

MEDIA BRIEFING

Financial Results – 6 months ended 31 December 2014

Topics Covered

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- Credit Quality
- Kiwi Group Holdings
- Expectations for full FY 2015

Achievements for the half year

- Record half year profit after tax of \$71m
- Assumed management of store network
 - Assumed responsibility for 138 Corporate Branches in October 2014
 - New Hastings Regional Office complex opened
- Investment in digital
 - 55% of HL fixes now online/mobile
 - Online investment sales at 9%
 - Homehunter app launched and now over 10% of approvals
 - 54% of digital interactions are via mobile
- Progress towards a new core banking system

Kiwibank Customer Base

- Kiwibank continues to grow its share of the competitive New Zealand banking market.
 - 11.6% ‘Main Bank’ market share
 - 6.6% Home loans
 - 418,000 Main Bank’ customers
 - 58,000 Home Loan customers

Financial Highlights

- Profit after tax of \$71m for the 6 months ended 31 December 2014. This compares with a profit after tax of \$52m for the 6 months to 31 December 2013.
- Continued growth in balance sheet since June 2014:
 - Lending increased 2.9% from \$14.63bn to \$15.05bn
 - Customer deposits increased 4.2% from \$12.75bn to \$13.28bn
 - Continued customer growth
- Continued investment in the future of the Bank
 - Strong uptake of digital

Profit after tax

The main drivers of the record profit were:

- Increase in net interest margin
 - Reduced funding costs
 - Offset by tightening margins as shift from floating to fixed rate loan's continued
- Growth in other income
 - Supported by transaction volume growth
- Operating expenses
 - Significant efforts have been made to contain operating expenses

Financial Performance – Profit & Loss

Dollars in millions	6 months ended 31 Dec 2014	6 months ended 30 Jun 2014	% Growth	6 months ended 31 Dec 2013
Net interest income	179	153	17.0%	140
Other income	104	95	9.5%	91
Total operating revenue	283	248	14.1%	231
Operating expenses	(176)	(184)	(4.3%)	(160)
Impairment allowance	(9)	3	Large	1
Net profit before tax	98	67	46.3%	72
Income tax expense	(27)	(19)	42.1%	(20)
Net profit after tax	71	48	47.9%	52

Financial Performance-Balance sheet

- Strong lending growth continues in a competitive market
- Matched by demand for Kiwibank's deposit products

Dollars in millions	31 Dec 2014	30 Jun 2014	31 Dec 2013	Growth YTD	Growth 12 months
Assets					
Loans and advances	15,054	14,630	13,952	2.9%	7.9%
Wholesale & other assets	2,107	2,046	2,160	3.0%	(2.5%)
Total assets	17,161	16,676	16,112	2.9%	6.5%
Financed by:					
Liabilities					
Customer deposits	13,283	12,751	12,412	4.2%	7.0%
Securities issued & other liabilities	2,840	2,922	2,779	(2.8%)	2.2%
Total liabilities	16,123	15,673	15,191	2.9%	6.1%
Shareholder's equity	1,038	1,003	921	3.5%	12.7%
Total liabilities & shareholder's equity	17,161	16,676	16,112	2.9%	6.5%

