Disclosure Statement

For the six months ended 31 December 2017

Kiwi bank.

Number 66

Contents

General matters

Details of incorporation

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

This Disclosure Statement has been issued by Kiwibank for the six months ended 31 December 2017, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "**Order**"). Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.

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

Registered office

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

Address for service

The address for service is: Kiwibank Limited, Ground Floor, New Zealand Post House, 7 Waterloo Quay, Wellington 6011, New Zealand.

Other material matters

The Board of Directors of Kiwibank (the "**Board**") are of the opinion that 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.

Transformation strategy review

The change in Kiwibank's ownership structure provided the opportunity for a review of Kiwibank's future growth and transformation strategy, which aims to deliver enhanced customer experiences.

As part of this review, Kiwibank is looking to further align its information technology and digital strategies. The Board decided that the delivery path of the project to modernise Kiwibank's core banking system would not meet its key transformational objectives therefore the project has been closed and alternative options are being considered. The decision to close the project resulted in an increase in related operating expenditure during the current financial year.

Chief Executive Officer

Mark Stephen, Group Manager Sales and Service, is currently Acting Chief Executive Officer whilst a permanent Chief Executive Officer is recruited.

Pending proceedings or arbitration

The Board is not aware of any 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.

Credit ratings

Kiwibank has the following credit ratings applicable to its long term unsecured obligations payable in New Zealand, in New Zealand dollars:

Rating agency	Current credit rating	Rating outlook
Standard & Poor's (Australia) Pty Limited ("**S&P**")	A	Outlook Stable
Moody's Investors Service ("**Moody's**")	A1	Outlook Stable
Fitch Ratings ("**Fitch**")	AA	Outlook Stable

General matters continued

Conditions of registration

Changes in conditions of registration

The RBNZ has issued revised conditions of registration which are effective from 1 October 2017. The new conditions refer to a revised version of the RBNZ's *BS11: Outsourcing Policy*.

The RBNZ issued a further revision to conditions of registrations effective from 1 January 2018. The new conditions:

- refer to a revised version of *Framework for Restrictions of High-LVR Residential Mortgage Lending (BS19)* which includes amendments to some of the terms and conditions (including exemptions) relating to the LVR conditions of registration; and
- refer to a revised version of *Liquidity Policy (BS13)* which includes minor amendments to terms and definitions.

Directorate

Ian Cameron Blair was appointed as a director on 31 July 2017.

Alistair Bruce Ryan was appointed as a director on 1 August 2017.

There have been no other changes in the Board for the six months ended 31 December 2017.

Responsible persons

Susan Carrel Macken and Alistair Bruce Ryan have been authorised in writing to sign this Disclosure Statement in accordance with Section 82 of the RBNZ Act, on behalf of the directors, being:

Susan Carrel Macken
Kevin Mark Malloy
Ian Cameron Blair (appointed 31 July 2017)
Scott John Pickering
Michael Charles John O'Donnell
Alistair Bruce Ryan (appointed 1 August 2017)
Carol Anne Campbell
Deborah Jane Taylor

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

Auditor

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

Guarantees

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

Further details on the NZP Guarantee can be obtained by referring to Kiwibank's Disclosure Statement for the year ended 30 June 2017 which is available at www.kiwibank.co.nz.

On 31 October 2016, New Zealand Post Limited ("**NZP**") gave notice of the termination of the NZP Guarantee (with an effective date of withdrawal of 28 February 2017). This termination did not affect any payment obligations of Kiwibank that were already guaranteed at the time the guarantee was terminated. A summary of the details of each guarantee are set out below.

NZP Guarantee

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

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

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

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

iii. The NZP Guarantee is an unsecured guarantee of all the payment obligations (excluding any payment obligations, the terms of which expressly provide in writing that they do not have the benefit of the NZP Guarantee) of Kiwibank owing as at 28 February 2017 and still outstanding. The NZP Guarantee has no expiry date in relation to the payment obligations that continue to be guaranteed.

iv. 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 $799m as recorded in NZP's most recent Annual Report for the financial year ended 30 June 2017. 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 stable outlook.

Covered Bond Guarantee

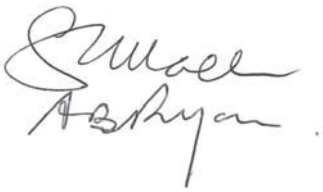
Certain debt securities ("**Covered Bonds**") issued by Kiwibank are guaranteed by Kiwi Covered Bond Trustee Limited (the "**Covered Bond Guarantor**"), solely in its capacity as Trustee of Kiwibank Covered Bond Trust. The Covered Bond Guarantor has guaranteed the payment of interest and principal of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

Directors' statement

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

1. As at the date on which the Disclosure Statement is signed:
   i. the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
   ii. the Disclosure Statement is not false or misleading.
2. During the period ended 31 December 2017:
   i. Kiwibank has complied with the conditions of registration applicable during the period;
   ii. credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   iii. Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

Signed by Susan Carrel Macken and Alistair Bruce Ryan as directors and responsible persons on behalf of all the directors listed in the Directorate of this Disclosure Statement:



20 February 2018

Interim financial statements

Income statement

For the six months ended 31 December 2017

Dollars in millions	Note	Unaudited 6 months ended 31/12/17	Unaudited 6 months ended 31/12/16	Audited year ended 30/06/17
Interest income		438	413	831
Interest expense		(240)	(231)	(463)
Net interest income		198	182	368
Net gains on financial instruments at fair value	2	5	7	8
Gross fee and other income		106	100	201
Direct fee expenses		(46)	(41)	(83)
Net fee and other income		60	59	118
Total operating income		263	248	494
Operating expenses		(197)	(164)	(339)
Profit before impairment and taxation		66	84	155
Impairment (losses)/reversals on loans and advances	4	(1)	2	6
Other impairment losses		(11)	-	(90)
Profit before taxation		54	86	71
Income tax expense		(12)	(23)	(18)
Profit after taxation		42	63	53

Statement of comprehensive income

For the six months ended 31 December 2017

Dollars in millions	Unaudited 6 months ended 31/12/17	Unaudited 6 months ended 31/12/16	Audited year ended 30/06/17
Profit after taxation	42	63	53
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)	1	(7)	(6)
- Cash flow hedge reserve (net of tax)	2	32	32
Other comprehensive income for the period/year	3	25	26
Total comprehensive income for the period/year	45	88	79

