New Zealand Post Group

Annual report 2016

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This document is the New Zealand Post Group's Annual Report 2016.
For details of the Integrated Report, see page 112.

Financial commentary 2015/16

The New Zealand Post Group has reported a net profit after tax (NPAT) of $141 million for the year ended June 2016 compared to a reported profit for the previous year of $143m. The NPAT result is down 1.4% ($2m) on the previous financial year. Revenue fell by 6.6% to $1,485m and this was matched by a 6.6% reduction of expenditure to $1,335m. Excluding one-off items, the underlying performance of the Group was down 3.1% on the prior year to $124m from $128m in 2015.

In the postal services business (parcels, letters and logistics), letter volumes continued to decline at a rate of approximately 8% but parcel volumes and revenue were up 6.4% and 2.9% respectively. Excluding one offs, the postal services business made a small loss. However, ongoing investment in processing and delivery technology position it well for the future.

Kiwi Group Holdings (including the Kiwibank, Kiwi Wealth and Kiwi Insurance businesses) contributed $130m to the NPAT result compared with $132m in the previous year. Once again the Kiwibank business has been the major contributor to the Group earnings returning a dividend to the Parent Company of $29m. Loans and advances grew 7.0% from $15.6 billion to $16.7 billion and customer deposits grew 7.6% from $13.7 billion to $14.8 billion.

In November 2015 the Group sold its investment in the Converga Group to Canon for AUD$75m realising a gain of $43m on the disposal. The proceeds from the sale, together with those from the sale of Couriers Please in the previous financial year have provided capital to drive the transformation of the postal services business into a parcel-focused delivery business.

The Balance Sheet of the Group remains stable and liquidity is supportive of the future goals of the business. The Group's credit rating outlook was revised to stable (from negative) in November 2015 and the A+ rating was confirmed.

Other highlights for the New Zealand Post Group in FY 2016 include:

- → Choice of the Paxster as NZ Post's new electric delivery vehicle, with 500 to be used for the combined delivery of parcels and mail in larger towns and cities.
- → Inbound international parcel volumes grew by 15.5%.
- → Processed nearly 10 million letters for the two postal flag referendums.
- → Completion of a new facility for courier and postal operations in Te Rapa - the Waikato Operations Centre.
- → Building underway on a new parcel processing facility in Christchurch including state-of-the-art sorting machines supplied by Daifuku BCS.
- → Nearing 200,000 registered YouShop customers (194,000 as at 30 June).

Reconciliation of Profit for the year after taxation to underlying performance	**Year ended 30 June 2016 $m**	Year ended 30 June 2015 $m
Profit after tax for the year	141	143
Less gain on sale of assets	(43)	(46)
Add back		
Restructuring costs	16	5
Other & impairments	10	26
Underlying profit after tax	124	128

NEW ZEALAND POST GROUP

FINANCIAL STATEMENTS

Financial Statements

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 $m	Restated 2015 $m
Revenue from operations	4	1,485	1,590
Expenditure	5	1,335	1,430
Operating profit		150	160
Other income	4	3	2
Net finance costs	6	(27)	(18)
Share of net profit of joint venture		1	1
Gain on sale of investment	9	43	46
Profit before income tax		170	191
Income tax expense	7	29	48
Profit for the year after taxation		141	143
Attributable to:			
Owners of the parent		141	143
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Gains on revaluation of land and buildings		3	1
Items that may be reclassified subsequently to profit or loss:			
Change in available-for-sale financial assets		3	11
Cash flow hedges		5	(76)
Currency translation differences		–	(3)
Total other comprehensive income / (loss) net of tax		11	(67)
Total comprehensive income net of tax		152	76
Attributable to:			
Owners of the parent		152	76

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2016

	Note	Fully Paid Ordinary Shares $m	Property Revaluation Reserve $m	Available For Sale Reserve $m	Cashflow Hedge Reserve $m	Foreign Currency Translation Reserve $m	Retained Earnings $m	Non-Controlling Interest $m	Total $m
Balance at 1 July 2014		192	34	(3)	21	(10)	811	147	1,192
Profit for the year		–	–	–	–	–	143	–	143
Other comprehensive income/(loss)		–	2	15	(106)	(3)	–	–	(92)
Income tax relating to components of other comprehensive income		–	(1)	(4)	30	–	–	–	25
Total other comprehensive income/(loss), net of tax		–	1	11	(76)	(3)	–	–	(67)
Transfer between revaluation reserve and retained earnings		–	(3)	–	–	–	3	–	–
Transfer between non-controlling interest and retained earnings		–	–	–	–	–	(3)	3	–
Reclassification to profit and loss on sale of investment		–	–	–	–	8	–	–	8
Transactions with Owners									
Repurchase of perpetual shares		–	–	–	–	–	–	(150)	(150)
Issue of perpetual capital		–	–	–	–	–	–	58	58
Dividends paid to shareholders		–	–	–	–	–	(5)	–	(5)
Dividends paid to non-controlling interest		–	–	–	–	–	(9)	–	(9)
Perpetual Capital Notes (restated)	2b	–	–	–	–	–	–	(16)	(16)
Balance at 30 June 2015 (restated)		192	32	8	(55)	(5)	940	42	1,154

	Fully Paid Ordinary Shares $m	Property Revaluation Reserve $m	Available For Sale Reserve $m	Cashflow Hedge Reserve $m	Foreign Currency Translation Reserve $m	Retained Earnings $m	Non-Controlling Interest $m	Total $m
Balance at 1 July 2015 (restated)	192	32	8	(55)	(5)	940	42	1,154
Profit for the year	–	–	–	–	–	141	–	141
Other comprehensive income	–	3	4	4	–	–	–	11
Income tax relating to components of other comprehensive income	–	–	(1)	1	–	–	–	–
Total other comprehensive income, net of tax	–	3	3	5	–	–	–	11
Transfer between revaluation reserve and retained earnings	–	(3)	–	(2)	–	5	–	–
Reclassification to profit and loss on sale of investment	–	–	–	–	5	(2)	–	3
Transactions with Owners								
Dividends paid to shareholders	–	–	–	–	–	(5)	–	(5)
Distributions paid to non-controlling interest	–	–	–	–	–	(11)	–	(11)
Balance at 30 June 2016	192	32	11	(52)	–	1,068	42	1,293

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

ASSETS	Note	2016 $m	Restated 2015 $m
Current assets			
Cash and cash equivalents	8	**68**	78
Short term deposits	8	**233**	160
Assets held for sale	9	**4**	68
Trade and other receivables	10	**186**	170
Inventories		**6**	9
Derivative financial assets	25	**9**	3
Other current assets		**15**	12
Total current assets		**521**	500
Non-current assets			
Trade and other receivables	10	**23**	16
Property, plant and equipment	11	**165**	150
Intangible assets	12	**456**	414
Deferred tax asset	7	**28**	31
Investment properties		**4**	4
Investment in joint venture	28	**5**	4
Total non-current assets		**681**	619
Specific banking assets			
Cash and cash equivalents	13	**509**	492
Due from other financial institutions	13	**247**	194
Financial assets held for trading	13	**–**	96
Available for sale assets	13	**955**	1,222
Loans and advances	14	**16,689**	15,598
Derivative financial instruments	15	**658**	480
Total specific banking assets		**19,058**	18,082
Total assets		**20,260**	19,201

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016 CONTINUED

LIABILITIES	Note	2016 $m	Restated 2015 $m
Current liabilities			
Trade and other payables	16	**296**	301
Provisions	17	**17**	21
Borrowings	24	**190**	40
Taxation payable		**3**	10
Liabilities held for sale	9	**–**	14
Derivative financial liabilities	25	**26**	14
Total current liabilities		**532**	400
Non-current liabilities			
Trade and other payables	16	**18**	12
Provisions	17	**13**	6
Borrowings	24	**199**	348
Total non-current liabilities		**230**	366
Specific banking liabilities			
Due to other financial institutions	18	**135**	325
Deposits	18	**14,782**	13,740
Debt securities issued	18	**2,207**	2,397
Subordinated debt	18	**356**	344
Derivative financial instruments	15	**725**	475
Total specific banking liabilities		**18,205**	17,281
Total liabilities		**18,967**	18,047
EQUITY			
Ordinary parent shareholders' equity			
Share capital	27	**192**	192
Retained earnings		**1,068**	940
Other reserves		**(9)**	(20)
Total equity attributable to parent shareholder		**1,251**	1,112
Non-controlling interest	27	**42**	42
Total equity		**1,293**	1,154
Total equity and liabilities		**20,260**	19,201

The Board of Directors of New Zealand Post Limited authorised these financial statements for issue on 25 August 2016.

Hon Sir Michael Cullen KNZM
Chair

Carol Campbell
Director

NEW ZEALAND POST LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	**2016 $m**	Restated 2015 $m
Cash flows from operating activities			
Receipts from customers		1,041	1,107
Payments to suppliers and employees		(1,273)	(1,355)
Fees and other income		195	194
Direct fee expenses		(94)	(87)
Kiwibank interest received		928	974
Kiwibank interest paid		(535)	(575)
Other interest received		8	7
Other interest paid		(35)	(24)
Net payments to agencies		(42)	(22)
Income tax paid		(41)	(32)
Net cash flows from operating activities before changes in operating assets and liabilities		152	187
Kiwibank decrease / (increase) in available for sale assets		267	(129)
Kiwibank (increase) in balances due from other financial institutions		(53)	(73)
Kiwibank decrease / (increase) in financial assets held for trading		96	(52)
Kiwibank (increase) in loans and advances		(1,091)	(968)
Kiwibank (decrease) / increase in balances due to other financial institutions		(190)	140
Kiwibank increase in deposits and other borrowings		1,042	989
Net cash flows from operating activities		223	94
Cash flows from investing activities			
Sale of property, plant and equipment		4	5
Sale of investments		86	105
Purchase of property, plant and equipment		(45)	(34)
Purchase of intangible software assets		(78)	(56)
Purchase of short term deposits		(67)	(160)
Net cash flows from investing activities		(100)	(140)

	Note	2016 $m	Restated 2015 $m
Cash flows from financing activities			
Issue of borrowings		159	139
Repayment of borrowings		(160)	(140)
Dividends paid to parent shareholders		(5)	(5)
Dividends paid to non-controlling interest		(11)	(9)
Kiwibank (decrease)/increase in debt securities issued		(109)	14
Kiwibank repurchase of perpetual preference shares		–	(150)
Kiwibank net issue of perpetual capital		–	147
Net cash flows from financing activities		(126)	(4)
Net increase / (decrease) in cash held		(3)	(50)
Cash at the beginning of the period		584	625
Effect of change translation adjustments		(4)	9
Cash at the end of the period		577	584
Composition of cash			
Kiwibank cash and cash equivalents	13	509	492
Cash – held for sale	9	–	14
Other cash and cash equivalents	8	68	78
Total cash		577	584

RECONCILIATION OF PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2016

	2016 $m	Restated 2015 $m
Profit for the year	141	143
Non-cash items:		
Financial instruments at fair value net gain	(2)	(2)
Depreciation	28	27
Amortisation	36	31
Impairment	2	26
Increase/decrease in deferred expenditure	28	22
Gain on sale of investments in subsidiaries	(43)	(46)
Share of net (profit) of joint ventures	(1)	(1)
Decrease provision for credit impairment	4	(6)
Lending losses written off	11	19
Other	1	(2)
	64	68
Changes in assets and liabilities:		
(Increase) / decrease in trade and other receivables	(16)	26
Decrease in inventories	3	2
(Increase) in other assets	(3)	–
Increase / (decrease) in trade and other payables	1	(45)
Increase / (decrease) in provisions	3	(16)
(Decrease) / increase in tax liabilities	(7)	5
(Increase) in balances due from other financial institutions	(53)	(73)
Decrease / (increase) in financial assets held for trading	96	(52)
Decrease / (increase) in available for sale assets	272	(115)
(Increase) in loans and advances	(1,139)	(971)
(Decrease) / increase in balances due to other financial institutions	(190)	139
Increase in deposits and other borrowings	1,059	967
(Decrease) / increase in Kiwibank interest payable	(10)	21
Decrease / (increase) in Kiwibank interest receivable	2	(5)
	18	(117)
Net cash flows from operating activities	223	94

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

Basis of Preparation

NOTE 1. REPORTING ENTITY AND STATUTORY BASE

The consolidated financial statements presented are for New Zealand Post Limited ("the Company"), its subsidiaries and jointly controlled entity (together "the Group") for the year ended 30 June 2016. The Group is a leading provider of mail, logistical and financial services, predominantly to customers in New Zealand.

The Group provides a full range of packaging and delivery of mail products and logistical and courier services. Banking services are provided by the Kiwibank Banking Group ("Kiwibank"), consisting of Kiwibank Limited and all other entities consolidated for financial reporting purposes for the publication of the Kiwibank Disclosure Statement. The Perpetual Capital Notes (PCN's) issued by Kiwibank contain both a liability and equity component at the Group level, which differs from the accounting treatment by the Banking Group in the Kiwibank Disclosure Statement. For the purposes of the Kiwibank disclosures in these financial statements the PCN's are shown in accordance with the Group accounting treatment, see Note 18. The Group also provides other financial services, such as wealth and insurance services.

The Company is incorporated and domiciled in New Zealand.

NOTE 2. BASIS OF ACCOUNTING

a) Basis of preparation

The consolidated financial statements:

- have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993, the Financial Reporting Act 2013, and the State-Owned Enterprises Act 1986. They comply with International Financial Reporting Standards (IFRS) and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS); as well as other NZ accounting standards and authoritative notices applicable to entities that apply NZ IFRS. The Group is a for profit entity for the purposes of complying with NZ GAAP;
- New Zealand Post is considered a Conduit issuer under the Securities Act 1978 and therefore is an 'issuer' for the purposes of the Financial Reporting Act 2013. The Company has transitioned to the Financial Markets Conduct Act 2013 (FMCA) and is a FMC Reporting Entity under that Act;
- have been prepared using historical cost, as modified by the revaluation of certain assets and liabilities at fair value. The accrual basis of accounting has been used;
- are presented in New Zealand dollars and all values are rounded to the nearest million dollars unless otherwise stated; and
- have had no material changes to accounting policies or disclosures.

b) Comparative numbers

- The Perpetual Capital Notes issued in May 2015 were classified as a compound financial instrument in the 30 June 2015 financial statements. A deferred tax liability, arising from the difference between the carrying amount of the liability component and its tax base, was previously not recognised. Accordingly, the 30 June 2015 financial statements have been restated to reflect this, reducing the deferred tax asset and the non-controlling interest within equity in the Statement of Financial Position each by $16m. The adjustment has no impact on the beginning of the comparative period presented.
- Kiwibank made a voluntary disclosure change to present direct fee expense within revenue in their Disclosure Statement for the year ended 30 June 2015; the Group continued to include direct fee expenses in expenditure for the 2015 year. The same change in presentation has been reflected in the Group financial statements for the year ended 30 June 2016 therefore the comparatives have been reclassified to reflect this. In the comparative period, the Group revenue from operations and expenditure has been reduced by $53m.
- Colliers manage the collection of property rental costs on behalf of the Company. The receivable for the property rental costs collected by Colliers but yet to be paid to the Company has been reclassified from Cash to Trade Receivables. In the comparative period, Cash has reduced by $5m and Trade Receivables has increased by $5m.
- The five segments previously disclosed have been reduced to three segments. The comparatives have been updated to be consistent, see Note 3.
- Certain comparatives of an insignificant amount have been re-stated to align with the current period's presentation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 2. BASIS OF ACCOUNTING continued

c) Critical Accounting Judgments, Estimates and Assumptions

In the process of applying the Group's accounting policies, management has made a number of judgments and applied estimates of future events. Judgments and estimates which are material to the financial statements are found in the following notes:

NOTE 4. REVENUE FROM OPERATIONS Page 18
NOTE 16. TRADE AND OTHER PAYABLES Page 41
NOTE 17. PROVISIONS Page 42
NOTE 21. FAIR VALUE Page 48
NOTE 23. IMPAIRMENT OF NON-FINANCIAL ASSETS Page 54

d) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries and joint venture. A list of material subsidiaries at the year end is listed below:

Name of entity	Location of incorporation	Principal place of business	Functional currency	Principal activity
Express Couriers Limited	New Zealand	New Zealand	NZD	Express delivery services
Kiwi Group Holdings Limited	New Zealand	New Zealand	NZD	Holding company
Kiwibank Limited	New Zealand	New Zealand	NZD	Registered bank
Kiwi Capital Funding Limited	New Zealand	New Zealand	NZD	Issuer of debt instruments
Kiwi Wealth Management Limited	New Zealand	New Zealand	NZD	Kiwisaver services
New Zealand Post Group Finance Limited	New Zealand	New Zealand	NZD	Financing services
Kiwi Insurance Limited	New Zealand	New Zealand	NZD	Provider of insurance services
The New Zealand Home Loan Company Limited	New Zealand	New Zealand	NZD	Mortgage services

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profits and losses resulting from intra-Group transactions have been eliminated. Subsidiaries are consolidated from the date on which control is obtained to the date on which control is disposed. The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the Company. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

e) Currency

Functional and presentation currency

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

Foreign currency translation

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into New Zealand dollars at the closing rate. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences arising from translation are recognised in other comprehensive income in the foreign currency translation reserve.

Transactions in foreign currencies are converted into the functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate at balance sheet date. Foreign denominated non-monetary assets and liabilities are measured at historic cost are translated using the exchange rate at the date of the transaction. Foreign denominated non-monetary assets and liabilities measured at fair value are translated using the exchange rate at the fair value date. Any associated translation differences match the treatment of the fair value gains or losses either to profit or loss or other comprehensive income.

f) Other accounting policies

Significant accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

g) Standards and interpretations effective in the current period

There are no new standards and amendments to standards that were mandatory for financial years commencing on or after 1 July 2015.

h) Standards and interpretations on issue but not yet effective

No new standards, amendments or interpretations to existing standards that are not yet effective, have been early adopted by the 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 2018
NZ IFRS 16 – *Leases*	1 January 2019

The Directors expect to adopt the above standards, amendments and interpretations in the period in which they become mandatory.

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 de-recognition of financial instruments from NZ IAS 39.

Given the nature of Kiwibank and its 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 Kiwibank 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 Contacts* and NZ IFRIC 13 *Customer Loyalty Programmes*.

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

NZ IFRS 16: *Leases*

NZ IFRS 16, issued in January 2016, will require lessees to recognise a lease liability reflecting future lease payments and a "right-of-use asset" for virtually all lease contracts.

For lessors' guidance on the definition of a lease has been updated.

The Group is assessing the potential impact on the financial statements of adopting NZ IFRS 16.

Financial Performance

NOTE 3. SEGMENT INFORMATION

Basis of segmentation

Following a change to the organisational structure at the start of the financial year and a corresponding change to the way the business is reported on internally the reportable operating segments have been reviewed. The five segments previously disclosed have been reduced to three segments, Post, Kiwi Group Holdings and Investments which derive their revenue from the following products and services:

Post

Packaging and delivery of mail products, business process operations, logistical and courier services, channels & digital, properties and Group functions.

Kiwi Group Holdings Ltd (KGH)

Banking, wealth and insurance services provided by Kiwi Group Holdings Ltd.

Investments

NZ Post Group investments in Converga and Speedscan (to 30 November 2015), Couriers Please (to 15 December 2014) and ReachMedia.

Comparative information has been restated consistent with the new operating segments. Previously disclosed operating segments approximately align with the new segments as follows:

Operating segment to 30 June 2015	New operating segment
→ Mail and Logistics	→ Post
→ Financial Services Banking	→ KGH
→ Financial Services Non-Banking	→ KGH
→ Shared Services	→ Post
→ Other Operating Segments	→ Investments

POLICIES

Segment disclosure

The Group's reportable segment revenue, results disclosed are the same as those used by the chief operating decision makers in making decisions about allocating resources and in assessing segment performance. Transactions between reportable segments are accounted for in accordance with contractual arrangements and the accounting policies outlined within the financial statements.

