,493) | (2,808) | (18,261) | (15,085) |
| **Assets** | | | | | | | |
| Cash and cash equivalents | 460 | - | - | - | - | 460 | 413 |
| Due from other financial institutions | 121 | - | - | - | - | 121 | - |
| Financial assets held for trading | - | - | 3 | 43 | 7 | 53 | 153 |
| Available-for-sale assets | 53 | 157 | 486 | 475 | - | 1,171 | 966 |
| Loans and advances | 163 | 310 | 933 | 3,362 | 25,775 | 30,543 | 13,167 |
| Due from NZP related parties | 127 | 4 | 23 | 183 | 1,964 | 2,301 | 1,035 |
| Other financial assets | 10 | - | - | - | - | 10 | 10 |
| **Total financial assets** | 934 | 471 | 1,445 | 4,063 | 27,746 | 34,659 | 15,744 |
| **Net non-derivative cash flows** | (4,197) | (4,344) | (2,569) | 2,570 | 24,938 | 16,398 | |
| **Derivative cash flows – net** | | | | | | | |
| Interest rate derivatives | (1) | (14) | 21 | (3) | (3) | - | |
| **Total** | (1) | (14) | 21 | (3) | (3) | - | |
| **Derivative cash flows – gross** | | | | | | | |
| Foreign exchange derivatives | | | | | | | |
| Inflow | 422 | 536 | 392 | 558 | 508 | 2,416 | |
| Outflow | (430) | (544) | (449) | (597) | (513) | (2,533) | |
| **Total** | (8) | (8) | (57) | (39) | (5) | (117) | |
| **Off balance sheet cash flows** | | | | | | | |
| Capital commitments | (4) | - | (1) | (3) | - | (8) | |
| Undrawn loan commitments | (2,089) | - | - | - | - | (2,089) | |
| Lease commitments | - | (1) | (4) | (18) | (4) | (27) | |
| **Total** | (2,093) | (1) | (5) | (21) | (4) | (2,124) | |
| **Net cash flows** | (6,299) | (4,367) | (2,610) | 2,507 | 24,926 | 14,157 | |
| **Cumulative net cash flows** | (6,299) | (10,666) | (13,276) | (10,769) | 14,157 | 14,157 | |

Comparative balances have been restated to align with the current period's presentation, due to the reclassification of a deposit from "on demand" to "Up to 3 months".

# Notes to the financial statements continued

## 34. Sensitivity analysis

The tables below summarise the pre-tax sensitivity of financial assets and financial liabilities to changes in two risk variables, interest rate and currency risks. The sensitivity to interest rate movements models the impact of a 1% parallel movement, both up and down, in the yield curve on fair values and earnings.

Fair value sensitivity assesses whether changes in the fair value impact the net profit (for example, financial assets held for trading) or equity (for example, available for sale assets and cash flow hedges) only; market values are used as the basis for this calculation.

Earnings sensitivity calculates the impact on net profit for the previous year of a 1% movement in interest rate based upon financial assets and liabilities that have re-priced over the previous year that were held at the reporting date.

The sensitivity to currency movements models the impact on net profit of a 10% movement, both up and down, in the New Zealand Dollar relative to all currencies where Kiwibank held a material exposure at the reporting date. Any changes in the value of financial assets and financial liabilities due to currency movements are considered to impact the net profit and, therefore, equity equally.