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

Interim financial statements continued

Statement of changes in equity

For the six months ended 31 December 2017

Dollars in millions	Fully Paid Ordinary Shares	Retained Earnings	Available-For-Sale Reserve	Cash Flow Hedge Reserve	Perpetual Capital Reserve	Total Shareholders' Equity
Balance at 1 July 2016	400	616	11	(45)	147	1,129
Unaudited 6 months ended 31 December 2016						
Unaudited profit for the period	-	63	-	-	-	63
Other comprehensive income						
Available-for-sale financial assets (net of tax)	-	-	(7)	-	-	(7)
Cash flow hedges (net of tax)	-	-	-	32	-	32
Total other comprehensive income	-	-	(7)	32	-	25
Total comprehensive income	-	63	(7)	32	-	88
Transactions with owners						
Issue of share capital	90	-	-	-	-	90
Dividends paid to non-controlling interest	-	(1)	-	-	-	(1)
Dividends paid on ordinary shares	-	(5)	-	-	-	(5)
Distributions to holders of perpetual capital	-	(6)	-	-	-	(6)
Unaudited balance at 31 December 2016	490	667	4	(13)	147	1,295
Audited year ended 30 June 2017						
Audited profit for the year	-	53	-	-	-	53
Other comprehensive income						
Available-for-sale financial assets (net of tax)	-	-	(6)	-	-	(6)
Cash flow hedges (net of tax)	-	-	-	32	-	32
Total other comprehensive income	-	-	(6)	32	-	26
Total comprehensive income	-	53	(6)	32	-	79
Deconsolidation of subsidiary	-	-	-	-	(147)	(147)
Transactions with owners						
Issue of share capital	337	-	-	-	-	337
Dividends paid to non-controlling interest	-	(1)	-	-	-	(1)
Dividends paid on ordinary shares	-	(5)	-	-	-	(5)
Distributions to holders of perpetual capital	-	(12)	-	-	-	(12)
Audited balance at 30 June 2017	737	651	5	(13)	-	1,380
Unaudited 6 months ended 31 December 2017						
Unaudited profit for the period	-	42	-	-	-	42
Other comprehensive income						
Available-for-sale financial assets (net of tax)	-	-	1	-	-	1
Cash flow hedges (net of tax)	-	-	-	2	-	2
Total other comprehensive income	-	-	1	2	-	3
Total comprehensive income	-	42	1	2	-	45
Transactions with owners						
Distributions to holder of perpetual capital	-	(5)	-	-	-	(5)
Unaudited balance at 31 December 2017	737	688	6	(11)	-	1,420

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

Interim financial statements continued

Balance sheet

As at 31 December 2017

Dollars in millions	Note	Unaudited 31/12/17	Unaudited 31/12/16	Audited 30/06/17
Assets				
Cash and cash equivalents		**463**	541	464
Due from related parties	14	**84**	89	80
Due from other financial institutions	6	**125**	151	228
Available-for-sale assets		**1,148**	1,143	1,474
Derivative financial instruments		**350**	422	370
Loans and advances	3	**18,027**	17,428	17,815
Deferred taxation		**39**	11	34
Property, plant and equipment		**36**	25	28
Intangible assets		**84**	174	97
Other assets		**25**	24	26
Total assets		**20,381**	20,008	20,616
Total interest earning and discount bearing assets		***19,720***	*19,219*	*19,948*
Liabilities				
Due to other financial institutions		**117**	88	59
Due to related parties	14	**7**	6	12
Derivative financial instruments		**346**	445	416
Deposits and other borrowings	7	**15,960**	15,362	15,983
Debt securities issued	8	**2,170**	2,446	2,258
Current tax liability		**4**	17	9
Other liabilities		**102**	92	94
Subordinated debt	9	**255**	257	405
Total liabilities		**18,961**	18,713	19,236
Total interest and discount bearing liabilities		***16,454***	*16,364*	*16,863*
Shareholders' equity				
Share capital		**737**	490	737
Reserves		**683**	805	643
Total shareholders' equity		**1,420**	1,295	1,380
Total liabilities and shareholders' equity		**20,381**	20,008	20,616

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

Interim financial statements continued

Cash flow statement

For the six months ended 31 December 2017

Dollars in millions	**Unaudited 6 months ended 31/12/17**	Unaudited 6 months ended 31/12/16	Audited year ended 30/06/17
Cash flows from operating activities			
Interest received	**453**	429	860
Interest paid	**(232)**	(242)	(455)
Fees and other income received	**103**	100	199
Direct fee expenses paid	**(46)**	(41)	(83)
Operating expenses paid	**(173)**	(176)	(328)
Taxes paid	**(22)**	(16)	(43)
Net cash flows from operating activities before changes in operating assets and liabilities	**83**	54	150
Net changes in operating assets and liabilities			
Decrease/(increase) in available-for-sale assets	**329**	(193)	(519)
Increase in loans and advances	**(232)**	(761)	(1,168)
(Increase)/decrease in net amounts due from related parties	**(9)**	(10)	5
Decrease in balances due from other financial institutions	**103**	96	19
(Decrease)/increase in deposits and other borrowing	**(31)**	591	1,193
Decrease/(increase) in balances due to other financial institutions	**58**	(47)	(76)
Net cash flows provided by operating activities	**301**	(270)	(396)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(13)**	(5)	(12)
Purchase of intangible assets	**(10)**	(28)	(52)
Net cash flows from investing activities	**(23)**	(33)	(64)
Cash flows from financing activities			
Issue of share capital	**-**	90	337
(Decrease)/increase in debt securities issued	**(127)**	257	98
Repayment of subordinated debt	**(150)**	-	-
Dividends paid to non-controlling interest	**-**	(1)	(1)
Dividends paid on ordinary shares	**-**	(5)	(5)
Distributions paid to holders of perpetual capital	**(5)**	(6)	(12)
Net cash flows from financing activities	**(282)**	335	417
(Decrease)/increase in cash and cash equivalents	**(4)**	32	(43)
Cash and cash equivalents at beginning of the period/year	**464**	509	509
Effect of exchange translation adjustments	**3**	-	(2)
Cash and cash equivalents at end of the period/year	**463**	541	464

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

Notes to the interim financial statements

1. Summary of significant accounting policies

1.1 Reporting entity

These consolidated interim financial statements are presented for the "**Banking Group**", which consists of Kiwibank Limited ("**Kiwibank**" or the "**Bank**") and its subsidiaries. Kiwibank is a for-profit entity incorporated and domiciled in New Zealand under the Companies Act 1993 and is registered as a bank under the Reserve Bank of New Zealand Act 1989.