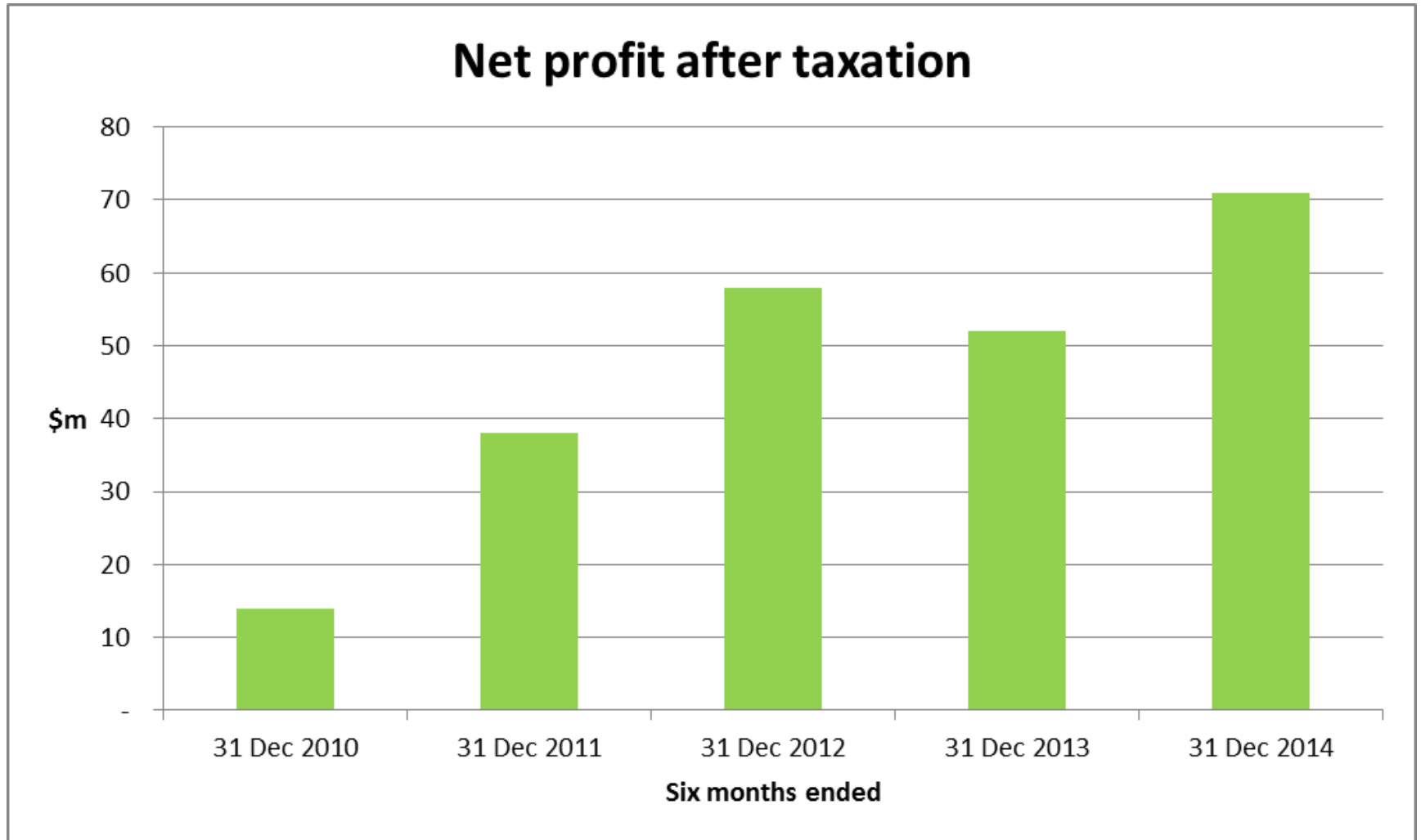
Financial Performance

Half Year Historical Summary

Dollars in millions	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011	31 Dec 2010
Interest income	472	387	400	381	348
Interest expense	(293)	(247)	(260)	(258)	(259)
Net interest income	179	140	140	123	89
Other income	104	91	87	81	80
Total operating revenue	283	231	227	204	169
Operating expenses	(176)	(160)	(147)	(133)	(118)
Impairment allowance	(9)	1	-	(18)	(31)
Net profit before tax	98	72	80	53	20
Income tax expense	(27)	(20)	(22)	(15)	(6)
Net profit after tax	71	52	58	38	14

Financial Performance

Half Year Historical Summary



Financial Performance (key ratios)

	6 Months to 31 Dec 2014	Year to 30 Jun 2014	6 Months to 31 Dec 2013
Profitability measures			
Net interest margin	2.16%	1.86%	1.82%
Rolling annual return on equity	13.18%	11.68%	11.5%
Efficiency measures			
Cost to income ratio	62.4%	71.8%	69.3%
Operating expenses / average total assets	2.1%	2.2%	2.0%
Capital ratios			
Capital adequacy ratio - Tier 1 Capital	10.8%	10.4%	10.2%
Capital adequacy ratio - Total Capital (Pillar1)	13.3%	13.0%	11.5%

Credit Quality (Impaired Assets)

- The top table shows total impaired assets as a % of gross loans and advances. Kiwibank remains favourably placed against other banks.
- Continued improvement in the quality of Kiwibank's loan portfolio.
- Impaired assets of \$30m at 31 December 2014 include all assets where interest charges have been suspended and a specific provision has been raised. Down from \$44m at 30 June 2014 and \$39m at 31 December 2013.
- The ratio of total credit provisioning to gross loans and advances continues to be a key focus of management and the RBNZ.

Impaired assets as a % of Gross Loans and Advances

Bank	31 December 2014	30 September 2014
Kiwibank	0.20%	0.22%
ASB	0.36%	0.30%
BNZ *		0.43%
Westpac *		0.53%
ANZ	0.53%	0.65%

Credit Provisions as a % of Gross Loans and Advances

Bank	31 December 2014	30 September 2014
Kiwibank	0.38%	0.39%
ASB	0.34%	0.33%
BNZ *		0.61%
Westpac *		0.68%
ANZ	0.67%	0.69%

Source: 31 December 2014 Disclosure Statements.

*31 December 2014 not yet available.

Kiwi Group Holdings

Kiwibank is owned by Kiwi Group Holdings, which in turn is fully owned by New Zealand Post. Kiwibank's sister entities under Kiwi Group Holdings are New Zealand Home Loans (NZHL), Kiwi Insurance, and the Kiwi Wealth Management Group.

Diversification of revenue is a major strategy.

Significant performance indicators of other KGH Group entities are:

- NZHL has signed up \$0.7billion in home lending for the six months to 31 December 2014
- KiwiSaver funds were combined into the Kiwi Wealth KiwiSaver Scheme and at 31 December 2014 had circa \$1.97 billion in investments and 127,000 members
- Kiwi Wealth's Funds Under Management grew to over \$3.16 billion

Expectations for FY 2015

- Lending Growth
 - Expect to continue growth at a moderate pace
 - Market continues to be highly competitive
- Net Interest Margin
 - NIM may ease due to continued competitive pressures on both lending and deposit margins
 - The expected prolonged maintenance of the current OCR is expected to reduce or even reverse the rate of switching from floating to fixed rates which will help with maintaining NIM
- Operating costs
 - Expectations for the full year are for CTI to be significantly improved on FY 2014.