| The Banking Group | | Interest rate risk – Fair value | | | |
|---|---|---|---|---|---|
| 30 June 2015 | | -1% | +1% | -1% | +1% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 492 | - | - | - | - |
| Due from other financial institutions | 194 | - | - | - | - |
| Financial assets held for trading | 96 | 3 | (3) | 3 | (3) |
| Available-for-sale assets | 1,222 | - | - | 25 | (24) |
| Loans and advances | 15,598 | - | - | - | - |
| Derivative financial instruments | 480 | 329 | (315) | 343 | (329) |
| Due from NZP related parties | 77 | - | - | - | - |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | **18,169** | **332** | **(318)** | **371** | **(356)** |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (325) | - | - | - | - |
| Deposits and other borrowings | (13,740) | - | - | - | - |
| Derivative financial instruments | (475) | (295) | 283 | (401) | 387 |
| Debt securities issued | (2,397) | (34) | 32 | (34) | 32 |
| Subordinated debt | (255) | (3) | 3 | (3) | 3 |
| Due to NZP related parties | (6) | - | - | - | - |
| Other financial liabilities | (58) | - | - | - | - |
| **Total financial liabilities** | **(17,256)** | **(332)** | **318** | **(438)** | **422** |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| The Banking Group | | Interest rate risk – Earnings | | | |
|---|---|---|---|---|---|
| 30 June 2015 | | -1% | +1% | -1% | +1% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 492 | (5) | 5 | (5) | 5 |
| Due from other financial institutions | 194 | (2) | 2 | (2) | 2 |
| Financial assets held for trading | 96 | (1) | 1 | (1) | 1 |
| Available-for-sale assets | 1,222 | (10) | 10 | (10) | 10 |
| Loans and advances | 15,598 | (110) | 110 | (110) | 110 |
| Derivative financial instruments | 480 | 69 | (69) | 69 | (69) |
| Due from NZP related parties | 77 | - | - | - | - |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 18,169 | (59) | 59 | (59) | 59 |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (325) | 3 | (3) | 3 | (3) |
| Deposits and other borrowings | (13,740) | 120 | (120) | 120 | (120) |
| Derivative financial instruments | (475) | (104) | 104 | (104) | 104 |
| Debt securities issued | (2,397) | 16 | (16) | 16 | (16) |
| Subordinated debt | (255) | - | - | - | - |
| Due to NZP related parties | (6) | - | - | - | - |
| Other financial liabilities | (58) | - | - | - | - |
| **Total financial liabilities** | (17,256) | 35 | (35) | 35 | (35) |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| The Banking Group | | Currency risk | | | |
|---|---|---|---|---|---|
| 30 June 2015 | | -10% | +10% | -10% | +10% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 492 | 7 | (6) | 7 | (6) |
| Due from other financial institutions | 194 | - | - | - | - |
| Financial assets held for trading | 96 | - | - | - | - |
| Available-for-sale assets | 1,222 | - | - | - | - |
| Loans and advances | 15,598 | - | - | - | - |
| Derivative financial instruments | 480 | 133 | (121) | 133 | (121) |
| Due from NZP related parties | 77 | - | - | - | - |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 18,169 | 140 | (127) | 140 | (127) |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (325) | - | - | - | - |
| Deposits and other borrowings | (13,740) | (10) | 9 | (10) | 9 |
| Derivative financial instruments | (475) | - | - | - | - |
| Debt securities issued | (2,397) | (129) | 117 | (129) | 117 |
| Subordinated debt | (255) | - | - | - | - |
| Due to NZP related parties | (6) | - | - | - | - |
| Other financial liabilities | (58) | - | - | - | - |
| **Total financial liabilities** | (17,256) | (139) | 126 | (139) | 126 |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| Kiwibank Limited | | Interest rate risk – Fair value | | | |
|---|---|---|---|---|---|
| 30 June 2015 | | -1% | +1% | -1% | +1% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 492 | - | - | - | - |
| Due from other financial institutions | 194 | - | - | - | - |
| Financial assets held for trading | 96 | 3 | (3) | 3 | (3) |
| Available-for-sale assets | 1,222 | - | - | 25 | (24) |
| Loans and advances | 15,528 | - | - | - | - |
| Derivative financial instruments | 480 | 329 | (315) | 343 | (329) |
| Due from NZP related parties | 1,103 | - | - | - | - |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 19,125 | 332 | (318) | 371 | (356) |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (325) | - | - | - | - |
| Deposits and other borrowings | (13,741) | - | - | - | - |
| Derivative financial instruments | (535) | (309) | 297 | (415) | 400 |
| Debt securities issued | (2,397) | (34) | 32 | (34) | 32 |
| Subordinated debt | (402) | (3) | 3 | (3) | 3 |
| Due to NZP related parties | (924) | - | - | - | - |
| Other financial liabilities | (58) | - | - | - | - |
| **Total financial liabilities** | (18,382) | (346) | 332 | (452) | 435 |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| Kiwibank Limited | | Interest rate risk – Earnings | | | |
|---|---|---|---|---|---|
| 30 June 2015 | | -1% | +1% | -1% | +1% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 492 | (5) | 5 | (5) | 5 |
| Due from other financial institutions | 194 | (2) | 2 | (2) | 2 |
| Financial assets held for trading | 96 | (1) | 1 | (1) | 1 |
| Available-for-sale assets | 1,222 | (10) | 10 | (10) | 10 |
| Loans and advances | 15,528 | (109) | 109 | (109) | 109 |
| Derivative financial instruments | 480 | 69 | (69) | 69 | (69) |
| Due from NZP related parties | 1,103 | (8) | 8 | (8) | 8 |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 19,125 | (66) | 66 | (66) | 66 |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (325) | 3 | (3) | 3 | (3) |
| Deposits and other borrowings | (13,741) | 120 | (120) | 120 | (120) |
| Derivative financial instruments | (535) | (106) | 106 | (106) | 106 |
| Debt securities issued | (2,397) | 16 | (16) | 16 | (16) |
| Subordinated debt | (402) | 2 | (2) | 2 | (2) |
| Due to NZP related parties | (924) | 9 | (9) | 9 | (9) |
| Other financial liabilities | (58) | - | - | - | - |
| **Total financial liabilities** | (18,382) | 44 | (44) | 44 | (44) |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| Kiwibank Limited | | Currency risk | | | |
|---|---|---|---|---|---|
| 30 June 2015 | | -10% | +10% | -10% | +10% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 492 | 7 | (6) | 7 | (6) |
| Due from other financial institutions | 194 | - | - | - | - |
| Financial assets held for trading | 96 | - | - | - | - |
| Available-for-sale assets | 1,222 | - | - | - | - |
| Loans and advances | 15,528 | - | - | - | - |
| Derivative financial instruments | 480 | 133 | (121) | 133 | (121) |
| Due from NZP related parties | 1,103 | 25 | (23) | 25 | (23) |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 19,125 | 165 | (150) | 165 | (150) |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (325) | - | - | - | - |
| Deposits and other borrowings | (13,741) | (10) | 9 | (10) | 9 |
| Derivative financial instruments | (535) | (26) | 24 | (26) | 24 |
| Debt securities issued | (2,397) | (129) | 117 | (129) | 117 |
| Subordinated debt | (402) | - | - | - | - |
| Due to NZP related parties | (924) | - | - | - | - |
| Other financial liabilities | (58) | - | - | - | - |
| **Total financial liabilities** | (18,382) | (165) | 150 | (165) | 150 |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| The Banking Group | | Interest rate risk – Fair value | | | |
|---|---|---|---|---|---|
| 30 June 2014 | | -1% | +1% | -1% | +1% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 461 | - | - | - | - |
| Due from other financial institutions | 121 | - | - | - | - |
| Financial assets held for trading | 44 | 2 | (2) | 2 | (2) |
| Available-for-sale assets | 1,093 | - | - | 14 | (13) |
| Loans and advances | 14,630 | - | - | - | - |
| Derivative financial instruments | 130 | (31) | 30 | (74) | 72 |
| Due from NZP related parties | 77 | - | - | - | - |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 16,566 | (29) | 28 | (58) | 57 |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (185) | - | - | - | - |
| Deposits and other borrowings | (12,751) | - | - | - | - |
| Derivative financial instruments | (236) | 65 | (62) | 20 | (19) |
| Debt securities issued | (2,143) | (35) | 33 | (35) | 33 |
| Subordinated debt | (247) | (4) | 4 | (4) | 4 |
| Due to NZP related parties | (27) | - | - | - | - |
| Other financial liabilities | (49) | - | - | - | - |
| **Total financial liabilities** | (15,638) | 26 | (25) | (19) | 18 |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| The Banking Group | | Interest rate risk – Earnings | | | |
|---|---|---|---|---|---|
| 30 June 2014 | | -1% | +1% | -1% | +1% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 461 | (4) | 4 | (4) | 4 |
| Due from other financial institutions | 121 | (1) | 1 | (1) | 1 |
| Financial assets held for trading | 44 | - | - | - | - |
| Available-for-sale assets | 1,093 | (7) | 7 | (7) | 7 |
| Loans and advances | 14,630 | (111) | 111 | (111) | 111 |
| Derivative financial instruments | 130 | (41) | 41 | (41) | 41 |
| Due from NZP related parties | 77 | - | - | - | - |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 16,566 | (164) | 164 | (164) | 164 |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (185) | 2 | (2) | 2 | (2) |
| Deposits and other borrowings | (12,751) | 114 | (114) | 114 | (114) |
| Derivative financial instruments | (236) | 14 | (14) | 14 | (14) |
| Debt securities issued | (2,143) | 15 | (15) | 15 | (15) |
| Subordinated debt | (247) | 1 | (1) | 1 | (1) |
| Due to NZP related parties | (27) | - | - | - | - |
| Other financial liabilities | (49) | - | - | - | - |
| **Total financial liabilities** | (15,638) | 146 | (146) | 146 | (146) |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| The Banking Group | | Currency risk | | | |
|---|---|---|---|---|---|
| 30 June 2014 | | -10% | +10% | -10% | +10% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 461 | 8 | (7) | 8 | (7) |
| Due from other financial institutions | 121 | - | - | - | - |
| Financial assets held for trading | 44 | - | - | - | - |
| Available-for-sale assets | 1,093 | - | - | - | - |
| Loans and advances | 14,630 | - | - | - | - |
| Derivative financial instruments | 130 | 5 | (1) | 5 | (1) |
| Due from NZP related parties | 77 | - | - | - | - |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 16,566 | 13 | (8) | 13 | (8) |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (185) | - | - | - | - |
| Deposits and other borrowings | (12,751) | (10) | 8 | (10) | 8 |
| Derivative financial instruments | (236) | 165 | (138) | 165 | (138) |
| Debt securities issued | (2,143) | (168) | 138 | (168) | 138 |
| Subordinated debt | (247) | - | - | - | - |
| Due to NZP related parties | (27) | - | - | - | - |
| Other financial liabilities | (49) | - | - | - | - |
| **Total financial liabilities** | (15,638) | (13) | 8 | (13) | 8 |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| Kiwibank Limited | | Interest rate risk – Fair value | | | |
|---|---|---|---|---|---|
| 30 June 2014 | | -1% | +1% | -1% | +1% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 460 | - | - | - | - |
| Due from other financial institutions | 121 | - | - | - | - |
| Financial assets held for trading | 44 | 2 | (2) | 2 | (2) |
| Available-for-sale assets | 1,093 | - | - | 14 | (14) |
| Loans and advances | 14,572 | - | - | - | - |
| Derivative financial instruments | 130 | (44) | 42 | (87) | 85 |
| Due from NZP related parties | 1,048 | - | - | - | - |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 17,478 | (42) | 40 | (71) | 69 |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (185) | - | - | - | - |
| Deposits and other borrowings | (12,753) | - | - | - | - |
| Derivative financial instruments | (236) | 65 | (62) | 20 | (19) |
| Debt securities issued | (2,143) | (35) | 33 | (35) | 33 |
| Subordinated debt | (247) | (4) | 4 | (4) | 4 |
| Due to NZP related parties | (945) | - | - | - | - |
| Other financial liabilities | (47) | - | - | - | - |
| **Total financial liabilities** | (16,556) | 26 | (25) | (19) | 18 |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| Kiwibank Limited | | Interest rate risk – Earnings | | | |
|---|---|---|---|---|---|
| 30 June 2014 | | -1% | +1% | -1% | +1% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 460 | (4) | 4 | (4) | 4 |
| Due from other financial institutions | 121 | (1) | 1 | (1) | 1 |
| Financial assets held for trading | 44 | - | - | - | - |
| Available-for-sale assets | 1,093 | (7) | 7 | (7) | 7 |
| Loans and advances | 14,572 | (111) | 111 | (111) | 111 |
| Derivative financial instruments | 130 | (43) | 43 | (43) | 43 |
| Due from NZP related parties | 1,048 | (8) | 8 | (8) | 8 |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 17,478 | (174) | 174 | (174) | 174 |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (185) | 2 | (2) | 2 | (2) |
| Deposits and other borrowings | (12,753) | 114 | (114) | 114 | (114) |
| Derivative financial instruments | (236) | 14 | (14) | 14 | (14) |
| Debt securities issued | (2,143) | 15 | (15) | 15 | (15) |
| Subordinated debt | (247) | 1 | (1) | 1 | (1) |
| Due to NZP related parties | (945) | 9 | (9) | 9 | (9) |
| Other financial liabilities | (47) | - | - | - | - |
| **Total financial liabilities** | (16,556) | 155 | (155) | 155 | (155) |

# Notes to the financial statements continued

## 34. Sensitivity analysis continued

| Kiwibank Limited | | Currency risk | | | |
|---|---|---|---|---|---|
| 30 June 2014 | | -10% | +10% | -10% | +10% |
| Dollars in millions | Carrying amounts | Net profit | Net profit | Equity | Equity |
| **Financial assets** | | | | | |
| Cash and cash equivalents | 460 | 8 | (7) | 8 | (7) |
| Due from other financial institutions | 121 | - | - | - | - |
| Financial assets held for trading | 44 | - | - | - | - |
| Available-for-sale assets | 1,093 | - | - | - | - |
| Loans and advances | 14,572 | - | - | - | - |
| Derivative financial instruments | 130 | (17) | 17 | (17) | 17 |
| Due from NZP related parties | 1,048 | 22 | (18) | 22 | (18) |
| Other financial assets | 10 | - | - | - | - |
| **Total financial assets** | 17,478 | 13 | (8) | 13 | (8) |
| **Financial liabilities** | | | | | |
| Due to other financial institutions | (185) | - | - | - | - |
| Deposits and other borrowings | (12,753) | (10) | 8 | (10) | 8 |
| Derivative financial instruments | (236) | 165 | (138) | 165 | (138) |
| Debt securities issued | (2,143) | (168) | 138 | (168) | 138 |
| Subordinated debt | (247) | - | - | - | - |
| Due to NZP related parties | (945) | - | - | - | - |
| Other financial liabilities | (47) | - | - | - | - |
| **Total financial liabilities** | (16,556) | (13) | 8 | (13) | 8 |

# Notes to the financial statements continued

## 35. Transfers of financial assets

The following financial assets have been transferred but have not been derecognised.