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

Kiwibank's immediate parent company is Kiwi Group Holdings Limited ("**KGHL**"). KGHL is owned by New Zealand Post Limited ("**NZP**") (53%), NZSF Tui Investments Limited ("**NZSF**") (25%) and Accident Compensation Corporation ("**ACC**") (22%). The ultimate holding company of Kiwibank is NZP whose address for service is: Ground Floor, New Zealand Post House, 7 Waterloo Quay, Wellington 6011, New Zealand. The ultimate shareholder of Kiwibank is the New Zealand Crown (the "**Crown**").

1.2 Basis of preparation

These interim financial statements are for the Banking Group for the six months ended 31 December 2017 and have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for for-profit entities. They comply with NZ IAS 34 *Interim Financial Reporting*, IAS 34 *Interim Financial Reporting* and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "**Order**"). These interim financial statements should be read in conjunction with the Banking Group's financial statements for the year ended 30 June 2017.

Measurement base

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

1.3 Accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Banking Group's annual financial statements for the year ended 30 June 2017.

1.4 Basis of consolidation

The consolidated interim financial statements of the Banking Group comprise the interim financial statements of Kiwibank and its subsidiaries for the period ended 31 December 2017, using the acquisition method. Subsidiaries are entities that are controlled by Kiwibank.

1.5 Functional and presentation currency

The Banking Group's interim financial statements are presented in New Zealand dollars which is the Bank's functional and presentation currency. All amounts are expressed in millions of New Zealand dollars, unless otherwise stated.

1.6 Comparative amounts

Certain amounts in the comparative information have been reclassified or amended to ensure consistency with the current period's presentation as detailed below.

The loans and advances note (note 3) uses different categories than the interim financial statements for the period ended 31 December 2016.

The comparative amounts for *interest earning and discount bearing assets* and *interest and discount bearing liabilities* have been amended on the balance sheet to be consistent with the categorisations used in the current period. This included adjustments to remove deferred arrangement fees from interest bearing assets and non-interest bearing foreign currency accounts from the interest bearing liabilities figures. Where appropriate, further information has been included within relevant note disclosures.

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

Notes to the interim financial statements continued

2. Net gains on financial instruments at fair value

Dollars in millions	Unaudited 6 months ended 31/12/17	Unaudited 6 months ended 31/12/16	Audited year ended 30/06/17
Derivative financial instruments held for trading	1	-	(3)
Net ineffectiveness on qualifying fair value hedges	1	9	13
Cumulative gain transferred from available-for-sale reserve	2	4	6
Cumulative loss transferred from cash flow hedge reserve	(1)	(7)	(9)
Net foreign exchange gains	2	1	1
Total gains on financial instruments	**5**	7	8

Net ineffectiveness on qualifying cash flow hedges is $0.0m (31 December 2016: $0.0m; 30 June 2017: $0.0m). Net ineffectiveness on qualifying fair value hedges is $0.7m (31 December 2016: $9.1m; 30 June 2017: $13.5m).

3. Loans and advances

Dollars in millions	Unaudited as at 31/12/17	Unaudited as at 31/12/16	Audited as at 30/06/17
Overdrafts	70	56	64
Credit card outstandings	408	397	393
Term loans - housing	15,898	15,385	15,729
Other term lending	1,557	1,531	1,551
Other lending	132	108	118
Gross loans and advances	**18,065**	17,477	17,855
Collective allowance for impairment losses	(34)	(41)	(34)
Allowance for individually impaired assets	(5)	(7)	(6)
Fair value hedge adjustments	1	(1)	-
Total net loans and advances	**18,027**	17,428	17,815
Current	**1,295**	1,294	1,319
Non-current	**16,732**	16,134	16,496

The table above presents gross loans and advances by type of product. Total gross residential mortgage loans at 31 December 2017 were $16,797m (31 December 2016: $16,275m, 30 June 2017: $16,646m). This includes *term loans – housing* and other residentially secured lending included within *other term lending*.

Notes to the interim financial statements continued

4. Asset quality

Impairment losses per income statement

Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Unaudited period ended 31 December 2017				
Collective impairment (reversals)	-	(1)	1	-
Individual impairment losses/(reversals)	3	(1)	(1)	1
Total impairment losses/(reversals) per income statement	3	(2)	-	1
Audited year ended 30 June 2017				
Collective impairment (reversals)	(2)	(6)	(2)	(10)
Individual impairment losses/(reversals)	5	(1)	-	4
Total impairment losses/(reversals) per income statement	3	(7)	(2)	(6)
Unaudited period ended 31 December 2016				
Collective impairment (reversals)	-	(2)	(1)	(3)
Individual impairment losses/(reversals)	3	(1)	(1)	1
Total impairment losses/(reversals) per income statement	3	(3)	(2)	(2)

Summary of lending

Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Unaudited as at 31 December 2017				
Neither past due nor impaired	475	16,684	749	17,908
Past due but not impaired (a)	34	109	5	148
Impaired (b)	1	4	4	9
Gross loans and advances	510	16,797	758	18,065
Collective allowance for impairment (c)	(9)	(18)	(7)	(34)
Individual allowance for impairment (d)	(1)	(2)	(2)	(5)
Fair value hedge adjustments	-	1	-	1
Net loans and advances	500	16,778	749	18,027

a: Loans and advances past due but not impaired

Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Unaudited as at 31 December 2017				
Past due less than 30 days	26	89	2	117
Past due 30 - 59 days	5	10	-	15
Past due 60 - 89 days	1	6	2	9
Past due 90 days or greater	2	4	1	7
Total past due but not impaired	34	109	5	148

Notes to the interim financial statements continued

4. Asset quality continued

b: Impaired assets

Unaudited 6 months ended 31 December 2017 Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Gross impaired				
Balance at beginning of the period	1	7	4	12
Transfers from performing	3	1	1	5
Transfers to performing	-	(1)	-	(1)
Asset realisations and loans repaid	-	(3)	(1)	(4)
Amounts written off	(3)	-	-	(3)
Balance at end of the period	1	4	4	9
Individual allowance for impairment	(1)	(2)	(2)	(5)
Total net impaired assets	-	2	2	4

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

Unaudited 6 months ended 31 December 2017 Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Balance at beginning of the period	9	19	6	34
Impairment reversals on loans not at fair value through profit or loss	-	(1)	1	-
Total collective allowance for impairment losses	9	18	7	34

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

Unaudited 6 months ended 31 December 2017 Dollars in millions	Retail unsecured lending	Residential mortgage loans	Business exposures	Total
Balance at beginning of the period	-	3	3	6
Impairment losses on loans and advances	3	-	-	3
Amounts written off	(2)	-	-	(2)
Reversals of previously recognised impaired assets	-	(1)	(1)	(2)
Total individual allowance for impairment losses	1	2	2	5

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 were no real estate or other assets acquired through the enforcement of security/collateral held at 31 December 2017 (31 December 2016: nil; 30 June 2017: nil). There were no assets under administration as at 31 December 2017 (31 December 2016: nil; 30 June 2017: nil).