30 June 2016	Post $m	KGH $m	Investments $m	Inter-segment Reconciliations $m	Group $m
External revenue	887	559	39	–	1,485
Intersegment revenue	77	–	2	(79)	–
Total segment revenue from operations	964	559	41	(79)	1,485
Segment profit/(loss) before income tax	(54)	176	48	–	170
Segment profit/(loss)	(37)	130	48	–	141
Specific segment other income (included in External Revenue)					
Gain on sale of investments	–	–	43	–	43
Specific segment expenditure:					
Depreciation	20	7	1	–	28
Amortisation	10	26	–	–	36
Impairment	(2)	–	–	–	(2)
Salaries & Allowances	377	136	24	–	537
Severances	21	1	–	–	22

30 June 2015 (Restated)	Post $m	KGH $m	Investments $m	Inter-segment Reconciliations $m	Group $m
External revenue	900	549	141	–	1,590
Intersegment revenue	80	–	2	(82)	–
Total segment revenue from operations	980	549	143	(82)	1,590
Segment profit/(loss) before income tax	(51)	184	58	–	191
Segment profit/(loss)	(45)	132	56	–	143
Specific segment other income (included in External Revenue)					
Gain on sale of investments	–	–	46	–	46
Specific segment expenditure:					
Depreciation	18	6	3	–	27
Amortisation	8	23	–	–	31
Impairment	9	–	17	–	26
Salaries & Allowances	402	135	67	–	604
Severances	(2)	–	1	–	(1)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 4. REVENUE FROM OPERATIONS

	2016 $m	Restated 2015 $m
Revenue from operations		
Delivery of services	**997**	1,110
Sale of goods	**16**	14
Net banking interest revenue (as below)	**371**	359
Net banking fee and other income (as below)	**101**	107
Total revenue from operations	**1,485**	1,590
Other income		
Net gain on financial instruments at fair value	**3**	2
Total other income	**3**	2
Net banking interest revenue		
Banking interest revenue		
Loans and advances at amortised cost	**882**	885
Government and local authority securities	**18**	21
Other securities[1]	**(20)**	28
Cash and liquid assets	**10**	14
Income from impaired assets	**1**	3
Total banking interest revenue	**891**	951
Banking interest expense		
Deposits by customers	**411**	469
Debt securities issued	**109**	123
Total banking interest expense	**520**	592
Net banking interest revenue	**371**	359
Net banking fee and other income		
Lending and credit fee income	**64**	56
Transaction and other fees	**95**	99
Agency services fee income	**36**	39
Direct fee expenses	**(94)**	(87)
Net fee and other income	**101**	107

1 Interest income from other securities includes the net income and expenses on interest rate swaps which may result in a debit balance. The total interest income and expense that relates to financial assets or liabilities that are not carried at fair value through profit or loss is $896.2m (2015: $956.4m) and $509.3m (2015: $569.7m) respectively.

POLICIES

Delivery of services

Revenue from the delivery of services is recognised in the period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services provided.

Sale of goods

Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer and collectability of the related receivables is reasonably assured.

Banking interest revenue (net)

Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, Kiwibank estimates future cash flows considering all contractual terms of the financial instrument, but not the future credit losses.

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.

Banking fee income (net)

Fees income is recognised to the extent that it is probable that economic benefits will flow to Kiwibank and that revenue can be reliably measured. Fee income is generally recognised on an accrual basis when the service has been provided.

Direct fee expenses consist of those expenses directly attributable to the generation of revenue such as transaction fees or commissions paid, and are expensed as the services are received.

KEY ESTIMATE

Prepaid product revenue

An estimate is made for the amount of revenue from prepaid product sales as at balance date in respect of which the service has not yet been provided. This is included in unearned revenue in trade and other payables – refer to Note 16.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 5. EXPENDITURE

	Note	2016 $m	Restated 2015 $m
Delivery costs		285	315
Cost of goods and services sold		42	40
Salaries and wages		514	578
Restructuring costs		22	(1)
Superannuation – defined contribution plans		23	26
Other personnel costs		31	24
Employee expenses		590	627
Property and operating costs		66	57
Property operational outgoings		26	27
Property expenses		92	84
Depreciation	11	28	27
Amortisation of intangibles	12	36	31
Depreciation and amortisation		64	58
Impairment of investments		–	17
Impairment of property, plant and equipment	11	1	2
Other impairment / (reversal of impairment)		(3)	7
(Reversal of impairment) / impairment expense		(2)	26
Computer expenses		74	69
Marketing expenses		27	30
Payment services		28	26
Professional services		25	32
Bad debt expense		15	17
Other operating lease and rental costs		11	17
Fees paid to auditors		3	3
Fees paid to Directors		1	1
Other expenditure		80	85
Other expenses		264	280
Total expenditure		1,335	1,430

POLICIES

Employee expenses

Employee entitlements to salaries and wages, bonuses, annual leave, long service leave, retiring leave and other similar benefits are recognised in profit or loss when they accrue to employees.

Obligations for contributions to defined contribution retirement plans are recognised as an expense in the statement of profit or loss as they fall due.

	2016 $000	2015 $000
Fees paid to auditors		
Audit and review of financial statements[1]	**2,125**	2,330
Other services		
Other assurance services[2]	**143**	118
Tax compliance[2]	**25**	25
Other services[2]	**411**	886
Total other services	**579**	1,029
Total fees paid to auditors	**2,704**	3,359

1 The audit fee includes the fees for both the annual audit of the financial statements and the review of interim financial statements and off balance sheet entities.

2 Other assurance services include GMI controls review, accounting opinions, Kiwibank off-quarter disclosure statement agreed upon procedures, registry audits and trustee reporting (2015: Kiwibank off-quarter disclosure statement agreed upon procedures, accounting opinions and trustee reporting). Tax services relates to the review of tax returns. Other services include consulting services relating to digital services, procurement review and general treasury advice and quality assurance on customer roadmap (2015: advice provided on projects and taxation advice).

NOTE 6. NET FINANCE COSTS

	2016 $m	2015 $m
Interest expense	**(35)**	(25)
Interest revenue	**8**	7
Total net finance costs	**(27)**	(18)

POLICIES

Interest revenue and expense

Interest income and expense for all interest bearing financial assets and liabilities is recognised using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts and payments through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 7. INCOME TAX

	2016 $m	Restated 2015 $m
Profit before income tax	170	191
Tax at 28%	48	53
Non-assessable revenue – gain on sale of investments	(12)	(13)
Non-assessable revenue – other	(3)	(1)
Non-deductible items – impairment	(1)	6
Non-deductible items – other	2	4
Other tax adjustments	(5)	(1)
Income tax expense	29	48
Comprising:		
Current tax	36	42
Tax adjustments	(5)	(1)
Deferred tax	(2)	7
Total income tax expense	29	48
Deferred tax asset		
Balance at beginning of the year	31	26
Charged/credited to profit and loss	2	(7)
Revaluation of properties recognised in other comprehensive income	–	(1)
Prior year adjustment	(4)	(2)
Deferred tax on cash flow hedge reserve	(2)	30
Other adjustments	2	1
Perpetual Capital Notes (refer to Note 2b)	(1)	(16)
Balance at end of the year	28	31

	2016 $m	Restated 2015 $m
Comprising:		
Changes through other comprehensive income		
– Cash flow hedges	20	22
Changes through profit or loss:		
– Provision for loan impairment	15	15
– Commissions receivable	2	1
– Provisions & other deferred assets	30	28
Deferred tax asset	67	66
Changes through other comprehensive income:		
– Revalued land and buildings	4	4
Changes through profit or loss:		
– Intangible assets	4	5
– Amortisation on software assets	12	8
– Other	2	2
Changes through equity:		
Perpetual Capital Notes (refer to Note 2b)	17	16
Deferred tax liability	39	35
Net deferred tax assets	28	31
Expected to be recovered after 12 months	(30)	(23)
Expected to be recovered within 12 months	58	54
Imputation credits available for use in the future	333	307

There are no material unrecognised income tax losses or temporary differences carried forward.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 7. INCOME TAX continued

POLICIES

Current taxes

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred taxes

Deferred income tax liabilities are recognised for all taxable temporary differences. Deferred income tax assets are recognised for all deductible temporary differences, carried forward unused tax assets and unused tax losses, to the extent it is probable that taxable profit will be available to utilize them.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the accounting carrying amounts and the tax bases of assets and liabilities, other than for the following:

- Where they arise from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss;
- Where taxable temporary differences relate to investments in subsidiaries, associates or interests in joint ventures:
    i. Deferred income tax is provided except where the timing of the reversal of the temporary difference is controlled by the Company or Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill.

Offsetting deferred tax balances

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Operating Assets and Liabilities

NOTE 8. CASH AND SHORT TERM DEPOSITS

	2016 $m	Restated 2015 $m
Cash and cash equivalents (excluding Kiwibank)		
Cash on hand	9	11
Cash at bank	59	62
Deposits	–	5
Total cash and cash equivalents	68	78
Short term deposits (excluding Kiwibank)		
Short term deposits	233	160
Total short term deposits	233	160

Included within cash at bank is $132m (2015: $130m) of cash offset by a $95m (2015: $86m) overdraft (with one institution) which is part of a master netting arrangement.

POLICIES

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in transit, bank accounts and owned deposits that are readily convertible to known amounts of cash.

Short term deposits

Short term deposits include cash held on deposit for a term of greater than 90 days and are not readily convertible to known amounts of cash.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 9. GAIN ON SALE OF INVESTMENTS AND ASSETS AND LIABILITIES HELD FOR SALE

Other assets held for sale

Properties

During the year properties with a carrying value of $2m were transferred from property, plant and equipment into this category (2015: $8m were transferred). During the year a net gain of $1.9m was realised on properties sold (2015: $0.3m gain).

Properties held for sale at 30 June 2016 have a carrying value of $3m (2015: $13m).

Aircraft

During the year aircraft with a carrying value of $1m has been transferred from property, plant and equipment into this category.

Disposal of subsidiaries

At 30 June 2015, the Group sought to sell its investment in the Converga Group and recognised the assets and liabilities of Converga Group Limited and its subsidiaries as held for sale. On 30 November 2015, the Group sold its investment in Converga Group Limited to Canon Australia Pty Ltd (Canon) for a total sale price of AUD$75m, with AUD$72m of that received on 30 November 2015.

The remaining AUD$3m is payable by Canon contingent upon certain conditions being met. The fair value of this consideration has been assessed as nil at 30 June 2016.

A gain of NZD$43m was recognised on disposal. In the prior year a gain on sale of NZD$46m was recognised on disposal of Couriers Please Holdings Ltd.

	2016 $m	2015 $m
Converga assets held for sale		
Cash and cash equivalents	–	14
Trade and other receivables	–	18
Property, plant, equipment and software	–	6
Goodwill	–	14
Brands	–	3
	–	55
Other assets held for sale		
Properties held for sale	3	13
Aircraft held for sale	1	–
Total assets held for sale	4	68
Converga liabilities held for sale		
Trade and other payables	–	10
Other current liaibilities	–	3
Provisions	–	1
Total liabilties held for sale	–	14

POLICIES

Assets held for sale

Assets and investments held for sale consist of all assets that the Board has agreed to sell, and that are actively being marketed for sale as at 30 June 2016. All assets and investments are expected to be sold within 12 months of balance date.

NOTE 10. TRADE AND OTHER RECEIVABLES

	2016 $m	Restated 2015 $m
Trade receivables	186	172
Provision for impairment	(2)	(6)
Trailing commissions receivable	11	10
Interest receivable	6	5
Receivables from related parties	1	1
Other receivables	7	4
Total trade and other receivables	209	186
Comprising:		
Current trade and other receivables	186	170
Non-current trade and other receivables	23	16
Total trade and other receivables	209	186
Trade receivables past due but not impaired		
Past due up to 30 days	18	14
Past due 31-60 days	4	4
Past due 61-90 days	3	1
Past due > 90 days	7	4
Total	32	23

POLICIES

Trade receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less an allowance for impairment.

The amount which is neither overdue nor impaired has been assessed for collectability and no additional risk of default has been identified. There is no collateral held over past due trade receivables.

Impairment of trade receivables

The Group assesses at the end of each reporting period whether there is objective evidence that loans and receivables are impaired and the Group will not be able to collect all amounts due as per the original transaction terms.

The carrying amount of an asset is reduced through the use of a provision account, and the amount of the loss is recognised in the profit or loss. When a receivable is uncollectible, it is written off against the provision account for receivables. Subsequent recoveries of amounts previously written off are credited against the profit or loss.

Impaired receivables mainly relate to receivables older than 90 days outstanding based upon the expectation of non-recovery of such debtors, as well as receivables that have been referred to a third party debt collector, or where a customer has entered into liquidation or bankruptcy proceedings.

Trailing commissions receivable / payable

Kiwibank receives trailing commissions from lenders on loans they have settled that were originated by Kiwibank. The trailing commissions are received over the life of the loans based on loan book balance outstanding. Kiwibank also makes trailing commission payments to Franchisees based on the loan book balance outstanding.

On initial recognition, trailing commission revenue and receivables are recognised at fair value, being the expected future trailing commission receivables discounted to their net present value. In addition, an associated payable and expense to the Franchisee are also recognised, initially measured at fair value being the future trailing commission payable to Franchisees discounted to their net present value.

Subsequent to initial recognition and measurement, both the trailing commission asset and trailing commission payable are measured at amortised cost. The carrying amount of the trail commission asset and trailing commission payable are adjusted to reflect revised estimated cash flows, by recalculating the carrying amount through computing the present value of estimated future cash flows at the original effective interest rate. The resulting adjustment is recognised as income or expense in profit or loss.

Refer to Note 16 for trailing commissions payable.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings (valuation)	Motor Vehicles	Furniture, fittings and equipment	Computer Equipment	Plant and Equipment	Aircraft	Work in Progress	Total $m
At 1 July 2014								
Cost or valuation	59	5	107	100	152	20	7	450
Accumulated depreciation	–	(4)	(74)	(88)	(112)	(16)	–	(294)
Net book amount	**59**	**1**	**33**	**12**	**40**	**4**	**7**	**156**
Year ended 30 June 2015								
Opening net book amount	59	1	33	12	40	4	7	156
Transferred (to)/from assets held for sale	(8)	–	(4)	–	–	–	(1)	(13)
Transferred (to)/from work in progress	–	–	10	–	2	–	(12)	–
Net revaluation of land and buildings	2	–	–	–	–	–	–	2
Additions	–	1	2	10	3	–	18	34
Net disposals	–	–	–	–	–	–	–	–
Depreciation charge	(1)	–	(8)	(7)	(10)	(1)	–	(27)
(Impairment)/reversal of impairment	–	–	–	–	–	(2)	–	(2)
Closing net book amount	**52**	**2**	**33**	**15**	**35**	**1**	**12**	**150**
At 1 July 2015								
Cost or valuation	52	5	111	108	153	20	12	461
Accumulated depreciation	–	(3)	(78)	(93)	(118)	(19)	–	(311)
Net book amount	**52**	**2**	**33**	**15**	**35**	**1**	**12**	**150**
Year ended 30 June 2016								
Opening net book amount	52	2	33	15	35	1	12	150
Transferred (to)/from assets held for sale	(2)	–	–	–	–	(1)	–	(3)
Transferred (to)/from work in progress	–	2	15	3	1	–	(21)	–
Net revaluation of land and buildings	5	–	–	–	–	–	–	5
Additions	–	–	5	4	12	–	24	45
Net disposals	–	–	(2)	(1)	–	–	–	(3)
Depreciation charge	(1)	(1)	(7)	(7)	(12)	–	–	(28)
(Impairment)/reversal of impairment	–	(1)	–	–	–	–	–	(1)
Closing net book amount	**54**	**2**	**44**	**14**	**36**	**–**	**15**	**165**
At 30 June 2016								
Cost or valuation	54	5	124	108	134	–	15	440
Accumulated depreciation	–	(3)	(80)	(94)	(98)	–	–	(275)
Net book amount	**54**	**2**	**44**	**14**	**36**	**–**	**15**	**165**

POLICIES

The value of purchased property, plant and equipment is measured at the cost to acquire the asset, including other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use, less depreciation and impairment.

Depreciation and amortisation

Depreciation is charged on a straight-line basis at rates that will allocate the cost or valuation of items of property, plant and equipment (except land, which is not depreciated), less any estimated residual values, over their estimated useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The useful lives of the major classes of property, plant and equipment have been estimated as follows:

Buildings	25-50 years
Plant and equipment	8-15 years
Motor vehicles	5-10 years
Computer equipment	2-5 years
Furniture, fittings and equipment	8-10 years
Aircraft	1-10 years

De-recognition

An item of property, plant and equipment is de-recognised when it is sold or otherwise disposed of, or when its use is expected to bring no future economic benefit.

Land and buildings

The Group carries land and buildings at fair value, with changes in fair value being recognised in the statement of profit or loss. The group engaged an independent valuation specialist to assess fair value as at 30 June 2016. Land and buildings were valued by reference to market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The key assumptions used to determine the fair value of the properties and sensitivity analysis are provided in Note 21.

The agreement by which the Company purchased the post office business from the Crown recognises potential land claims that may be lodged under the Treaty of Waitangi Act 1975. The effect on the valuation of assets resulting from potential claims cannot be quantified. However, under the Treaty of Waitangi (State Enterprises) Act 1988, the Company will be compensated by the Crown for any loss that occurs upon the resumption of any interest in land by the Crown.

If land and buildings had been measured using the cost method the carrying amounts would be as follows:

	2016 $m	2015 $m
Land	**4**	4
Buildings	**21**	22

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 12. GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Brands	Computer Software	Acquired Customer Relationships	Computer Software - Work in Progress	Total $m
At 1 July 2014						
Cost	250	41	318	37	54	700
Accumulated amortisation and impairment	(8)	–	(246)	(16)	(1)	(271)
Net book amount	**242**	**41**	**72**	**21**	**53**	**429**
Year ended 30 June 2015						
Opening net book amount	242	41	72	21	53	429
Additions	–	–	4	–	52	56
Transferred (to)/from work in progress	–	–	35	–	(35)	–
Transferred (to)/from assets held for sale	(14)	–	(1)	(3)	–	(18)
Translation Adjustment	(4)	–	–	–	–	(4)
Net disposals	–	–	(1)	–	–	(1)
Amortisation charge	–	–	(30)	(1)	–	(31)
Impairment charge	(17)	–	–	–	–	(17)
As at 30 June 2015	**207**	**41**	**79**	**17**	**70**	**414**
At 1 July 2015						
Cost	232	41	330	34	71	708
Accumulated amortisation and impairment	(25)	–	(251)	(17)	(1)	(294)
Net book amount	**207**	**41**	**79**	**17**	**70**	**414**
Year ended 30 June 2016						
Opening net book amount	207	41	79	17	70	414
Additions	–	–	7	–	71	78
Transferred (to)/from work in progress	–	–	49	–	(49)	–
Net disposals	–	–	–	–	–	–
Amortisation charge	–	–	(35)	(1)	–	(36)
As at 30 June 2016	**207**	**41**	**100**	**16**	**92**	**456**
At 30 June 2016						
Cost	207	41	375	16	92	731
Accumulated amortisation and impairment	–	–	(275)	–	–	(275)
Net book amount	**207**	**41**	**100**	**16**	**92**	**456**

All Computer Software - Work in Progress is deemed to be internally generated. At 30 June 2016 $188m of Computer Software is internally generated (30 June 2015: $145m).

POLICIES

Brands and goodwill

Goodwill arises on the acquisition of subsidiaries and represents the cost of the acquisition less the net fair value of the acquired and identifiable assets, liabilities and contingent liabilities.

Goodwill and brands have indefinite useful lives and are recognised as an asset at cost and tested for impairment at least annually and whenever there are indicators of impairment (see Note 23).

Acquired customer relationships

Acquired customer relationships that are expected to generate net economic benefits beyond 12 months are recognised as intangible assets. Acquired customer relationships have finite lives and are amortised in the profit or loss on a straight-line basis over their estimated useful lives which is currently between 10 and 20 years.

Intangible assets

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 3-15 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 3-15 years).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 13. KIWIBANK – BANKING ASSETS

Note 13(a) Cash and cash equivalents

	2016 $m	2015 $m
Cash in hand	**30**	32
Cash with central bank	**400**	393
Call and overnight advances to financial institutions	**79**	67
Total cash and cash equivalents – current	**509**	492

POLICIES 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.