### Securitised assets

**Kiwibank RMBS Trust Series 2009-1 (the "RMBS Trust")**

In May 2008 the RBNZ expanded the range of acceptable collateral that the banks can pledge and borrow against as part of changes to its liquidity management programme, designed to ensure adequate liquidity for New Zealand financial institutions. The expanded collateral criteria includes the use of a pool of individual residentially secured mortgages (loans and advances) that are aggregated together to form a residential mortgage backed security ("**RMBS**").

An RMBS can be transferred to a separate Trust allowing the Banking Group to enter into a repurchase agreement on these loans with the RBNZ. The Banking Group can borrow from the RBNZ using the RMBS as collateral until repurchased at a later date, in order to manage its liquidity requirements.

On 26 June 2009 the Banking Group established an in-house RMBS facility in order to issue securities that meet the RBNZ criteria. Kiwibank recognises in its financial statements a payable and receivable of RMBS securities of equal amount totalling $600m to the RMBS Trust, a consolidated entity. These assets and liabilities do not qualify for derecognition as the Banking Group retains a continuing involvement and retains substantially all the risks and rewards of ownership of the transferred assets (funding, liquidity and credit risk remains with the Bank).

The carrying value and fair value of the RMBS pool at 30 June 2015 is $600m (30 June 2014: $600m). These securities are ring fenced to ensure they are not used as collateral outside of agreements established with the RMBS Trust.

**Kiwi Covered Bond Trust (the "Covered Bond Trust")**

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

Substantially all of the assets of the Covered Bond Trust comprise housing loans originated by the Bank and highly rated short-dated securities, together which are security for the guarantee of issuances of covered bonds by the Bank, provided by Kiwi Covered Bond Trustee Limited as Trustee of the Covered Bond Trust. The assets of the Covered Bond Trust are not available to creditors of the Bank, although the Bank (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

The carrying value and fair value of the Covered Bond Trust pool at 30 June 2015 is $316m (30 June 2014: $316m). These securities are ring fenced to ensure they are not used as collateral outside of agreements established with the Covered Bond Trust.

The consolidated financial statements of the Banking Group do not change as a result of establishing the RMBS Trust and the Covered Bond Trust.

### Repurchase agreements

The Banking Group enters into sale and repurchase agreements with the wider market in order to manage short term liquidity. Under the repurchase agreements, collateral in the form of securities is advanced to a third party and Kiwibank receives cash in exchange. The counterparty is allowed to sell or repledge the collateral advanced under repurchase agreements in the absence of default by Kiwibank, but has an obligation to return the collateral at the maturity of the contract.

Kiwibank has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them. Securities sold under agreements to repurchase are accounted for as financial assets and are retained within the relevant financial asset category. In addition, it recognises a financial liability for cash received. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement. As at 30 June 2015, the Banking Group has recognised liabilities for outstanding repurchase agreements of $176.3m (30 June 2014: $170.3m), which have settlement dates ranging up to seven days.

As at 30 June 2015 neither Kiwibank, nor the Banking Group has derecognised any financial assets where they have a continuing involvement (30 June 2014: Nil).

# Notes to the financial statements continued

## 36. Interest earning and discount bearing assets and liabilities

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Interest earning and discount bearing assets | **17,642** | 16,426 | **18,594** | 17,335 |
| Interest and discount bearing liabilities | **15,434** | 14,259 | **16,498** | 15,176 |

## 37. Credit exposure concentrations

### Credit exposure to individual counterparties

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

There were no individual counterparties, excluding connected persons, bank counterparties and the central government of any country with a long-term credit rating of A- or A3 above, or its equivalent, where the year end and peak end-of-day aggregate actual credit exposures, net of individual credit impairment allowances (which were nil), equalled or exceeded 10% of the Banking Group's shareholder's equity as at the reporting date.

As at 30 June 2015 and in the 3 months ended 30 June 2015, there have been no credit exposure concentrations with non bank counterparties where actual credit exposures equalled or exceeded 10% of the Banking Group's shareholder's equity as at the reporting date (3 months ended 30 June 2014: nil).

### Credit exposures to connected persons

Credit exposure concentrations are disclosed on the basis of actual credit exposures and calculated on a gross basis, (net of individual credit impairment allowance and excluding advances of a capital nature). The information on credit exposure to connected persons has been derived in accordance with the Banking Group's Conditions of Registration and the RBNZ Connected Exposures Policy BS8. The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end-of-day credit exposures to non-bank connected persons have been calculated using the Banking Group's Tier 1 capital at the end of the year. The rating-contingent limit, which is applicable to the Banking Group as at the reporting date, is 60%. There have been no rating-contingent limit changes during the last year. Within the rating-contingent limit there is a sub-limit of 15% of the Banking Group's Tier I capital, which applies to non-bank connected persons. All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's Conditions of Registration have been complied with at all times over the last year. The limit is 125% of the Banking Group's Tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure. There are no individual impairment credit allowances against credit exposures to non-bank connected persons nor are there any contingent exposures arising from risk lay-off arrangements to connected persons as at 30 June 2015 (30 June 2014: nil).

| | The Banking Group | |
|---|---|---|
| Dollars in millions | **Year ended 30/06/15** | Year ended 30/06/14 |
| Credit exposures to non-bank connected persons at year end | **78** | 77 |
| Credit exposures to non-bank connected persons at year end expressed as a percentage of Tier 1 capital | **8.1%** | 9.1% |
| Peak credit exposures to non-bank connected persons during the year | **79** | 80 |
| Peak credit exposures to non-bank connected persons during the year expressed as a percentage of Tier 1 capital | **8.2%** | 9.4% |

# Notes to the financial statements continued

## 38. Fiduciary activities

### Custodial services

Kiwibank's subsidiary, Kiwibank Nominees Limited, provides custodial services to customers in respect of assets that are beneficially owned by those customers.

### Insurance business

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

### Securitised assets

The Banking Group has an in house RMBS facility and covered bond programme, which are discussed further in Note 35.

### Funds management

The Kiwibank KiwiSaver Scheme commenced accepting members and subscriptions on the 1st of July 2010 and closed to new members on 5 December 2012. During the year ended 30 June 2015, the Banking Group transferred the members and assets of the Kiwibank KiwiSaver Scheme to the Kiwi Wealth KiwiSaver Scheme, operated by KWL.

A subsidiary of Kiwibank also:

- acts as the manager for the Kiwibank PIE Unit Trust. These funds are invested in products of Kiwibank and are recorded as liabilities in the balance sheet (note 19). At 30 June 2015, $3,735m of funds under management were invested in Kiwibank's own products or securities (30 June 2014: $3,679m).
- is a distributor of the Kiwibank Investment Portfolio. The Banking Group is not the Issuer, Manager or Promoter of these Funds. Nor is it responsible for any decline in performance of the underlying assets of the investors due to market forces.

### Provision of financial services

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

The Banking Group has not provided any funding to entities which conduct the following activities during the years ended 30 June 2015 and 30 June 2014:

- trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group;
- marketing and distribution of insurance products.

### Risk management

With regards to the activities identified above, the Banking Group has in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management and auditors.

## 39. Risk management policies

### Risk management

The Banking Group's exposure to risk arises primarily from its business activities as a financial intermediary and financial markets participant. Kiwibank recognises the importance of effective risk management to its business success and to its customers. Risk management enables Kiwibank to both increase its financial and organisational growth opportunities and mitigate potential loss or damage.

### Organisational perspective

Kiwibank approaches the management of risk using an organisational framework that is characterised by:

- The Board providing oversight on risk appetites, strategies, and monitoring progress;
- Business unit level accountability for the management of risks in accordance with agreed strategies and the Bank's risk management framework;
- The Risk Management function is responsible for implementing a risk management framework and providing assurance around the management of various elements of risk; and
- Independent oversight of business unit risk management by both internal and external audit functions to i) provide regular risk evaluation and reporting; and ii) assess the adequacy and effectiveness of management's control of risk.

The directors of Kiwibank are responsible for the stewardship of Kiwibank. To help discharge this obligation, the Board has established the Finance, Audit and Disclosures Committee, (which includes members who have appropriate financial experience and understanding of the banking industry in which Kiwibank operates) and the Risk, Credit and Compliance Committee, which collectively are responsible for:

- Review and approval of Kiwibank's frameworks and policies for managing business, credit, market and operational risk and maintaining an effective risk management framework.
- Monitoring the Bank's key risks, performance, exposures against limits, capital levels and management of Kiwibank's risks.
- Monitoring anticipated changes in the economic and business environment and other factors relevant to Kiwibank's risk profile.

# Notes to the financial statements continued

## 39. Risk management policies continued

- Review and approval of limits and conditions that apply to risk taking.
- Review of internal audit activities and significant audit issues.
- Review of financial and disclosure statements.

The following specialised principal management committees have been formed to translate Board risk appetite into appropriate strategies, policies, controls, processes and procedures for identifying, measuring and managing risk: i) the Asset-Liability Committee ("**ALCO**"), which is concerned with balance sheet structure, capital, funding and market risk; ii) the Executive Risk Committee, which is focused on business, credit and operational risk; iii) the Disclosure Committee, which is focused on continuous disclosure requirements; and iv) the Enterprise Portfolio Management Office, which considers certain risks associated with the Bank's key strategic projects and investment portfolio.