There were no unrecognised impaired assets as at 31 December 2017 (31 December 2016: nil; 30 June 2017: nil). The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired was $1.3m at 31 December 2017 (31 December 2016: $1.9m; 30 June 2017: $1.0m).

Notes to the interim financial statements continued

4. Asset quality continued

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.

All of the financial assets of the Banking Group as at 31 December 2017 (and as at 31 December 2016 and 30 June 2017), other than loans and advances, are considered of high credit quality and are neither past due nor impaired.

5. Concentration of credit risk

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

Unaudited as at 31 December 2017 Dollars in millions	Unaudited as at 31/12/17
New Zealand	
Government, local authorities and services	850
Finance, investment and insurance	624
Households	16,366
Transport and storage	192
Professional, scientific and technical services	44
Electricity, gas and water	3
Construction	179
Property and business services	902
Agriculture	16
Health and community services	75
Personal and other services	108
Retail and wholesale trade	125
Food & other manufacturing	108
Overseas	
Finance, investment and insurance	644
	20,236
Less allowance for impairment losses	(39)
Other financial assets	18
Total financial assets	20,215

Notes to the interim financial statements continued

5. Concentration of credit risk continued

Unaudited as at 31 December 2017 Dollars in millions	Maximum exposure	Collateral	Net exposure
Credit risk relating to balance sheet assets			
Fixed rate lending at amortised cost	13,907	(13,903)	4
Variable rate lending	3,734	(3,733)	1
Unsecured lending	425	-	425
Due from other financial institutions	125	-	125
Balances with related parties	84	-	84
Derivative financial instruments	350	(65)	285
Available-for-sale assets	1,148	-	1,148
Cash and cash equivalents	463	-	463
Other financial assets	18	-	18
	20,254	(17,701)	2,553
Less allowance for impairment	(39)	-	(39)
Total financial assets	20,215	(17,701)	2,514

The table above represents a worst case scenario of credit risk exposure to the Banking Group at 31 December 2017. The exposures set out are based on net carrying amounts as reported in the balance sheet. Australian and New Zealand Standard Industrial Classification ("**ANZSIC**") codes have been used as the basis for disclosing customer industry sectors.

The exposure of the Banking Group derived from loans and advances to retail and corporate customers is 89% of the total maximum exposure (31 December 2016: 88%; 30 June 2017: 87%).

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

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

6. Due from other financial institutions

Dollars in millions	Unaudited as at 31/12/17	Unaudited as at 31/12/16	Audited as at 30/06/17
Short term advances due from other financial institutions	61	61	121
Collateralised loans	64	90	107
Total amounts due from other financial institutions - Current	125	151	228

As at 31 December 2017, included within the balance above, is $64.2m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (31 December 2016: $90.2m; 30 June 2017: $107.5m).

Notes to the interim financial statements continued

7. Deposits and other borrowings

Dollars in millions	Unaudited as at 31/12/17	Unaudited as at 31/12/16	Audited as at 30/06/17
Demand deposits non-interest bearing	1,935	1,688	1,771
Demand deposits bearing interest	3,347	3,249	3,137
Term deposits	10,678	10,425	11,075
Total deposits from customers	**15,960**	15,362	15,983
Current	**15,456**	14,924	15,612
Non-current	**504**	438	371

In the event of the liquidation of Kiwibank, deposit holders will rank equally with all other creditors but ahead of subordinated debt holders and shareholders. In addition, all payment obligations of Kiwibank covered by the NZP Guarantee that existed at the time the NZP Guarantee was terminated on 28 February 2017 are guaranteed under the NZP Guarantee but only in relation to and to the extent of those obligations.

The Kiwibank PIE Unit Trust (the "**Trust**"), established in May 2008, operates three funds; the PIE Term Deposit Fund, the Notice Saver and PIE Online Call Fund. Kiwibank Investment Management Limited is the Issuer and Manager (the "**Manager**"), Trustees Executors Limited is the Supervisor and Kiwibank is the Promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank, however the Trust is invested exclusively in term and call deposits with Kiwibank. At 31 December 2017, $3,536m of the Trust's funds were invested in Kiwibank products or securities (31 December 2016: $3,235m; 30 June 2017: $3,196m).

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

Notes to the interim financial statements continued

8. Debt securities issued

Dollars in millions	Unaudited as at 31/12/17	Unaudited as at 31/12/16	Audited as at 30/06/17
Short term debt			
Commercial paper at fair value through profit or loss	**464**	508	647
Certificates of deposit	**132**	175	41
Long term debt			
Medium term notes	**1,345**	1,534	1,338
Covered bonds	**215**	210	214
Fair value hedge adjustment	**14**	19	18
Total debt securities issued	**2,170**	2,446	2,258
Current	**612**	1,168	977
Non-current	**1,558**	1,278	1,281

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 that existed at the time the NZP Guarantee was terminated on 28 February 2017, 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.

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

Kiwibank has not had any defaults of principal, interest or other breaches with respect to debt securities issued during the period (period ended 31 December 2016: none; year ended 30 June 2017: none).

Notes to the interim financial statements continued

9. Subordinated debt

Dollars in millions	Unaudited as at 31/12/17	Unaudited as at 31/12/16	Audited as at 30/06/17
Subordinated bonds	-	150	150
Kiwibank bonds	106	-	107
Perpetual capital bonds	149	-	148
Capital notes	-	107	-
Total subordinated debt	**255**	257	405
Current	**3**	4	3
Non-current	**252**	253	402

As at 31 December 2017, $100m (31 December 2016: $208m; 30 June 2017: $108m) of the subordinated debt qualified as Tier 2 capital for Capital Adequacy calculation purposes. The contractual terms of subordinated debt instruments on issue expressly provide that they do not have the benefit of the NZP Guarantee. The NZP Guarantee was terminated with an effective date of 28 February 2017.