Note 13(b) Due from other financial institutions

	2016 $m	2015 $m
Unsettled receivables	**42**	32
Short term advances due from other financial institutions	**40**	23
Collateralised loans	**165**	139
Total due from other financial institutions – current	**247**	194

As at 30 June 2016, included within the balance above is $165m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (30 June 2015: $139m).

POLICIES Balances due from other financial institutions are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are subsequently measured at amortised cost using the effective interest rate method. If the initial duration is less than 12 months, they 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 profit or loss.

Reverse repurchase agreements

Kiwibank purchases (a reverse repurchase agreement) or borrows collateral in the form of securities and provides cash in exchange. Kiwibank 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 Kiwibank which instead records a receivable for the cash provided. The difference between the purchase and sale price of the collateral represents interest income and is recognised in profit or loss over the term of the reverse repurchase agreement.

Note 13(c) Financial assets held for trading

	2016 $m	2015 $m
Other securities	–	96
Total financial assets held for trading – current	–	96

POLICIES

Financial assets held for trading are those financial assets acquired principally for the purpose of selling in the short term or if so designated by management.

These financial assets are held at fair value and gains and losses resulting from changes in their fair value are taken to the profit or loss in net gains / (losses) on financial instruments at fair value (refer to note 4).

Note 13(d) Available for sale assets

	2016 $m	2015 $m
Government stock and multilateral development banks	727	765
Treasury bills	11	187
Local authority securities	9	22
Other debt securities	208	248
Total available for sale assets – current	955	1,222

POLICIES

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 held at fair value and gains and losses resulting from changes in their value are 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 profit or loss. 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 de-recognition the cumulative fair value gain or loss previously recognised directly in equity is taken to profit or loss in net gains / (losses) on financial instruments in Other Income (note 4).

Impairment

Kiwibank assesses at each reporting date whether there is objective evidence that an available for sale asset is impaired. An available for sale asset 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 available for sale asset that can be reliably measured.

When a decline in fair value has been recognised directly in equity and there is objective evidence that the available for sale asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 14. KIWIBANK – LOANS AND ADVANCES

Note 14(a) Loans and advances

The table below presents gross loans and advances by type of product

	2016 $m	2015 $m
Residential mortgage loans	**14,642**	13,718
Retail unsecured lending	**400**	381
Business exposures	**1,702**	1,552
Gross loans and advances	**16,744**	15,651
Collective allowance for impairment losses	**(44)**	(41)
Allowance for individually impaired assets	**(9)**	(12)
Fair value hedge adjustments	**(2)**	–
Total net loans and advances	**16,689**	15,598
Current	**1,267**	1,163
Non-current	**15,422**	14,435
Total net loans and advances	**16,689**	15,598

POLICIES

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are subsequently measured at amortised cost using the effective interest rate method. Loans and advances issued with an initial duration of 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 (note 14(b)). Interest income and impairment losses are recognised in the profit or loss.

Note 14(b) Asset quality

Summary of lending

	Residential mortgage loans 2016 $m	**Retail unsecured lending 2016 $m**	**Business exposures 2016 $m**	**Total loans and advances 2016 $m**
Neither past due nor impaired	15,495	443	683	16,621
Past due but not impaired	70	35	3	108
Impaired	8	2	5	15
Gross loans and advances	15,573	480	691	16,744
Collective allowance for impairment	(25)	(11)	(8)	(44)
Individual allowance for impairment	(4)	(1)	(4)	(9)
Fair value hedge adjustments	(2)	–	–	(2)
Net loans and advances	15,542	468	679	16,689

	Residential mortgage loans 2015 $m	Retail unsecured lending 2015 $m	Business exposures 2015 $m	Total loans and advances 2015 $m
Neither past due nor impaired	14,383	423	684	15,490
Past due but not impaired	87	46	5	138
Impaired	11	1	11	23
Total	14,481	470	700	15,651
Collective allowance for impairment	(17)	(9)	(15)	(41)
Individual allowance for impairment	(5)	(1)	(6)	(12)
Net loans and advances	14,459	460	679	15,598

Loans and advances past due but not impaired

	Residential mortgage loans 2016 $m	**Retail unsecured lending 2016 $m**	**Business exposures 2016 $m**	**Total loans and advances 2016 $m**
Past due less than 30 days	54	25	3	82
Past due 30 -59 days	8	5	–	13
Past due 60 -89 days	3	3	–	6
Past due 90 days or greater	5	2	–	7
Total	70	35	3	108

	Residential mortgage loans 2015 $m	Retail unsecured lending 2015 $m	Business exposures 2015 $m	Total loans and advances 2015 $m
Past due less than 30 days	69	29	2	100
Past due 30 -59 days	8	10	2	20
Past due 60 -89 days	3	4	–	7
Past due 90 days or greater	7	3	1	11
Total	87	46	5	138

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 14. KIWIBANK – LOANS AND ADVANCES continued

Note 14(b) Asset quality continued

Impaired Assets

	Residential mortgage loans 2016 $m	**Retail unsecured lending 2016 $m**	**Business exposures 2016 $m**	**Total loans and advances 2016 $m**
Balance at beginning of the year	11	1	11	23
Transfers from performing	15	9	3	27
Transfers to performing	–	–	(6)	(6)
Asset realisations and loans repaid	(16)	–	(2)	(18)
Amounts written off	(2)	(8)	(1)	(11)
Balance at end of the of the year	8	2	5	15
Individual allowance for impairment	(4)	(1)	(4)	(9)
Total net impaired assets	4	1	1	6

	Residential mortgage loans 2015 $m	Retail unsecured lending 2015 $m	Business exposures 2015 $m	Total loans and advances 2015 $m
Balance at beginning of the year	14	1	29	44
Transfers from performing	6	5	9	20
Transfers to performing	(2)	–	(2)	(4)
Asset realisations and loans repaid	(5)	–	(13)	(18)
Amounts written off	(2)	(5)	(12)	(19)
Balance at end of the of the year	11	1	11	23
Individual allowance for impairment	(5)	(1)	(6)	(12)
Total net impaired assets	6	–	5	11

Reconciliation of collective allowance for impairment

	Residential mortgage loans 2016 $m	**Retail unsecured lending 2016 $m**	**Business exposures 2016 $m**	**Total loans and advances 2016 $m**
Balance at beginning of the year	17	9	15	41
Impairment losses / (reversals) on loans not at fair value through profit or loss	8	2	(7)	3
Total	25	11	8	44

	Residential mortgage loans 2015 $m	Retail unsecured lending 2015 $m	Business exposures 2015 $m	Total loans and advances 2015 $m
Balance at beginning of the year	15	8	14	37
Impairment losses on loans not at fair value through profit or loss	2	1	1	4
Total	17	9	15	41

Reconciliation of individual allowance for impairment by asset class

	Residential mortgage loans 2016 $m	**Retail unsecured lending 2016 $m**	**Business exposures 2016 $m**	**Total loans and advances 2016 $m**
Balance at beginning of the year	5	1	6	12
Impairment losses on loans not at fair value through profit or loss	6	8	4	18
Amounts written off	(2)	(8)	(1)	(11)
Reversals of previously recognised impaired assets	(5)	–	(5)	(10)
Total	4	1	4	9

	Residential mortgage loans 2015 $m	Retail unsecured lending 2015 $m	Business exposures 2015 $m	Total loans and advances 2015 $m
Balance at beginning of the year	9	1	12	22
Impairment losses on loans not at fair value through profit or loss	1	5	7	13
Amounts written off	(2)	(5)	(12)	(19)
Reversals of previously recognised impaired assets	(3)	–	(1)	(4)
Total	5	1	6	12

Asset quality of loans and advances

There were no real estate or other assets acquired through the enforcement of security / collateral held at 30 June 2016 (30 June 2015: nil). There were no assets under administration as at 30 June 2016 (30 June 2015: nil).

There are no unrecognised impaired assets as at 30 June 2016 (30 June 2015: nil). The aggregate amount of undrawn limits on lending commitments to counterparties for whom drawn balances are classified as individually impaired is $2.9m at 30 June 2016 (30 June 2015: $0.5m).

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 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 15. KIWIBANK – DERIVATIVE FINANCIAL INSTRUMENTS

Kiwibank uses the following derivative instruments for both hedging and non-hedging purposes.

i. Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

ii. 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 rate.

iii. 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.

iv. 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. Kiwibank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill 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, Kiwibank assesses counterparties using the same techniques as for its lending activities.

v. 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 Kiwibank and a customer over-the-counter. Kiwibank is exposed to credit risk on purchased options only and only to the extent of their carrying amount, which is their fair value.

vi. 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 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 51.

	2016 $m Notional Principal Amount	**2016 $m Fair Value**		2015 $m Notional Principal Value	2015 $m Fair Value	
		Assets	**Liabilities**		Assets	Liabilities
Derivatives held for trading						
Foreign exchange derivatives	**1,020**	**9**	**(20)**	1,051	51	(22)
Interest rate derivatives	**37,006**	**531**	**(544)**	40,381	291	(311)
Total derivatives held for trading	**38,026**	**540**	**(564)**	41,432	342	(333)
Derivatives held for hedging						
Designated as cash flow hedges						
Interest rate derivatives	**9,797**	**30**	**(123)**	8,240	8	(120)
Exchange rate swaps	**675**	**77**	**(14)**	678	123	(19)
Total derivatives designated as cash flow hedges	**10,472**	**107**	**(137)**	8,918	131	(139)
Designated as fair value hedges						
Interest rate derivatives	**1,552**	**11**	**(24)**	261	7	(3)
Total derivatives held for hedging	**12,024**	**118**	**(161)**	9,179	138	(142)
Total derivative financial instruments	**50,050**	**658**	**(725)**	50,611	480	(475)
Comprising:						
Current derivative financial instruments		**544**	**(623)**		345	(350)
Non-current derivative financial instruments		**114**	**(102)**		135	(125)
Total derivative financial instruments		**658**	**(725)**		480	(475)

Fair value hedges

Kiwibank uses interest rate swaps to hedge interest rate risk exposure of a portion of its portfolio of fixed rate mortgage loans and fixed rate bonds. Kiwibank 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.

Kiwibank 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. Kiwibank 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

Kiwibank 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

Kiwibank 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

POLICIES

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 hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, 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 profit or loss over the period to maturity.

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.

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 prior is recognised immediately in profit or loss.

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

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 profit or loss.

NOTE 16. TRADE AND OTHER PAYABLES

	GROUP	
	2016 $m	2015 $m
Trade payables	**127**	125
Accrued employee benefit liabilities	**78**	93
Unearned revenue	**50**	30
Payment services holding accounts	**31**	42
Trail commissions payable	**4**	3
Other accruals and payables	**24**	20
Total trade and other payables	**314**	313
Comprising:		
Current trade and other payables	**296**	301
Non-current trade and other payables	**18**	12
Total trade and other payables	**314**	313

POLICIES

Trade payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

Accrued employee benefits

Employee entitlements to be settled within 12 months are reported at the amount expected to be paid. The liability for long-term employee entitlements is reported as the present value of the estimated future cash outflows. Leave entitlements which can be carried forward (e.g. sick leave), but are unused at balance date, are accrued based on the additional cost expected to be paid as a result of the accumulated balance.

Unearned revenue

The Group recognises deferred income for services that have been sold but not yet delivered.

Trailing commissions payable

Refer to Note 10 for a description of trailing commissions payable.

KEY JUDGEMENT

Unearned revenue – prepaid services

Judgment is applied to determine how much of each service is prepaid and the average time between purchase and delivery.

The Group also applies judgment to determine the level of stockpiling customers undertake before any prepaid product or service price increase. A review of customer trends is undertaken and any revenue earned from excess purchasing behaviour is deferred. The revenue is recognised in subsequent periods in line with normal customer purchasing trends. A reasonable change in the key assumptions in the prepaid stamp, ticket and stocking piling models would not result in a material change to the deferred revenue.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 17. PROVISIONS

	Restructuring $m	Properties $m	Other $m	Total $m
Opening balance	18	5	4	27
Utilisation	(11)	–	–	(11)
Additional provision	19	1	3	23
Release of unused provision	(5)	–	(4)	(9)
Total provisions	21	6	3	30
Comprising:				
Current provisions	12	2	3	17
Non-current provisions	9	4	–	13
Total provisions	21	6	3	30

POLICIES

Provisions are recognised when:

- there is a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of economic resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Measurement is at the present value of the expenditure expected to be required to settle the obligation.

Restructuring

The Group recognises termination benefits at the earlier of:

- when the Group can no longer withdraw the offer of those benefits; or
- when the Group recognises costs for a restructuring that is within the scope of NZ IAS 37 and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

KEY ESTIMATES

Restructuring provision – estimated costs

The restructuring provision comprises estimated costs for redundancies. These charges are calculated based on detailed plans that are expected to improve the Group's cost structure and productivity. Judgment has been applied to determine the inputs (number of employees and cost per employee) used to calculate total restructure costs. The outcomes of similar historical restructuring plans have been utilised to minimise any uncertainties arising. A reasonable change in key assumptions would not result in a material change to the provision.

NOTE 18. KIWIBANK – BANKING LIABILITIES

Note 18(a) Due to other financial institutions

	2016 $m	2015 $m
Repurchase agreements	53	176
Cash collateral received	78	120
Unsettled payables	–	21
Transaction balances with other financial institutions	4	8
Total due to other financial institutions – current	135	325

Note 18(b) Deposits and other borrowings

	2016 $m	2015 $m
Demand deposits non-bearing interest	1,505	1,255
Demand deposits bearing interest	3,135	2,747
Term deposits	10,142	9,738
Total deposits from customers	14,782	13,740
Comprising:		
Current deposits	14,340	13,385
Non-current deposits	442	355
Total deposits from customers	14,782	13,740

In the event of the liquidation of Kiwibank, deposit holders will rank equally with all other creditors but ahead of holders of Kiwibank subordinated debt and Kiwibank Limited 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 the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 18. KIWIBANK – BANKING LIABILITIES continued

Note 18(c) Debt securities issued

	2016 $m	2015 $m
Short term debt		
Commercial paper at fair value through profit or loss	290	615
Certificates of deposit	227	191
Long term debt		
Medium term notes	1,441	1,328
Covered bonds	215	236
Fair value hedge adjustment	34	27
Total debt securities issued	2,207	2,397
Comprising:		
Current debt securities	810	836
Non-current debt securities	1,397	1,561
Total debt securities issued	2,207	2,397

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

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 2015: nil).

Note 18(d) Subordinated debt

	2016 $m	2015 $m
Subordinated bonds	150	149
Capital notes	108	106
Perpetual capital notes	98	89
Total subordinated debt	356	344
Comprising:		
Current subordinated debt	3	3
Non-current subordinated debt	353	341
Total subordinated debt	356	344

During the year $nil of subordinated debt was issued and called by Kiwibank (30 June 2015 – nil issued and called).

As at 30 June 2016, $208m (30 June 2015: $208m) 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.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to these liabilities during the year (year ended 30 June 2015: nil).

The subordinated debt instruments on issue are subordinate to all other general liabilities of Kiwibank 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 RATES	CALL DATES	MATURITY DATES	CREDIT RATING
Subordinated bonds	10 December 2012	150	5.80% p.a.	15 December 2017	15 December 2022	BB+
Capital notes	6 June 2014	100	6.61% p.a.	15 July 2019	15 July 2024	BB+
PCN's	27 May 2015	150	7.25% p.a.	27 May 2020	N/A	BB-

Capital notes

The Capital Notes have been issued by Kiwi Capital Funding Limited ("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. KCFL's obligation to repay the capital notes changes or terminate should any of the Kiwibank Bonds be converted into ordinary shares or written off.

Perpetual capital notes

The Perpetual Capital Notes ("PCN's") were also issued by KCFL. 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 on Perpetual Bonds, issued by Kiwibank to KCFL, on an equivalent payment date. Therefore, the Group's obligation to pay interest on the PCN's is discretionary as it has no contractual obligation in respect of interest payments on the PCN's. A group entity, Kiwi Group Holdings Limited, has entered into a scheduled call to purchase the PCN's from holders, for their principal amount, seven years from the issue date. As the PCN's contain both a liability component, represented by the scheduled call, and an equity component, represented by discretionary interest payments, they are classified as compound instruments. The amounts of the liability and equity components were determined on the date of issue of the PCN's. The equity component of the PCN's is disclosed within Note 27.

POLICIES

Debt securities issued by Kiwibank, with the exception of Commercial paper at fair value through profit or loss, are designated as financial liabilities at amortised cost. They 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 de-recognised.

Repurchase agreements

Under 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 re-pledge the collateral advanced under Repurchase Agreements in the absence of default by Kiwibank, but they have 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 the securities advanced and therefore they are not de-recognised 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 profit or loss over the term of the repurchase agreement.

Commercial paper

Commercial paper at fair value through profit or loss consists of European Commercial Paper ("ECP") and is measured at fair value with any realised and unrealised gains or losses recognised in the profit or loss. ECP issued has been designated at fair value through profit or loss as Kiwibank holds related derivatives at fair value through profit or loss, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 19. COMMITMENTS

	2016 $m	2015 $m
Non-Cancellable Operating Lease Commitments		
Group as lessee (i)		
Payable no later than one year	**50**	60
Payable later than one, not later than five years	**134**	151
Payable later than five years	**52**	33
	236	244
Group as lessor (ii)		
Receivable no later than one year	**2**	1
Receivable later than one, not later than five years	**5**	3
Receivable later than five years	**–**	–
	7	4
Non-Cancellable Finance Lease Commitments (iii)		
Payable no later than one year	**4**	2
Payable later than one, not later than five years	**9**	5
Payable later than five years	**–**	–
	13	7
Contractual commitments for acquisition of:		
Property, plant and equipment	**17**	8
Intangible assets - software	**3**	7
	20	15

→ The Group leases the majority of its sites. All leases are standard operating leases. No leases have purchase options, onerous restrictions on use or contingent rental payments. Lease terms vary from monthly to long term. Many leases have rights of renewal.

→ The Group leases space in some of its properties (mainly owned) to external tenants. All leases are standard operating leases. No leases have purchase options, onerous restrictions on use or contingent rental payments. Lease terms vary from monthly to long term. Many leases have rights of renewal.

→ The Group has entered into commercial finance leases for a range of mailhouse printing and digital equipment.

POLICIES

Finance Leases

Finance leases transfer to the lessee substantially all the risks and rewards incidental to the ownership of a leased asset. Initial recognition of a finance lease results in an asset and liability being recognised at amounts equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The capitalised values are amortised over the period in which the lessee expects to receive benefits from their use.

Operating Leases

Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in profit or loss 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.

NOTE 20. KIWIBANK – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

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

30 June 2016	Gross amounts of recognised financial assets $m	Net amounts of financial assets presented in the Statement of Financial Position $m	Financial instruments $m	Cash collateral received $m	Net amount $m
Derivative financial assets	658	658	(551)	(78)	29
Total	**658**	**658**	**(551)**	**(78)**	**29**
30 June 2015					
Derivative financial assets	480	480	(331)	(120)	29
Total	480	480	(331)	(120)	29

30 June 2016	$m	$m	$m	$m	$m
Derivative financial liabilities	725	725	(551)	(165)	9
Repurchase agreements	53	53	(53)	–	–
Total	**778**	**778**	**(604)**	**(165)**	**9**
30 June 2015					
Derivative financial liabilities	475	475	(331)	(139)	5
Repurchase agreements	176	176	(176)	–	–
Total	651	651	(507)	(139)	5

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 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
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NOTE 21. FAIR VALUE (EXCLUDING KIWIBANK)

Note 21(a) Fair value of financial assets and liabilities

The estimated fair values of the Group's financial assets and liabilities which differ from their carrying values are noted below.

Financial liabilities	**Carrying amount 2016 $m**	**Estimated fair value 2016 $m**	Carrying amount 2015 $m	Estimated fair value 2015 $m
Borrowings	**389**	**420**	388	420

The carrying values of the following financial instruments are a reasonable approximation of fair value because they are short-term in nature: cash and cash equivalents, short term deposits, trade receivables, and trade payables.