Independent Credit and Market risk-control units operate alongside the Bank's lending business units and Treasury unit. These risk-control functions are accountable for identifying and quantifying credit and market risks, respectively, and for working with the lending and Treasury business units to implement appropriate policies, procedures and controls to manage those risks. Kiwibank's Risk Management Unit has been assigned the role of internal monitor. The Risk Management Unit is tasked with ensuring that risk based reporting of financial and non-financial threats to Kiwibank is undertaken on a regular basis. The unit provides an independent appraisal of business units' risk positions and the overall control environment, reporting on the Bank's key risks through the Executive Risk Committee, and onto the Board Risk, Credit and Compliance Committee and the Board Finance, Audit and Disclosures Committee as appropriate. No formal reviews of the Banking Group's risk management system were undertaken by external parties during the year ended 30 June 2015.

### Internal audit

Kiwibank has an independent internal audit function, which appraises the adequacy and effectiveness of the internal control environment, and reports results to Management and the Board Finance, Audit and Disclosures Committee. The internal audit function reports directly to the Chair of the Board Finance, Audit and Disclosures Committee with matrix reporting to the Chief Risk Officer.

In planning audit activities, internal audit adopts a risk-based approach that directs and concentrates resources to those areas of greatest significance, strategic concern and risk to the business. This encompasses reviews of major credit, market, technology, programmes, projects and operating risks within Kiwibank. Significant findings are reported quarterly to the Board Finance, Audit and Disclosures Committee. The audit plan is approved by the Board Finance, Audit and Disclosures Committee. All issues and recommendations reported to management are tracked and monitored internally to ensure completion and agreed actions are undertaken where appropriate.

### Risk management framework

Kiwibank's risk management framework revolves around four key functions. Namely:

- **Strategic risk management** – A framework and set of processes that the Bank uses to plan, organise, lead and control risk management activities in an effort to minimise the effects and impacts of risk events on the Bank's capital and earnings. This reflects the Basel III accord requirements for a properly framed structure from which risk management strategies and policy can be devolved. This framework provides:
  - i) A high level "risk structure" for the classification and categorisation of all risks deemed material to the Bank, which forms the basis of reporting the Bank's risk profile.
  - ii) Risk appetite – the Bank's willingness to take on financial risks and a basic operational pre-requisite for the establishment of consistent risk limits.
  - iii) Risk policy statements – these explicitly articulate the Bank's fundamental attitude towards risk and risk management. The risk policy statements are intended to ensure employees understand the Bank's risk management goals throughout the organisation.
  - iv) Risk principles – these are central rules for risk management decision-making and form the basis for maximum uniformity in risk management decision-making.
- **Capital management and capital adequacy** – Kiwibank's capital management strategy seeks to ensure the Bank is adequately capitalised while recognising capital is often an expensive form of funding or insurance. The Bank seeks to maintain and acquire capital in an economically effective manner so as to: i) support future development and growth aspirations; ii) comply at all times with regulatory capital requirements; iii) maintain a strong internal capital base to cover all material inherent risks; and iv) maintain an investment grade credit rating.

  The Bank undertakes a programme of activities designed to ensure that it has sufficient financial resources to continue as a going concern even if it suffers a material unforeseen or unexpected risk event(s). This programme, called the Internal Capital Adequacy Assessment Programme ("ICAAP"), deals primarily with assessing the Bank's capacity to absorb risk based on: i) identification and quantification of its immediate risks; and ii) comparison of those risks with its financial capital (that may have to be sacrificed if these risks materialise).

  The Board of Directors has ultimate responsibility for capital adequacy and approves capital policy and minimum internal capital levels and limits.

  In ensuring that Kiwibank has adequate overall capital in relation to its risk profile, a mixture of risk capital estimates and judgement based estimates have been made relating to all material risks, even where they are hard to quantify. Included in these estimates is also a trade-off between the importance of allocating capital to such risks and the robustness of the Bank's approach to mitigating and managing these risks.

## 39. Risk management policies continued

The Bank monitors its key risks and internal and regulatory capital adequacy, and reports on these to the Board Risk, Credit and Compliance Committee. In the event of large, unexpected losses, the Bank is committed to restoring its capital position. Management have developed plans accordingly.

- **Risk assessment and risk prioritisation** – This function administered by the Risk Management Unit is designed to identify and assess the real risks facing the Bank. The prioritisation process is intended to ensure that management focus and appropriate resources are directed at isolating, reducing or controlling expected (probable) risk events. The risk prioritisation process involves assessing the probability and severity of losses using (where possible) quantitative risk and control data.
- **Enterprise risk management** – Irrespective of their relative significance, the majority of risk situations facing the Bank occur in the day-to-day operations of the business. These risks (referred to as enterprise risks – as they arise from operating the business) are not confined to formal risk domains (i.e. credit, market, or operational risk) or business lines. As it is considered desirable to manage risk in a consistent and comprehensive manner across the whole of Kiwibank, a decision support model exists for any manager needing to make a risk management decision about a specific risk matter arising in their current or proposed operations (i.e. day-to-day business activities).

Kiwibank's high level "risk structure" recognises five main types of risk (or risk domains). Specifically:

- **Credit risk** – the risk of financial loss arising from the failure of a customer or counterparty to honour any financial or contractual obligation.
- **Market risk** – the potential for losses arising from adverse movements in the level and volatility of market factors, such as interest rates and foreign exchange rates. This risk domain also includes the risk that Kiwibank will not have sufficient funds available to meet financial and transactional cash-flow obligations.
- **Operational risk** – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events. This risk domain includes legal and regulatory risk, which includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from regulatory actions, as well as private settlements.
- **Business and strategic risk** – macro or micro environmental events that could impede or prevent the Bank achieving its stated business goals or strategies, including missed opportunities and potential losses/damage arising from poor strategic business decisions.
- **Governance Risk** – the risk arising from inadequate oversight and assurance of the Bank's Credit Policies and frameworks within Risk Management.

### Credit risk

The Banking Group's credit risks arise from lending to customers and from inter-bank, treasury, international and capital market activities. The Banking Group has clearly defined credit policies and frameworks for the approval and management of credit risk.

Key elements of the Credit risk management framework are:

- **Strategy and organisational structure** – the Board requires sound lending growth for appropriate returns. The Banking Group pursues this objective in a structured manner, managing credit risk through application of sector specific credit underwriting standards including scorecards, delegated authorities, a robust control environment, monitoring of the portfolios, review of all major credit risks and risk concentrations. The Board employs a structure of delegated authorities to implement and monitor the multiple facets of credit risk management.

  An independent credit management function staffed by credit risk specialists exists to; i) provide independent credit decisions; ii) support front-line lending staff in the application of sound credit practices; iii) provide centralised remedial management of arrears; and iv) undertake portfolio monitoring and loan asset quality analysis and reporting.

  The integrity and effectiveness of the Bank's credit risk management practices, asset quality and compliance with policy is supported by independent assessments by the Quality Assurance and internal audit functions.
- **Credit risk mitigation** – Kiwibank's Board approved wholesale credit management policy sets out the parameters for which it can enter into credit exposures arising from on and off-balance sheet transactions. Kiwibank also has legal arrangements with its major institutional counterparties to allow netting of off-balance sheet exposures along with collateral management arrangements.
- **Portfolio structure and monitoring** – The Banking Group's credit portfolio is divided into two Asset Classes, Retail and Wholesale. The Retail Asset Class is comprised of housing loan, credit card and personal loan facilities and small to medium enterprise business lending. This segment is managed on a delinquency band approach and on a behavioural basis.

  The Wholesale Asset Class consists of lending to middle market and Corporate businesses. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default. These exposures are required to be reviewed on an annual basis. The overall composition and quality of the credit portfolios is monitored taking into account the potential changes in economic conditions.

# Notes to the financial statements continued

## 39. Risk management policies continued

- **Credit approval standards** – Kiwibank has clearly defined credit underwriting policies and standards for all lending, which incorporate income and repayment capacity, acceptable terms, security, and loan documentation criteria. In the first instance, Kiwibank relies on the assessed integrity of the debtor or counterparty and their ability to meet their financial obligations for repayment.

  Longer term Consumer lending is generally secured against real estate, while short term revolving consumer credit (personal lending) is generally unsecured. Kiwibank requires adequate and sustainable loan servicing capability, and may also require security cover within loan to security valuation as set down in Kiwibank's credit policy.

  Collateral security in the form of real property and/or general security interest over business assets is generally taken for business credit except for government, bank and corporate counterparties of strong financial standing. The Bank uses ISDA agreements to document derivative activities and limit exposures to credit losses. Under ISDA protocols, in the event of default, all contracts with the counterparty are terminated and settled on a net basis.
- **Problem credit facility management** – Credit exposures are monitored regularly through the examination of irregular and delinquent accounts. This enables doubtful debts to be immediately identified so that specific provisions for potential losses can be established as early as possible. Problem credit facilities are monitored to ensure workout and collection and recovery strategies are established and enacted promptly to minimise risk of potential losses.

  Credit risk portfolios are regularly assessed for objective evidence of impairment. Kiwibank maintains a collective impairment allowance where there is objective evidence that the portfolio contains probable losses that will be identified in future periods. Kiwibank also creates an individual allowance for impairment against specific credit exposures when there is objective evidence that it will not be able to collect all amounts due.
- **Operations control environment** – Operationally, credit risk is controlled through a combination of approvals, limits, monitoring and review procedures. Functions are segregated so that no one person is in a position to control all significant stages of processing a credit transaction, thereby reducing the chance of error or defalcation escaping detection. Preparation of formal lending documentation only occurs after an independent officer in the operations area has ensured that the credit has been approved and the facility documentation matches the terms of the credit approval.

### Market risk

Market risk arises from the mismatch between assets and liabilities in the banking business and from controlled trading undertaken in the pursuit of profit. In order to manage its own exposure to market risk, Kiwibank transacts in derivative instruments such as swaps, options, futures and forward rate agreements. These activities are managed using structural limits (including volume and basis point value limits) in conjunction with scenario analysis. Market risk limits are allocated based on business strategies, modelling and experience, in addition to market liquidity and risk concentration analysis.

Key elements of Kiwibank's market risk management framework are:

- **Interest rate risk management** – The Board expects reasonable stability in Kiwibank's net interest income over time. Kiwibank's Treasury function has been tasked with managing the sensitivity of net income to changes in wholesale market interest rates. This sensitivity (known as structural interest rate risk) arises from the bank's lending and deposit taking activities and investment of capital and other liabilities. The provision of loans and accepting deposits at both fixed and variable rates gives rise to the risk that Kiwibank could have unmatched positions leading to material exposures in a shifting interest rate environment. Other activities such as current account facilities and trading financial instruments such as swaps, options and forward rate agreements also incur interest rate risks.

  The main objective of the management of interest rate risk is to achieve a balance between reducing risk to earnings from the adverse effect of interest rate movements and enhancing net interest income through the correct anticipation of the direction and extent of interest rate changes.

  Kiwibank's ALCO (comprising of executive management) is responsible for implementing and monitoring interest rate risk management policies within Board defined policy guidelines and limits. Interest rate risk is managed by Kiwibank's Treasury unit within pre-approved limits.

  Interest rate risk is measured in terms of Kiwibank's notional exposure to potential shifts in future interest rates relative to the timescale within which assets and liabilities can be re-priced. A separate independent Market Risk Management Unit is responsible for the daily measurement and monitoring of market risk exposures.

  Kiwibank reduces interest rate risk by seeking to match the re-pricing of assets and liabilities. A substantial portion of customer deposits and lending is at variable rates, which are periodically adjusted to reflect market movements. Where natural hedging still leaves a resultant interest rate mismatch, the residual risks are hedged within predefined limits through the use of physical financial instruments, interest rate swaps and other derivative financial instruments.

# Notes to the financial statements continued

## 39. Risk management policies continued

- **Currency risk management** – Currency risk results from the mismatch of foreign currency assets and liabilities. These mismatches can arise from the day-to-day purchase and sale of foreign currency and from deposit and lending activity in foreign currencies. Kiwibank has a policy of hedging all foreign currency borrowing into New Zealand dollars. Residual currency risks are monitored daily in terms of open positions in each currency and are managed within pre-approved limits.
- **Liquidity and funding risk management** – Liquidity risk is the risk that Kiwibank will not have sufficient funds available to meet its financial and transactional cash flow obligations.

  Management of liquidity risk is designed to ensure that Kiwibank has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis. The Bank's Treasury function has responsibility for liquidity management, under oversight of the ALCO.

  Kiwibank monitors this risk daily, primarily by forecasting future cash requirements, both under normal conditions and during crisis situations. Kiwibank manages this by; i) holding readily tradable, investment assets, that are eligible for the RBNZ's repurchase facilities, and short term investments with high credit quality counterparties to provide for any unexpected patterns in cash movements; and ii) by seeking a stable funding base.

  Kiwibank maintains liquidity crisis contingency plans defining an approach for responding to liquidity threatening events. Funding risk is allied to liquidity risk, but is concerned with the Bank's capacity to fund increases in assets while meeting its payment obligations, including repaying depositors and maturing wholesale debt.

  Kiwibank employs asset and liability cash flow modelling to determine appropriate liquidity and funding strategies. This modelling helps ensure that an appropriate portion of the Banking Group's assets are funded by customer liabilities, bank borrowing, and equity. This approach also recognises the favourable liquidity characteristics of long term customer liabilities and wholesale debt funding, in reducing the impact or volatility of short term funding.

  Under normal business conditions, Kiwibank seeks to satisfy the majority of its funding needs from retail liabilities. Kiwibank's borrowing capacity is an estimate of the amount of funding that can be raised in the wholesale markets. Kiwibank's funding strategy is designed to deliver a sustainable portfolio of wholesale funds.

  Treasury (under oversight of the ALCO) is responsible for monitoring Kiwibank's funding base and ensuring that this base is prudently maintained and adequately diversified.
- **Equity risk** – Equity risk results from the re-pricing of equity investments. Kiwibank does not undertake equity trading and there are no significant exposures to equity instruments.

### Operational and compliance risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is mitigated by implementing the necessary process, systems and training regimes.

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory standards and codes of conduct applicable to its banking activities.

Operational risk is inherent in Kiwibank's activities and inadequate practices to identify and assess operational risk can lead to non-compliance, sanctions fines/penalties and losses due to errors, compensation and internal fraud. Failure of processes/systems or human error could result in poor customer service or experience.

Operational risk covers a broad spectrum of activities, and is categorised into seven specific Basel "event types":

- Internal fraud
- External fraud
- Employment practices & workplace safety
- Clients, products & business practices (NB: This category includes a large proportion of Kiwibank's compliance risks.)
- Damage to physical assets
- Business disruption and system failures
- Execution, delivery and process management

Operational risk management within Kiwibank is based on the following core elements:

- Operational risk management relies on the support and participation of all Kiwibank staff. Kiwibank has adopted the Three Lines of Defence model to manage its operational risks.Senior management are accountable to the Board for maintaining an adequate and effective control environment that is commensurate with Kiwibank's risk appetite and business objectives.
- Business units (first line) are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility.
- A central (second line) Risk Management Unit owns and manages the operational risk and compliance framework and provides guidance, review and challenge to the first line.

An Internal Audit function (third line) provides an independent assessment of the adequacy and effectiveness of the internal control environment, and reports results to Management and the Board Finance, Audit and Disclosures Committee. KBLT members and some General Managers provide attestations regarding their operational risk and compliance systems and any weaknesses identified as part of their quarterly MAAP. A summary of the responses and any issues identified is reported to the executive Disclosures Committee and to the RCC.

# Notes to the financial statements continued

## 39. Risk management policies continued

Central Operational Risk and Compliance will provide risk reporting on a bank-wide basis to the relevant governance committees.

### Business and strategic risk

There are numerous external and internal uncertainties that may derail the business strategies or goals of Kiwibank. Success in managing business risk is intrinsically more difficult than managing financial risks (i.e. credit, market and operational risks).

It is only through sound business strategies and skilful execution of these business strategies that Kiwibank's business goals/objectives will be achieved. Risk management strategies are not a substitute for good business strategies but aid in the selection of appropriate strategies and in their successful execution.

Kiwibank has three core business risk management strategies aimed at supporting the business strategies of the Bank. Specifically:

- Establishment and maintenance of an internal organisational environment in which business and strategic risk can meaningfully be managed.
- Establishment and maintenance of structures, measurement basis and risk management processes for the evaluation and management of business and strategic risks.
- Building capability within Kiwibank to enable both the pursuit of opportunities and mitigation of vulnerabilities.

### Risk Governance

Risk Governance encompasses roles and responsibilities of the Kiwibank Board, CRO and the risk management function, and independent assessment of the Risk Governance Framework.

Support is provided in the Risk Division by CRO and the Risk Governance team which provides frameworks that quantify and communicate the level of risk the Bank is willing to accept to management.

Key elements of the Risk Governance function are:

- **Risk Appetite & supporting policy frameworks** – The Risk appetite and culture framework includes a definition of risk culture, an effective risk appetite statement, and clearly defined risk limits. It also defines roles and responsibilities for the Kiwibank Board of Directors and senior management in establishing the approved risk appetite statement.

  This requires clearly defined frameworks, including specific policy, for the development and maintenance of Credit Origination, Portfolio Management and Policies/Sector Policies and Delegated Lending Authorities. These frameworks are regularly reviewed and refined for continuous improvement and to support Business needs.

  Kiwibank's Executive Risk Committee (comprising of executive management) is tasked with producing robust credit policies, credit management processes and asset writing strategies; examining portfolio standards, concentrations of lending, asset impairment; and monitoring compliance with policy.
- **Quality Assurance of credit activities** – This provides assurance that Credit Policy, processes and systems are being used as designed, by both individual staff and systematically across the Bank.

  The Risk governance function includes reviewing material credit change initiatives ensuring they are working as designed and producing intended outcomes.
- **Model Assurance** – to provide assurance that models are fit for purpose and working as intended, the function is tasked with developing model validation standards with the primary focus on models used for rating credit exposure.

## 40. Operating lease commitments

Leases for property occupied by Kiwibank are managed by NZP. As at the reporting date commitments under non-cancellable property and vehicle operating leases in respect of payments due to be made were:

| | The Banking Group | | Kiwibank Limited | |
|---|---|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 | **30/06/15** | 30/06/14 |
| Less than one year | **5** | 5 | **5** | 5 |
| Between one and two years | **5** | 5 | **5** | 5 |
| Between two and five years | **13** | 13 | **13** | 13 |
| Greater than five years | **-** | 4 | **-** | 4 |
| **Total lease commitments** | **23** | 27 | **23** | 27 |

# Notes to the financial statements continued

## 41. Capital expenditure commitments

Capital expenditure commitments contracted for as at 30 June 2015, but not provided for in these financial statements, total $6.3m; (30 June 2014: $8.0m) and are analysed in note 33.

## 42. Contingent liabilities and loan commitments

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

Other than the above, there are no material contingent liabilities as at 30 June 2015 (30 June 2014: nil).

Undrawn loan commitments as at the reporting date are disclosed in note 33.

## 43. Events subsequent to the reporting date

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

# Capital adequacy

Kiwibank Limited (“**Kiwibank**” or the “**Bank**”) is subject to the capital adequacy requirements for registered banks as specified by the Reserve Bank of New Zealand (“**RBNZ**”). Following an internationally agreed framework (commonly known as Basel III) developed by the Basel committee on Banking supervision, the RBNZ has set minimum acceptable regulatory capital requirements and provided methods for estimating or measuring the risks incurred by the Bank. As a bank adopting a Standardised approach under the Basel III regime, Kiwibank applies the RBNZ’s BS12 – *Guidelines on a Bank’s Internal Capital Adequacy Assessment Process (“ICAAP”)* as a basis for estimating adequate prudential capital and BS2A – *Capital Adequacy Framework (Standardised Approach)* for calculating regulatory capital requirements. In accordance with Kiwibank’s banking conditions of registration, Kiwibank applies the RBNZ’s Basel III framework.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk weighted exposures. As a condition of registration, the Bank must comply with the following minimum capital requirements set by the RBNZ:

- Total capital ratio must not be less than 8.0% of risk weighted exposures.
- Tier 1 capital ratio must not be less than 6.0% of risk weighted exposures.
- The Common Equity Tier 1 capital ratio is not less than 4.5%.
- Capital of the Banking Group must not be less than NZ$30m.

### Regulatory capital

The Basel III standards for bank capital distinguish between Tier 1 and Tier 2 capital. Tier 1 capital is permanently and freely available to absorb losses without the bank being obliged to cease trading, while Tier 2 capital generally only absorbs losses in a winding up. Within Tier 1 capital, Common Equity Tier 1 capital (“**CET 1**”) has greater loss absorbing capability than the other Tier 1 instruments referred to as Additional Tier 1 capital (“**AT 1**”).

Capital ratios are used to define minimum capital requirements for each of: Common Equity, Tier 1 capital (CET 1 plus AT 1), and Total capital (Tier 1 plus Tier 2), as a percentage of risk-weighted assets. There are increasing constraints on capital distributions where a bank’s capital level falls within the buffer range. The following table shows the current capital ratio requirements and conservation buffers (as a percentage of risk weighted assets).

### Capital ratios

| | The Banking Group | |
|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 |
| **Capital adequacy ratios** | | |
| Common Equity Tier 1 capital ratio | **9.3%** | 9.0% |
| Tier 1 capital ratio | **11.0%** | 10.4% |
| Total capital ratio | **13.4%** | 13.0% |
| **RBNZ minimum ratios** | | |
| Common Equity Tier 1 capital ratio | **4.5%** | 4.5% |
| Tier 1 capital ratio | **6.0%** | 6.0% |
| Total capital ratio | **8.0%** | 8.0% |
| **Buffer ratios** | | |
| Buffer ratio | **4.8%** | 4.4% |
| Buffer ratio requirement | **2.5%** | 2.5% |

| | Kiwibank Limited | |
|---|---|---|
| Dollars in millions | **30/06/15** | 30/06/14 |
| **Capital adequacy ratios** | | |
| Common Equity Tier 1 capital ratio | **8.9%** | 8.8% |
| Tier 1 capital ratio | **10.5%** | 10.2% |
| Total capital ratio | **12.9%** | 12.7% |

# Capital adequacy continued

### Ordinary shares

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

a) each share contains a single right to vote;

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

c) there is no predetermined dividend rate;

d) there is no maturity date; and

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

### Perpetual bonds

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

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

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

c) interest is non-cumulative;

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

e) the Perpetual bonds do not have a maturity date, however, Kiwibank may elect to make early repayment on 15 July 2019 or any reset date thereafter (reset dates occur at 5-yearly intervals, commencing on 27 May 2020); and

f) the Perpetual bonds are not guaranteed by any member of the Banking Group, Kiwibank's parent companies (including New Zealand Post), the Crown or by any other person.

### Subordinated bonds

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

Subordinated debt issued 10 December 2012:

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

b) the Subordinated Bonds pay interest at the Coupon Rate of 5.8% p.a.;

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

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

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

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

### Convertible subordinated bonds

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

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

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

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

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

e) the convertible subordinated bonds are not guaranteed by any member of the Banking Group, Kiwibank's parent companies (including New Zealand Post), the Crown or by any other person.

# Capital adequacy continued

### Risk exposures

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

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

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

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

The capital adequacy tables set out on pages 98 to 104 summarise the composition of regulatory capital and capital adequacy ratios for the year ended 30 June 2015. Throughout the period Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

### Regulatory capital

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

| | The Banking Group |
|---|---|
| Dollars in millions | 30/06/15 |
| **Common Equity Tier 1 capital** | |
| Issued and fully paid up share capital | 400 |
| Retained earnings | 563 |
| Dividends paid | (31) |
| Accumulated other comprehensive income and other disclosed reserves ❶❷ | (46) |
| **Less deductions from Common Equity Tier 1 capital** | |
| Intangible assets | (116) |
| Cash flow hedge reserve | 54 |
| Deferred tax assets | (11) |
| **Total Common Equity Tier 1 capital** | **813** |
| **Additional Tier 1 capital** | |
| Perpetual bonds ❸ | 147 |
| **Total Additional Tier 1 capital** | **147** |
| **Total Tier 1 capital** | **960** |
| **Tier 2 capital** | |
| Subordinated debt | 208 |
| **Total Tier 2 capital** | **208** |
| **Total capital** | **1,168** |

❶ Includes Available for Sale Reserve of $8m. The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale securities until the investment is derecognised or impaired.

❷ Includes cash flow hedge reserve of ($54m). The cash flow hedging reserve comprises the effective portion of the cumulative net change in the fair value of foreign exchange and interest rate derivative contracts related to hedged forecasted transactions that have not yet occurred. The cash flow hedge reserve is not eligible for inclusion in capital under BS2A 7 (3)(c).

❸ Perpetual bonds are classified as equity of the Banking Group for financial reporting purposes.

# Capital adequacy continued

## On-balance sheet exposures

| | The Banking Group | | | |
|---|---|---|---|---|
| | 30/06/15 | | | |
| Dollars in millions | Total exposure | Risk weighting | Risk weighted exposure | Minimum Pillar I capital requirement |
| **On-balance sheet exposures** | | | | |
| Cash and gold bullion | 32 | 0% | - | - |
| Sovereigns and central banks | 1,115 | 0% | - | - |
| Multilateral development banks and other international organisations | 290 | 0% | - | - |
| | 2 | 20% | - | - |
| Public sector entities | 38 | 20% | 8 | 1 |
| Banks | 32 | 0% | - | - |
| | 342 | 20% | 68 | 5 |
| | 148 | 50% | 74 | 6 |
| Corporate | 83 | 50% | 42 | 3 |
| Residential mortgages not past due | 12,563 | 35% | 4,397 | 352 |
| | 1,642 | 50% | 821 | 66 |
| | 221 | 75% | 166 | 13 |
| | 150 | 100% | 150 | 12 |
| Impaired assets | 14 | 100% | 14 | 1 |
| Past due residential mortgages > 90 days | 7 | 100% | 7 | 1 |
| Other past due assets | 4 | 150% | 7 | 1 |
| Non risk weighted assets | 625 | 0% | - | - |
| Other assets | 1,036 | 100% | 1,036 | 83 |
| **Total on-balance sheet exposures** | 18,344 | | 6,790 | 544 |

# Capital adequacy continued

### Off-balance sheet exposures and market related contracts

| | The Banking Group | | | | | |
|---|---|---|---|---|---|---|
| | 30/06/15 | | | | | |
| Dollars in millions | Total exposure | Credit conversion factor | Credit equivalent amount | Average risk weighting | Risk weighted exposure | Minimum Pillar I capital requirement |
| Direct credit substitute | **4** | **100%** | **4** | **100%** | **4** | **-** |
| Asset sale with recourse | **-** | **100%** | **-** | **-** | **-** | **-** |
| Forward asset purchase | **-** | **100%** | **-** | **-** | **-** | **-** |
| Commitment with certain drawdown | **19** | **100%** | **19** | **100%** | **19** | **2** |
| Note issuance facility | **-** | **50%** | **-** | **-** | **-** | **-** |
| Revolving underwriting facility | **284** | **50%** | **142** | **39%** | **55** | **4** |
| Revolving underwriting facility | **958** | **20%** | **192** | **39%** | **75** | **6** |
| Revolving underwriting facility | **90** | **0%** | **-** | **39%** | **-** | **-** |
| Performance-related contingency | **6** | **50%** | **3** | **100%** | **3** | **-** |
| Other commitments where original maturity is greater than one year | **293** | **50%** | **146** | **39%** | **57** | **5** |
| Other commitments where original maturity is less than or equal to one year | **62** | **20%** | **12** | **100%** | **12** | **1** |
| Other commitments where original maturity is less than or equal to one year | **2** | **20%** | **-** | **20%** | **-** | **-** |
| Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice | **728** | **0%** | **-** | **0%** | **-** | **-** |
| **Market related contracts:** ❶ | | | | | | |
| (a) Foreign exchange contracts | **1,729** | **n/a** | **210** | **49%** | **103** | **8** |
| (b) Interest rate contracts | **48,882** | **n/a** | **479** | **32%** | **153** | **12** |
| (c) CVA | | | | | **163** | **13** |
| **Total off-balance sheet exposures** | **53,057** | | **1,207** | | **644** | **51** |

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

### Residential mortgages by loan-to-value ratio

| | The Banking Group | | |
|---|---|---|---|
| | 30/06/15 | | |
| Dollars in millions | On-balance sheet | Off-balance sheet | Total |
| LVR 0% – 80% | **12,585** | **303** | **12,888** |
| LVR > 80% – 90% | **1,650** | **16** | **1,666** |
| LVR 90% + | **376** | **11** | **387** |
| **Total** | **14,611** | **330** | **14,941** |

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

At 30 June 2015, of the loans with an LVR greater than 80%, $469m relates to "Welcome Home" loans, whose credit risk is mitigated by the New Zealand Crown.