The Banking Group has not issued any subordinated debt nor had any defaults of principal, interest or other breaches with respect to these liabilities during the period (period ended 31 December 2016: none; year ended 30 June 2017: none). The Banking Group fully repaid $150m of subordinated debt on 15 December 2017 (period ended 31 December 2016: none; year ended 30 June 2017: none).

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

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

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

10. Financial instruments

Fair value measurement

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the quality and reliability of information used to determine the fair values. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Fair value measurements are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 – Fair value measurements where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

Valuation methodology

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

Notes to the interim financial statements continued

10. Financial instruments continued

Held for trading and available-for-sale securities

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

Debt securities issued

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

Derivative financial instruments

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

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

Dollars in millions	Level 1	Level 2	Level 3	Total
Unaudited as at 31 December 2017				
Financial assets				
Available-for-sale financial assets	457	691	-	1,148
Derivative financial instrument assets	-	350	-	350
Total financial assets at fair value	457	1,041	-	1,498
Financial liabilities				
Derivative financial instrument liabilities	-	346	-	346
Debt securities issued	-	464	-	464
Total financial liabilities at fair value	-	810	-	810

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

Notes to the interim financial statements continued

10. Financial instruments continued

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

Dollars in millions	Level 1	Level 2	Level 3	Total
Audited as at 30 June 2017				
Financial assets				
Available-for-sale financial assets	530	944	-	1,474
Derivative financial instrument assets	-	370	-	370
Total financial assets at fair value	530	1,314	-	1,844
Financial liabilities				
Derivative financial instrument liabilities	-	416	-	416
Debt securities issued	-	647	-	647
Total financial liabilities at fair value	-	1,063	-	1,063

	Unaudited as at 31/12/17		Unaudited as at 31/12/16		Audited as at 30/06/17	
Dollars in millions	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Assets						
Due from related parties	**84**	**84**	89	89	80	80
Available-for-sale assets	**1,148**	**1,148**	1,143	1,143	1,474	1,474
Derivative financial instruments	**350**	**350**	422	422	370	370
Loans and advances	**18,027**	**18,082**	17,428	17,469	17,815	17,844
Liabilities						
Due to related parties	**7**	**7**	6	6	12	12
Derivative financial instruments	**346**	**346**	445	445	416	416
Deposits and other borrowings	**15,960**	**15,979**	15,362	15,378	15,983	15,996
Debt securities issued	**2,170**	**2,185**	2,446	2,456	2,258	2,271
Subordinated debt	**255**	**258**	257	258	405	411

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

Notes to the interim financial statements continued

11. Credit exposure concentrations

Unaudited

Credit exposures to individual counterparties

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

There are no individual counterparties (excluding connected parties, governments and banks with long term credit ratings of A-, A3 or its equivalent or above), where the period end and peak end-of-day aggregate actual credit exposures, net of individual credit impairment allowances (which were nil), equalled or exceeded 10% of the Banking Group's shareholders' equity as at the reporting date.

12. Concentration of funding

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

Dollars in millions	Unaudited as at 31/12/17
Analysis by industry sector	
New Zealand	
Transport and storage	112
Finance, investment and insurance	2,840
Electricity, gas and water	15
Food & other manufacturing	102
Construction	149
Communications	37
Government, local authorities and services	351
Agriculture	64
Health and community services	190
Personal and other services	295
Property and business services	409
Education	162
Retail and wholesale trade	78
Households	12,192
Overseas	
Finance, investment and insurance - Australia	351
Finance, investment and insurance - rest of world	1,224
Households - Australia	38
Households - rest of world	246
	18,855
Other financial liabilities	72
Total financial liabilities	18,927

Notes to the interim financial statements continued

13. Dividends paid

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

14. Related parties

NZP has a credit facility with the Banking Group, allowing NZP to draw down to the extent that the Banking Group does not exceed credit exposure to connected persons of 15% of Tier 1 capital, as required in its banking conditions of registration. When loans are drawn down the transaction is undertaken at market interest rates. As at 31 December 2017 the amount owed by NZP to the Banking Group under the credit facility was $76m (31 December 2016: $76m; 30 June 2017: $76m). This does not exceed the 15% of Tier 1 capital requirement.

On 31 October 2016, the Crown entered into a $300m uncalled capital facility with KGHL that allows the Banking Group to draw down capital for contingent events around Kiwibank's conditions of registration. The annualised cost of this facility on charged to Kiwibank is $3.0m.

Dollars in millions	**Unaudited as at 31/12/17**	Unaudited as at 31/12/16	Audited as at 30/06/17
Outstanding balances			
Due to related parties	**7**	6	12
Included in derivative financial instruments - liabilities	**3**	4	3
Included in deposits	**37**	90	79
Included in debt securities issued	**-**	5	-
Included in subordinated debt	**255**	-	255
Total balances due to related parties	**302**	105	349
Receivables			
Due from related parties	**84**	89	80
Included in derivative financial instruments - assets	**1**	2	1
Included in loans and advances	**3**	4	4
Total balances due from related parties	**88**	95	85

Notes to the interim financial statements continued

15. Fiduciary activities and securitisation

Unaudited

Provision of financial services

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

Insurance business

The Banking Group does not conduct insurance business. However, certain insurance products which are marketed through the Banking Group's retail network are underwritten by Kiwi Insurance Limited, a wholly owned subsidiary of KGHL, Kiwibank's immediate parent company.

Kiwi Covered Bond Trust

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

Substantially all of the assets of the Covered Bond Trust comprise housing loans originated by Kiwibank and highly rated short-dated securities, together which are security for the guarantee of issuances of covered bonds by the Banking Group, 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 Kiwibank, although the Banking Group (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

The carrying value of the Covered Bond Trust pool at 31 December 2017 is $316m (31 December 2016: $316m; 30 June 2017: $316m). These securities are ring fenced to ensure they are not used as collateral outside of agreements established in relation to the Covered Bond Trust.

Kiwibank RMBS Trust Series 2009-1

The purpose of the Kiwibank RMBS Trust Series 2009-1 (the "**RMBS Trust**") is to provide an in-house residential mortgage-backed securities facility to issue securities as collateral for borrowing from the Reserve Bank of New Zealand. As at 31 December 2017, included within Loans and advances to customers on the Banking Group's consolidated balance sheet were housing loans with a carrying value of $1,100m held by the RMBS Trust (31 December 2016: $1,100m; 30 June 2017: $1,100m). These housing loans do not qualify for derecognition as the Bank retains substantially all of the risks and rewards of ownership. The RMBS Trust is consolidated within the Banking Group.