Note 21(b) Fair value measurement

	Note	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
30 June 2016					
Assets at fair value					
Investment properties		**–**	**–**	**4**	**4**
Land & buildings	**11**	**–**	**–**	**54**	**54**
Derivative financial assets	**25**	**–**	**9**	**–**	**9**
Total financial assets at fair value		**–**	**9**	**58**	**67**
Liabilities at fair value					
Derivative financial liabilities	**25**	**–**	**26**	**–**	**26**
Borrowings (carried at amortised cost)		**–**	**420**	**–**	**420**
Total financial liabilities at fair value		**–**	**446**	**–**	**446**

		Level 1 $m	Level 2 $m	Level 3 $m	Total $m
30 June 2015					
Assets at fair value					
Investment properties		–	–	4	4
Land & buildings	11	–	–	52	52
Derivative financial assets	25	–	3	–	3
Total financial assets at fair value		–	3	56	59
Liabilities at fair value					
Derivative financial liabilities	25	–	14	–	14
Borrowings (carried at amortised cost)		–	420	–	420
Total financial liabilities at fair value		–	434	–	434

There have been no transfers between levels 1 to 3 during the year (year ended 30 June 2015: no transfers).

Note 21(c) Fair value measurement of investment properties, land and buildings

All investment properties and land and buildings are categorised as level 3 in the fair value hierarchy. The key unobservable inputs used to measure fair value of investment properties and land and buildings properties are disclosed below, along with their sensitivity to a significant increase or decrease:

		Fair value measurement sensitivity to significant:	
Significant unobservable inputs	**Description**	**Increase in input**	**Decrease in input**
Market capitalisation rate	The capitalisation rate applied to the market rental to assess a property's value. Derived from similar transactional evidence taking into account location, weighted average lease term, customer covenants, size and quality of the property.	Decrease	Increase
Market rental	The valuers assessment of the net market income attributable to the property; includes both leased and vacant areas.	Increase	Decrease

The following table discloses the quantitative information by asset class of the key significant unobservable inputs disclosed above:

30 June 2016		**Market capitalisation rate**	**Market rental**
Asset Class	**Description**	**%**	**$ psqm**
Property, plant and equipment	Post Shop	**5.15 – 11.50**	**22 - 700**
Property, plant and equipment	Mail Centre	**8.25 – 11.00**	**65 – 141**
Investment property	Investment Property	**6.00 – 10.75**	**92 – 385**

30 June 2015		Market capitalisation rate	Market rental
Asset Class	Description	%	$ psqm
Property, plant and equipment	Post Shop	5.30 – 15.00	28 - 700
Property, plant and equipment	Mail Centre	8.25 – 11.00	17 – 164
Investment property	Investment Property	6.50 – 10.75	84 – 375

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 21. FAIR VALUE (EXCLUDING KIWIBANK) continued

Note 21(c) Fair value measurement of investment properties, land and buildings continued

POLICIES

Fair value estimation

The Group measures financial instruments, such as derivatives, and some non-financial assets such as investment properties and land and buildings, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement 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 Group must have access to the principal or most advantageous market at the measurement date.

Fair value hierarchy

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 instruments valuation is not based on observable market data.

Refer to Note 22 for the fair value hierarchy for the banking financial assets and liabilities.

KEY ESTIMATES

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

Borrowings

For fixed rate borrowings recognised at amortised cost, fair values have been estimated using a discounted cash flow model with reference to market interest rates.

Derivative financial instruments

The fair values of exchange rate or interest rate contracts are obtained from observable market prices as at the reporting date, discounted cash flow models or option-pricing models as appropriate.

Investment properties and land and buildings

The carrying amount of investment properties and land and buildings is the fair value of the property as determined by a registered independent valuer having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair value reflects the Board's assessment of highest and best use of each property at the end of the reporting period. The Group's finance team review the valuations performed by the independent valuers for financial reporting purposes. Full independent valuations are completed for land and buildings and investment property assets at least annually.

The fair values presented are based on market values, which are derived using the capitalisation method. The key assumptions used in the valuations are derived from recent comparable transactions to the greatest extent possible; however, the valuation method uses unobservable inputs in determining fair value. All land and buildings are categorised as level 3 in the fair value hierarchy.

NOTE 22. KIWIBANK – FAIR VALUE OF BANKING FINANCIAL INSTRUMENTS

Note 22(a) Fair value of financial assets and liabilities

The following tables summarise the carrying values of banking financial assets and liabilities. 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.

	Carrying amount 2016 $m	**Estimated fair value 2016 $m**	Carrying amount 2015 $m	Estimated fair value 2015 $m
Financial assets				
Financial assets held for trading	–	–	96	96
Available for sale assets	955	955	1,222	1,222
Loans and advances	16,689	16,804	15,598	15,704
Derivative financial instruments	658	658	480	480
Financial liabilities				
Deposits and other borrowings	(14,782)	(14,796)	(13,740)	(13,759)
Derivative financial instruments	(725)	(725)	(475)	(475)
Debt securities issued	(2,207)	(2,213)	(2,397)	(2,405)
Subordinated debt	(356)	(367)	(344)	(351)

Note 22(b) Financial assets and liabilities carried at fair value

30 June 2016	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial assets				
Derivative financial assets	–	658	–	658
Financial assets held for trading	–	–	–	–
Available-for-sale financial assets	462	493	–	955
Total financial assets at fair value	462	1,151	–	1,613
Financial liabilities				
Derivative financial liabilities	–	725	–	725
Debt securities issued	–	290	–	290
Total financial liabilities at fair value	–	1,015	–	1,015

30 June 2015	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial assets				
Derivative financial assets	1	479	–	480
Financial assets held for trading	58	38	–	96
Available-for-sale financial assets	664	558	–	1,222
Total financial assets at fair value	723	1,075	–	1,798
Financial liabilities				
Derivative financial liabilities	–	475	–	475
Debt securities issued	–	615	–	615
Total financial liabilities at fair value	–	1,090	–	1,090

There have been no transfers between levels 1 to 3 during the year (year ended 30 June 2015: no transfers).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 22. KIWIBANK – FAIR VALUE OF BANKING FINANCIAL INSTRUMENTS continued

Note 22(b) Financial assets and liabilities carried at fair value continued

POLICIES

Fair value estimation

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.

KEY ESTIMATES

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 Kiwibank'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:

i. 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.
ii. Foreign exchange derivatives that do not contain options which are priced using rates available from publicly quoted sources.

Note 22(c) Debt securities issued and subordinated debt

30 June 2016	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial assets at amortised cost				
Loans and advances	–	–	16,804	16,804
Financial liabilities at amortised cost				
Deposits and other borrowings	–	–	14,796	14,796
Debt securities issued	–	1,923	–	1,923
Subordinated debt	–	367	–	367

30 June 2015	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets at amortised cost				
Loans and advances	–	–	15,704	15,704
Financial liabilities at amortised cost				
Deposits and other borrowings	–	–	13,759	13,759
Debt securities issued	–	1,790	–	1,790
Subordinated debt	–	351	–	351

POLICIES

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

Loans and advances

Kiwibank 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 Kiwibank 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 FOR THE YEAR ENDED 30 JUNE 2016

NOTE 23. IMPAIRMENT OF NON-FINANCIAL ASSETS

Key assumptions used in Goodwill review

The Directors have concluded that there has been no impairment of goodwill. In forming this conclusion, they have obtained independent valuations of the cash generating units.

In the case of Express Couriers Limited operations, the goodwill arises from a business combination which is now accounted for within the Core Post operations CGU. The independent valuation of this CGU advised a range of valuations reflecting the inherent uncertainties particularly in the traditional postal business. The valuation was based on value in use using a three year forecast with consideration of fair value. The net assets employed in the CGU, including the goodwill arising from the business combination of Express Couriers Limited, fell towards the upper end of the range of the independent valuation received. The Directors determined based on the independent advice received that no impairment was required.

The recoverable amount of the Core Post operations is within the range of the valuation calculated based on value in use using a three year forecast. A change in terminal value growth rate to 1.5% or a rise in the pre-tax discount rate to 10.9% would, all changes taken in isolation, result in the top range of the recoverable amount being equal to the carrying amount.

A reasonable change in the assumptions used for the New Zealand Home Loans Company Limited operations and related Kiwibank operations and Kiwi Wealth Limited operations would not result in an impairment.

The tables below show the key inputs used to calculate the value of each CGU in which goodwill is held.

Business combination

30 June 2016	**Carrying value of goodwill and brands $m**	**Pre-tax discount rate**	**Average growth rate**	**Terminal value growth rate**
The New Zealand Home Loans Company Limited	**31**	**17.1%**	**3.4%**	**3.0%**
Kiwi Wealth Limited	**44**	**19.8%**	**28.9%**	**2.5%**
Express Couriers Limited	**173**	**10.4%**	**23.5%**	**2.3%**

30 June 2015	Carrying value of goodwill $m	Pre-tax discount rate	Average growth rate	Terminal value growth rate
The New Zealand Home Loans Company Limited	31	14.4%	7.5%	2.7%
Kiwi Wealth Limited	44	13.5%	29.8%	2.8%
Express Couriers Limited	173	13.4%	7.4%	-2.3%

Recognised Impairment

Converga Pty Ltd

During the 2015 financial year, Converga Pty Ltd lost a major customer who previously contributed significantly to the profitability and cash flows of the business. The carrying value of Converga Pty Ltd exceeded its recoverable amount and an impairment of $17m was recognised in respect of its goodwill. The recoverable amount was determined by calculating the value in use of Converga Pty Ltd using a discounted cash flow model.

POLICIES

Testing for impairment

The Group tests property, plant and equipment, intangibles and goodwill for impairment:

- → at least annually for indefinite life intangibles and goodwill; and
- → where there is an indication that the asset may be impaired (which is assessed at least each reporting date); or
- → where there is an indication that previously recognised impairment (on assets other than goodwill) may have changed.

Assets are impaired if their recoverable amount is less than its carrying amount. An impairment loss is recognised in profit or loss for the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (CGUs) or groups of CGUs, that is expected to benefit from the synergies of the business combination (assets or groups of assets that derive cash flow benefits to the Group). Impairment losses for goodwill are not reversed.

Goodwill acquired through business combinations has been allocated to individual cash generating units for impairment testing, as follows:

Business combination	Cash generating unit	Operating segment
Acquisition of The New Zealand Home Loans Company Limited	The New Zealand Home Loans Company Limited operations and related Kiwibank operations	KGH
Acquisition of Kiwi Wealth Limited	Kiwi Wealth Limited operations	KGH
Acquisition of Express Couriers Limited	Core Post operations	Post

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

Financing

NOTE 24. BORROWINGS

	2016 $m	2015 $m
Current borrowings		
Commercial paper	40	40
New Zealand Post bond programme	150	–
Total current borrowings	190	40
Non-current borrowings		
New Zealand Post bond programme	–	150
New Zealand Post Group Finance subordinated notes	199	198
Total non-current borrowings	199	348

Funding activities

The following provides information about borrowings issued and repaid during the years presented:

Commercial Paper

During the year ended 30 June 2016 $159m (30 June 2015: $159m) of commercial paper was issued and $160m (30 June 2015: $160m) was repaid.

New Zealand Post Bond Programme

Bonds outstanding have a coupon rate of 5.225% and a maturity of 15 November 2016 (30 June 2015: same). All bonds are unsecured and rank equally with other unsecured creditors. The bonds carry an A+ credit rating from Standard & Poors Pty Limited at balance date.

New Zealand Post Group Finance Subordinated Notes

The subordinated notes are part of the Group's core debt and have a maturity date of 15 November 2039 (2015: same).

POLICIES

Any difference between the proceeds and the redemption value of borrowings is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Borrowing costs directly attributable to the issuance of debt is capitalised and amortised over the life of the debt instrument.

NOTE 25. FINANCIAL INSTRUMENTS FOR THE GROUP (EXCLUDING KIWIBANK)

Financial instruments by category

For the purposes of this note, 'the Group' refers to the Group excluding Kiwibank. Kiwibank financial instrument disclosures are included in Note 26.

30 June 2016	**Fair value through P&L $m**	**Loans and receivables $m**	**Total $m**
Cash and cash equivalents	–	68	68
Short term deposits	–	233	233
Trade and other receivables	–	209	209
Derivative financial assets	9	–	9
Total financial assets	9	510	519

	Fair value through P&L $m	**Other financial liabilities at amortised cost $m**	**Total $m**
Trade and other payables	–	255	255
Derivative financial liabilities	26	–	26
Borrowings	–	389	389
Total financial liabilities	26	644	670

30 June 2015	Fair value through P&L $m	Loans and receivables $m	Total $m
Cash and cash equivalents	–	78	78
Short term deposits	–	160	160
Trade and other receivables	–	186	186
Derivative financial assets	3	–	3
Total financial assets	3	424	427

	Fair value through P&L $m	Other financial liabilities at amortised cost $m	Total $m
Trade and other payables	–	274	274
Derivative financial liabilities	14	–	14
Borrowings	–	390	390
Total financial liabilities	14	664	678

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 25. FINANCIAL INSTRUMENTS FOR THE GROUP (EXCLUDING KIWIBANK) continued

Financial instruments by category continued

POLICIES

Designation of financial instruments

Designation of financial assets and financial liabilities by individual entities 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.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. Derivatives are categorised as held for trading unless they are designated as hedges. Financial assets at fair value through profit or loss are recognised initially at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Transaction costs are expensed as they are incurred.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group designates as at 'fair value through profit or loss'. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. 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 profit or loss.

The Group assesses at the end of each reporting period whether there is objective evidence that loans and receivables are impaired and the Group will not be able to collect all amounts due as per the original transaction terms.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Borrowings are recognised when cash is advanced to the borrowers.

De-recognition

Financial assets are de-recognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities

The Group classifies its financial liabilities as either fair value through profit or loss or at amortised cost. Financial liabilities at fair value through profit and loss comprise liabilities held for trading and financial liabilities designated at fair value through profit or loss and are recorded at fair value with any realised and unrealised gains or losses recognised in profit or loss. Transactions costs are expensed as they are incurred.

Amortisation and foreign exchange gains and losses, are recognised in profit or loss as is any gain or loss when the liability is de-recognised.

Derivative Financial Instruments

Derivatives that do not qualify for hedge accounting are classified as held for trading financial instruments with fair value gains or losses recognised in the profit or loss.

Financial risk management

The Group's exposure to risk arises directly from its operating, investing and financing activities. These activities involve the acceptance of credit, market (currency and interest rate), financing and operational risks. The management of risk is an essential element of the Group's strategy with emphasis placed on pro-active management to enhance shareholder value and minimise earnings volatility in individual financial years and multi-year periods.

The Board of Directors of the Group are responsible for the direction and strategies around risk management. To help with this obligation the Board has created a governance structure. The Board is responsible for policy setting (with advice from the Finance, Risk and Investment Committee) and the corporate finance team is responsible for execution of the policies. The management of each of these risks are summarised below:

- Liquidity risk (Note 25(b));
- Market risk, including foreign currency, interest rate and commodity price risk (Note 25(c)); and
- Credit risk (Note 25(d))

Note 25(a) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position 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.

Note 25(b) Liquidity risk

Nature of the risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities that are settled by delivering cash or another financial asset when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Liquidity risk management

Management of liquidity risk is designed to ensure that the Group 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 Group monitors this risk daily, primarily by forecasting future cash requirements.

Group borrowings include New Zealand Post Group Finance subordinated notes.

The Company has guaranteed the payment obligations of Kiwibank under a deed poll guarantee. Refer to Note 18 which shows the amount of Kiwibank specific banking liabilities and Note 29 for further details on the guarantee (consistent with 2015).

The tables below summarise the cash flows payable by the Group under both non-derivative and derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the inherent liquidity risk is managed based on expected undiscounted cash flows.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 25. FINANCIAL INSTRUMENTS FOR THE GROUP (EXCLUDING KIWIBANK) continued

Note 25(b) Liquidity risk continued

30 June 2016	Up To 3 Months	Between 3 and 12 Months	Between 1 and 5 Years	More Than 5 Years	Total
Non-derivative cash flows					
Cash and cash equivalents	68	–	–	–	68
Short term deposits	112	121	–	–	233
Trade and other receivables	171	15	23	–	209
Trade and other payables	(220)	(17)	(18)	–	(255)
Borrowings	(40)	(150)	(199)	–	(389)
Net non derivative cash flows	91	(31)	(194)	–	(134)
Derivative cash flows					
Foreign exchange derivatives – inflows	11	25	–	–	36
Foreign exchange derivatives – outflows	(18)	(23)	–	–	(41)
Interest rate derivatives – inflows	2	8	12	–	22
Interest rate derivatives – outflows	(8)	(28)	(55)	(4)	(95)
Commitments					
Capital commitments	(14)	(5)	(1)	–	(20)
Lease commitments	–	(50)	(134)	(52)	(236)
Lease receipts	–	2	5	–	7
Total off balance sheet cash flows	(27)	(71)	(173)	(56)	(327)
Net position	64	(102)	(367)	(56)	(461)

30 June 2015	Up To 3 Months	Between 3 and 12 Months	Between 1 and 5 Years	More Than 5 Years	Total
Non-derivative cash flows					
Cash and cash equivalents	82	1	–	–	83
Short term deposits	160	–	–	–	160
Trade and other receivables	159	6	16	–	181
Trade and other payables	(271)	(1)	(2)	–	(274)
Borrowings	(40)	(198)	(150)	–	(388)
Net non derivative cash flows	90	(192)	(136)	–	(238)
Derivative cash flows					
Foreign exchange derivatives – inflows	16	6	–	–	22
Foreign exchange derivatives – outflows	(15)	(5)	–	–	(20)
Interest rate derivatives – inflows	–	10	9	5	24
Interest rate derivatives – outflows	(8)	(33)	(66)	(5)	(112)
Commitments					
Capital commitments	(4)	(8)	(2)	–	(14)
Lease commitments	–	(60)	(151)	(33)	(244)
Lease receipts	–	1	3	–	4
Total off balance sheet cash flows	(11)	(89)	(207)	(33)	(340)
Net position	79	(281)	(343)	(33)	(578)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 25. FINANCIAL INSTRUMENTS FOR THE GROUP (EXCLUDING KIWIBANK) continued

Note 25(c) Market risk

Nature of foreign currency risk

Currency risk is the risk of cash flow uncertainty that may arise from a movement in foreign exchange rates to which the Group may be exposed. In the case of the Group this is foreign exchange transaction risk and foreign exchange translation risk arising from normal trading activities. Some of the trading exposures arise as a result of obligations with overseas postal administrators which are invoiced in Special Drawing Rights (SDR) and are settled in United States Dollars (USD). The SDR is a basket currency composed of fixed quantities of four major traded currencies (USD, Yen, Euro and Pound Sterling). The composition of the basket is set by the International Monetary Fund. The foreign currency which the Group primarily deals in is the United States Dollar. The main objective of the management of currency risk is to manage the exposure to foreign exchange risk.

Foreign currency risk management

The Group manages currency risk to the Statement of Profit or Loss and Other Comprehensive Income through the use of derivatives (foreign exchange contracts). The Group's policy is to hedge net foreign currency cash flows forecast to occur within the next two years, and foreign currency capital expenditure over $0.3m, forecast to occur within 3 months (50%-100% cover), 12 months (0-50% cover) and 24 months (0-25% cover).

Exposure

The Group's exposure to foreign currency risk (prior to hedging contracts) at reporting date are:

	2016		2015	
	AUD NZD$m	**USD NZD$m**	AUD NZD$m	USD NZD$m
Cash and cash equivalents	**–**	**5**	11	1
Trade and other receivables	**11**	**44**	10	44
Trade and other payables	**–**	**(20)**	(17)	(16)
Net on balance sheet financial position	**11**	**29**	4	29

The Group's sensitivity to foreign exchange movements

The table below summarises the pre-tax sensitivity of financial assets and financial liabilities to changes in currency risks with all other variables held constant. The fair value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario.

The sensitivity percentage applied reflects a reasonable movement in variables that could likely impact the financial assets and financial liabilities of the Group. The sensitivity to interest rate risks has an equal impact on profit or loss and equity.

2016	**Total Currency Exposure NZD$m**	**+10% Impact on profit NZD$m**	**+10% Impact on equity NZD$m**	**-10% Impact on profit NZD$m**	**-10% Impact on equity NZD$m**
Financial assets / (liabilities)					
Cash and cash equivalents	5	–	–	–	–
Trade and other receivables	55	6	6	(6)	(6)
Trade and other payables	(20)	(2)	(2)	2	2
Net impact	40	4	4	(4)	(4)

2015	Total Currency Exposure NZD$m	+10% Impact on profit NZD$m	+10% Impact on equity NZD$m	-10% Impact on profit NZD$m	-10% Impact on equity NZD$m
Financial assets / (liabilities)					
Cash and cash equivalents	12	1	1	(1)	(1)
Trade and other receivables	54	5	5	(5)	(5)
Trade and other payables	(33)	(3)	(3)	3	3
Net impact	33	3	3	(3)	(3)

Nature of interest rate risk

Interest rate risk is defined as the risk of the Group's cost of funds changing (cash flow risk) as a result of changes in the interest rates paid on outstanding debt. The main objective of the management of interest rate risk is to minimise the volatility in the cost of debt.

Interest rate risk management

The Group manages interest rate risk through the use of derivatives to modify its exposure to changes in interest rates. The derivatives entered into swap the variable rate of interest to a fixed rate to allow the Group to accurately forecast future funding cost requirements. Interest rate repricing on financial assets acts as an offset to repricing on financial liabilities.

Commercial paper is held for three months per issuance. Due to its short term nature this is considered to be low risk.

Exposure

The Group has floating rate borrowings with a face value of $40m at 30 June 2016 (30 June 2015 - $40m), and fixed rate borrowings with a face value of $350m (30 June 2015 - $350m). All borrowings are used to fund ongoing activities. As at 30 June 2016 the weighted average interest rate on borrowings (as amended by interest rate swaps) is 6.28% (30 June 2015 - 6.53%).

The Group's sensitivity to interest rate movements

The table below summarises the pre-tax sensitivity of financial assets and financial liabilities to changes in interest rate risks with all other variables held constant. The fair value of the assets and liabilities were used as the basis for the analysis and financial modelling was used to determine the impact on those values of changes in each risk scenario.

The sensitivity percentage applied reflects a reasonable movement in variables that could likely impact the financial assets and financial liabilities of the Group. The sensitivity to interest rate risks has an equal impact on profit or loss and equity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 25. FINANCIAL INSTRUMENTS FOR THE GROUP (EXCLUDING KIWIBANK) continued

Note 25(c) Market risk continued

		+1%		**-1%**	
2016	**NZD$m**	**Impact on profit NZD$m**	**Impact on equity NZD$m**	**Impact on profit NZD$m**	**Impact on equity NZD$m**
Financial assets / (liabilities)					
Cash and cash equivalents	68	1	1	(1)	(1)
Short term deposits	233	2	2	(2)	(2)
Borrowings	(389)	(4)	(4)	4	4
Net impact	**(88)**	**(1)**	**(1)**	**1**	**1**

		+1%		-1%	
2015	NZD$m	Impact on profit NZD$m	Impact on equity NZD$m	Impact on profit NZD$m	Impact on equity NZD$m
Financial assets / (liabilities)					
Cash and cash equivalents	83	1	1	(1)	(1)
Short term deposits	160	2	2	(2)	(2)
Borrowings	(388)	(4)	(4)	4	4
Net impact	(145)	(1)	(1)	1	1

Note 25(d) Credit risk

Nature of the risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time. Counterparty credit exposures arise as a consequence of the Group entering into contractual arrangements that involve the future exchange of assets and/or services.

Credit risk management

The Group manages credit risk through the formulation of specific policy benchmarks and parameters (including credit terms for customers and debtor day targets) set by the Board which must be complied with in all situations. Credit risk is monitored on an ongoing weekly and monthly basis by management and the Board. No collateral is held as at 30 June 2016 (30 June 2015 – nil).

Credit risk exposure

The following table represents a worst case scenario of credit risk exposure to the Group at 30 June 2016 and 30 June 2015. The exposures set out are based on net carrying amounts as reported in the balance sheet.

At balance date, 74% of the total maximum exposure is derived from trade and other receivables (30 June 2015 – 69%). Management is confident in its ability to control and sustain minimal exposure of credit risk resulting from its financial assets.

There are no individual counterparties or connected persons where their credit exposure equalled or exceeded 10% of the Group's total credit exposure during the year (2015 - nil). The Group performs credit checks on new customers prior to creating an account. Debt is monitored regularly.

	2016 $m	2015 $m
Cash and cash equivalents	68	83
Short term deposits	233	160
Trade and other receivables	211	192
Derivative financial assets	9	3
Total gross financial assets	521	438
Allowance for impairment losses	(2)	(6)
Total net financial assets	519	432

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS

Financial instruments by category

30 June 2016	Loans and receivables $m	Available-for-sale $m	Assets at fair value through profit and loss: Held for trading $m	Assets at fair value through profit and loss: Designated at FVTPL $m	Derivatives used for hedging $m	Total $m
Cash and cash equivalents	509	–	–	–	–	509
Due from other financial institutions	247	–	–	–	–	247
Financial assets held for trading	–	–	–	–	–	–
Available-for-sale assets	–	955	–	–	–	955
Loans and advances	16,689	–	–	–	–	16,689
Derivative financial instruments	–	–	540	–	118	658
Total financial assets	**17,445**	**955**	**540**	**–**	**118**	**19,058**

	Liabilities at fair value through profit or loss: Held for trading	Liabilities at fair value through profit or loss: Designated at FVTPL	Derivatives used for hedging	Other financial liabilities at amortised	Total
Due to other financial institutions	–	–	–	135	135
Deposits and other borrowings	–	–	–	14,782	14,782
Derivative financial instruments	564	–	161	–	725
Debt securities issued	–	290	–	1,917	2,207
Subordinated debt	–	–	–	356	356
Total financial liabilities	**564**	**290**	**161**	**17,190**	**18,205**

30 June 2015	Loans and receivables $m	Available-for-sale $m	Assets at fair value through profit and loss: Held for trading $m	Assets at fair value through profit and loss: Designated at FVTPL $m	Derivatives used for hedging $m	Total $m
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
Total financial assets	16,284	1,222	438	–	138	18,082

	Liabilities at fair value through profit or loss: Held for trading	Liabilities at fair value through profit or loss: Designated at FVTPL	Derivatives used for hedging	Other financial liabilities at amortised	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	–	–	–	344	344
Total financial liabilities	333	615	142	16,191	17,281

Risk management

Kiwibank'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:

i. The Board providing oversight on risk appetites, strategies, and monitoring progress;

ii. Business unit level accountability for the management of risks in accordance with agreed strategies and the Bank's risk management framework;

iii. The Risk Management function is responsible for implementing a risk management framework and providing assurance around the management of various elements of risk; and

iv. 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:

i. Review and approval of Kiwibank's frameworks and policies for managing business, credit, market and operational risk and maintaining an effective risk management framework.

ii. Monitoring the Bank's key risks, performance, exposures against limits, capital levels and management of Kiwibank's risks.

iii. Monitoring anticipated changes in the economic and business environment and other factors relevant to Kiwibank's risk profile.

iv. Review and approval of limits and conditions that apply to risk taking.

v. Review of internal audit activities and significant audit issues.

vi. 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 Kiwibank's risk management system were undertaken by external parties during the year ended 30 June 2016.

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 KGH Chief Financial 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Risk management framework

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

Strategic risk management

A framework and set of processes that Kiwibank uses to plan, organise, lead and control risk management activities in an effort to minimise the effects and impacts of risk events on Kiwibank'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 Kiwibank, which forms the basis of reporting Kiwibank's risk profile.
ii. Risk appetite – Kiwibank'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 Kiwibank's fundamental attitude towards risk and risk management. The risk policy statements are intended to ensure employees understand Kiwibank'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 that Kiwibank is adequately capitalised while recognising capital is often an expensive form of funding or insurance. Kiwibank seeks to maintain and acquire capital in an economically effective manner so as to: i) support future development and growth aspirations; ii) comply 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.

Kiwibank 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 Kiwibank'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 Kiwibank's approach to mitigating and managing these risks.

Kiwibank 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, Kiwibank 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 Kiwibank. 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 Kiwibank 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 (Note 26(a))

The risk of financial loss arising from the failure of a customer or counterparty to honour any financial or contractual obligation.

Market risk (Note 26(b))

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 and compliance risk (Note 26(c))

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 (Note 26(d))

Macro or micro environmental events that could impede or prevent Kiwibank achieving its stated business goals or strategies, including missed opportunities and potential losses/damage arising from poor strategic business decisions.

Systemic Risk (Note 26(e))

Systemic risk the risk the global and domestic economic environment changes materially so the Banking Group is unable to achieve its business goals and strategies. This includes changes in financial markets impacting credit and liquidity flows.

Note 26 (a) Credit Risk

Nature of the risk

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

Key elements of the Credit risk management framework are:

Credit Risk Management

Key elements of the Credit risk management framework are:

Credit risk

The Board requires sound lending growth for appropriate returns. Kiwibank pursues this objective in a structured manner, managing credit risk through application of sector specific credit underwriting standards including scorecards, a robust control environment, monitoring of the portfolios, review of all major credit risks and risk concentrations and through a tiered structure of delegated lending authorities designed to control 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 troublesome and impaired accounts; and iv) undertake portfolio monitoring and loan asset quality analysis and reporting

The integrity and effectiveness of Kiwibank'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

Kiwibank's credit portfolio is divided into two Asset Classes, Retail and Corporate. 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 Corporate 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.

NOTE 26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Note 26 (a) Credit Risk 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 capacity, 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 which are carried out on a regular basis. Functions are segregated so that no one person is in a position to control all significant stages of the credit process, 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.

Concentration of Credit Risk

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

	2016 $m	2015 $m
New Zealand		
– government, local authorities and services	**962**	1,244
– finance, investment and insurance	**1,397**	1,279
– households	**15,051**	13,906
– transport and storage	**67**	44
– professional, scientific and technical services	**39**	41
– electricity, gas and water	**3**	4
– construction	**220**	165
– property and business services	**836**	1,015
– agriculture	**24**	25
– health and community services	**92**	68
– personal and other services	**183**	79
– retail and wholesale trade	**86**	74
– food and other manufacturing	**108**	203
Overseas		
– finance, investment and insurance	**120**	65
Total financial assets	**19,188**	18,212
Less allowance for impairment losses	**(53)**	(53)
Total financial assets	**19,135**	18,159

	2016 $m			2015 $m		
Credit Risk Relating to Statement of Financial Position Assets	**Maximum exposure**	**Collateral**	**Net exposure**	Maximum exposure	Collateral	Net exposure
Fixed rate lending at amortised cost	**12,580**	**(12,573)**	**7**	11,387	(11,378)	9
Variable rate lending	**3,762**	**(3,760)**	**2**	3,883	(3,880)	3
Unsecured lending	**400**	**–**	**400**	381	–	381
Balances with related parties	**77**	**–**	**77**	77	–	77
Due from other financial institutions	**247**	**–**	**247**	194	–	194
Derivative financial instruments	**658**	**(78)**	**580**	480	(120)	360
Financial assets held for trading	**–**	**–**	**–**	96	–	96
Available for sale assets	**955**	**–**	**955**	1,222	–	1,222
Cash and cash equivalents	**509**	**–**	**509**	492	–	492
Total gross financial assets	**19,188**	**(16,411)**	**2,777**	18,212	(15,378)	2,834
Allowance for impairment losses	**(53)**	**–**	**(53)**	(53)	–	(53)
Total net financial assets	**19,135**	**(16,411)**	**2,724**	18,159	(15,378)	2,781

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Note 26 (a) Credit Risk continued

The table above represents a worst case scenario of credit risk exposure to the Banking Group at 30 June 2016. The exposures set out are based on net carrying amounts as reported in the statement of financial performance.

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

The exposure of Kiwibank derived from loans and advances to retail and corporate customers is 87% of the local maximum exposure (30 June 2015: 86%).

The table above provides a quantification of the value of the financial charges that Kiwibank holds over a borrower's specific asset (or assets) where Kiwibank 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. Kiwibank is potentially exposed to credit risk for undrawn loan commitments for an amount equal to the undrawn balance.

Note 26(b) Market Risk

Nature of the risk

Market risk arises from the mismatch between assets and liabilities in the banking business. 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.

Market risk management

The 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 Kiwibank'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.

The following tables summarise Kiwibank's exposure to interest rate risk. They include banking financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

30 June 2016	**Total $m**	**Non Interest Bearing $m**	**Up to 3 Months $m**	**3 to 6 Months $m**	**6 Months to 1 Year $m**	**Between 1 and 2 Years $m**	**Over 2 Years $m**
Financial Assets							
Cash and cash equivalents	509	31	478	–	–	–	–
Due from other financial institutions	247	42	205	–	–	–	–
Financial assets held for trading	–	–	–	–	–	–	–
Available for sale assets	955	–	89	–	26	294	546
Loans and advances	16,689	(31)	5,313	1,559	3,185	5,304	1,359
Derivative financial instruments	658	658	–	–	–	–	–
Total financial assets	19,058	700	6,085	1,559	3,211	5,598	1,905
Financial Liabilities							
Due to other financial institutions	(135)	(4)	(131)	–	–	–	–
Deposits and other borrowings	(14,782)	(1,506)	(9,463)	(1,809)	(1,563)	(245)	(196)
Derivative financial instruments	(725)	(725)	–	–	–	–	–
Debt securities issued	(2,207)	–	(977)	(159)	(160)	(98)	(813)
Subordinated debt	(356)	–	–	–	–	(150)	(206)
Total financial liabilities	(18,205)	(2,235)	(10,571)	(1,968)	(1,723)	(493)	(1,215)
On balance sheet gap	853	(1,535)	(4,486)	(409)	1,488	5,105	690
Net derivative notional principals	20	–	4,706	(170)	(981)	(4,026)	491
Net effective interest rate gap	873	(1,535)	220	(579)	507	1,079	1,181

30 June 2015	Total $m	Non Interest Bearing $m	Up to 3 Months $m	3 to 6 Months $m	6 Months to 1 Year $m	Between 1 and 2 Years $m	Over 2 Years $m
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	–	–	–	–	–
Total financial assets	18,082	516	5,741	1,069	2,668	5,041	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	(344)	–	–	–	–	–	(344)
Total financial liabilities	(17,281)	(1,758)	(10,165)	(1,995)	(1,647)	(289)	(1,427)
On balance sheet gap	801	(1,242)	(4,424)	(926)	1,021	4,752	1,620
Net derivative notional principals	107	–	5,681	674	(1,623)	(4,009)	(616)
Net effective interest rate gap	908	(1,242)	1,257	(252)	(602)	743	1,004

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26. FINANCIAL INSTRUMENTS FOR THE GROUP (EXCLUDING KIWIBANK) continued

Note 26(b) Market risk 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.

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 of Kiwibank Limited sets limits on the level of exposure by currency and in aggregate for overnight positions, which are monitored daily. The table below summarises Kiwibank's exposure to foreign currency exchange rate risk as at the reporting date. Included in the table are banking financial instruments at carrying amounts, categorised by currency.

30 June 2016	**NZD $m**	**AUD $m**	**USD $m**	**GBP $m**	**EUR $m**	**CHF $m**	**OTHER $m**	**Total $m**
Financial Assets								
Cash and cash equivalents	433	10	43	11	9	–	3	509
Due from other financial institutions	205	–	42	–	–	–	–	247
Financial assets held for trading	–	–	–	–	–	–	–	–
Available for sale assets	955	–	–	–	–	–	–	955
Loans and advances	16,687	–	1	–	1	–	–	16,689
Derivative financial instruments	248	(27)	(101)	(3)	(3)	512	32	658
Total financial assets	18,528	(17)	(15)	8	7	512	35	19,058
Financial Liabilities								
Due to other financial institutions	(92)	–	(43)	–	–	–	–	(135)
Deposits	(14,689)	(18)	(47)	(13)	(12)	–	(3)	(14,782)
Derivative financial instruments	(1,339)	177	305	4	5	–	123	(725)
Debt securities issued	(1,231)	(136)	(190)	–	–	(495)	(155)	(2,207)
Subordinated debt	(356)	–	–	–	–	–	–	(356)
Total financial liabilities	(17,707)	23	25	(9)	(7)	(495)	(35)	(18,205)
Net on balance sheet financial position	821	6	10	(1)	–	17	–	853

30 June 2015	NZD $m	AUD $m	USD $m	GBP $m	EUR $m	CHF $m	OTHER $m	Total $m
Financial Assets								
Cash and cash equivalents	428	12	31	11	7	–	3	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)	244	440	4	5	561	83	480
Total financial assets	16,680	256	471	15	13	561	86	18,082
Financial Liabilities								
Due to other financial institutions	(325)	–	–	–	–	–	–	(325)
Deposits	(13,655)	(14)	(42)	(14)	(11)	(1)	(3)	(13,740)
Derivative financial instruments	(473)	(1)	(62)	(1)	(2)	(1)	65	(475)
Debt securities issued	(1,110)	(237)	(367)	–	–	(537)	(146)	(2,397)
Subordinated debt	(344)	–	–	–	–	–	–	(344)
Total financial liabilities	(15,907)	(252)	(471)	(15)	(13)	(539)	(84)	(17,281)
Net on balance sheet financial position	773	4	–	–	–	22	2	801

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Note 26(b) Market Risk continued

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. Kiwibank'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 Kiwibank'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 Kiwibank 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.

Liquidity risk management

Kiwibank's liquidity management responsibilities include:

i. Day-to-day liquidity requirements. RBNZ liquidity ratios are calculated and monitored daily to ensure that Kiwibank:
   a. is compliant with part 11 of the Conditions of registration and the RBNZ "Liquidity policy" (BS13)
   b. 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 over a one week, one-month period;
   c. maintains a diversified stable funding base
ii. Securing an appropriately matched profile of future cash flows from maturing assets and liabilities.
iii. Implementing Kiwibank's funding plan which includes the development of sustainable wholesale funding capacity.
iv. Stress testing Kiwibank's funding and liquidity position with a range of adverse events covering a name crisis, an international credit crisis, a Kiwibank Name event combined with domestic funding stress.

Non-Derivative Cash Flows

The following tables summarise the cash flows payable by 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. Kiwibank does not manage the liquidity risk on the basis of the information provided below.

Derivative Cash Flows

Derivatives settled on a net basis

The following tables analyses 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.

Derivatives settled on a gross basis

The following tables analyses 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.

30 June 2016	On Demand $m	Up To 3 Months $m	Between 3 and 12 Months $m	Between 1 and 5 Years $m	More Than 5 Years $m	Gross nominal inflow/ outflow $m
Financial Liabilities						
Non-derivative cash flows						
Due to other financial institutions	(135)	–	–	–	–	(135)
Deposits and other borrowings	(5,605)	(5,398)	(3,411)	(489)	–	(14,903)
Debt securities issued	(147)	(249)	(459)	(1,467)	(35)	(2,357)
Subordinated debt	(3)	–	(12)	(61)	(286)	(362)
Total financial liabilities	(5,890)	(5,647)	(3,882)	(2,017)	(321)	(17,757)
Financial Assets						
Cash and cash equivalents	509	–	–	–	–	509
Due from other financial institutions	247	–	–	–	–	247
Financial assets held for trading	–	–	–	–	–	–
Available for sale assets	8	11	72	925	–	1,016
Loans and advances	174	357	1,088	3,823	28,626	34,068
Total financial assets	938	368	1,160	4,748	28,626	35,840
Net non derivative cash flows	(4,952)	(5,279)	(2,722)	2,731	28,305	18,083
Derivative cash flows – net						
Interest rate derivatives	(18)	(11)	(55)	(34)	(2)	(120)
Total derivative cash flows – net	(18)	(11)	(55)	(34)	(2)	(120)
Derivative cash flows – gross						
Foreign exchange derivatives						
Inflow	437	170	377	747	35	1,766
Outflow	(443)	(174)	(390)	(678)	(40)	(1,725)
Total derivative cash flows – gross	(6)	(4)	(13)	69	(5)	41
Off balance sheet cash flows						
Capital commitments	–	(5)	(1)	–	–	(6)
Undrawn loan commitments	(2,650)	–	–	–	–	(2,650)
Lease commitments	–	(1)	(4)	(13)	–	(18)
Total off balance sheet cash flows	(2,650)	(6)	(5)	(13)	–	(2,674)
Net position	(7,626)	(5,300)	(2,795)	2,753	28,298	15,330
Cumulative net position	(7,626)	(12,926)	(15,721)	(12,968)	15,330	15,330

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Note 26(b) Market Risk continued

30 June 2015	On Demand $m	Up To 3 Months $m	Between 3 and 12 Months $m	Between 1 and 5 Years $m	More Than 5 Years $m	Gross nominal inflow/outflow $m
Financial Liabilities						
Non-derivative cash flows						
Due to other financial institutions	(325)	–	–	–	–	(325)
Deposits and other borrowings	(5,385)	(4,525)	(3,683)	(412)	–	(14,005)
Debt securities issued	(423)	(325)	(133)	(1,416)	(333)	(2,630)
Subordinated debt	(3)	–	(12)	(48)	(293)	(356)
Total financial liabilities	(6,136)	(4,850)	(3,828)	(1,876)	(626)	(17,316)
Financial Assets						
Cash and cash equivalents	492	–	–	–	–	492
Due from other financial institutions	194	–	–	–	–	194
Financial assets held for trading	–	1	6	87	15	109
Available for sale assets	34	99	252	932	–	1,317
Loans and advances	173	328	987	3,705	27,541	32,734
Total financial assets	893	428	1,245	4,724	27,556	34,846
Net non derivative cash flows	(5,243)	(4,422)	(2,583)	2,848	26,930	17,530
Derivative cash flows – net						
Interest rate derivatives	(3)	(12)	(48)	(68)	(3)	(134)
Total derivative cash flows – net	(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 derivative cash flows – gross	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 off balance sheet cash flows	(2,442)	(4)	(5)	(20)	–	(2,471)
Net position	(7,666)	(4,430)	(2,649)	2,785	27,020	15,060
Cumulative net position	(7,666)	(12,096)	(14,745)	(11,960)	15,060	15,060

Note 26 (c) Operational and Compliance Risk

Nature of the 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, a subset of operational 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":

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

Operational risk management

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

i. Operational risk management relies on the support and participation of all Kiwibank staff. 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
ii. Business units 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.
iii. A central Risk Management Unit owns and manages the operational risk and compliance framework and provides guidance, review and challenge to the first line

General Managers provide attestations regarding their operational risk and compliance systems and any weaknesses. A summary of the responses and any issues identified is reported to the executive Disclosures Committee and to the Board Risk, Credit and Compliance Committee.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Note 26 (d) Business and Strategic Risk

Nature of the 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 skillful 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.