# Capital adequacy continued

| | The Banking Group |
|---|---|
| Dollars in millions | 30/06/15 |
| Residential mortgages total on-balance sheet exposures | 14,611 |
| Corporate lending residentially secured | (970) |
| Unsecured loans | 382 |
| Deferred arrangement fees | 81 |
| Collective allowance for impairment | (21) |
| Individual allowance for impairment | (3) |
| **Net loans and advances to retail customers** | **14,080** |

## Credit risk mitigation

| | The Banking Group | | | |
|---|---|---|---|---|
| | 30/06/15 | | | |
| Dollars in millions | Total value of on- and off-balance sheet exposures covered by eligible collateral (after haircutting) | Total value of on- and off-balance sheet exposures covered by guarantees or credit derivatives | Risk weighted exposure | Minimum Pillar I capital requirement |
| Sovereign or central bank | - | - | - | - |
| Multilateral development bank | - | - | - | - |
| Public sector entities | - | - | - | - |
| Bank | (42,620) | - | (301) | (24) |
| Corporate | - | - | - | - |
| Residential mortgage | - | - | - | - |
| Other | - | - | - | - |
| | (42,620) | - | (301) | (24) |

## Operational risk

| | The Banking Group | |
|---|---|---|
| | 30/06/15 | |
| Dollars in millions | Implied risk weighted exposure | Total operational risk capital requirement |
| Operational risk | 1,075 | 86 |

# Capital adequacy continued

### Market risk

| Dollars in millions | The Banking Group | | | |
|---|---|---|---|---|
| | 30/06/15 | | | |
| | Implied risk weighted exposure | | Aggregate capital charge | |
| | End of period | Peak end-of-day | End of period | Peak end-of-day |
| Interest rate risk | **533** | **581** | **43** | **46** |
| Foreign currency risk | **1** | **2** | **-** | **-** |
| Equity risk | **-** | **-** | **-** | **-** |

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

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

### Total capital requirements

| Dollars in millions | The Banking Group | | |
|---|---|---|---|
| | 30/06/15 | | |
| | Total exposure after credit risk mitigation | Risk weighted exposure or implied risk weighted exposure | Total capital requirement |
| **Credit risk** | **28,781** | **7,133** | **571** |
| **Operational risk** | **n/a** | **1,075** | **86** |
| **Market risk** | **n/a** | **534** | **43** |
| **Total Pillar I risk** | **n/a** | **8,742** | **700** |

### Other material risk (Pillar II)

The Basel III capital adequacy regime intends to ensure that banks have adequate capital to support all material risk inherent in their business activities. Consequently, banks are required to maintain an ICAAP for assessing overall capital adequacy in relation to their risk profile. Kiwibank's ICAAP methodology requires it to hold capital against the following "other material risks" (Pillar II risks), including:

- Earnings risk – The current or prospective risk to earnings and growth targets arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment.
- Access to capital – The risk to the Banking Group's earnings and business objectives arising from an imbalanced internal capital structure in relation to the nature and size of the Bank, or from difficulties with raising additional capital in a timely manner.
- Other risks – Including reputation risk, strategic risk and liquidity risk.

The Bank has made an internal capital allocation of $46m (30 June 2014: $46m).

# Conditions of registration

The conditions of registration imposed on Kiwibank Limited by the Reserve Bank of New Zealand pursuant to section 74 of the Reserve Bank of New Zealand Act 1989, which were applicable as at 30 June 2015, are as follows:

**Conditions of registration as from 1 November 2014 – Kiwibank Limited**

The registration of Kiwibank Limited (the "Bank") as a registered bank is subject to the following conditions:

1. That –
   a) the Total capital ratio of the Banking Group is not less than 8%;
   b) the Tier 1 capital ratio of the Banking Group is not less than 6%;
   c) the Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5%;
   d) the Total capital of the Banking Group is not less than $30 million; and
   e) the process in Subpart 2H of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013 is followed for the recognition and repayment of capital.

   For the purposes of this condition of registration, capital, the Total capital ratio, the Tier 1 capital ratio, and the Common Equity Tier 1 capital ratio must be calculated in accordance with the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013.

1A. That –
   a) the Bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in the document "Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')" (BS12) dated December 2007;
   b) under its ICAAP, the Bank identifies and measures its "other material risks" defined as all material risks of the Banking Group that are not explicitly captured in the calculation of the Common Equity Tier 1 capital ratio, the Tier 1 capital ratio and the Total capital ratio under the requirements set out in the document "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013; and
   c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

1B. That, if the buffer ratio of the Banking Group is 2.5% or less, the Bank must:
   a) according to the following table, limit the aggregate distributions of the Bank's earnings to the percentage limit to distributions that corresponds to the Banking Group's buffer ratio:

| Banking Group's buffer ratio | Percentage limit to distributions of the Bank's earnings |
|---|---|
| 0% – 0.625% | 0% |
| >0.625 – 1.25% | 20% |
| >1.25 – 1.875% | 40% |
| >1.875 – 2.5% | 60% |

   b) prepare a capital plan to restore the Banking Group's buffer ratio to above 2.5% within any timeframe determined by the Reserve Bank for restoring the buffer ratio; and
   c) have the capital plan approved by the Reserve Bank

   For the purpose of this condition of registration,-

   "buffer ratio", "distributions", and "earnings" have the same meaning as in Part 3 of the Reserve Bank of New Zealand document: "Capital Adequacy Framework (Standardised Approach)" (BS2A) dated September 2013.

   This condition of registration applies on and after 1 January 2014.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

   In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

   For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:
   a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
   b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

# Conditions of registration continued

In determining the total amount of the Banking Group's insurance business –

a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration, –

"insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance:

"insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

| Credit Rating of the Bank ❶ | Connected exposure limit (% of the Banking Group's Tier 1 capital) |
|---|---|
| AA/Aa2 and above | 75 |
| AA-/Aa3 | 70 |
| A+/A1 | 60 |
| A/A2 | 40 |
| A-/A3 | 30 |
| BBB+/Baa1 and below | 15 |

❶ This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service. (Fitch Ratings' scale is identical to Standard & Poor's.)

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-Bank connected persons shall not exceed 15% of the Banking Group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank of New Zealand document entitled "Connected exposure policy" (BS8) dated September 2013.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

6. That the Bank complies with the following corporate governance requirements:

a) the board of the Bank must have at least five directors;

b) the majority of the board members must be non-executive directors;

c) at least half of the board members must be independent directors;

d) an alternate director,-

(i) for a non-executive director must be non-executive; and

(ii) for an independent director must be independent;

e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;

f) the chairperson of the board of the Bank must be independent; and

g) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank unless:

a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the Bank unless:

a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the Bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;

b) the committee must have at least three members;

c) every member of the committee must be a non-executive director of the Bank;

d) the majority of the members of the committee must be independent; and

e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the Reserve Bank of New Zealand document entitled "Corporate Governance" (BS14) dated March 2011.

10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.

# Conditions of registration continued

11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:
    a) that the Bank's clearing and settlement obligations due on a day can be met on that day;
    b) that the Bank's financial risk positions on a day can be identified on that day;
    c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
    d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

    For the purposes of this condition of registration, the term "legal and practical ability to control and execute" is explained in the Reserve Bank of New Zealand document entitled "Outsourcing Policy" (BS11) dated January 2006.
12. That:
    a) the business and affairs of the Bank are managed by, or under the direction or supervision of, the board of the Bank;
    b) the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the Bank; and
    c) all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.
13. That the Banking Group complies with the following quantitative requirements for liquidity-risk management:
    a) the one-week mismatch ratio of the Banking Group is not less than zero per cent at the end of each business day;
    b) the one-month mismatch ratio of the Banking Group is not less than zero per cent at the end of each business day; and
    c) the one-year core funding ratio of the Banking Group is not less than 75 per cent at the end of each business day.

    For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank of New Zealand documents entitled "Liquidity Policy" (BS13) dated March 2011 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated December 2011.
14. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:
    a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
    b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
    c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
    d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.
15. That no more than 10% of total assets may be beneficially owned by a SPV.

    For the purposes of this condition, –

    "total assets" means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets:

    "SPV" means a person –
    a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;
    b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
    c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond.

    "covered bond" means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.
16. That:
    a) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless;
        (i) the Bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and
        (ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the Bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

# Conditions of registration continued

b) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

(i) the Bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the Bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011; and

(iii) the Reserve Bank has given the Bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document "Significant Acquisitions Policy" (BS15) dated December 2011.

17. That the bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the Reserve Bank, the bank can –

a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager –

(i) all liabilities are frozen in full; and

(ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;

b) apply a *de minimis* to relevant customer accounts;

c) apply a partial freeze to the customer liability account balances;

d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;

e) maintain a full freeze on liabilities not pre-positioned for open bank resolution; and

f) reinstate customers' access to some or all of their residual frozen funds.

For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account" and "frozen and unfrozen funds" have the same meaning as in the Reserve Bank of New Zealand document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

18. That the bank has an Implementation Plan that –

a) is up-to-date; and

b) demonstrates that the bank's pre-positioning for Open Bank Resolution meets the requirements set out in the Reserve Bank document: "Open Bank Resolution Pre-positioning Requirements Policy" (BS17).

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the Reserve Bank of New Zealand document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

19. That the bank has a compendium of liabilities that –

a) at the product-class level lists all liabilities, indicating which are –

(i) pre-positioned for Open Bank Resolution; and

(ii) not pre-positioned for Open Bank Resolution;

b) is agreed by the Reserve Bank; and

c) if the Reserve Bank's agreement is conditional, meets the Reserve Banks conditions.

For the purposes of this condition of registration, "compendium of liabilities", and "pre-positioned and non pre-positioned liabilities" have the same meaning as in the Reserve Bank of New Zealand document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

20. That on an annual basis the bank tests all the component parts of its Open Bank Resolution solution that demonstrates the bank's prepositioning for Open Bank Resolution as specified in the Bank's Implementation Plan.

For the purposes of this condition of registration, "Implementation Plan", has the same meaning as in the Reserve Bank of New Zealand document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated September 2013.

21. That, for a loan-to-valuation measurement period, the total of the bank's qualifying new mortgage lending amounts must not for residential properties with a loan-to-valuation ratio of more than 80%, exceed 10% of the total of the qualifying new mortgage lending amounts arising in the loan-to-valuation measurement period.

22. That the bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

# Conditions of registration continued

23. That the bank must not permit a borrower to grant a charge in favour of another person over a residential property used as security for a residential mortgage loan unless the sum of the lending secured by the charge and the loan value for the residential mortgage loan would not exceed 80% of the property value of the residential property when the lending secured by the charge is drawn down.
24. That the bank must not provide a residential mortgage loan if the residential property to be mortgaged to the bank as security for the residential mortgage loan is subject to a charge in favour of another person unless the total amount of credit secured by the residential property would not exceed 80% of the property value when the residential mortgage loan is drawn down.
25. That the bank must not act as broker or arrange for a member of its banking group to provide a residential mortgage loan.

In these conditions of registration, –

"Banking Group" –

a) means Kiwibank Limited (as a reporting entity) and all other entities included in the group as defined in section 5(1) of the Financial Reporting Act 2013 (unless paragraph (b) applies); or

b) means Kiwibank Limited's financial reporting group (as defined in section 2(1) of the Financial Reporting Act 1993) if the Financial Reporting Act 1993 applies to the bank:

"generally accepted accounting practice" –

(a) has the same meaning as in section 8 of the Financial Reporting Act 2013 (unless paragraph (b) applies); or

(b) means generally accepted accounting practice within the meaning of section 3 of the Financial Reporting Act 1993 if the bank is required to prepare financial statements in accordance with that practice.

In conditions of registration 21 to 25,—

"loan-to-valuation ratio", "loan value", "property value", "qualifying new mortgage lending amount" and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated March 2014:

"loan-to-valuation measurement period" means —

a) the six calendar month period ending on the last day of March 2014; and

b) thereafter a period of three calendar months ending on the last day of the third calendar month, the first of which ends on the last day of April 2014.

## Amendments to conditions of registration

There were no changes to the Bank's conditions of registration from those which were in effect on 31 March 2015.

## Non-compliance with conditions of registration

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

# *Independent Auditor's Report*

To the readers of Kiwibank Limited and Banking Group's Disclosure Statement for the year ended 30 June 2015

The Auditor-General is the auditor of Kiwibank Limited (the "Bank") and the Banking Group (the "Banking Group") comprising the Bank and the entities it controlled at 30 June 2015 or from time-time during the year. The Auditor-General has appointed me, Chris Barber, using the staff and resources of PricewaterhouseCoopers, to carry out the following on her behalf:

- audit the financial statements on pages 9 to 97 of the Disclosure Statement of the Bank and the Banking Group, that comprise the balance sheets as at 30 June 2015, the income statements, statements of comprehensive income, statements of changes in equity and cash flow statements for the year ended on that date and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information;
- audit the supplementary information included in notes 24, 26, 27, 29, 32, 33, 34, 36, 37, 38 and 39 prescribed by Schedules 4, 7, 13, 14, 15, and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") for the year ended 30 June 2015;
- report on whether we have obtained all the information and explanations that we have required, and whether the Bank and the Banking Group have kept proper accounting records; and
- review the supplementary information relating to Capital Adequacy on pages 98 to 104 that is required to be prepared in accordance with the Bank's Conditions of Registration and disclosed in accordance with Schedule 9 of the Order for the year ended 30 June 2015.

### *Opinions*

#### *Audit opinion*

In our opinion the financial statements of the Bank and the Banking Group on pages 9 to 97 (excluding the supplementary information included in notes 24, 26, 27, 29, 32, 33, 34, 36, 37, 38 and 39):

(i) comply with generally accepted accounting practice in New Zealand;

(ii) comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the Bank and the Banking Group's:

- financial position as at 30 June 2015; and
- financial performance and cash flows for the year ended on that date.

In our opinion the supplementary information included in notes 24, 26, 27, 29, 32, 33, 34, 36, 37, 38 and 39 prescribed by Schedules 4, 7, 13, 14, 15, and 17 of the Order fairly states, in all material respects, the matters to which it relates in accordance with those Schedules.

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### *Opinion on other legal and regulatory requirements (excluding supplementary information relating to Capital Adequacy)*

We also report in accordance with the requirements of clauses 2(1)(d) and 2(1)(e) of Schedule 1 of the Order. In relation to our audit of the Disclosure Statement (excluding the supplementary information relating to Capital Adequacy (on pages 98 to 104) for the year ended 30 June 2015:

(i) we have obtained all the information and explanations that we have required; and

(ii) in our opinion, proper accounting records have been kept by the Bank and the Banking Group as far as appears from an examination of those records.

### *Review opinion on Supplementary Information relating to Capital Adequacy*

Based on our review procedures, which are not an audit, nothing has come to our attention that causes us to believe that the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104 is not, in all material respects, prepared in accordance with the Bank's Conditions of Registration and disclosed in accordance with Schedule 9 of the Order for the year ended 30 June 2015.

Our audit and review work was completed on 20 August 2015. This is the date at which our opinions and conclusions are expressed.

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

### *Basis of opinions*

#### *Audit Engagement*

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 and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104) are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that in our judgement are likely to influence a readers' overall understanding of the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104). 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 and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104). The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104) whether due to fraud or error.

In making those risk assessments, we consider internal control relevant to the preparation of the Bank and the Banking Group's financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104) 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 Bank and the Banking Group'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 supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104); and
- the overall presentation of the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104).

We did not audit every transaction, nor do we guarantee complete accuracy of the financial statements and supplementary information (excluding the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104). Also we did not evaluate the security and controls over the electronic publication of the Disclosure Statement.

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

***Review Engagement***

We carried out the review work on the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104 in accordance with New Zealand Standard on Review Engagements 2410: *Review of Financial Statements Performed by the Independent Auditor of the Entity* issued by the External Reporting Board.

Review work is limited primarily to enquiries of the Bank and the Banking Group personnel and analytical review procedures applied to financial data, and thus provides less assurance than an audit. We have not performed an audit on the supplementary information relating to Capital Adequacy disclosed on pages 98 to 104 and, accordingly, we do not express an audit opinion on that supplementary information.

***Responsibilities of the Board of Directors***

The Board of Directors is responsible for the Disclosure Statement, which includes financial statements prepared in accordance with Clause 24 of the Order that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Bank and the Banking Group's financial position, financial performance and cash flows.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of the Disclosure Statement that is free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the Disclosure Statement, 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.

In addition, the Board of Directors is also responsible for the:

- supplementary information (excluding the supplementary information relating to Capital Adequacy) in the Disclosure Statement prepared in accordance with Schedules 2, 4, 7, 13, 14, 15, and 17 of the Order; and
- supplementary information relating to Capital Adequacy prepared in accordance with Schedule 9 of the Order.

***Responsibilities of the Auditor***

We are responsible for expressing:

- an independent opinion on:
  - (i) the financial statements prepared in accordance with Clause 24 of the Order; and
  - (ii) the supplementary information included in notes 24, 26, 27, 29, 32, 33, 34, 36, 37, 38 and 39 disclosed in accordance with Schedules 4, 7, 13, 14, 15, and 17 of the Order;
- an independent review opinion on the supplementary information relating to Capital Adequacy on pages 98 to 104 required by Schedule 9 of the Order.

Our responsibility arises from section 15 of the Public Audit Act 2001.

***Independence***

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

In addition to the audit and review we have carried out assignments in the areas of accounting and taxation advice and other assurance and advisory services, which are compatible with those independence requirements. In addition, certain partners and employees of our firm may deal with the Bank and the Banking Group on normal terms within the ordinary course of trading activities of the Bank and the Banking Group. Other than the audit, review, these assignments and any dealings within the ordinary course of trading activity, we have no relationship with or interests in the Bank or the Banking Group.

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

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