16. Segment analysis

For the purposes of determining reportable operating segments, the chief operating decision-maker has been identified as the Kiwibank Leadership Team ("**KBLT**"), which consists of the Chief Executive Officer and his direct reports. The KBLT reviews the Banking Group's internal reporting pack on a regular basis to assess performance and to allocate resources. A reportable operating segment is a distinguishable part of the Banking Group, engaged in providing products and services which are subject to risks and returns that are different from those of other segments. The business segments are defined by the customers that they service and the services they provide.

Notes to the interim financial statements continued

16. Segment analysis continued

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.
- Business – Provides banking products and services to the business sector. Included within the segment are Business and Treasury services.

Dollars in millions	Personal markets	Business markets	Total
Unaudited 6 months ended 31 December 2017			
External revenues	262	1	263
Intersegment revenues	(87)	87	-
Total revenues	175	88	263
Profit before taxation	24	30	54
Unaudited 6 months ended 31 December 2016			
External revenues	267	(19)	248
Intersegment revenues	(102)	102	-
Total revenues	165	83	248
Profit before taxation	46	40	86
Audited year ended 30 June 2017			
External revenues	528	(34)	494
Intersegment revenues	(199)	199	-
Total revenues	329	165	494
Profit before taxation	16	55	71

17. Risk management

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 30 June 2017.

18. Liquidity

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

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

Notes to the interim financial statements continued

18. Liquidity continued

The Banking Group does not manage its liquidity risk on the basis of the information provided in the table below.

	Unaudited as at 31/12/17						
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	(117)	-	-	-	-	(117)	(117)
Due to related parties	(7)	-	-	-	-	(7)	(7)
Deposits and other borrowings	(6,317)	(4,765)	(4,451)	(560)	-	(16,093)	(15,960)
Debt securities issued	(214)	(356)	(90)	(1,493)	(206)	(2,359)	(2,170)
Other financial liabilities	(72)	-	-	-	-	(72)	(72)
Subordinated debt	(3)	-	(3)	(26)	(263)	(295)	(255)
Total financial liabilities	(6,730)	(5,121)	(4,544)	(2,079)	(469)	(18,943)	(18,581)
Assets							
Cash and cash equivalents	463	-	-	-	-	463	463
Due from related parties	8	1	2	76	-	87	84
Due from other financial institutions	64	61	-	-	-	125	125
Available-for-sale assets	73	131	136	842	-	1,182	1,148
Loans and advances	178	386	1,136	4,080	30,041	35,821	18,027
Other financial assets	18	-	-	-	-	18	18
Total financial assets	804	579	1,274	4,998	30,041	37,696	19,865
Net non-derivative cash flows	(5,926)	(4,542)	(3,270)	2,919	29,572	18,753	1,284
Derivative cash flows - net							
Interest rate derivatives	(3)	(8)	(18)	(12)	-	(41)	
Total	(3)	(8)	(18)	(12)	-	(41)	
Derivative cash flows - gross							
Foreign exchange derivatives							
Inflow	208	422	370	658	206	1,864	
Outflow	(208)	(427)	(373)	(604)	(214)	(1,826)	
Total	-	(5)	(3)	54	(8)	38	
Off balance sheet cash flows							
Capital commitments	-	(7)	-	-	-	(7)	
Undrawn loan commitments	(2,910)	-	-	-	-	(2,910)	
Lease commitments	-	(2)	(7)	(26)	(49)	(84)	
Total	(2,910)	(9)	(7)	(26)	(49)	(3,001)	
Net cash flows	(8,839)	(4,564)	(3,298)	2,935	29,515	15,749	
Cumulative net cash flows	(8,839)	(13,403)	(16,701)	(13,766)	15,749	15,749	

Notes to the interim financial statements continued

18. Liquidity continued

The Banking Group holds a diversified portfolio of high quality liquid securities to support its liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet its liquidity policy and includes items both classified as cash and cash equivalents and those classified as operating assets in the consolidated cash flow statement.

Dollars in millions	Unaudited as at 31/12/17
Cash on hand and with central banks	399
Certificates of deposit	54
Government bonds and treasury bills	452
Local body stock and bonds	14
Other bonds	567
Total	1,486

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

Notes to the interim financial statements continued

19. Interest repricing

	Unaudited as at 31/12/17						
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	463	45	418	-	-	-	-
Due from related parties	84	8	45	-	-	31	-
Due from other financial institutions	125	-	125	-	-	-	-
Available-for-sale assets	1,148	-	266	40	48	486	308
Derivative financial instruments	350	350	-	-	-	-	-
Loans and advances	18,027	74	5,345	2,099	4,173	4,903	1,433
Other financial assets	18	18	-	-	-	-	-
Total financial assets	20,215	495	6,199	2,139	4,221	5,420	1,741
Financial liabilities							
Due to other financial institutions	(117)	(52)	(65)	-	-	-	-
Due to related parties	(7)	(7)	-	-	-	-	-
Derivative financial instruments	(346)	(346)	-	-	-	-	-
Deposits and other borrowings	(15,960)	(1,996)	(9,124)	(2,360)	(1,978)	(308)	(194)
Debt securities issued	(2,170)	-	(1,049)	(35)	(17)	(278)	(791)
Other financial liabilities	(72)	(72)	-	-	-	-	-
Subordinated debt	(255)	-	-	-	-	(106)	(149)
Total financial liabilities	(18,927)	(2,473)	(10,238)	(2,395)	(1,995)	(692)	(1,134)
On-balance sheet gap	1,288	(1,978)	(4,039)	(256)	2,226	4,728	607
Net derivative notional principals	36	-	3,886	302	(1,138)	(3,693)	679
Net effective interest rate gap	1,324	(1,978)	(153)	46	1,088	1,035	1,286

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

20. Capital expenditure commitments

Unaudited

Capital expenditure commitments contracted for as at 31 December 2017, but not provided for in these interim financial statements, total $7.2m (31 December 2016: $4.9m; 30 June 2017: $9.1m). Nil is due between one and five years from the reporting date (31 December 2016: $0.4m; 30 June 2017: nil) and the balance is due within 12 months.

Notes to the interim financial statements continued

21. Contingent liabilities and loan commitments

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

Dollars in millions	**Unaudited as at 31/12/17**	Unaudited as at 31/12/16	Audited as at 30/06/17
Loan commitments	**2,910**	2,813	2,857

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

22. Contingent assets

Unaudited

The Banking Group held insurance policies at the date of the Kaikoura earthquake that provided cover for Material Damage and Business Interruption. It is probable that the policies will enable the Banking Group to obtain a further reimbursement for various costs incurred as a result of the earthquake however there is insufficient information to form a reliable estimate of the financial effect.