Business and strategic risk management

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

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

Concentration of Funding

Concentrations of funding arise where Kiwibank is 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 reporting date is as follows:

	2016 $m	2015 $m
New Zealand		
– transport and storage	**135**	114
– finance, investment and insurance	**4,085**	3,727
– electricity, gas and water	**11**	6
– food and other manufacturing	**65**	39
– construction	**91**	66
– communications	**24**	23
– government, local authorities and services	**393**	363
– agriculture	**26**	32
– health and community services	**157**	153
– personal and other services	**233**	231
– property and business services	**415**	379
– education	**182**	163
– retail and wholesale trade	**55**	52
– households	**10,877**	10,200
Overseas		
– finance, investment and insurance - Australia	**100**	62
– finance, investment and insurance - rest of world	**992**	1,350
– households – Australia	**35**	33
– households – rest of the world	**231**	197
Total financial liabilities	**18,107**	17,190

Note 26 (e) 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:

i. *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.

ii. *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.

iii. *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.

Sensitivity analysis

The tables below summarise the pre-tax sensitivity of financial assets and financial liabilities to changes in the two key 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Sensitivity analysis continued

Interest rate risk – fair value

30 June 2016	Carrying Value $m	-1% Net profit $m	+1% Net profit $m	-1% Equity $m	+1% Equity $m
Financial Assets					
Cash and cash equivalents	509	–	–	–	–
Due from other financial institutions	247	–	–	–	–
Financial assets held for trading	–	–	–	–	–
Available for sale assets	955	–	–	23	(22)
Loans and advances	16,689	8	(8)	8	(8)
Derivative financial instruments	658	348	(332)	365	(348)
Total financial assets	19,058	356	(340)	396	(378)
Financial Liabilities					
Due to other financial institutions	(135)	–	–	–	–
Deposits and other borrowings	(14,782)	–	–	–	–
Derivative financial instruments	(725)	(325)	309	(403)	386
Debt securities issued	(2,207)	(26)	25	(26)	25
Subordinated debt	(356)	(2)	2	(2)	2
Total financial liabilities	(18,205)	(353)	336	(431)	413

30 June 2015	Carrying Value $m	-1% Net profit $m	+1% Net profit $m	-1% Equity $m	+1% Equity $m
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)
Total financial assets	18,082	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	(344)	(3)	3	(3)	3
Total financial liabilities	(17,281)	(332)	318	(438)	422

Interest rate risk – earnings

30 June 2016	**Carrying Value $m**	**-1% Net profit $m**	**+1% Net profit $m**	**-1% Equity $m**	**+1% Equity $m**
Financial Assets					
Cash and cash equivalents	509	(5)	5	(5)	5
Due from other financial institutions	247	(2)	2	(2)	2
Financial assets held for trading	–	–	–	–	–
Available for sale assets	955	(5)	5	(5)	5
Loans and advances	16,689	(113)	113	(113)	113
Derivative financial instruments	658	128	(128)	128	(128)
Total financial assets	19,058	3	(3)	3	(3)
Financial Liabilities					
Due to other financial institutions	(135)	1	(1)	1	(1)
Deposits and other borrowings	(14,782)	130	(130)	130	(130)
Derivative financial instruments	(725)	(177)	177	(177)	177
Debt securities issued	(2,207)	12	(12)	12	(12)
Subordinated debt	(356)	–	–	–	–
Total financial liabilities	(18,205)	(34)	34	(34)	34

30 June 2015	Carrying Value $m	-1% Net profit $m	+1% Net profit $m	-1% Equity $m	+1% Equity $m
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)
Total financial assets	18,082	(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	(344)	–	–	–	–
Total financial liabilities	(17,281)	35	(35)	35	(35)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

NOTE 26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Sensitivity analysis continued

Currency risk

30 June 2016	**Carrying Value $m**	**-10% Net profit $m**	**+10% Net profit $m**	**-10% Equity $m**	**+10% Equity $m**
Financial Assets					
Cash and cash equivalents	509	8	(7)	8	(7)
Due from other financial institutions	247	–	–	–	–
Financial assets held for trading	–	–	–	–	–
Available for sale assets	955	–	–	–	–
Loans and advances	16,689	–	–	–	–
Derivative financial instruments	658	41	(37)	41	(37)
Total financial assets	**19,058**	**49**	**(44)**	**49**	**(44)**
Financial Liabilities					
Due to other financial institutions	(135)	(4)	4	(4)	4
Deposits and other borrowings	(14,782)	(11)	9	(11)	9
Derivative financial instruments	(725)	61	(56)	61	(56)
Debt securities issued	(2,207)	(93)	85	(93)	84
Subordinated debt	(356)	–	–	–	–
Total financial liabilities	**(18,205)**	**(47)**	**42**	**(47)**	**41**

30 June 2015	Carrying Value $m	-10% Net profit $m	+10% Net profit $m	-10% Equity $m	+10% Equity $m
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)
Total financial assets	18,082	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	(344)	–	–	–	–
Total financial liabilities	(17,281)	(139)	126	(139)	126

NOTE 27. EQUITY

The nature of the Group's contributed equity

Ordinary Share Capital

At 30 June 2016 there were 492.2m authorised ordinary shares on issue (30 June 2015: 492.2m). Of these 192.2m are fully paid (30 June 2015: 192.2m). The shares have no par value. All shares have equal voting rights and share equally in dividends and surplus on winding up. In 2011 the Group received from the Government an uncalled capital facility of $300m on commercial terms which can be drawn on in response to a significant unforeseen event.

A final dividend for 2015 of $2.5m was paid to shareholders in September 2015 ($0.01 per fully paid share). An interim dividend of $2.5m was paid to shareholders in March 2016 at $0.01 per fully paid share (2015: Interim Dividend $0.01 per fully paid share).

	2016 $m	2015 $m
Ordinary Share Capital		
Balance at the beginning of the year	192	192
Balance at the end of the year	192	192

Non-controlling Interest

Perpetual capital notes (PCN)

On 27 May 2015, the $147m callable non-cumulative preference shares (net of costs associated with the original share issue) were repurchased. Kiwibank issued 150 million perpetual capital notes with a nominal value of $1 per note. The PCNs are deemed to be a compound instrument. The debt component is disclosed within Note 18(d).

	2016 $m	2015 $m
Non-controlling interest – perpetual capital notes (PCN)		
Balance at the beginning of the year	42	147
Repurchase of perpetual preference shares	–	(147)
Issue of PCN	–	58
Effect of restatement (refer to Note 2b)	–	(16)
Total PCN at end of year	42	42

Nature and purpose of reserves

Property Revaluation Reserve

The property revaluation reserves are used to record increments and decrements in the fair value of land and buildings to the extent that they offset for each asset.

Available for Sale Reserve

The available for sale reserve records movements in the fair value of available for sale financial assets.

Cash Flow Hedge Reserve

The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries where their functional currency differs from the Group's presentation currency.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

Other Disclosures

NOTE 28. RELATED PARTIES

General

The ultimate shareholder of the Group is the Crown. The Group undertakes many transactions with other State-Owned Enterprises, Crown Entities and Government Departments, which are carried out in the normal course of business. Kiwibank settles transactions with other New Zealand registered banks by way of the payment and settlement system operated by the Reserve Bank of New Zealand in its capacity as the central bank of New Zealand. All members of the Group are considered to be related parties of NZ Post.
This includes all subsidiaries and the joint venture. Transactions and balances with subsidiaries are not disclosed as they eliminate on consolidation.

	2016 $m	2015 $m
Related Party Transactions		
Dividends paid		
– Shareholders	5	5
– Non-controlling interest	11	9
Joint Venture		
– sale of goods and services	9	10
– purchase of goods and services	1	1
Related Party Balances		
The amounts outstanding with related parties at balance date were:		
Joint Venture		
– current accounts	1	–
– loans receivable	2	2
– investments	2	2
Total related party balances	5	4
Short-term employee benefits and Directors fees	6	7
Total key management personnel compensation	6	7
Loans to key management personnel	1	1
Deposits from key management personnel	2	1

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 including Directors. Key management personnel relates to Directors and Executive Team Members of the Group and Kiwibank.

NOTE 29. CONTINGENCIES

Contingent assets are disclosed only if it is probable that the benefit will be realised. Contingent liabilities are disclosed unless likelihood of an outflow of resources is remote. The following contingencies have not been accrued in the financial statements. The amounts disclosed are the maximum potential losses, excluding the effects of tax.

The Group is subject to additional claims, contingencies and investigations incurred in the normal course of business. Apart from those listed below, the Directors are not aware of any significant exposure to the Group.

Guarantees

Kiwibank

i. The Company has guaranteed the payment obligations of Kiwibank under a deed poll guarantee. There are no limits on the amount of the undisputed obligations guaranteed. The guarantee is unsecured and can be terminated on not less than three months' notice by the Company to the creditors. No call has been made on this guarantee as at 30 June 2016 (30 June 2015: nil);

ii. 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 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.

New Zealand Post Group Finance

The Company has guaranteed the payment obligations of New Zealand Post Group Finance Limited in relation to its subordinated notes (refer Note 24). The face value of the notes on issue at balance date is $200m. No call has been made on this guarantee as at 30 June 2016 (30 June 2015: nil).

NOTE 30. EVENTS OCCURRING AFTER REPORTING DATE

The Board of New Zealand Post Limited has declared a final dividend of $2.5m which will be paid on 30 September 2016.

In July 2016 New Zealand Post entered into a capital contract of $23m with Siemens Limited for the purchase of three mixed mail sorting machines and the equipment to run them.

NOTE 31. PARTIAL SALE OF SUBSIDIARY

In April 2016, NZ Post announced it was entering into due diligence with the NZ Super Fund and the Accident Compensation Corporation (ACC) to sell down a minority interest in Kiwi Group Holdings, the holding company for Kiwibank and its associated businesses including Kiwi Wealth Management and Kiwi Insurance. Negotiations with the potential investors were still ongoing at balance date and as at the signing of these financial statements.

Auditors' report

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Independent Auditor's Report
to the readers of New Zealand Post Limited Group's Financial Statements for the year ended 30 June 2016

The Auditor-General is the auditor of New Zealand Post Limited (the "Company") and its New Zealand domiciled subsidiaries (collectively referred to as the "Group"). The Auditor-General has appointed me, Paul Clark, using the staff and resources of PricewaterhouseCoopers to carry out the audit of the financial statements of the Group on her behalf.

Opinion
We have audited the financial statements of the Group on pages 5 to 87, that comprise the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group:

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

Our audit was completed on 25 August 2016. This is the date at which our opinion is expressed.

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

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

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

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

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Independent Auditor's Report

New Zealand Post Limited Group

An audit also involves evaluating:

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

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

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

Responsibilities of the Board of Directors

The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand, NZ IFRS and IFRS.

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

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

Responsibilities of the Auditor

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

Independence

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

In addition to the audit we have carried out assignments in the areas of other assurance services, tax compliance services and other advisory services, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Group.

Paul Clark

PricewaterhouseCoopers

Paul Clark
On behalf of the Auditor-General
Wellington

PricewaterhouseCoopers

NEW ZEALAND POST GROUP

NON-FINANCIAL INFORMATION

Statement of Corporate Intent performance

The Group has set a series of targets in our Statement of Corporate intent. This section shows how we have tracked against those targets in the 2015/16 year.

Scorecard Targets

			NZ Post Group		
			2015 Actual	2016 Actual	2016 Plan
Shareholder Returns					
(a)	Total Shareholder Return (1)	%	29.0%	9.7%	0.3%
(b)	Dividend yield (excl Kiwibank)	%	0.4%	0.4%	0.4%
(c)	Return on equity	%	13.2%	11.9%	9.4%
(d)	Return on equity adjusted	%	13.4%	12.2%	9.4%
Profitability / Efficiency					
(e)	Return on capital employed	%	6.3%	5.5%	4.5%
(f)	Operating margin	%	16.4%	17.4%	16.0%
Leverage and Solvency					
(g)	Gearing ratio (net)	%	88.4%	87.5%	87.6%
(h)	Interest cover	times	10.7	7.5	6.9
(i)	Solvency (Current ratio)	times	1.1	1.0	1.2
Good Employer					
(j)	People engagement index (Raw engagement score per the Annual Employee Engagement Survey)	%	73.2%	73.1%	74.2%
(k)	Lost Time Injury Frequency Rate (Lost time injuries per million hours worked)	per M	3.5	3.5	3.1
Corporate Responsibility					
(l)	Standard letter service performance % (Letters delivered to standard (Testpo Survey))		95.4%	94.2%	96.5%
(m)	Customer favourability (% Who rate NZP as 'excellent' or 'very good')	%	36.0%	38.0%	37.0%
(n)	Emissions reduction (2)	%	6.0%	n/a	n/a
(o)	Letters - Intensity increase (2)	%	n/a	5.9%	-1.0%
(p)	Parcels - Intensity decline (2)	%	n/a	-1.3%	1.0%

Notes

1. FY15 and FY16 Total Shareholders Return include changes in commercial valuation. No change in the commercial valuation is assumed in the outer plan years.
2. Two new measures of our sustainability footprint were used in FY16. They were measures for (o) Letter Intensity and (p) Parcel Intensity and replaced the FY15 measure, Emissions reduction.
3. All Kiwibank assets and liabilities have been treated as current for the ratios calculated above.

Statement of Corporate Intent performance continued

TREND	2016	Restated 2015	2015	2014
Operating Revenue	1,485	1,590	1,643	1,651
Operating Expenses	1,335	1,430	1,483	1,495
Profit Loss Before Tax	170	191	191	140
Operating margin before tax	10.1	10.1	9.7	9.4
Earnings per share	73.4	74.5	74.5	55.7
Total Assets	20,260	19,201	19,217	17,583
Average Shareholders Funds	1,182	1,079	1,079	994
Return on Average Shareholders Funds	11.9%	13.3%	13.3%	10.8%
Net Asset Backing per Share	6.7	6.0	6.1	6.2
Average Shareholders Funds to Total Assets	5.8	5.6	5.6	5.7
Interim Dividend per Share	1.3	1.3	1.3	1.3
Final Dividend per Share	1.3	1.3	1.3	1.3

Notes

1. In the current year, Kiwibank direct fees have been reclassified from operating expenses to operating revenue and therefore the comparative 2015 year has been re-stated to reflect the change.

Our performance in the community

Disclosed in accordance with Postal Services (Information Disclosure) Regulations 1998

Frequency of Delivery Services – Summary as at 30 June 2016

SERVICE	Delivery Points	6 Day	5 Day	4 Day	3 Day	2 Day	1 Day
Residential	1,442,787	217,852	1,301	66	1,223,568		
Business	82,025	13,107	124	9	68,785		
Private Box Farmers	3,014	2,761	253				
Private Box/Bag, Individual and Business	162,423	152,288	10,132		3		
Counter, Community mailbox	28,794	18,038	10,527		149	80	
Rural	246,658	206,860	38,195		1,080	381	142
TOTAL	**1,965,701**	**610,906**	**60,532**	**75**	**1,293,585**	**461**	**142**
PERCENT	100.00%	31.08%	3.08%	0.00%	65.81%	0.02%	0.01%

Frequency of delivery

	Our performance	Our commitment
Three day or greater delivery to	99.97%	(required minimum = 99.88%)
Counter, Community Mailbox percentage	1.37%	(allowed maximum = 3%)

Notes

1. 1927 points in the Counter, community mailbox category are excluded from the calculation of the percentage of delivery points as these are where people have elected to take this service over another that is available, as per clause 5 of the Deed. The number of people using temporary counter services (for up to 3 months) is excluded from the category.
2. The number of Counter and Community Mailbox users has been established by a survey and may differ slightly from practice.
3. Community mail boxes/counter services include instances where people are provided with a free PO Box or Private Bag by NZ Post rather than a Community Mailbox.

	Our performance
PostShop Stores (Corporate and Franchise)	274
PostCentre Outlets	608
Total Retail Outlets	882

	Our performance	Our commitment*
Personal Assistance Service Points**	511	240
Total Service Points***	987	880

* Commitment as specified in 2013 Deed of Understanding (Deed).

** "Personal Assistance Service Points" means Service Points where personal assistance is available to consumers for the purchase of local, national and international parcel and packet services excluding bulk mail and courier services. Since our 2015 Annual Report we have changed the basis of reporting to take a more conservative approach to identifying Personal Assistance Service Points in alignment with the Deed's intent.

*** "Service Points" means service points at which consumers can purchase basic postal services, including but not limited to the acceptance of Basic Postal Items, excluding bulk mail. "Basic Postal Items" means a postal item that does not exceed 260mm height, 385mm length, 20mm thickness and/or 1kg weight, excluding parcel, priority, courier or express services. Service Points may include retail outlets owned by New Zealand Post, service points hosted in other businesses, electronic kiosks and New Zealand Post resellers with a street receiver or alternative lodgement point within a 50 metre radius of the reseller. For the 2016 Annual Report we have included certain resellers that meet the Deed's policy intent for the provision of basic postal services to consumers.

LETTER DELIVERY PERFORMANCE

TNS

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Newmarket
PO Box 99069
Newmarket, Auckland
New Zealand

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To The Directors; New Zealand Post Limited

TNS conducted a measure of New Zealand Post's letter delivery performance measuring performance against the following criteria:

For FastPost:
- Delivery the next working day between major towns and cities across New Zealand

For Standard Post:
- Delivery within three working days for letters between major towns and cities within New Zealand

To measure the extent to which New Zealand Post is meeting these publicly stated objectives, we prepared for posting Standard Post and FastPost letters, which were sent to a representative sample of New Zealand Post's total customer base. Based on information supplied by New Zealand Post, we assess our sample to be representative of over 80% of all letter traffic within New Zealand.

We measured transit time by counting the number of business days from the day of posting of the letter to the day the letter was received by the addressee (Sundays and public holidays were not counted because mail is not delivered on these days).

Continuous measurement was conducted and reported on a monthly basis for Q1 and Q2 2015/2016. From February 2016, two quarterly "dipstick" measures were conducted in February and May. The annual result was calculated using data collected in August 2015, November 2015, February 2016 and May 2016. In our opinion this report fairly represents the service performance achieved by New Zealand Post Limited during the time of measurement.

The results of this test are summarised in the table below.

	Weighted Results*
Total within specification	94.5%
Total within three days of specification	99.7%
More than three days later than specified	0.3%

**Weighted to replicate the proportion of FastPost and Standard Post mail flows in New Zealand based on unaudited ratios supplied by New Zealand Post*

Yours sincerely

TNS New Zealand Ltd

Bindi Norwell
Executive Director

TNS New Zealand Ltd

Environment

Greenhouse Gas (GHG) Emissions

New Zealand Post Limited meets the requirements of CEMARS® certification having measured its greenhouse gas emissions in accordance with ISO 14064-1: 2006. We have committed to managing and reducing operational emissions within New Zealand, including our New Zealand based wholly owned subsidiaries and joint venture Reach Media New Zealand Limited.

The Group has applied a baseline year of 2012-13 for its emissions inventory. The operational control consolidation approach has been used to account for operational emissions with reference to the methodology described in the GHG Protocol and ISO 14064-1:2006 standards.

Group Emissions

Figure 1: 2015–16 GHG emissions by source

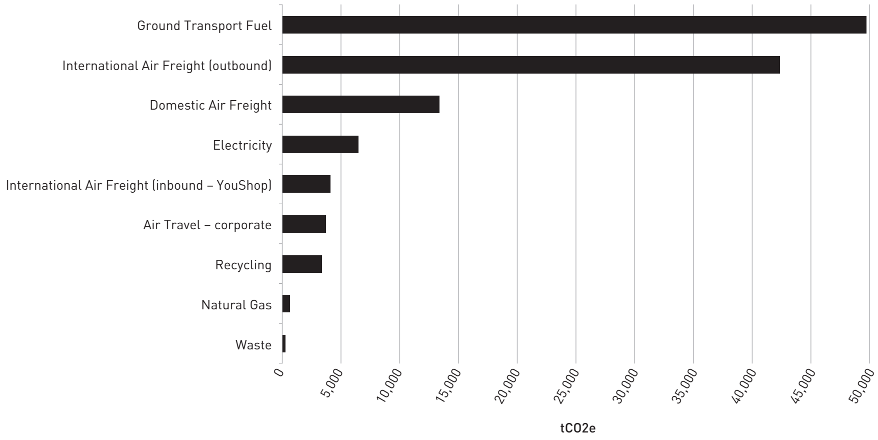

Figure 2: GHG emissions data summary (tCO_2e)

	2012-13 (base year)	2013-14	2014-15	2015-16	Change from base year
Scope 1	16,351	16,054	15,650	14,868	-9.1%
Scope 2	5,562	4,253	4,664	6,419	15.4%
Scope 3	105,605	100,637	93,400	102,237	-3.2%
Total	**127,518**	**120,944**	**113,714**	**123,524**	**-3.1%**

– This statement is a summary of the verified information considered for CEMARS® certification. The full disclosure statement can be found at www.enviro-mark.com

- In FY16 the organisational boundary was expanded to include GHG emissions associated with YouShop services (a Scope 3 emissions source). This accounted for an increase of 4,064 tCO2e. For further analysis on changes to GHG emissions please refer to the FY16 Integrated Report.

Emissions audit statement


Certified Emissions Measurement And Reduction Scheme

CEMARS®

This is to certify that

New Zealand Post Limited

Meets the requirements of CEMARS® certification having measured its greenhouse gas emissions in accordance with ISO 14064-1:2006 and committed to managing and reducing its emissions in respect to the operational emissions of its organisation within New Zealand, including its New Zealand based wholly owned subsidiaries and its joint venture Reach Media New Zealand Limited and excluding Post Shop franchises in fuel stations, supermarkets, dairies and other outlets.

Belinda Mathers - Certifier

Company Address: 7 Waterloo Quay, Wellington, New Zealand
Certificate Number: 2016076J
Date Issued: 19 August 2016
Valid until: 19 August 2019
Certification status: Certified organisation
Certification Year Level of Assurance: Reasonable

JAS-ANZ
WWW.JAS-ANZ.ORG/REGISTER
Certified by Enviro-Mark Solutions Limited

Please refer to the disclosure page on www.enviro-mark.com for further details
CEMARS is an annual certification programme and this certificate only remains valid with an annual surveillance audit

ENVIRO-MARK SOLUTIONS

New Zealand Post Limited and Subsidiaries
For the year ended 30 June 2016

Statutory Information

Consolidated earnings statement – information disclosure for the year ended 30 June 2016

	Letter deliveries $m	Other Services $m	Total $m
Operating revenue	292	1,193	1,485
Operating expenses	300	1,035	1,335
Operating surplus before income tax	(8)	158	150

Accounting Policies

Accounting policies adopted for the preparation of the Consolidated Earnings Statement – Information Disclosure are the same as those applied by the Group.

Statement of Assumptions

Operating revenue has been calculated using the Group's product costing model which has calculated the operating revenue for letter deliveries using actual financial data for the 2015/16 year. The costing model identifies the relevant letter products and the revenue earned by them.

In keeping with the original intention of the legislation, all fast post standard letter product for the full financial year has been included in the calculation of Letter Deliveries, even though the price of FastPost letters has increased to $1.40 effective 1 July 2012 which is above the amount set out in the legislation of 80 cents for this calculation.

Operating expenses

Operating expenses have been calculated using the Group's product costing model which has calculated the operating expenditure for letter deliveries using actual financial data for the 2015/16 year. The costing model identifies the cost of activities within the Group based on resource drivers. Key resource drivers in the model are operational time that is recorded for activities performed. The cost of each activity is assigned to letter deliveries or other services based on the activity drivers. Key activity drivers of the model are operational volume. Key assumptions in the model are that all expenses are coded to the correct departments within the general ledger. Assumptions are also made about average weight and volume where operational data is unavailable. Any exchange gains or losses have not been included in this calculation.

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Independent Review Report
to the Directors of New Zealand Post Limited

The Auditor-General is the auditor of New Zealand Post Limited (the "Company") and the entities it controlled as at 30 June 2016 or from time-to-time during the period (together the "Group"). The Auditor-General has appointed me, Paul Clark, using the staff and resources of PricewaterhouseCoopers, to carry out the annual audit of the Group, on her behalf.

Report on the Consolidated Earnings Statement – Information Disclosure
In our capacity as auditor, we have carried out a review of the accompanying Consolidated Earnings Statement — Information Disclosure (the "Consolidated Earnings Statement") for the Group for the year ended 30 June 2016.

Directors Responsibility
The Directors are responsible on behalf of the Company for the preparation and fair presentation of the Consolidated Earnings Statement in accordance with the Statement of Assumptions and for such internal controls as the Directors determine are necessary to enable the preparation and fair presentation of the Consolidated Earnings Statement that are free from material misstatement, whether due to fraud or error.

Our Responsibility
Our responsibility is to express a conclusion on the accompanying Consolidated Earnings Statement based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the Consolidated Earnings Statement, taken as a whole, is not prepared in all material respects, in accordance with the Statement of Assumptions. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of the Consolidated Earnings Statement in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform 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 Consolidated Earnings Statement.

We are independent of the Company. Other than in our capacity as auditor acting on behalf of the Auditor-General, our firm carries out other services for the Company in the areas of assurance, tax and advisory services. The provision of these other services has not impaired our independence.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the Consolidated Earnings Statement for the year ended 30 June 2016 has not been prepared, in all material respects, in accordance with the Statement of Assumptions.

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Independent Review Report

New Zealand Post Limited

Restriction on Distribution or use

This report is made solely to the Company's Directors, as a body. Our review work has been undertaken so that we might state to the Company's Directors those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors, as a body, for our review procedures, for this report, or for the conclusion we have formed.

Paul Clark
On behalf of the Auditor-General
Wellington
August 25, 2016

PricewaterhouseCoopers

PwC

The Board is responsible for the corporate governance of the Group. "Corporate Governance" includes the direction and control of the Group and the accountability of the Board to shareholders and other stakeholders for the organisation's performance, and compliance with laws and standards. The New Zealand Post Group has in place a comprehensive system of corporate governance policies, practices, and procedures designed to ensure adherence to best practice and high ethical standards.

Statement of Corporate Governance

Shareholders

As a State-Owned Enterprise, New Zealand Post Limited has two shareholding Ministers acting on behalf of the Crown. The Minister of Finance and the Minister for State-Owned Enterprises hold the company's shares.

Shareholder Communications

An annual business plan and quarterly reports against the performance set out in the plan, are provided to shareholding Ministers. A Statement of Corporate Intent, unaudited half-year accounts and audited year-end accounts are tabled in Parliament annually. Shareholding Ministers are also kept informed about developments of significance on an on-going basis.

Board Governance

The Board

The Board of the New Zealand Post Group may comprise up to 10 Directors. The Directors are not executives of the company.

Shareholding Ministers appoint the Directors. Before appointing new Directors, shareholding Ministers consider the balance of competencies and experience on the Board and also consult with the Chair.

The Chair carries out a leadership role in the conduct of the Board and its relationship with shareholding Ministers and stakeholders. The Chair maintains a close professional relationship with the Chief Executive. The Chair has no external commitments that conflict with the Chair's role.

As at 30 June 2016, the Board comprised eight Directors. Each Director is considered to be 'independent', in that each is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Directors' unfettered and independent judgement.

Role of the Board

The Board is responsible to shareholding Ministers for directing and monitoring the management and affairs of the New Zealand Post Group. The New Zealand Post Group is made up of a number of companies including the parent company New Zealand Post Limited, and its wholly owned subsidiaries Kiwi Group Holdings Limited and Kiwibank Limited. Under the State-Owned Enterprises Act 1986, New Zealand Post's principal objective is to operate as a successful business, including:

- → to be as profitable and efficient as comparable private sector businesses;
- → to be a good employer;
- → to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

The Board establishes objectives and sets strategies to achieve those objectives. The Board, in the context of the approved policy, risk and compliance framework within which the Group operates monitors management's performance against those strategies. The Board has delegated the day-to-day management to the Group Chief Executive.

The Board requires a three-year plan (presented annually), which is consistent with the agreed strategic objectives of the New Zealand Post Group, to be submitted to it for approval. The Board closely monitors financial and non-financial performance and compares performance to the annual plan and forecasts at its regular meetings.

Board Meetings

During the period, the Board held 10 regular meetings (with provision for additional meetings as required). The Board also holds an annual strategic planning session that considers strategic issues in conjunction with the Chief Executive and the Group Leadership Team.

The Chief Executive, Chief Financial Officer and Company Secretary attend all Board meetings. Other managers attend Board meetings in relation to matters regarding their areas of responsibility and Directors have other opportunities, including site visits, for contact with wider Group employees.

Board Committees

A Finance, Risk and Investment Committee and a Human Resources Committee assist the Board in the discharge of its responsibilities. Both Committees have formal Charters, approved by the Board, setting out the respective Committees' duties and responsibilities.

The Board also establishes ad hoc committees as required, to deal with specific issues.

All Directors are entitled to attend committee meetings and copies of all meeting papers and minutes are available to all Directors. The Chief Executive attends committee meetings. The Finance, Risk and Investment Committee holds regular 'Directors Only' sessions, which provide for discussions with external auditors to ensure a robust and independent audit process.

Finance, Risk and Investment Committee

The Finance, Risk and Investment Committee comprises four Directors and holds four regular meetings a year. In addition, there is provision for additional meetings to be held to deal with other matters as they arise. The Committee's overall function is to assist the Board in fulfilling its responsibilities relating to the management systems, and accounting and reporting practices, including:

- assisting the Board to meet its accounting and reporting responsibilities under the Companies Act 1993, the Financial Reporting Act 2013, and related legislation;
- overseeing and reviewing the quality of internal and external audits;
- ensuring the integrity of external financial reporting;
- Overseeing the analysis of the "material issues" used to inform the Integrated Reporting
- ensuring that the Group has the framework and methodologies in place that will ensure that all strategic and business risks and opportunities are thoroughly managed; and
- advising the Board in relation to the governance, performance and strategy of investment and divestment activity.

Human Resources Committee

The Committee comprises five Directors and schedules five regular meetings a year. There is provision for additional meetings to be held to deal with other matters as they arise.

The Committee's primary purpose is to assist the Board in fulfilling its oversight of 'good employer' and human resources governance responsibilities relating to the New Zealand Post Group. The responsibilities of the Committee include:

- overseeing, and reviewing performance of, the human resources strategy;
- overseeing, and reviewing performance of, the health, safety and wellbeing;
- reviewing, and recommending to the Board for approval, the remuneration policy, consistent with the strategic plan;
- reviewing the remuneration for members of the executive leadership team;
- reviewing, and recommending to the Board for approval, remuneration arrangements and performance measures and targets for the Chief Executive; and
- reviewing the performance of the Chief Executive against performance measures and targets.

Access to Independent Information

In circumstances that warrant additional assurance the Board as a whole, and Directors individually, may, in order to assist in carrying out their responsibilities, request independent professional advice at the Company's expense. Such requests are to be made in consultation with the Chair and are facilitated through the Company Secretariat.

Risk Management

Management of risk is a key focus of the Board, as it is crucial to the protection of shareholder value. The New Zealand Post Group, therefore, has in place a comprehensive risk management and internal control framework designed to identify and treat all significant business and strategic risks.

The Board approves and monitors policy and processes in significant risk areas. The Board has approved a comprehensive delegated authority structure that clearly states actions reserved to itself and those delegated to management. The Board is also required to approve capital and operational expenditure that exceeds the Chief Executive's delegations. Any such request for approval is required to reflect a formal consideration of the relevant risk and prioritisation issues.

Integrity Standards

The Board supports the principles set out in the "Code of Practice for Directors", as issued by the New Zealand Institute of Directors, under which Directors are expected to:

- act honestly and with integrity;
- comply with the law;
- avoid conflicts of interest;
- use Company assets responsibly and in the best interests of the Company;
- be responsible and accountable for their actions; and
- act in accordance with their fiduciary duties.

The New Zealand Post Group has a suite of policies in which it outlines how it seeks to conduct its business with integrity, honesty, fairness and in compliance with all relevant laws, regulations, codes and standards. These policies clearly set out the ethical standards that are expected of Group employees and contractors in their dealings with customers, the Company, and each other.

Additionally, the Board has adopted a set of Directors' Business Rules and Guidelines to ensure that the practices and procedures of the Board are aligned with the policies applying to employees.

Conflict of Interest

The Companies Act 1993, the Company's Constitution and the Directors' Business Rules and Guidelines deal with the disclosure of interests by Directors and the participation and voting at Board meetings where any such interests are relevant.

Directors are regularly requested to make general disclosures of interest, which are recorded in the Register of Interests.

Governance Requirements and Best Practice

The Board has confirmed that its corporate governance policies, practices and procedures accord with the Financial Markets Authority's "Corporate Governance Principles & Guidelines", in the material respects in which they are appropriate for a State-Owned Enterprise.

Health and Safety

Health and Safety governance is a key priority for the Board. The Board plays a leadership role in respect of New Zealand Post's health and safety strategy and policy, including undertaking due diligence in relation to New Zealand Post's health and safety performance. This is to ensure the organisation is meeting best practice, including meeting its duties and obligations under the Health and Safety at Work Act 2015.

Report of the Human Resources Committee on Executive Remuneration

The Human Resources Committee comprises five Directors from the New Zealand Post Group Board. The primary purpose of the Human Resources Committee is to assist the Board in fulfilling its oversight of 'good employer' and human resources governance responsibilities relating to the New Zealand Post Group.

The Committee also has some specific responsibilities in respect to remuneration for New Zealand Post Group's Chief Executive and executive leadership team, and for remuneration policy applicable to New Zealand Post Limited Managers.

The New Zealand Post Group's management remuneration structures are designed to attract, reward and motivate our executive talent while remaining mindful of affordability. In setting remuneration for New Zealand Post executives (including managers and specialists), market information from similarly-sized management positions within a broad range of New Zealand businesses is assessed.

With the exception of Kiwibank employees and other Group employees in direct sales, executive remuneration does not include any at-risk pay or other form of financial incentive/bonus.

A number of restructures were completed through 2016 resulting in redundancies and termination payments made towards the end of the financial year. These payments are included in the total remuneration paid in the remuneration band table as defined by the Companies Act 1993.

Employee numbers as at 30 June 2016 totalled 7,652 people (7,032.6 FTE), including those in joint venture businesses. Across the Group, including jointly-controlled entities, the total cost of remuneration for our employees during the year was $514m. Pay rates vary across the Group depending on market conditions in relation to each business sector.

Remuneration Bands

Remuneration Bands	Totals in Band for FY16
$100,000 – $109,999	200
$110,000 – $119,999	162
$120,000 – $129,999	101
$130,000 – $139,999	84
$140,000 – $149,999	71
$150,000 – $159,999	62
$160,000 – $169,999	50
$170,000 – $179,999	37
$180,000 – $189,999	29
$190,000 – $199,999	20
$200,000 – $209,999	13
$210,000 – $219,999	10
$220,000 – $229,999	4
$230,000 – $239,999	11
$240,000 – $249,999	11
$250,000 – $259,999	8
$260,000 – $269,999	11
$270,000 – $279,999	8
$280,000 – $289,999	3
$290,000 – $299,999	8
$300,000 – $309,999	7
$310,000 – $319,999	3
$320,000 – $329,999	3
$330,000 – $339,999	2
$340,000 – $349,999	4
$350,000 – $359,999	3
$360,000 – $369,999	1
$370,000 – $379,999	1
$390,000 – $399,999	4
$420,000 – $429,999	1
$430,000 – $439,999	1
$440,000 – $449,999	3
$450,000 – $459,999	1
$480,000 – $489,999	1
$510,000 – $519,999	1
$520,000 – $529,999	1
$550,000 – $559,999	2
$580,000 – $589,999	1
$590,000 – $599,999	1
$600,000 – $609,999	1
$610,000 – $619,999	1
$690,000 – $699,999	1
$700,000 – $709,999	1
$730,000 – $739,999	1
$750,000 – $759,999	1
$760,000 – $769,999	1
$850,000 – $859,999	1
$1,160,000 – $1,169,999	1
$1,570,000 – $1,579,999	1
TOTAL	954

* Includes all payments made to employees between 1 July 2015 and 30 June 2016, including base salary, incentive payments and other benefits, termination payments, and superannuation.

Donations

During the year, the New Zealand Post Group made donations of **$147,264**. No donations were made to political parties.

Auditors

The auditor for the Group is Paul Clark assisted by PricewaterhouseCoopers, Wellington on behalf of the Auditor-General. The amount payable by the Group to PricewaterhouseCoopers as audit fees in respect of the year is **$2,125,326**. The amount incurred in respect of the year for other services provided by PricewaterhouseCoopers is **$578,986**.

Directors' and employees' indemnity and insurance

New Zealand Post has insured the Directors and employees of the Group against costs or liabilities of the type referred to in s162(5) of the Companies Act 1993. New Zealand Post has also agreed to indemnify Directors of the Group and New Zealand Post-appointed Directors of associate companies against any costs or liabilities of the type referred to in s162(4) of the Companies Act 1993 that are incurred in any proceedings of the type referred to in s162(3) of the Companies Act 1993.

Directors' Fees & Benefits *

The total fees paid to members of the New Zealand Post Limited Board during the 2015/2016 financial year were **$446,000**. The total Board fees are within the amount authorised by shareholding Ministers.

Name	Total fees and benefits*
Hon Sir Michael Cullen	$96,000
Carol Campbell	$54,500
Alan Dunn	$48,000
David Willis *(resigned as a Director of New Zealand Post as at 30 April 2016)*	$40,000
Richard Leggat	$48,000
Jackie Lloyd	$63,500
Richie Smith	$48,000
Julia Hoare	$48,000
Richard Dellabarca *(appointed as a Director 1 May 2016)*	$0

* These fees exclude GST (if any) and relate to the New Zealand Post Limited Board only (including fees for Board committees).

Directors' Disclosures

No specific disclosures were given by Directors pursuant to s140(1) of the Companies Act 1993.

General disclosures of interest made by the Directors of New Zealand Post Limited and New Zealand Post Limited subsidiaries pursuant to s140(2) of the Companies Act 1993 as at 30 June 2016 are:

New Zealand Post Limited

Director	Interest
Sir Hon Michael Cullen *(Chair)*	Chief Treaty Claims Negotiator, Tuwharetoa Chair, Tuhoe Investment Committee Trustee, NZ Post Superannuation Plan
Carol Campbell	Director, The Business Advisory Group Ltd Director, Hick Bros Holdings Limited Director, T&G Global Limited Director, AlphaXRT Limited Director, Woodford Properties Limited Trustee, Ronald McDonald House Charities Director, Kingfish Limited Director, Marlin Global Limited Director, Barramundi Limited Director, Key Assets NZ Limited Director, Fostering First New Zealand Limited Director, NPT Limited Director, NZME Ltd (from June 2016)
Richard Dellabarca *(appointed as a director on 1 May 2016)*	Director, New Zealand Rugby Union (from May 2016) Director, Kea New Zealand Ltd (from May 2016) Director, Solvency II Solutions Limited (UK) (from May 2016) CEO, New Zealand Venture Investment Fund (from May 2016) Director, New Zealand Rugby Promotions Ltd (from June 2016) Director, Wynyard Group Ltd (from June 2016)
Alan Dunn	Director, Burger Fuel Worldwide Limited Director, Z Energy Limited Director, Z Energy LTI Trustees Limited Director, Z Energy ESPP Trustees Limited Director, Vertical 4 Systems Limited Director, Nelson Regional Development Agency (from May 2016)
Julia Hoare	Director, Watercare Services Limited Director, AWF Group Limited Director, The A2 Milk Company Limited Member, Institute of Directors (New Zealand) Inc Member, National Council of Institute of Directors (New Zealand) Inc (from July 2015) Director, Port of Tauranga Ltd (from August 2015)
Richard Leggat	Director, Tourism NZ Director Cycling NZ Director, Trophy Metropolitan Limited Director, Mortleg Limited Director, Education New Zealand Director, Snow Sports NZ Chairman, New Zealand Cycle Trail Inc Member, NZ Markets Disciplinary Tribunal President UCI Ethics Commission Director, Waterfront Auckland Director, Development Auckland Director, Winter Games NZ (from May 2016) Advisor, Busways Pty Ltd (from February 2016)

STATUTORY INFORMATION

Director	Interest
Jackie Lloyd	Chair, Wellington Museums Trust Wellington Branch Deputy Chair & Committee Member, Institute of Directors (NZ) Inc Director, Worldwide Investments Limited Chair, State Services Commission Audit and Risk Committee Director & Trustee, Chair of Central Region Grants Committee, Lion Foundation Member, Weltec Whitireia Combined Council (from July 2015)
Richie Smith	Director/Shareholder, Hilton Haulage Limited Director/Shareholder, Richie Smith Limited Director/Shareholder, Lands and Survey South Limited Director/Shareholder, Lands and Survey Limited Director, Ngai Tahu Farming Limited Director/Shareholder, Ligno Process Systems Limited Director/Shareholder, Proteus Holdings Limited Director/Shareholder, The New Zealand Milk Company Limited (renamed The Toot Project Limited) Director/Shareholder, Maniototo Holdings Limited Director/Shareholder, West Coast Fresh Limited Director/Shareholder, Pure New Zealand Milk Limited Director/Shareholder, Pacific Biocomposites Limited Director/Shareholder, Biocomposites Limited Director/Shareholder, Tonhil Investments Limited Director/Shareholder, EX KFL Limited Director/Shareholder, Major Hornblower Holdings Limited Director, Timaru District Holdings Limited Director/Shareholder, Hades Holdings Limited Member of Advisory Board, Pivot Software Limited Member of Advisory Board, Tekapo Springs Limited Director/Shareholder – Lands and Survey (Auckland) Ltd (from October 2015)
David Willis *(resigned as a director of New Zealand Post on 30 April 2016)*	Director, Bank of Queensland Limited and subsidiaries Director, CBH Grain Pty Limited (Co-operative Bulk Handling) Director, Interflour Holdings Limited (Singapore) Advisor, Bain and Company (Australia) Chair, The Horizons Program Director, Virgin Money Australia Director, St Andrew's Group (Australia)

Subsidiary Disclosures

Subsidiary Company Directors' Disclosures

Director	Interests
Nicholas Astwick	Director and shareholder, Memorial Investments Limited Director, Payments NZ Limited Trustee, Leadership New Zealand Future Director, Vector Limited
Paul Brock	Trustee and beneficiary, Brock Family Trust Director and shareholder, Hotspur Limited Chair & Trustee, Eastern Hutt School Board of Trustees (until May 2016) Advisory Board member, Massey University Business School Director and shareholder, Stratx Limited
Malcolm Bruce	Trustee and beneficiary, Bruce Finance Trust Trustee and beneficiary, Bruce Family Trust Trustee, Mary Potter Hospice
Stephen Cole	Director, Endeavour Securities Limited Director, Access Capital Limited Director, Access Finance Limited Director and shareholder, Bach Group Limited Director and shareholder, Bohemian Rhapsody Limited Director and shareholder, Adesso Limited Director and shareholder, Business Finance Limited
Gary Crawford	Director, Turkana Limited Trustee and Beneficiary, Turkana Trust Trustee and Beneficiary, Crawford Family Trust Board member, Wellington College Board of Trustees
Leo Davis	Director, Endeavour Securities Limited Director, Access Capital Limited Director, Access Finance Limited Director and shareholder, Davis Holdings Group Limited Director, Credit & Investment Nominees Limited Director, Sacred Heart College Limited Director, St Pauls College Auckland Limited Director, Marcellin College Limited Director, Bach Group Limited Director and shareholder, Business Finance Limited
Elizabeth Dawson	Director, New Zealand Cricket Director, New Zealand Olympic Committee Director, Hurricanes LP Director and Shareholder, Forsyth Morrison Limited Director, St Kilda Football Club Melbourne Trustee and Beneficiary, Liz Dawson Family Trust
Alison Gerry	Director, Lindis Crossing Vineyard Limited Director and shareholder, Glendora Holdings Limited Director and shareholder, Glendora Avocados Limited Director and shareholder, Random Walk (2010) Limited Director, Pioneer Generation Limited (until July 2015) Director, Television New Zealand Limited Director, NZX Limited Shareholder, Maungatapere Water Company Limited Director, Infratil Limited Director, New Zealand Clearing and Depository Corporation Limited Director, Vero Insurance New Zealand Limited Director, Vero Liability Insurance Limited Director, Asteron Life Limited
Wayne Hawkyard	Trustee and Beneficiary, Willowdene Family Trust Financial Advisor, Rangiora Golf Club Inc Treasurer, Waimakariri Combined Probus Club Vice President and Committee Member, Rangiora Tramping Club Limited Partner, Glenross Forest (NO. 19) Limited

Subsidiary Company Directors' Disclosures

Director	Interests
Robert (Rob) Morrison	Director, Tamata Horticulture Limited Director, Tamata Holdings Limited Director, Acer Export Partnership Limited Director, Agriculture General Partner Limited Director and shareholder, RWB Nominees Limited Director and shareholder, Blind Pig Properties Limited Director and shareholder, Kotu Farms Limited Director, Kotu Management Limited Director and shareholder, Falkirk Management Limited Member, Asian Corporate Governance Association Chairman, Pure Advantage Trustee, Rob Morrison Family Trust Shareholder, Fisher Funds Management Limited Director, Welnix GP Limited Director and shareholder, Investnix Holdings Limited Shareholder, Palliser Estate Wines of Martinborough Limited Chair, H.R.L Morrison & Co Group GP Limited Trustee, Moa Conservation Trust Director, Antarctica Limited (from December 2015) Director, Morrison Nominees Limited (from June 2016)
Alistair Nicholson	Shareholder, BPV Direct Management Investment Limited Director, Glendora Avocados Limited Director, Glendora Holdings Limited Director and shareholder, Hrothgar NZ Agri Holdings Limited Advisory Board member, Latitude Technologies Limited (from September 2015) Shareholder, Maungatapere Water Company Limited Director and shareholder, Random Walk (2010) Limited Chair of Audit and Finance Committee, Teach First New Zealand Executive Chair, Vulpes Investment Management Limited
Dame Alison Paterson	Director, Advanced Metering Assets Limited Director, Advanced Metering Services Limited Shareholder, Alandale Orchard Ltd Director, ARC Innovations Limited Chair, BPAC NZ Limited Shareholder, Brick Lane Limited Shareholder, Fairmount Farms Limited Chair, Farm IQ Systems Limited Director, Farm IQ PGP Limited Chair, Forestry Industry Safety Council Member, Health Quality and Safety Commission Director, Intueri Education Group Limited Chair, New Zealand Formulary Limited Director, NGC Holdings Limited Director, On Gas Limited Chair, Stevenson Agricultural Limited (until May 2016) Shareholder, Storey Line Limited Chair, Te Aupouri Commercial Development Limited Director, Te Aupouri Fisheries Management Limited Director, Vector Limited Director, Vector Communications Limited Director, Vector Gas Limited Director, Vector Gas Contracts Limited Director, Vector Metering Data Services Limited Shareholder, Woodstock Investments Limited
Rhoda Phillippo	Chair, Snapper Services Limited (from April 2016) Director, Vocus Communications Limited (from April 2016) Director, Linq Limited (from April 2016) Director, Vix Investments (from April 2016) Managing Director, Raghnall Consulting Limited (from April 2016) Executive Chair, Vix Technology (from April 2016) Director, Vix Verify (from April 2016)

Subsidiary Company Directors' Disclosures

Director	Interests
Neil Richardson	Adjunct Professor, The University of Waikato Director and shareholder, New Zealand Home Loans (Auckland 2006) Ltd Chair and shareholder, SmartTrade Limited Director and shareholder, Imada/Prolificx group of companies Trustee/beneficiary, Neil Richardson Family Trust Director and shareholder, Leesville New Zealand Ltd Trustee/beneficiary, Leesville Trust Director and shareholder, Richardson Trustee Ltd Director and shareholder, Victoria Street Properties Director and shareholder, NRA Limited Director and shareholder, Quantec Limited Director, HPYN Limited Director and shareholder, Central Capital Investments (1) Ltd Shareholder, Newbreed Properties Director and shareholder, Greenstone Inc. Limited
Brian Roche	Director and shareholder, Valley Road Forest Limited Trustee, St Patrick's Foundation (until October 2015) Trustee, BJ and ML Roche Family Trust (until November 2015) Chair, First World War Centenary Panel Director, Hurricanes GP Limited Member, Trustee Council for the New Zealand Business and Parliamentary Trust Chair, Major Events Investment Panel Director, Wellington Gateway General Partner No.1 Limited Director, Wellington Gateway General Partner No.2 Limited Trustee, National Military Heritage Charitable Trust Director, New Zealand Antarctic Institute Director, Tait Limited (from February 2016)
Catherine Savage	Managing Director and Shareholder, CMS Capital Limited Director, Comrad Holdings Limited Director, Comrad Trustee Limited Managing Director and Shareholder, Savage Group Limited Director, Radsoft Holdings Limited Director, Comrad Medical Systems Limited Director, Safco Limited Director, Annuitas Management Limited Director, Todd Family Office Limited Director, Pathfinder Asset Management Limited Director, The Griffin Savage Coy. Limited Director, Waiwhetu Distributors Limited Chair - Board of Trustees, National Provident Fund Deputy Chair, Guardians of the NZ Superannuation Fund Chair - Management Board, Samuel Marsden Collegiate School Director, Industrial Distributors Limited Director, New Zealand Institute of Chartered Accountants Director, Savage Capital Limited Director and shareholder, Savage Capital Holdings Limited Director, Hyklene Limited Courtenay Nominees Limited
Ashley Smout	Director, Muritai Investments Limited Trustee, Astrolabe Trust Advisory Trustee, Smout Family Trust
Mark Stephen	Director and shareholder, Pip Stephen Interior Design Limited Trustee, Homestead Trust
Graeme Watt	Director and shareholder, Kiwi Dynamic Investments Limited Director and shareholder, Cabbage Tree Investments Limited Shareholder representative, Payments NZ Limited
Mark Wilkshire	Alternate Director, Payments NZ Limited
Lindsay Wright	Board Member, Guardians of the NZ Superannuation Fund (Until March 2015) Regional Head of Institutional, Invesco Hong Kong Limited (until March 2016) Director, BNY Mellon IM Korea Limited (from June 2016)

Directors of New Zealand Post Subsidiaries

Director	Subsidiary	Fees & Benefits
Dan Alexander	Converga Asia (Philippines) Limited	
Nick Astwick	The New Zealand Home Loan Company Limited Kiwi Capital Securities Limited (until June 2015) Alternate Director, AMP Home Loans Limited Alternate Director, New Zealand Home Lending Limited Alternate Director, Kiwibank Nominees Limited (until December 2015) Alternate Director, KB Custodial Services Limited Kiwi Investment Management Limited Kiwi Asset Finance Limited (until December 2015)	
Paul Bellette	Converga (ACT) Pty Limited Converga Inc (USA) Converga Information Management Pty Limited Converga Group Limited Speedscan Group Holdings Pty Limited Speedscan Pty Limited Speedscan Limited Datacap Limited (until August 2015) New Zealand Post Australia Holdings Pty Limited (until November 2015)	
Tom Bloomfield	New Zealand Post Australia Holdings Pty Limited (from November 2015)	
Paul Brock	AMP Home Loans Limited GMI General Partner Limited GMI Wealth Limited Kiwi Capital Funding Limited Kiwibank Custodial Services Limited Kiwibank Investment Management Limited Kiwibank Nominees Limited (until December 2015) Kiwi Wealth Limited (previously Gareth Morgan KiwiSaver Limited) Kiwi Wealth Management Limited New Zealand Home Lending Limited Portfolio Custodial Nominees Limited	
Malcolm Bruce	Kiwi Asset Finance Limited	
Carol Campbell	Kiwibank Limited	$46,500
Stephen Cole	Kiwi Asset Finance Limited	
George Collins	New Zealand Post Trustees Limited (from March 2016)	
Gary Crawford	Portfolio Custodial Nominees Limited Kiwi Capital Funding Limited Kiwi Asset Finance Limited	
Hon Sir Michael Cullen	Kiwibank Limited New Zealand Post Trustees Limited (from March to June 2016)	$46,500
Leo Davis	Kiwi Asset Finance Limited	
Elizabeth Dawson	Kiwi Insurance Limited	$40,000
Alan Dunn	New Zealand Post Trustees Limited (from March 2016)	
Gary Edstein	Express Couriers Limited (until February 2016)	
Alison Gerry	Kiwibank Limited	$64,750
Sarah Graydon	New Zealand Post Trustees Limited (from March 2016)	
Wayne Hawkyard	Kiwi Insurance Limited (until February 2016)	$16,667
Talal Ibrahim	Express Couriers Limited (Alternate Director) (until February 2016)	
Anna Kenny	New Zealand Post Trustees Limited (from March 2016)	
Theresa Kim	Converga Asia (Philippines) Limited (until November 2015)	
Rhiannon McKinnon	New Zealand Post Trust Management Services Limited (until December 2015)	
Rob Morrison	Kiwibank Limited	$94,000
Skye Nicholls	Converga Asia (Philippines) Limited	
Jennifer Newman	New Zealand Post Trust Management Services Limited (from January 2016)	

Director	Subsidiary	Fees & Benefits
Alistair Nicholson	GMI General Partner Limited Portfolio Custodial Nominees Limited Kiwi Wealth Limited (previously Gareth Morgan KiwiSaver Limited) GMI Wealth Limited	$40,000
Dame Alison Paterson	Chair, GMI General Partner Limited Chair, Portfolio Custodial Nominees Limited Chair, Kiwi Wealth Limited (previously Gareth Morgan KiwiSaver Limited) Chair, GMI Wealth Limited	$48,000
Rhoda Phillippo	Kiwibank Limited (from March 2016)	0.00
Neil Richardson	Chair, The New Zealand Home Loan Company Limited	$30,000
Brian Roche	Kiwibank Limited (until June 2016) Datam Limited Kiwi Group Holdings Limited Express Couriers Limited New Zealand Post Australia Holdings Pty Limited New Zealand Post Group Finance Limited Converga Group Limited (until November 2015) New Zealand Post CX Limited Kiwi Wealth Management Limited Speedscan Pty Limited (until November 2015) Datacap Limited (until August 2015) New Zealand Post Holdings Limited Converga Holdings Pty Limited (until November 2015) Converga Pty Limited (until November 2015) Speedscan Group Holdings Pty Limited (until November 2015) Speedscan Limited (until November 2015) Converga Inc (until November 2015)	
Ray Santos	Converga Asia (Philippines) Limited (until November 2015)	
Catherine Savage	Kiwibank Limited (until January 2016)	$30,625
Janet Selwood	Converga Pty Limited (until November 2015)	
Mark Stephen	Kiwi Asset Finance Limited Kiwi Insurance Limited	
Ashley Smout	Express Couriers Limited (until November 2015)	
Peter Taylor	New Zealand Post Trustees Limited (from March 2016)	
John Van Woerkom	New Zealand Post Trust Management Services Limited (from May 2016)	
Virginia Viray	Converga Asia (Philippines) Limited	
David Walsh *(alternate director to Brian Roche until June 2016)*	Kiwi Group Holdings Limited Express Couriers Limited New Zealand Post Holdings Limited Converga Group Limited (until November 2015) Datam Limited New Zealand Post CX Limited New Zealand Post Group Finance Limited Converga Holdings Pty Limited (until November 2015) Converga Pty Limited (until November 2015) New Zealand Post Australia Holdings Pty Limited Converga (ACT) Pty Limited (until November 2015) Converga Information Pty Ltd (until November 2015)	
Graeme Watt	The New Zealand Home Loan Company Limited	
David Willis	Converga Pty Limited (until November 2015) Converga Holdings Pty Limited (until November 2015)	$3,058 AUD
John Willis	New Zealand Post Trust Management Services Limited (until May 2016) New Zealand Post Holdings Limited (Alternate Director) (until December 2014)	
Blair Woodbury	New Zealand Post Trust Management Services Limited (Alternate Director until December 2015) Datam Limited	
Mark Wilkshire	Kiwibank Investment Management Limited KB Custodial Services Limited	
Lindsay Wright	Kiwibank Limited	$46,500

Directors' Statement

This Annual Report is for the period 1 July 2015 to 30 June 2016 and is signed on behalf of the New Zealand Post Board by:

Hon Sir Michael Cullen
KNZM
Chairman

Carol Campbell
Director

This Annual Report is dated 25 August 2016.

Directory

Chairman	Hon Sir Michael Cullen
Deputy Chair	Jackie Lloyd
Members	Carol Campbell Richard Dellabarca Alan Dunn Julia Hoare Richard Leggat Richie Smith Jane Taylor (appointed on 1 August 2016)
Group Leadership Team	
Group Chief Executive Officer	Brian Roche
Group General Manager, Customer Experience, Brand and People	Jo Avenell
Group Executive Manager	Janet Selwood
Group General Manager, Governance and Sustainability	Malcolm Shaw
Group General Manager, Customer Engagement	Ashley Smout
Chief Operating Officer, Customer Service Delivery	Mark Stewart
Chief Financial Officer	David Walsh
Bankers	Bank of New Zealand Limited
Auditor	Paul Clark assisted by PricewaterhouseCoopers, Wellington, on behalf of the Auditor-General.
Registered Office	Ground Floor New Zealand Post House 7 Waterloo Quay Wellington New Zealand
For further information about the contents of this report, please contact:	New Zealand Post Communications Team Private Bag 39990 Wellington Mail Centre Lower Hutt 5045 New Zealand Telephone: +64-4-496 4999 Facsimile: +64-4-496 4479 Email: post.communications@nzpost.co.nz
For more information about New Zealand Post's products and services, please contact:	New Zealand Post Customer Services Centre Telephone toll free: 0800 501 501 Email: customersupport@nzpost.co.nz Website: www.nzpost.co.nz
For information about Kiwibank's products and services, please contact:	Kiwibank Customer Services Centre Telephone toll free: 0800 11 33 55 Website: www.kiwibank.co.nz

This document is New Zealand Post Group's Annual Report for 2016. The Integrated Report for New Zealand Post Group can be seen online at: https://www.nzpost.co.nz/about-us/investor-centre/reports-presentations

For more information on the New Zealand Group, visit www.nzpost.co.nz

NEW ZEALAND POST GROUP