23. Events subsequent to the reporting date

Unaudited

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

Capital adequacy

Unaudited

The "**Banking Group**" consists of Kiwibank Limited and its subsidiaries. The Banking Group is subject to the capital adequacy requirements for registered banks as specified by the Reserve Bank of New Zealand ("**RBNZ**"). The RBNZ has set minimum acceptable regulatory capital requirements that are consistent with the internationally agreed framework developed by the Basel Committee on Banking Supervision.

The Bank must comply with RBNZ minimum capital adequacy ratios, as calculated under the Basel III framework in accordance with the RBNZ document *Capital Adequacy Framework (Standardised Approach)* (BS2A), as determined in its conditions of registration.

Ordinary shares

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

a) each share contains a single right to vote;
b) there are no redemption, conversion or capital repayment options/facilities;
c) there is no predetermined dividend rate;
d) there is no maturity date; and
e) there are no options to be granted pursuant to any agreement.

Perpetual capital bonds

The perpetual capital bonds, issued by the Bank on 27 May 2015, and which are fully paid, are included within Additional Tier 1 capital. The perpetual capital 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 capital bonds constitute direct, perpetual, convertible, non-cumulative, unsecured, subordinated debt securities issued by Kiwibank;
b) interest on the perpetual capital 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 capital 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 capital bonds do not have a maturity date, however, after obtaining the consent of the RBNZ, Kiwibank may elect to make early repayment on 27 May 2020 or any reset date thereafter (reset dates occur at 5-yearly intervals, commencing on 27 May 2020) or if a tax or regulatory event has occurred (as described in the Deed Poll); and
f) the perpetual capital 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 Bonds, issued by the Bank on 10 December 2012, were previously included within Tier 2 capital. Kiwibank fully redeemed the Subordinated Bonds on the first call date (15 December 2017).

Capital adequacy continued

Unaudited

Convertible subordinated bonds ("Kiwibank Bonds")

The convertible subordinated bond issue, issued by the Bank on 6 June 2014, and which is fully paid, is included within Tier 2 capital. The issue is subordinate to all other general liabilities of the Banking Group and is denominated in New Zealand dollars. The material terms and conditions are:

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

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

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

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

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

Risk exposures

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

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

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

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

The capital adequacy tables set out on the following pages summarise the composition of regulatory capital and capital adequacy ratios for the period ended 31 December 2017. Throughout the period Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

Regulatory capital ratios

		The Banking Group		
	Regulatory Minima	31/12/17	31/12/16	30/06/17
Capital adequacy ratios				
Common Equity Tier 1 capital ratio	**4.5%**	**12.6%**	9.8%	12.3%
Tier 1 capital ratio	**6.0%**	**14.0%**	11.3%	12.3%
Total capital ratio	**8.0%**	**15.0%**	13.4%	13.4%
Buffer ratios				
Buffer ratio	**2.5%**	**7.0%**	5.3%	5.4%

Capital adequacy continued

Unaudited

Regulatory capital ratios continued

	Kiwibank Limited		
	31/12/17	31/12/16	30/06/17
Capital adequacy ratios			
Common Equity Tier 1 capital ratio	**12.1%**	9.4%	11.9%
Tier 1 capital ratio	**13.5%**	10.9%	11.9%
Total capital ratio	**14.4%**	12.9%	12.9%

Regulatory capital

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

	The Banking Group		
Dollars in millions	**31/12/17**	31/12/16	30/06/17
Common Equity Tier 1 capital			
Issued and fully paid up share capital	**737**	490	737
Retained earnings (net of appropriations)	**688**	667	651
Accumulated other comprehensive income and other disclosed reserves [1, 2]	**(5)**	(9)	(8)
Less deductions from Common Equity Tier 1 capital			
Intangible assets	**(84)**	(174)	(97)
Cash flow hedge reserve	**11**	13	13
Deferred tax assets	**(39)**	(6)	(34)
Receivables from affiliated insurance group	**(1)**	-	(1)
Total Common Equity Tier 1 capital	**1,307**	981	1,261
Additional Tier 1 capital			
Perpetual bonds [3]	**149**	147	-
Total Additional Tier 1 capital	**149**	147	-
Total Tier 1 capital	**1,456**	1,128	1,261
Tier 2 capital			
Subordinated debt	**100**	208	108
Total Tier 2 capital	**100**	208	108
Total capital	**1,556**	1,336	1,369

[1] Includes available-for-sale reserve of $6m. The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale securities until the investment is derecognised or impaired.

[2] Includes cash flow hedge reserve of ($11m). 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).

[3] Perpetual capital bonds issued by Kiwibank Limited are classified as debt of the Banking Group for financial reporting purposes.

[4] The perpetual capital bonds and convertible subordinated debt issued to Kiwi Capital Funding Limited ("**KCFL**") were derecognised as Additional Tier 1 capital or Tier 2 capital respectively at 30 June 2017. This treatment was applied due to the RBNZ informing Kiwibank, on 29 May 2017, that Kiwibank's Tier 2 convertible subordinated bond ("Kiwibank Bonds") and Additional Tier 1 perpetual capital bond issued to KCFL did not comply with certain requirements in Document BS2A, Capital Adequacy Framework (Standardised Approach). On 10 August 2017, after considering the changes made by Kiwibank in March 2017 to address its concerns, the RBNZ re-issued notices of non-objection to the treatment of the bonds issued to KCFL as capital instruments as at that date.

Capital adequacy continued

Unaudited

On-balance sheet exposures

Dollars in millions	31/12/17 Total exposure	Risk weighting	Risk weighted exposure	Minimum Pillar I capital requirement
On-balance sheet exposures				
Cash and gold bullion	45	0%	-	-
Sovereigns and central banks	810	0%	-	-
Multilateral development banks and other international organisations	350	0%	-	-
Public sector entities	16	20%	3	-
	4	100%	4	-
Banks	403	20%	81	6
	96	50%	48	4
Corporate	16	20%	3	-
	84	50%	42	3
	752	100%	752	60
Residential mortgages not past due	10,332	35%	3,616	289
	5,203	40%	2,081	166
	673	50%	337	27
	151	70%	106	8
	55	75%	41	3
	30	90%	27	2
	240	100%	240	19
Impaired assets	5	100%	5	-
Past due residential mortgages greater than 90 days	2	100%	2	-
Other past due assets	2	150%	3	-
Non risk weighted assets	473	0%	-	-
Other assets	639	100%	639	51
Total on-balance sheet exposures	20,381		8,030	638

Capital adequacy continued

Unaudited

Off-balance sheet exposures and market related exposures

	31/12/17					
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	7	100%	7	100%	7	1
Commitment with certain drawdown	99	100%	99	100%	99	8
Revolving credit facility	385	50%	193	39%	75	6
Revolving credit facility	1,171	20%	234	37%	87	7
Revolving credit facility	140	0%	-	-	-	-
Performance-related contingency	7	50%	4	100%	4	-
Other commitments where original maturity is greater than one year	295	50%	148	49%	73	6
Other commitments where original maturity is less than or equal to one year	3	20%	1	100%	1	-
Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice	810	0%	-	-	-	-
Market related contracts: [1]						
(a) Foreign exchange contracts	1,724	n/a	114	46%	52	4
(b) Interest rate contracts	33,447	n/a	383	37%	142	11
(c) CVA					107	9
Total off-balance sheet exposures	38,088		1,183		647	52

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

Residential mortgages by loan-to-value ratio

	31/12/17		
Dollars in millions	On-balance sheet	Off-balance sheet	Total
LVR 0% - 80%	15,108	508	15,616
LVR 80% - 90%	1,198	29	1,227
LVR 90% +	385	19	404
Total	16,691	556	17,247

The LVR classification above is calculated in compliance with the Order.

At 31 December 2017, of the loans with an LVR greater than 80%, $424m relates to "Welcome Home" loans, whose credit risk is mitigated by the New Zealand Crown.

Capital adequacy continued

Unaudited

Residential mortgages by loan-to-value ratio restatement

The Bank has restated the ratios as at 31 December 2016 below as it has identified that in the previous period the LVR disclosure had been incorrectly calculated. Exposures with missing LVRs were not included in the LVR 90%+ category but distributed across the respective LVR bands in line with the average portfolio LVR distribution. Further adjustments have been made to reflect off-balance sheet mortgage exposures and calculations without the benefit of any credit risk mitigation.

	Reported 31/12/2016		
Dollars in millions	On-balance sheet	Off-balance sheet	Total
LVR 0% - 80%	14,717	375	15,092
LVR 80% - 90%	1,165	15	1,180
LVR 90% +	272	11	283
Total	16,154	401	16,555

	Restated 31/12/2016		
Dollars in millions	On-balance sheet	Off-balance sheet	Total
LVR 0% - 80%	14,239	524	14,763
LVR 80% - 90%	1,436	38	1,474
LVR 90% +	479	30	509
Total	16,154	592	16,746

Reconciliation of residential mortgage-related amounts

Dollars in millions	31/12/17
Residential mortgages total on-balance sheet exposures	16,691
Collective allowance for impairment	18
Deferred arrangement fees	88
Gross residential mortgage loans per asset quality (note 4)	**16,797**
Residentially secured lending included within 'Other term lending'	(899)
Gross 'term loans - housing' per loans and advances (note 3)	**15,898**

Credit risk mitigation

	31/12/17			
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
Bank	(33,060)	-	(229)	(18)
	(33,060)	-	(229)	(18)

Capital adequacy continued

Unaudited

Operational risk

Dollars in millions	31/12/17 Implied risk weighted exposure	31/12/17 Total operational risk capital requirement
Operational risk	1,273	102

Market risk

Dollars in millions	31/12/17 Implied risk weighted exposure End of period	31/12/17 Implied risk weighted exposure Peak end-of-day	31/12/17 Aggregate capital charge End of period	31/12/17 Aggregate capital charge Peak end-of-day
Interest rate risk	640	666	51	53
- of which relates to trading book	29	44	2	4
Foreign currency risk	18	19	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	31/12/17 Total exposure after credit risk mitigation	31/12/17 Risk weighted exposure or implied risk weighted exposure	31/12/17 Total capital requirement
Total credit risk plus equity	25,410	8,448	672
Operational risk	n/a	1,273	102
Market risk	n/a	658	52
Total Pillar I risk	n/a	10,379	826

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.
- Other risks – Including changes to external ratings, delays to the core banking system replacement, and cyber risks.

The Bank has made an internal capital allocation of $47m (31 December 2016: $47m; 30 June 2017: $47m).

Independent review report

To the readers of Kiwibank Limited's Disclosure Statement for the six months ended 31 December 2017

The Auditor-General is the auditor of Kiwibank Limited (the "Bank") and the entities it controlled as at 31 December 2017 or from time-to-time during the period (the "Banking Group"). The Auditor-General has appointed me, Michele Embling, using the staff and resources of PricewaterhouseCoopers, to carry out the annual audit of the Bank and the Banking Group, on his behalf.

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

- interim financial statements of the Banking Group on pages 5 to 27, which comprise the balance sheet as at 31 December 2017, the income statement, the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the six months ended on that date, and a summary of significant accounting policies and selected explanatory notes; and
- supplementary information as required by Schedules 5, 7, 9, 13, 16 and 18 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") for the six months ended 31 December 2017.

Review conclusion

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

- the interim financial statements (excluding supplementary information included in the balance sheet and notes 4, 5, 11, 12, 15, 17, 18, and 19) of the Banking Group are not prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standards 34: *Interim Financial Reporting* (NZ IAS 34);
- the supplementary information prescribed by Schedules 5, 7, 13, 16 and 18 of the Order does not fairly state the matters to which it relates in accordance with those Schedules; and
- the supplementary information relating to Capital Adequacy disclosed on pages 28 to 34 is not in all material respects prepared in accordance with the Bank's Conditions of Registration and disclosed in accordance with Schedule 9 of the Order.

The review was completed on 20 February 2018, and this is the date at which our review conclusion is expressed.

Responsibilities of the Directors

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

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

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

PricewaterhouseCoopers, 113-119 The Terrace, PO Box 243, Wellington 6140, New Zealand
T: +64 4 462 7000, F: +64 4 462 7001, pwc.co.nz

Our responsibility

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

We are responsible for reviewing the interim financial statements (excluding the supplementary information) in order to report to you whether, on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the interim financial statements have not been prepared, in all material respects, in accordance with NZ IAS 34.

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

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

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

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

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

In addition to the review, we have carried out assignments in the areas of compliance assurance and agreed upon procedures, which are compatible with those independence requirements. 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 review, these assignments and dealings in the ordinary course of trading activities of the Bank and the Banking Group, we have no relationship with or interests in the Bank or the Banking Group.

Michele Embling
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers