NEW ZEALAND POST GROUP

NEW ZEALAND POST GROUP	
Results for announcement to the market	
Reporting Period	12 months ended 30 June 2010
Previous Reporting Period	6 months ended 31 December 2009

	Amount (000s)	**Percentage change since 30 June 2009**
Revenue from ordinary activities	1,204,219	-3.99%
Profit (loss) from ordinary activities after tax attributable to security holder.	$73,600	-4.7%
Net profit (loss)	1,279	-98.22%

Dividend for the year	$6,420	-7.2%
Final dividend payment date	To be confirmed	

Comments:	New Zealand Post Limited guarantees the notes issued by subsidiary New Zealand Post Group Finance Limited on an unsecured subordinated basis. New Zealand Post Limited audited financial statements for the year ended 30 June 2010 are attached New Zealand Post Limited's Annual Report for the 12 months ended 30 June 2010 is scheduled to be published on or about 23 September 2010. New Zealand Post Limited's underlying profit result of $73.6 million (2009: $77.2 million) was adversely impacted by non-recurring one-off items of $72.4 million.

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

		GROUP		PARENT	
	Note	**2010**	2009	**2010**	2009
		$'000	$'000	**$'000**	$'000
Revenue from operations	1	**1,204,219**	1,253,846	**736,828**	765,904
Expenditure	2	**1,179,830**	1,163,438	**747,611**	758,786
Operating profit/(loss)		**24,389**	90,408	**(10,783)**	7,118
Gain on sale of Kiwibank Limited	15	**-**	-	**-**	429,000
Other income	1	**36,824**	134	**9,945**	7,310
Finance costs (net)	3	**(13,324)**	(9,449)	**(11,536)**	(10,857)
Share of net profit/(loss) of associates and jointly controlled entities	16	**(13,817)**	12,383	**-**	-
Profit/(loss) before income tax		**34,072**	93,476	**(12,374)**	432,571
Income tax expense/(credit)	4	**32,793**	21,642	**12,332**	(2,009)
Profit/(loss) for the year (attributable to parent shareholders)		**1,279**	71,834	**(24,706)**	434,580
Other comprehensive income/(expense)					
Fair value gains/(losses)					
- land and building revaluations, net of tax		**(48)**	(303)	**(48)**	(303)
- available for sale financial assets, net of tax		**(3,366)**	7,597	**-**	-
- cash flow hedge, net of tax		**24,135**	(62,596)	**(2,328)**	-
Currency translation differences		**(478)**	(488)	**-**	-
Share of other comprehensive income of associates and jointly controlled entities, net of tax		**908**	-	**-**	-
Total other comprehensive income/(expense), net of tax		**21,151**	(55,790)	**(2,376)**	(303)
Total comprehensive income(expense), net of tax (attributable to parent shareholders)		**22,430**	16,044	**(27,082)**	434,277

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

Group	Note	Fully Paid Ordinary Shares $'000	Property Revaluation Reserves $'000	Available For Sale Reserve $'000	Cashflow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Non-controlling Interest $'000	Total $'000
Balance at 1 July 2008		192,200	88,083	(3,783)	(9,991)	3,796	396,307	-	666,612
Profit/(loss) for the year		-	-	-	-	-	71,834	-	71,834
Other Comprehensive income/(expense)		-	(993)	10,852	(89,178)	(488)	-	-	(79,807)
Share of other comprehensive income of associates and jointly controlled entities		-	-	-	-	-	-	-	-
Income tax relating to components of other comprehensive income		-	690	(3,255)	26,582	-	-	-	24,017
Total other comprehensive income/(expense), net of tax		-	(303)	7,597	(62,596)	(488)	-	-	(55,790)
Transfer between revaluation reserve and retained earnings		-	(7,129)	-	-	-	7,129	-	-
Transactions with Owners									
Dividends paid to shareholders	5	-	-	-	-	-	(13,499)	-	(13,499)
Balance at 30 June 2009		192,200	80,651	3,814	(72,587)	3,308	461,771	-	669,157
Profit/(loss) for the year		-	-	-	-	-	**1,279**	-	**1,279**
Other Comprehensive income/(expense)		-	(269)	(4,820)	34,479	(478)	-	-	**28,912**
Share of other comprehensive income of associates and jointly controlled entities		-	-	-	-	908	-	-	**908**
Income tax relating to components of other comprehensive income		-	221	1,454	(10,344)	-	-	-	**(8,669)**
Total other comprehensive income/(expense), net of tax		**-**	**(48)**	**(3,366)**	**24,135**	**430**	**-**	**-**	**21,151**
Transfer between revaluation reserve and retained earnings		**-**	**(3,643)**	**-**	**-**	**-**	**3,643**	**-**	**-**
Transactions with Owners									
Issuance of cumulative perpetual preference shares		**-**	**-**	**-**	**-**	**-**	**-**	**150,000**	**150,000**
Issuance costs		**-**	**-**	**-**	**-**	**-**	**-**	**(3,361)**	**(3,361)**
Dividends paid to shareholders	5	**-**	**-**	**-**	**-**	**-**	**(5,696)**	**-**	**(5,696)**
Balance at 30 June 2010		**192,200**	**76,960**	**448**	**(48,452)**	**3,738**	**460,997**	**146,639**	**832,530**

Parent	Note	Fully Paid Ordinary Shares $'000	Property Revaluation Reserves $'000	Available For Sale Reserve $'000	Cashflow Hedge Reserve $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Non-controlling Interest $'000	Total $'000
Balance at 1 July 2008		192,200	88,083	-	-	-	362,562	-	642,845
Profit/(loss) for the year		-	-	-	-	-	434,580	-	434,580
Other Comprehensive income/(expense)		-	(993)	-	-	-	-	-	(993)
Income tax relating to components of other comprehensive income		-	690	-	-	-	-	-	690
Total other comprehensive income/(expense), net of tax		-	(303)	-	-	-	-	-	(303)
Transfer between revaluation reserve and retained earnings		-	(7,129)	-	-	-	7,129	-	-
Transactions with Owners									
Dividends paid to shareholders	5	-	-	-	-	-	(13,499)	-	(13,499)
Balance at 30 June 2009		192,200	80,651	-	-	-	790,772	-	1,063,623
Profit/(loss) for the year		-	-	-	-	-	**(24,706)**	-	**(24,706)**
Other Comprehensive income/(expense)		-	(269)	-	(3,326)	-	-	-	(3,595)
Income tax relating to components of other comprehensive income		-	221	-	998	-	-	-	1,219
Total other comprehensive income/(expense), net of tax		**-**	**(48)**	**-**	**(2,328)**	**-**	**-**	**-**	**(2,376)**
Transfer between revaluation reserve and retained earnings		**-**	**(3,643)**	**-**	**-**	**-**	**3,643**	**-**	**-**
Transactions with Owners									
Dividends paid to shareholders	5	**-**	**-**	**-**	**-**	**-**	**(5,696)**	**-**	**(5,696)**
Balance at 30 June 2010		**192,200**	**76,960**	**-**	**(2,328)**	**-**	**764,013**	**-**	**1,030,845**

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2010

		GROUP		PARENT	
		2010	2009	**2010**	2009
	Note	**$'000**	$'000	**$'000**	$'000
ASSETS					
Current assets					
Cash and cash equivalents	6	**126,253**	142,900	**128,358**	171,186
Trade and other receivables	7	**181,062**	222,407	**122,878**	165,224
Inventories	8	**14,136**	14,522	**8,920**	8,438
Assets held for sale	9	**3,110**	20,036	**3,110**	20,036
Taxation receivable	4	**1,926**	-	**6,772**	1,538
Prepayments		**10,113**	8,211	**4,135**	4,077
Derivative financial assets		**2,226**	5,932	**2,226**	5,932
Total current assets		**338,826**	414,008	**276,399**	376,431
Specific banking assets					
Cash and cash equivalents	10	**303,866**	293,805	**-**	-
Due from other financial institutions	10	**156,871**	-	**-**	-
Financial assets held for trading	10	**671,152**	726,492	**-**	-
Available for sale assets	10	**544,453**	697,407	**-**	-
Loans and advances	10	**10,418,502**	8,492,013	**-**	-
Derivative financial instruments	11	**46,320**	49,342	**-**	-
Total specific banking assets		**12,141,164**	10,259,059	**-**	-
Non-current assets					
Investment properties	12	**30,486**	36,686	**30,486**	36,686
Property, plant and equipment	13	**341,302**	330,044	**274,142**	274,119
Intangible assets	14	**148,438**	144,838	**33,940**	34,730
Loans to related parties	15	**-**	-	**830,405**	801,264
Deferred tax asset	4	**629**	26,692	**-**	-
Investments accounted for using the equity method	15/16	**74,627**	92,644	**69,731**	69,731
Investments in subsidiaries	15/17	**-**	-	**75,601**	75,933
Total non-current assets		**595,482**	630,904	**1,314,305**	1,292,463
Total assets		**13,075,472**	11,303,971	**1,590,704**	1,668,894
LIABILITIES					
Current liabilities					
Trade and other payables	18	**259,835**	300,113	**181,222**	243,880
Provisions	19	**11,557**	9,675	**5,312**	9,500
Taxation payable	4	**-**	3,354	**-**	-
Deferred settlement liability	22	**-**	11,700	**-**	-
Borrowings	20	**52,141**	53,295	**39,780**	39,789
Derivative financial liabilties		**3,326**	2,204	**3,326**	2,204
Total current liabilities		**326,859**	380,341	**229,640**	295,373
Specific banking liabilities					
Due to other financial institutions	21	**164,051**	316,648	**-**	-
Deposits	21	**10,295,325**	8,265,576	**-**	-
Debt securities issued	21	**795,237**	912,540	**-**	-
Derivative financial instruments	11	**202,588**	304,287	**-**	-
Total specific banking liabilities		**11,457,201**	9,799,051	**-**	-
Non-current liabilities					
Loans from related parties	15	**-**	-	**202,406**	197,721
Deferred tax liability	4	**-**	-	**22,220**	4,545
Employee benefit liabilities		**3,317**	3,591	**3,233**	3,537
Deferred settlement liability	22	**10,788**	10,595	**-**	-
Borrowings	20	**444,777**	441,236	**102,360**	104,095
Total non-current liabilities		**458,882**	455,422	**330,219**	309,898
Total liabilities		**12,242,942**	10,634,814	**559,859**	605,271
EQUITY					
Parent shareholders' equity					
Ordinary share capital	5	**192,200**	192,200	**192,200**	192,200
Retained earnings	5	**460,997**	461,771	**764,013**	790,772
Other reserves	5	**32,694**	15,186	**74,632**	80,651
Total equity attributable to parent shareholder		**685,891**	669,157	**1,030,845**	1,063,623
Non-controlling interest	5	**146,639**	-	**-**	-
Total equity		**832,530**	669,157	**1,030,845**	1,063,623
Total equity and liabilities		**13,075,472**	11,303,971	**1,590,704**	1,668,894

The Board of Directors of New Zealand Post Limited authorised these financial statements for issue on 19 August 2010.

Rt Hon J B Bolger
Chairman

J G B Smyth
Director

NEW ZEALAND POST LIMITED AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

		GROUP		PARENT	
	Note	**2010**	2009	**2010**	2009
		$'000	$'000	**$'000**	$'000
Cash flows from operating activities					
Receipts from customers		**1,062,555**	1,098,273	**742,150**	783,125
Kiwibank interest received		**553,565**	643,776	**-**	-
Other interest received		**6,551**	5,049	**13,033**	3,359
Dividends received		**7,829**	7,616	**7,829**	7,616
Payments to suppliers and employees		**(1,065,514)**	(1,073,477)	**(697,523)**	(681,484)
Subvention payments		**-**	-	**(400)**	(1,976)
Net payments to agencies		**(37,698)**	(29,914)	**(38,249)**	(30,534)
Kiwibank interest paid		**(403,395)**	(495,953)	**-**	-
Other interest paid		**(18,665)**	(10,651)	**(24,135)**	(14,772)
Income tax paid	4	**(20,327)**	(18,980)	**1,328**	(18,811)
Kiwibank decrease/ (increase) in balances due from other financial institutions		**(156,871)**	150,910	**-**	-
Kiwibank increase in financial assets held for trading		**51,026**	(307,289)	**-**	-
Kiwibank decrease/ (increase) in available for sale assets		**138,751**	19,157	**-**	-
Kiwibank increase in loans and advances		**(1,933,045)**	(2,787,485)	**-**	-
Kiwibank increase in deposits		**2,002,648**	2,523,461	**-**	-
Kiwibank (decrease)/ increase in balances due to other financial institutions		**(152,597)**	(157,629)	**-**	-
Net cash flows from operating activities	23	**34,813**	(433,136)	**4,033**	46,523
Cash flows from investing activities					
Sale of property, plant and equipment		**21,858**	37,613	**21,858**	37,557
Sale of investments	17	**-**	-	**-**	724,000
Repayment of loans from associates and jointly controlled entities	16	**-**	4,691	**-**	333
Repayment of loans from subsidiaries		**-**	-	**-**	-
Advances from subsidiaries	15	**-**	-	**-**	200,000
Purchase of property, plant and equipment		**(47,968)**	(47,226)	**(20,357)**	(16,174)
Investments in associates and other companies	16	**-**	(1,533)	**-**	(1,533)
Investments in subsidiaries	17	**(12,392)**	-	**(1,000)**	(20,050)
Advances to associates and jointly controlled entities	16	**-**	-	**-**	(406)
Advances to subsidiaries		**-**	-	**(31,472)**	(741,533)
Purchase of intangible software assets		**(24,016)**	(28,171)	**(9,009)**	(10,022)
Net cash flows from investing activities		**(62,518)**	(34,626)	**(39,980)**	172,172
Cash flows from financing activities					
Issue of borrowings	20	**40,000**	551,008	**40,000**	291,008
Issue of Perpetual Preference Shares	5	**150,000**	-	**-**	-
Issuance costs of perpetual preference shares	5	**(3,361)**			
Repayment of borrowings	20	**(41,185)**	(368,000)	**(41,185)**	(368,000)
Dividends paid to parent shareholders	5	**(5,696)**	(13,499)	**(5,696)**	(13,499)
Dividends paid to minority shareholders		**(1,336)**	(1,329)	**-**	-
Kiwibank increase in debt securities issued		**(117,303)**	426,102	**-**	-
Net cash flows from financing activities		**21,119**	594,282	**(6,881)**	(90,491)
Net increase/(decrease) in cash held		**(6,586)**	126,520	**(42,828)**	128,204
Cash at the beginning of the year		**436,705**	310,185	**171,186**	42,982
Cash at the end of the year		**430,119**	436,705	**128,358**	171,186
Composition of cash					
Kiwibank cash and cash equivalents	10	**303,866**	293,805	**-**	-
Other cash and cash equivalents	6	**126,253**	142,900	**128,358**	171,186
Total cash		**430,119**	436,705	**128,358**	171,186

New Zealand Post Limited and Subsidiaries
Summary of Significant Accounting Policies
For the Year Ended 30 June 2010

Reporting Entity
New Zealand Post Limited (the „Parent") and its subsidiaries provide postal services, banking services, business solutions and courier services to New Zealand and Australian customers. The Parent is a limited liability company incorporated and domiciled in New Zealand. The Parent"s registered office is Waterloo Quay, Wellington. The „Group" comprises New Zealand Post Limited, its subsidiaries (including Kiwibank Limited, a Registered Bank – referred to as "Kiwibank"), its associates, and its jointly controlled entities.

Statement of Compliance
These financial statements comply with International Financial Reporting Standards (IFRS), New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities.

Basis of Preparation
The financial statements have been prepared in accordance with the Companies Act 1993, the Financial Reporting Act 1993, and the State-Owned Enterprises Act 1986. For the purposes of complying with New Zealand generally accepted accounting practice the Parent is designated as a profit-oriented entity. The financial statements for the Parent and Group are for the year ended 30 June 2010, and have been prepared in accordance with those IFRS and NZ IFRS standards and IFRIC interpretations issued and effective, or issued and early adopted, as at this time.

Standards and interpretations effective in the current period:
The following new standards and amendments to standards are mandatory for financial years commencing after 1 January 2009 and have been adopted in these financial statements.

Name	Requirement	Impact on Financial Statements
NZ IAS 1 (revised) – *Presentation of Financial Statements*	The revised standard prohibits the presentation of items of income and expense (that is, "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity in a statement of comprehensive income.	Comparative information has been re-presented so that it also is in conformity with the revised standard. The changes impact presentational aspects only.
Amendments to NZ IFRS 7 – *Financial Instruments: Disclosure*	The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.	Enhanced disclosure as to fair value measurement hierarchy has been provided in the Group financial statements. The Group has elected not to provide comparative information in the current year in accordance with the transitional reliefs offered in these amendments.
NZ IAS 23 (revised) – *Borrowing Costs*	The principal change to the standard was to eliminate the option to expense borrowing costs associated with a qualifying asset (as defined) when incurred.	This amendment has not led to any impact on the Group financial statements as no "qualifying assets" are held.
NZ IAS 28 (revised) – *Investments in Associates*	An investment in an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets within the investment.	The amendment has not had any impact on the Group as the current impairment assessment policy for investments in associates is in compliance with the revised standard.
NZ IAS 39 – (revised) Financial Instruments – Recognition and Measurement	The key areas of amendment are: • Reclassification of derivatives into or out of the classification of at fair value through profit or loss; • Designating and documenting hedges at the segment level; and • Applicable effective interest rate on cessation of fair value hedge accounting.	This amendment has not led to any impact on the Group financial statements.
NZ IFRS 3 (revised) – Business Combinations and NZ IAS 27 (revised) – Consolidated and Separate Financial Statements	NZ IFRS 3 introduces a number of changes in accounting for business combinations that impact the amount of goodwill recognised; reported results of acquisition and future reported results. NZ IAS 27 requires changes in ownership interests of a subsidiary to be accounted for as an equity transaction, and changes to accounting for subsidiary losses, and loss of control.	The amendment has not had any impact on the Group as there have been no business combinations in the current period. Further, there have been no changes in ownership interests.

The following new standards, amendments or interpretations to existing standards that are not yet effective, have not been early adopted by the Group:

Standard	***Requirement***	***Impact on Financial Statements***
NZ IFRS 9 - *Financial Instruments*	NZ IFRS 9 (released and approved in December 2009) represents the beginning of re-writing the current financial instruments standard, NZ IAS 39. It reduces the classifications and measurement methods available for financial assets from four to two, being amortised cost or fair value through profit or loss. Further amendments to policies applied under NZ IAS 39 are expected but not yet finalised. This standard is effective for annual periods beginning on or after 1 January 2013.	It is likely that changes arising from NZ IFRS 9 will affect the recognition and measurement, and classification of amounts recognised in the Group financial statements. However, it is not practical to provide a reasonable estimate of the effect until a detailed review has been completed.
NZ IAS 24 - *Related Party Disclosures (2009)*	This Standard, on adoption, supersedes NZ IAS 24 Related Party Disclosures (2004). The revised Standard simplifies some of the disclosure requirements and clarifies the definition of a related party. This standard is effective for annual periods beginning on or after 1 January 2011.	It is unlikely that changes arising from NZ IAS 24 will affect the Group financial statements. However, it is not practical to provide a reasonable estimate of the effect until a detailed review has been completed.

Specific Accounting Policies
The following accounting policies, which materially affect the measurement of financial performance, financial position and cash flows, have been consistently applied to all reporting periods presented in these financial statements.

The measurement base applied is historic cost, as modified by the revaluation of certain assets and liabilities as identified in these accounting policies. The accrual basis of accounting has been used unless otherwise stated.

Group Financial Statements
The Group financial statements consolidate the financial statements of the Parent and its subsidiaries, using the purchase method, and include the results of its associates and jointly controlled entities using the equity method. Under the purchase method, corresponding assets, liabilities, revenues and expenses are added together line by line. All material transactions between the Parent and its subsidiaries are eliminated on consolidation.

Subsidiaries
Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent. Control exists where the Group has the power to govern the financial and operating policies of an entity. The results and financial position of subsidiaries are included in the consolidated statement of comprehensive income and statement of financial position from the date control is gained up to the date control ceases. At the time of acquisition of a subsidiary, identifiable assets and liabilities acquired are initially measured at fair value on acquisition date. The excess of the cost of acquisition over the fair value of the Group"s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group"s share of the net assets acquired, the difference is recognised directly in the statement of comprehensive income. The Parent investments in subsidiaries are recorded at cost less any accumulated impairment. Unrealised losses relating to any impairment are recognised in the statement of comprehensive income.

Associates
Associates are entities in which the Group has significant influence but not a controlling interest. Associates are initially recorded at cost, and include any goodwill identified on acquisition (net of any impairment losses). The Group"s share of associates" post-acquisition results are included in the consolidated statement of comprehensive income from the date of acquisition or up to the date of disposal. Any other movements in the reserve accounts of associates are recognised in reserves of the Group. When the Group"s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Jointly Controlled Entities
Jointly controlled entities are entities in which the Group has joint control (being unanimous consent by the parties sharing control over the strategic financial and operating decisions). Jointly controlled entities are initially recorded at cost. The Group"s share of the jointly controlled entity"s post-acquisition results are included in the consolidated statement of comprehensive income from the date joint control began or up to the date the joint control ceased, using the equity method. Any other movements in the reserve accounts of jointly controlled entities are recognised in reserves of the Group.

Intergroup Acquisitions and Disposals
The sale of investments between the Parent and a subsidiary, or between two subsidiaries, are recorded at fair value. Gains or losses on disposal are recognised in the statement of comprehensive income. Such gains or losses are eliminated on consolidation.

Segment Reporting
An operating segment is a component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entity"s chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are aggregated for disclosure purposes where they have similar products and services, production processes, customers, distribution methods, and regulatory environment.

Revenue Recognition
Revenue shown in the statement of comprehensive income comprises the fair value of amounts received and receivable by the Parent and Group for goods and services supplied to customers, net of rebates and discounts and after eliminating sales within the Group.

Supply 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 collectibility of the related receivables is reasonably assured.

Supply of Services
Revenue from the supply 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.

Interest
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 to that asset"s net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period. When a receivable is impaired, the carrying amount is reduced to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

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

Rental Income
Rental income is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease.

Trailing Commissions
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 actual and 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 the statement of comprehensive income.

Prepaid Product Revenue
Allowance is made for the assessed amount of revenue from prepaid product sales as at balance date in respect of which the service has not yet been provided.

Recognition of Loan Related Fees and Costs for Loans Not at Fair Value Through Profit or Loss
Loan origination fees, if material, are recognised as income over the life of the loan as an adjustment of yield. 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. If material, loan related administration and service fees are recognised in income over the period of service.

Direct loan origination costs, if material, are netted against loan origination fees and the net amount recognised in income over the life of the loan as an adjustment of yield. All other loan related costs are expensed as incurred.

Prepayment penalty fees are estimated over the life of a loan as an adjustment of yield. To the extent actual prepayment penalty fees differ from original estimation, an adjustment is made and recorded in interest income immediately.

Expenditure
Expenditure shown in the statement of comprehensive incomes comprises the amounts paid and payable by the Parent and Group for goods and services provided from suppliers after eliminating expenditure within the Group. Expenditure for the supply of goods and services is measured at the fair value of consideration paid. Expenditure for the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Expenditure for the supply of services is recognised in the accounting 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.

Interest
Interest expense is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability"s net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period. Borrowing costs associated with qualifying assets are capitalised as incurred, otherwise accounted for as interest expense in the statement of comprehensive income.

Research and Development

Research expenditure is recognised in the statement of comprehensive income in the period that it is incurred. Development costs are capitalised as intangible assets where future benefits are expected to exceed those costs and it is probable that the project will provide future economic benefits, considering its commercial and technological feasibility, otherwise such costs are recognised in the statement of comprehensive income in the period that they are incurred.

Capitalised development costs are amortised over future periods (not exceeding three years) in relation to the expected future cash generating period of the asset. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount so identified is written off.

Foreign Currency Translation

Functional and Presentation Currency
The functional currency of the Parent is New Zealand Dollars. The functional currency of some subsidiary companies differs to that of the Parent. The presentation currency of the Parent and Group is New Zealand Dollars.

Transactions and Balances
Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of comprehensive income. At balance date, foreign denominated monetary assets and liabilities are translated at the closing exchange rate, with exchange variations arising from these translations being recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow hedge or qualifying net investment hedge. Foreign denominated non-monetary assets and liabilities measured at historic cost are translated using the exchange rate at the date of 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 the statement of comprehensive income or directly to equity.

Group Companies
The assets and liabilities of Group entities where their functional currency differs from the Group"s presentation currency, are translated 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 such translations are recognised in the foreign currency translation reserve, together with unrealised gains and losses on foreign currency monetary liabilities that are identified as hedges against these operations. When a foreign operation is sold, the balance of the foreign currency translation reserve is recognised in the statement of comprehensive income as part of the gain or loss on sale.

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
The Parent and Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available for sale financial assets. Management determines the classification of its investments at initial recognition.

(a) *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. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are categorised as held for trading unless they are designated as hedges. 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 the statement of comprehensive income in the period in which they arise. Transaction costs are expenses as they are incurred.

(b) *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. Loans and receivables issued with duration less than 12 months are recognised at cost less impairment. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in the statement of comprehensive income. Loans and receivables include cash and cash equivalents, trade and other receivables, taxation receivables, loans and receivables not at fair value through profit or loss, amounts due from other financial institutions, other assets, and borrowings.

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

Purchases and sales of financial assets at fair value through profit or loss, and available for sale are recognised on trade-date – the date on which the Parent or Group commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Parent or Group has transferred substantially all risks and rewards of ownership. The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), fair value is established by using valuation techniques. These include the use of recent arm"s length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Financial Liabilities
The Parent and Group classifies their financial liabilities as either fair value through profit or loss or at amortised cost. Financial liabilities held for trading and financial liabilities designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the statement of comprehensive income. Transactions costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method. Financial liabilities entered into with duration less than 12 months are recognised at their notional value. Amortisation and foreign exchange gains and losses, are recognised in the statement of comprehensive income as is any gain or loss when the liability is derecognised.

Derivative Financial Instruments
Derivative financial instruments are recognised at fair value as either financial assets or financial liabilities. 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 statement of comprehensive income.

Hedge Accounting
Derivatives are hedge accounted for where appropriate hedge documentation is in place at the transaction date. Hedge derivatives are accounted for as follows:
(a) Fair Value Hedges – gains or losses are recognised in the statement of comprehensive income within other income. The carrying amount of the hedged item is adjusted by the gain or loss on the hedged item in respect of the risk being hedged, with this gain or loss also being recognised in the statement of comprehensive income. The Group applies fair value hedge accounting for hedging fixed interest risk on borrowings. Any gain or loss relating to any ineffective portion of the hedge is recognised in the statement of comprehensive income within other income.
(b) Cash Flow Hedges – the portion of the gain or loss determined as being effective is recognised directly in equity, with any ineffective portion of the gain or loss being recognised in the statement of comprehensive income within other income.
(c) Hedges of a Net Investment – the portion of the gain or loss determined as being effective is recognised directly in equity, with any ineffective portion of the gain or loss being recognised in the statement of comprehensive income within other income.

Gains or losses recognised directly in equity are transferred to the statement of comprehensive income in the same periods as when the hedged item affects the statement of comprehensive income.

Financial assets and financial liabilities are recorded as current assets and current liabilities except if they mature, or are expected to be realised, more than 12 months from balance date.

Fair Value Estimation
The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Parent and Group 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 traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Parent and Group use a variety of methods and make assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the reporting date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Parent and Group for similar financial instruments.

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.

Goods and Services Tax (GST)
The statements of comprehensive income and the statements of cash flows have been prepared so that all components are stated exclusive of GST, except where GST is not recoverable. All items in the statement of financial position are stated net of GST with the exception of receivables and payables, which include GST invoiced.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, cash in transit, bank accounts, deposits with a maturity of no more than three months from the date of acquisition, net of bank overdrafts and inter-bank balances arising from the daily RBNZ settlement process.

Trade Receivables
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. A provision for impairment is established when there is objective evidence that

the Parent or Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset‟s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Any movement in the provision is recognised in the statement of comprehensive income.

Inventories
Inventories are recorded at the lower of cost and net realisable value. Cost is determined on a first-in-first-out basis. The cost of inventories comprises design costs, raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Property, Plant and Equipment
Property, plant and equipment other than land and buildings are recorded at cost less accumulated depreciation and any accumulated impairment losses.

Land and buildings are initially recorded at cost, and subsequently are recorded at fair value, as determined by an independent valuer, less any impairment losses and accumulated depreciation (for buildings) since the assets were last revalued. Land and buildings are valued annually at balance date. To the extent that any revaluation gain reverses a loss previously charged to the statement of comprehensive income for the asset item, the gain is credited to the statement of comprehensive income. Otherwise, revaluation gains are credited to an asset revaluation reserve for that class of asset. To the extent that any revaluation loss reverses a gain previously credited to an asset revaluation reserve for the asset item, the loss is debited to the asset revaluation reserve. Otherwise, revaluation losses are recognised in the statement of comprehensive income. On revaluation any accumulated depreciation is eliminated against the gross carrying amount of the asset. Each year the difference between depreciation based on the revalued amount of the asset charged to the statement of comprehensive income and depreciation based on the asset‟s original cost is transferred from the asset revaluation reserve to retained earnings.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended use. Costs cease to be capitalised as soon as the asset is ready for productive use.

Any realised gains or losses arising from disposal of property, plant and equipment are recognised in the statement of comprehensive income. Any balance in an asset revaluation reserve attributable to the disposed asset is transferred to retained earnings at the time of disposal.

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

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

Investment Property
Investment properties are measured at fair value, as determined by an independent valuer. The basis of fair value is market value. Fair value gains or losses are recognised in the statement of comprehensive income.

Assets Held for Sale
Assets held for sale are recognised at the lower of net book value transferred from property, plant and equipment and fair value less costs to sell. For sales that are expected to occur beyond one year the Parent or Group measures the costs to sell at their present value. Any increase in the present value of the costs to sell that arises from the passage of time is presented in the statement of comprehensive income as a financing cost.

Investments held for disposal are stated at the lower of carrying amount and fair value less costs to sell.

Intangible Assets
Intangible assets are recorded at cost less any accumulated amortisation and accumulated impairment losses. The cost of identifiable intangible assets acquired in a business combination is their fair value at date of acquisition.

Intangible assets with finite useful lives are amortised on a straight-line basis over the useful life of the asset, with any amortisation charge being recognised in the statement of comprehensive income. Assets with indefinite useful lives are not amortised, but are tested at least annually for impairment.

Realised gains and losses arising from disposal of intangible assets are recognised in the statement of comprehensive income in the period in which the transaction occurs.

Goodwill
Purchased goodwill is recognised as an asset at cost and tested for impairment at least annually. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group‟s share of the net identifiable assets of the acquired subsidiary, associate or business at the date of acquisition. Goodwill on acquisitions of subsidiaries and businesses is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. For the purposes of impairment testing, goodwill is allocated to cash-generating units. Any impairment is recognised as an expense in the statement of comprehensive income. Impairment losses on goodwill are not reversed. Internally generated goodwill is not recognised on the statement of financial position.

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

Acquired Customer Contracts
Acquired customer contracts that are expected to generate net economic benefits beyond 12 months are recognised as intangible assets. Acquired customer contracts have finite lives and are amortised to the statement of comprehensive income on a straight-line basis over their estimated useful lives (being 7 years).

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 to the statement of comprehensive income on a straight-line basis over their estimated useful lives (being from 21 months to 10 years).

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

The carrying amounts of most other assets, including intangible assets with finite useful lives, are reviewed at least annually to determine if there is any indication of impairment. Where such an indication exists the asset is impairment tested, with any impairment losses being recognised in the statement of comprehensive income, except where the asset is carried at a revalued amount in which case any impairment loss is recognised in the same way as revaluation losses. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

In the case of financial assets classified as available-for-sale, when a decline in the fair value has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

Financial assets at fair value through profit or loss are not assessed for impairment as their fair value reflects the credit quality of the instrument and changes in fair value are recognised in the statement of comprehensive income.

Asset Quality
Impaired assets consist of restructured assets, assets acquired through the enforcement of security and other impaired assets.

„Restructured asset‟ means any credit exposure for which:
(a) The original terms have been changed to grant the counterparty a concession that would not have otherwise been available, due to the counterparty‟s difficulties in complying with the original terms;
(b) The revised terms of the facility are not comparable with the terms of new facilities with comparable risks; and
(c) The yield on the asset following restructuring is equal to, or greater than, the institution‟s average cost of funds, or that a loss is not otherwise expected to be incurred.

Assets acquired through security enforcement are those assets (primarily real estate) acquired through actual foreclosure or in full or partial satisfaction of a debt. Other impaired assets refers to any credit exposure for which an impairment loss is recognised 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. Although not classified as impaired assets or past due assets, assets in which the counterparty is in receivership, liquidation, bankruptcy, statutory management or any form of administration are reported separately. These are classified as „other assets under administration‟.

Taxation
The income tax expense charged to the statement of comprehensive income includes both the current year's provision and the income tax effect of temporary differences, calculated using the liability method.

Deferred Income Tax
Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises 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. 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 assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary difference can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Parent or Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Employee Benefits

Employee Entitlements
Employee entitlements to salaries and wages, annual leave, long service leave, retiring leave and other similar benefits are recognised in the statement of comprehensive income when they accrue to employees. 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 (ie. 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.

Pension Liabilities
Obligations for contributions to defined contribution retirement plans are recognised in the statement of comprehensive income as they fall due.

Termination Benefits
Termination benefits are recognised in the statement of comprehensive income only when there is a demonstrable commitment to either terminate employment prior to normal retirement date or to provide such benefits as a result of an offer to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid, otherwise they are reported at the present value of the estimated future cash outflows.

Provisions
Provisions are recognised when the Parent or Group has 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. Provisions are measured at the present value of management"s best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase are retained within the relevant financial asset category 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 statement of comprehensive income over the term of the repurchase agreement. Securities held under reverse repurchase agreements are recorded as receivables. The difference between the purchase and sale price represents interest income and is recognised in the statement of comprehensive income over the term of the reverse repurchase agreement.

Deferred Settlement Liabilities
Deferred settlement liabilities are recognised in the statement of financial position at fair value and are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Changes in the fair value, other than the imputed interest, of a deferred settlement liability in a business combination are charged to goodwill where settlement is contingent.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, except where such borrowings are part of a documented fair value hedge. Any difference between the proceeds and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest rate method. Borrowings which are part of a documented fair value hedge are stated at fair value, and any difference in fair value is recognised in the statement of comprehensive income.

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.

Payments made under operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in the statement of comprehensive income 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.

Other Liabilities
Other liabilities are recorded at the best estimate of the expenditure required to settle the obligation. Liabilities to be settled beyond 12 months are recorded at their present value.

Contingent Assets and Contingent Liabilities
Contingent assets and contingent liabilities are recognised in the notes at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

Equity
Ordinary shares and perpetual preference shares are recognised in the statement of financial position at the amount of consideration received, net of issue costs.

Dividends Paid
Dividends distributed to the shareholders are recognised as a liability in the Parent"s or Group"s statement of financial position in the period in which the dividends are approved.

Statement of Cash Flows
The following are the definitions of the terms used in the statement of cash flows:
(a) Cash is considered to be cash on hand, cash in transit, bank accounts and deposits readily convertible to cash.
(b) Investing activities are those relating to the acquisition, holding and disposal of property, plant and equipment and of investments not falling within the definition of cash.
(c) Financing activities are those activities which result in changes in the size and composition of the capital structure of the Parent. This includes equity, and debt not falling within the definition of cash. Financing activities also include dividends paid in relation to the capital structure.
(d) Operating activities include all transactions and other events that are not investing or financing activities.

Changes in Accounting Policies
Accounting policies are changed only if the change is required by a standard or interpretation or otherwise provides more reliable and more relevant information. All policies have been applied on a basis consistent across all periods.

Comparative Figures
There have been no material changes to comparative figures with the exception of those required as a result of new or amended accounting standards.

Critical Accounting Judgements, Estimates and Assumptions
The preparation of financial statements in conformity with NZ IFRS requires judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Prepaid Revenue Recognition
The Parent and Group has prepaid revenue amounting to $9.3m relating to postal services paid for by the consumer, but where the service has not been provided at 30 June 2010. The amount of revenue to be deferred is based on historical customer holding patterns. The current prepaid revenue balance represents approximately 3.9 weeks of sales of these products. If the holding pattern varied by 10% the prepaid revenue balance would change by approximately $0.9m.

Deferred Settlement Liability
The Group has recognised the fair value of a contingent deferred settlement in relation to a put option held by the minority shareholder of a non-wholly owned subsidiary. The Group has determined the fair value of the option by discounting the expected future cash flows at a rate that reflects current assessments of the time value of money and risks specific to the liability. The Group has also made judgements about the future profitability of the entity, contractual earnings multiples, and likely exercise dates for settlement of the option. The Group has applied an after-tax discount rate of 11.59% (30 June 2009: 10.36%). If the estimated after-tax discount rate varied by 1% the value of the deferred settlement liability would change by approximately $0.3m.

Goodwill
Goodwill represents the excess of any purchase consideration, including incidental expenses, over the fair value of the Group"s share of the net identifiable assets of the acquired subsidiary, associate or business at the date of acquisition. The determination of the fair value of assets and liabilities requires the exercise of management judgement. Different determinations of fair values would result in changes to the goodwill recognised.

Goodwill is tested for impairment at least annually. In assessing any impairment goodwill is allocated to cash-generating units (CGUs), and the carrying value of the CGU is compared to its recoverable amount. Recoverable amount is the higher of the CGU"s fair value, less cost to sell, and its value-in-use. Value-in-use is the present value of expected future cash flows from the CGU. Fair value is the amount obtainable for the sale of the CGU in an arm"s length transaction between knowledgeable, willing parties. The Group has made judgements about the future profitability of the CGUs and the appropriate discount rate for assessing value-in-use. Refer to note 14.

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

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets held by Kiwibank 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, including Kiwibank"s retail fixed rate loan portfolio originated prior to 1 January 2008 and over-the-counter derivatives, is determined by using valuation techniques. Kiwibank uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date.

The fair value of Kiwibank"s retail fixed term loan portfolio originated prior to 1 January 2008 is determined by discounting estimated cash flows expected to be received. An amortisation rate of 3.1% is applied (30 June 2009 – 3.4%). Only scheduled repayments or contractual lump sum repayments are taken into account in calculating the amortisation rate. Prepayment risk associated with unscheduled repayments or loan terminations have been disregarded as application of Kiwibank"s break fees ensures that no Mark-to-Market impact needs to be considered. The curve against which each loan is discounted is constructed using the end of period NZ Wholesale curve as the benchmark rate to develop a zero curve which is then adjusted by an assessed market credit spread component. The credit spread component is determined by applying the current fixed retail margin for that maturity to the outstanding loan balance.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

Asset backed securities not traded in active markets are valued by deriving an implied spread, having taken into consideration observable market credit spreads on securities with similar collateral characteristics.

Kiwibank Impairment Losses on Loans and Advances not Held at Fair Value Through Profit or Loss
Loan portfolios are assessed for impairment on at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, Kiwibank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

	Note	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
1 REVENUE AND OTHER INCOME					
Revenue from Operations					
Rendering of services		**902,244**	897,413	**690,577**	709,065
International Mail write-off		**(4,171)**	-	**(4,171)**	-
Sale of goods		**90,485**	84,709	**45,949**	50,443
Banking interest revenue (net)		**134,134**	164,857	**-**	-
Banking and lending fee revenue		**77,054**	89,143	**-**	-
Banking net commission revenue		**-**	11,328	**-**	-
Rental income - properties held for sale		**472**	770	**472**	770
Rental income - investment properties		**4,001**	5,626	**4,001**	5,626
Total Revenue from Operations		**1,204,219**	1,253,846	**736,828**	765,904
Other Income					
Sale of investments gain		**-**	5,222	**-**	-
Financial instruments at fair value net gain/(loss)		**36,823**	(5,089)	**1,530**	(306)
Dividends from associates and jointly controlled entities	15	**-**	-	**8,414**	7,615
Other dividends received		**1**	1	**1**	1
Total Other Income		**36,824**	134	**9,945**	7,310
Net Banking Interest Revenue					
Banking interest revenue					
- Loans and advances at fair value through profit or loss		**116,076**	217,041	**-**	-
- Loans and advances at amortised cost		**448,491**	266,633	**-**	-
- Government and local authority securities		**23,336**	9,011	**-**	-
- Other securities		**(27,742)**	147,194	**-**	-
- Cash and liquid assets		**3,691**	8,759	**-**	-
Total banking interest revenue		**563,852**	648,638	**-**	-
Banking interest expense					
- Deposits by customers		**276,928**	329,207	**-**	-
- Debt securities issued		**152,790**	154,574	**-**	-
Total banking interest expense		**429,718**	483,781	**-**	-
Net banking interest revenue		**134,134**	164,857	**-**	-
Financial instruments at fair value net (loss)/gain					
Financial assets designated at fair value through profit or loss upon initial recognition		**(41,550)**	109,782	**-**	-
Derivative financial instruments		**60,150**	(107,331)	**-**	-
Financial liabilities designated at fair value through profit or loss upon initial recognition		**464**	(6,559)	**-**	-
Financial assets held for trading		**4,314**	1,017	**-**	-
Net ineffectiveness on qualifying cash flow hedges		**57**	(783)	**-**	-
Net ineffectiveness on qualifying fair value hedges		**(267)**	44	**-**	-
Cumulative gain/(loss) transferred from the available for sale reserve		**17,735**	3,615	**-**	-
Cumulative loss transferred from the cash flow hedge reserve		**(5,610)**	(4,568)	**-**	-
(Loss)/gain on fair value hedges		**1,530**	(306)	**1,530**	(306)
Total financial instruments at fair value net (loss)/gain		**36,823**	(5,089)	**1,530**	(306)
2 EXPENDITURE					
Cost of goods sold		**107,620**	115,732	**34,534**	38,476
Delivery costs		**193,400**	204,984	**193,323**	201,804
International Mail		**11,774**	-	**11,774**	-
Depreciation					
- Buildings		**2,949**	3,157	**2,949**	3,157
- Motor vehicles		**404**	368	**401**	365
- Furniture and fittings		**5,782**	6,495	**5,216**	6,024
- Office equipment		**277**	502	**215**	458
- Computer equipment		**12,763**	10,308	**6,364**	5,023
- Plant and equipment		**11,199**	9,872	**6,667**	5,964
- Aircraft		**4,394**	3,022	**-**	-
Total depreciation		**37,768**	33,724	**21,812**	20,991
Amortisation					
- Computer software		**22,595**	18,661	**10,237**	9,532
- Acquired customer contracts		**510**	510	**-**	-
- Acquired customer relationships		**1,994**	3,775	**-**	-
- Other intangible assets		**4**	106	**4**	106
- Deferred expenditure		**860**	148	**860**	148
Total amortisation		**25,963**	23,200	**11,101**	9,786

	GROUP		PARENT	
	2010	2009	**2010**	2009
2 EXPENDITURE continued	**$'000**	$'000	**$'000**	$'000
Bad debt expense	**3,530**	1,210	**594**	849
Provision for doubtful debts	**3,115**	-	**3,115**	-
Impairment				
- Inventories	**494**	679	**254**	439
- Assets held for sale	**-**	1,025	**-**	1,025
- Investment properties	**295**	394	**295**	394
- Investments	**-**	-	**660**	-
- Land and buildings	**447**	670	**447**	670
- Loans and advances	**16,760**	14,345	**-**	-
- Aircraft	**3,251**	(1,281)	**-**	-
- Property, plant and equipment	**1,427**	802	**1,403**	263
Total impairment	**22,674**	16,634	**3,059**	2,791
Property operating lease and rental costs	**42,987**	33,878	**37,477**	28,330
Other operating lease and rental costs	**15,205**	13,038	**9,207**	8,659
Repairs and maintenance - investment properties	**591**	144	**591**	144
Research and development costs	**48**	36	**48**	36
Salaries and wages	**468,046**	480,298	**290,447**	310,627
Restructuring costs	**4,109**	11,037	**3,020**	9,835
Superannuation - defined contribution plans	**18,080**	17,405	**13,329**	12,972
Fees paid to auditors	**1,967**	2,186	**752**	877
Director fees	**950**	970	**545**	548
Donations	**89**	140	**51**	60
Sponsorships	**3,121**	3,099	**2,896**	3,055
Foreign exchange net loss/(gain)	**249**	728	**750**	(542)
Sale of assets net (gain)/ loss	**(622)**	(1,066)	**(596)**	(1,438)
Subvention payments	**-**	-	**400**	1,976
Computer Expenses	**40,621**	47,054	**28,465**	33,581
Marketing Expenses	**25,547**	25,099	**13,691**	17,248
Other expenditure	**152,998**	133,908	**67,226**	58,121
Total Expenditure	**1,179,830**	1,163,438	**747,611**	758,786

Fees Paid to Auditors

The auditor of the parent is PricewaterhouseCoopers, on behalf of the Auditor-General

Amounts paid or payable to PricewaterhouseCoopers				
- Audit of the financial statements	**1,504**	1,374	**579**	569
- Assurance and related services	**153**	407	**28**	151
- Tax compliance	**76**	79	**76**	79
- Other services	**234**	326	**69**	78
Total services	**1,967**	2,186	**752**	877

Assurance and related services fees in the current year primarily relate to Kiwibank off-quarter general disclosure statements and a user access management assignment. In the prior year, these fees related to subordinated bond and note issues, Kiwibank off-quarter general disclosure statements, Kiwibank tier one issue, carbon inventory verification and assurance over loan pre-payment penalty fees.

Tax compliance fees relate to tax return reviews.

Other services fees relate to taxation advice concerning Kiwibank PIE products and assistance with an identity verification capability business case.

During the year an adjustment was identified in relation to the International Mail business unit. The adjustment resulted from changes in estimates and process related matters. As a result, the Company and Group adjusted profit after tax by $12.9m, of which $1.5m relates to the current year and $11.4m relates to prior years. In addition a provision has been made for items that remain in dispute relating to amounts that the company is expecting to receive or pay.

3 FINANCE COSTS (NET)

Discount unwind on deferred net settlement	**(707)**	(338)	**(707)**	(338)
Interest expense	**(20,241)**	(16,032)	**(19,655)**	(15,631)
Interest revenue	**7,624**	6,921	**8,826**	5,112
Total Finance Costs (Net)	**(13,324)**	(9,449)	**(11,536)**	(10,857)

4 INCOME TAX

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Profit/(loss) before income tax	**34,072**	93,476	**(12,374)**	432,571
Tax at 30%	**10,222**	28,043	**(3,712)**	129,771
Non-assessible revenue				
- share of net (profit) / loss of associates and jointly controlled entities	**4,145**	(3,715)	**-**	-
- dividends received	**-**	-	**(2,525)**	(2,285)
- gain on sale of assets	**(466)**	(363)	**(466)**	(363)
- gain on sale of investments	**-**	(1,567)	**-**	(128,700)
- other revenue	**(796)**	-	**(77)**	-
Non-deductible expenditure				
- impairment of investments	**-**	-	**198**	-
- other expenditure	**2,492**	852	**438**	1,799
Other adjustments				
- deferred tax adjustments	**(1,044)**	(1,917)	**(1,044)**	(1,855)
- under/(over) provision in prior periods	**(1,567)**	309	**(230)**	(376)
- impact of loss of depreciation on buildings	**21,140**		**21,140**	-
- impact of change in corporate tax rate	**(1,333)**		**(1,390)**	-
Income Tax Expense/(Credit)	**32,793**	21,642	**12,332**	(2,009)

In May 2010, legislation was passed to reduce the New Zealand corporate tax rate from 30% to 28%, effective for the 2011 income tax year. The tax effect shown above is the impact on the value of deferred tax assets and liabilities as a result of the reduction in the corporate tax rate from 1 July 2011.

Buildings are currently depreciated for tax purposes. As a result of the change in tax legislation, the tax depreciation on buildings with an estimated useful life of 50 years or more will be reduced to 0%. This reduction in the tax depreciation rate has significantly reduced the tax base of New Zealand Posts' buildings. This has resulted in an increase to the deferred tax liability in relation to buildings by $21.1m, which has been recognised in tax expense in the current year.

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Comprising:				
Current tax	**18,184**	23,222	**(6,493)**	(1,892)
Prior period adjustments	**(1,567)**	309	**(230)**	(376)
Deferred tax adjustments	**18,763**	(1,917)	**18,707**	(1,855)
Deferred tax	**(2,587)**	28	**348**	2,114
Total income tax expense/(credit)	**32,793**	21,642	**12,332**	(2,009)

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Taxation (Payable)/Receivable				
Balance at beginning of the year	**(3,354)**	9,872	**1,538**	2,398
Tax on current year profit	**(18,184)**	(23,222)	**6,493**	1,892
Prior year adjustment	**1,602**	(498)	**69**	(570)
Payments / (refunds)	**20,327**	19,613	**(1,328)**	(2,182)
Tax on equity reserves	**1,449**	(3,330)	**-**	-
Transfers from deferred tax	**-**	(5,739)	**-**	-
Other adjustments	**86**	(50)	**-**	-
Balance at end of the year	**1,926**	(3,354)	**6,772**	1,538

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Deferred Tax (Asset)/Liability				
Balance at beginning of the year	**(26,692)**	10,167	**4,545**	5,272
Tax on current year profit	**(2,587)**	28	**348**	2,114
Revalution of properties recognised in equity	**(221)**	(2,546)	**(221)**	(2,546)
Prior year adjustment	**(295)**	(1,585)	**(160)**	(295)
Deferred tax on cash flow hedge reserve	**10,344**	(27,025)	**(998)**	-
Impact of change in corporate tax rate	**(1,333)**	-	**(1,390)**	-
Impact of loss of depreciation on buildings	**21,140**		**21,140**	-
Transfers to current tax	**-**	(5,739)	**-**	-
Acquisitions/disposals	**(1,044)**	-	**(1,044)**	-
Other adjustments	**59**	8	**-**	-
Balance at end of the year	**(629)**	(26,692)	**22,220**	4,545
Comprising:				
Deferred tax assets				
Changes through equity:				
- Cash flow hedges	**(20,765)**	(30,863)	**(998)**	-
Changes through profit or loss:				
- Assets held for sale	**-**	1,189	**-**	1,189
- Loans at fair value through profit or loss	**(223)**			
- Provision for loan impairment	**(6,008)**	(4,358)	**-**	-
- Provisions	**(15,748)**	(14,725)	**(12,790)**	(11,341)
Total deferred tax assets	**(42,744)**	(48,757)	**(13,788)**	(10,152)
Deferred tax liabilities				
Changes through equity:				
- Revalued land and buildings	**(10,844)**	(11,065)	**(10,844)**	(11,065)
Changes through profit or loss:				
- Investment properties	**(4,605)**	(1,930)	**(4,605)**	(1,930)
- Commissions receivable	**(599)**	(1,516)	**-**	-
- Aircraft revaluations	**490**	(281)	**-**	-
- Depreciation on property, plant and equipment	**(18,787)**	(16)	**(16,600)**	2,048
- Amortisation on software assets	**(8,532)**	(7,482)	**(3,959)**	(3,750)
- Other deferred tax liabilities	**762**	225	**-**	-
Total deferred tax liabilities	**(42,115)**	(22,065)	**(36,008)**	(14,697)
Net deferred tax (asset) / liability	**(629)**	(26,692)	**22,220**	4,545

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Expected to be recovered after 12 months	**36,052**	19,050	**31,896**	14,356

There are no material unrecognised income tax losses or temporary differences carried forward.
There are no material unrecognised temporary differences associated with the Group's investments in subsidiaries, associates or jointly controlled entities.

The reduction in the corporate tax rate from 30% to 28% in the 2011 income tax year has been taken into account in calculating the value of deferred tax assets and liabilities at 30 June 2010.

Imputation Credits				
Balance at the beginning of the year	**154,047**	134,116	**153,595**	133,833
Income tax paid (net of refunds)	**18,548**	18,980	**17,837**	18,811
Dividends received	**5,575**	3,573	**5,575**	3,573
Dividends paid	**(2,805)**	(3,390)	**(2,805)**	(3,390)
Other movements	**74**	768	**357**	768
Balance at the end of the year	**175,439**	154,047	**174,559**	153,595

5 EQUITY

Ordinary Share Capital				
Balance at the beginning of the year	**192,200**	192,200	**192,200**	192,200
Balance at the end of the year	**192,200**	192,200	**192,200**	192,200

At 30 June 2010 there were 192.2m authorised ordinary shares, issued and fully paid (30 June 2009 - 192.2m). The shares have no par value. All shares have equal voting rights and share equally in dividends and surplus on winding up.

An interim dividend was paid to shareholders in March 2010 at $0.03 per share (2009: Interim Dividend $0.07 per share).

Non-controlling Interest				
Issuance of cumulative perpetual preference shares	**150,000**	-	**-**	-
Issuance costs	**(3,361)**			
Balance at the end of the year	**146,639**	-	**-**	-

On 4 May 2010 150,000,000 perpetual callable non-cumulative preference shares were issued for cash at $1 per share by Kiwi Capital Securities Limited. All shares were fully paid as at balance date. The perpetual preference shares are non-redeemable and carry no voting rights. Dividends are paid quarterly in arrears at the discretion of the directors. The costs associated with this share issue have been netted against the perpetual preference share capital in the statement of financial position.

Property Revaluation Reserves
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.

	Note	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
6 CASH AND CASH EQUIVALENTS					
Cash on hand		**7,534**	7,571	**7,534**	7,572
Cash at bank		**17,719**	33,330	**9,824**	26,615
Deposits at call		**101,000**	101,999	**111,000**	136,999
Total Cash and Cash Equivalents		**126,253**	142,900	**128,358**	171,186
Balances not available for use by the Group:					
Cash held on behalf of agencies		**6,000**	6,000	**6,000**	6,000
7 TRADE AND OTHER RECEIVABLES					
Trade receivables		**164,682**	204,428	**119,891**	158,638
Provision for impairment		**(4,085)**	(731)	**(4,009)**	(698)
Trail commissions receivable		**5,844**	7,203	**-**	-
Interest receivable		**2,042**	2,177	**2,036**	2,160
Receivables from related parties	15	**12,579**	9,330	**4,960**	5,124
Total Trade and Other Receivables		**181,062**	222,407	**122,878**	165,224
Comprising:					
Current trade and other receivables		**165,872**	160,646	**107,688**	103,463
Non-current trade and other receivables		**15,190**	61,761	**15,190**	61,761
Total trade and other receivables		**181,062**	222,407	**122,878**	165,224

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.

		GROUP		PARENT	
		2010	2009	**2010**	2009
7 TRADE AND OTHER RECEIVABLES continued	**Note**	**$'000**	$'000	**$'000**	$'000
Trade Receivables Past Due but Not Impaired					
Past due up to 30 days		**10,509**	10,890	**8,407**	6,923
Past due 31-60 days		**1,569**	1,524	**1,051**	1,105
Past due 61-90 days		**617**	713	**301**	443
Past due > 90 days		**110**	919	**(95)**	662
Total		**12,805**	14,046	**9,664**	9,133

There is no collateral held over past due trade receivables.

Impaired Assets - Trade Receivables

The breakdown of the gross amount of individually impaired trade receivables is as follows:

Gross Impaired				
Balance at the beginning of the year	**(731)**	(731)	**(698)**	(611)
Net additions	**(3,354)**	-	**(3,311)**	(87)
Balance at the end of the year	**(4,085)**	(731)	**(4,009)**	(698)

The above trade receivables have been impaired as their recovery has been assessed as being unlikely.
There are no other classes of impaired assets, except as disclosed in note 10.

8 INVENTORY

Raw materials/supplies	**4,628**	6,553	**650**	862
Work in progress	**1,724**	1,453	**1,723**	1,453
Finished goods	**7,784**	6,516	**6,547**	6,123
Total Inventory	**14,136**	14,522	**8,920**	8,438

9 ASSETS HELD FOR SALE

Assets held for sale consist of all land and building assets that the Board has agreed to sell, and that are actively being marketed for sale as at 30 June 2010.
All properties are expected to be sold within 12 months of balance date.

During the year two properties with a carrying value of $3.1m were transferred from investment properties and property, plant and equipment into this category.
As at 30 June 2010, one of these properties is subject to a conditional sale and purchase agreement. Two properties classified as intended for sale as at 30 June 2009 were sold during the current year realising a net gain on sale of $1.6m (30 June 2009, six properties were sold realising a net gain on sale of $1.2m).

Properties held for sale are included in the segment assets balance for Property Services.

10 SPECIFIC BANKING ASSETS

Cash and Cash Equivalents				
Cash in hand	**44,372**	41,269	**-**	-
Cash with central banks	**220,625**	221,485	**-**	-
Call and overnight advances to financial institutions	**38,869**	31,051	**-**	-
Total cash and bank balances	**303,866**	293,805	**-**	-
Due from Other Financial Institutions				
Unsettled receivables	**17,046**	-	**-**	-
Bank Bills	**86,007**	-	**-**	-
Collateralised loans	**53,818**			
Total due from other financial institutions	**156,871**	-	**-**	-

All amounts due from other financial institutions are expected to be realised within the next 12 months.

As at 30 June 2010, included within the balance above, is $53.8m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties. (30 June 2009; $nil).

Financial Assets Held for Trading				
Bank bills	**189,288**	378,282	**-**	-
Other securities	**481,864**	348,210	**-**	-
Total financial assets held for trading	**671,152**	726,492	**-**	-
Comprising:				
Current financial assets held for trading	**249,512**	681,729	**-**	-
Non-current financial assets held for trading	**421,640**	44,763	**-**	-
Total financial assets held for trading	**671,152**	726,492	**-**	-
Available for Sale Assets				
Government stock and multilateral development banks	**350,068**	279,338	**-**	-
Local authority securities	**18,927**	36,545	**-**	-
Other debt securities	**175,458**	381,524	**-**	-
Total available for sale assets	**544,453**	697,407	**-**	-
Comprising:				
Current available for sale assets	**147,084**	170,831	**-**	-
Non-current available for sale assets	**397,369**	526,576	**-**	-
Total available for sale assets	**544,453**	697,407	**-**	-

10 SPECIFIC BANKING ASSETS continued	Note	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Loans and Advances					
Designated upon initial recognition as fair value through profit or loss		**1,235,764**	2,121,584	**-**	-
At amortised cost		**9,202,244**	6,382,637	**-**	-
Allowance for impairment losses		**(19,506)**	(12,208)	**-**	-
Total loans and advances		**10,418,502**	8,492,013	**-**	-
Comprising:					
Current loans and advances		**908,415**	762,808	**-**	-
Non-current loans and advances		**9,510,087**	7,729,205	**-**	-
Total loans and advances		**10,418,502**	8,492,013	**-**	-
Cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value		**(741)**	(1,273)	-	-

The above changes in the fair value of the loans and advances that is attributable to changes in the credit risk of the financial asset is determined as the amount of change in its fair value that is not attributable to changes in market conditions that give rise to market risk.

Asset Quality
Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the period. This amounts to $1.2m at 30 June 2010 (30 June 2009 - $0.4m). There are no real estate or other assets acquired through the enforcement of security held at 30 June 2010 (30 June 2009 - nil). There are no assets under administration at 30 June 2010 (30 June 2009 - nil). There are no unrecognised impaired assets at 30 June 2010 (30 June 2009 - nil).

Summary of Lending	**Loans and Advances to Retail Customers 2010 $'000**	**Loans and Advances to Corporate and Institutional Customers 2010 $'000**	**Total Loans and Advances 2010 $'000**	Loans and Advances to Retail Customers 2009 $'000	Loans and Advances to Corporate and Institutional Customers 2009 $'000	Total Loans and Advances 2009 $'000
Neither past due nor impaired	**8,795,319**	**1,386,977**	**10,182,296**	6,935,174	1,235,053	8,170,227
Past due but not impaired	**174,356**	**43,580**	**217,936**	277,006	37,656	314,662
Impaired	**26,500**	**11,276**	**37,776**	5,815	13,517	19,332
Gross amount	**8,996,175**	**1,441,833**	**10,438,008**	7,217,995	1,286,226	8,504,221
Allowance for impairment	**(7,411)**	**(12,095)**	**(19,506)**	(6,468)	(5,740)	(12,208)
Net amount	**8,988,764**	**1,429,738**	**10,418,502**	7,211,527	1,280,486	8,492,013

Loans and Advances Neither Past Due Nor Impaired
The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by Kiwibank. The definitions used in the table below (excellent, good and moderate) correspond directly to the RBNZ terminology for asset monitoring (i.e. standard, special and sub-standard) respectively and are described as follows:

Excellent credit quality - customer represents a low credit risk and typically operated successfully over several market cycles. The customer financial position is sound with an abillity to respond to changes.
Good credit quality - customer is assessed to be of moderate risk and may have manifested some historic symptoms of non-performance such as a payment default.
Moderate credit quality - customer is assessed to be higher risk, operating in a high risk environment and typically have a weaker financial position and will have some historic syptoms of non performance such as a payment default.

	Retail Unsecured Lending 2010 $'000	**Residential Mortgage Loans 2010 $'000**	**Corporate Exposures 2010 $'000**	**Total Loans and Advances 2010 $'000**	Retail Unsecured Lending 2009 $'000	Residential Mortgage Loans 2009 $'000	Corporate Exposures 2009 $'000	Total Loans and Advances 2009 $'000
Grades								
Excellent credit quality	**235,790**	**8,530,346**	**1,219,584**	**9,985,720**	202,642	6,732,532	1,235,053	8,170,227
Good credit quality	**-**	**27,578**	**148,763**	**176,341**	-	-	-	-
Moderate credit quality	**-**	**1,605**	**18,630**	**20,235**	-	-	-	-
Total	**235,790**	**8,559,529**	**1,386,977**	**10,182,296**	202,642	6,732,532	1,235,053	8,170,227

Loans and Advances Past Due but Not Impaired

	Retail Unsecured Lending 2010 $'000	**Residential Mortgage Loans 2010 $'000**	**Corporate Exposures 2010 $'000**	**Total Loans and Advances 2010 $'000**	Retail Unsecured Lending 2009 $'000	Residential Mortgage Loans 2009 $'000	Corporate Exposures 2009 $'000	Total Loans and Advances 2009 $'000
Past due up to 30 days	**20,346**	**94,956**	**12,137**	**127,439**	16,164	215,484	27,220	258,868
Past due 31-60 days	**6,290**	**22,924**	**10,067**	**39,281**	5,715	11,906	1,002	18,623
Past due 61-90 days	**2,881**	**5,271**	**13,395**	**21,547**	2,859	11,066	-	13,925
Past due > 90 days	**2,536**	**19,152**	**7,981**	**29,669**	2,015	11,797	9,434	23,246
Total	**32,053**	**142,303**	**43,580**	**217,936**	26,753	250,253	37,656	314,662
Fair value of collateral	**-**	**158,114**	**48,422**	**206,536**	-	278,059	41,840	319,899

10 SPECIFIC BANKING ASSETS continued

Past Due Assets > 90 Days

The breakdown of the gross amount of loans and advances > 90 days past due by class is as follows:

	Unsecured Retail Lending		***Residential Mortgage Loans***		***Corporate Exposures***	
	2010	2009	**2010**	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Balance at the beginning of the year	**2,015**	1,309	**11,797**	5,872	**9,434**	1,579
Transfers to past due assets	**6,168**	9,369	**56,228**	38,442	**79,924**	19,749
Transfers from past due assets	**(5,647)**	(3,916)	**(48,873)**	(32,299)	**(81,377)**	(11,894)
Amounts written off	**-**	(4,747)	**-**	(218)		-
Balance at the end of the year	**2,536**	2,015	**19,152**	11,797	**7,981**	9,434

Impaired Assets

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

	Unsecured Retail Lending		***Residential Mortgage Loans***		***Corporate Exposures***	
	2010	2009	**2010**	2009	**2010**	2009
Gross Impaired	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Balance at the beginning of the year	**227**	202	**5,588**	3,612	**13,517**	253
Transfers from productive	**3,766**	227	**28,700**	7,764	**7,776**	14,906
Transfers to productive	**(227)**	(111)	**-**	(5,388)	**(10,017)**	(198)
Amounts written off	**(3,587)**	(91)	**(7,967)**	(400)	**-**	(1,444)
Balance at the end of the year	**179**	227	**26,321**	5,588	**11,276**	13,517

There are no other classes of impaired banking assets.

Comparative transfers have been restated, to align with the current year, between “residential mortgage loans” and “corporate exposures” categories, in line with RBNZ Orders in Council.

Restructured Assets

Restructuring activities include extended payment plans, appproved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators of criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review.

As at 30 June 2010 there were $32,000 restructured assets (30 June 2009 - nil). The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are 90 days past due is nil at 30 June 2010 (30 June 2009 - nil).

	GROUP		**PARENT**	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Allowance for Impairment Losses in Statement of Financial Position				
Collective allowance for impairment losses	**9,543**	7,283	**-**	-
Individually impaired assets	**9,963**	4,925	**-**	-
Allowance for impairment losses	**19,506**	12,208	**-**	-
The cumulative change in fair value arising from changes in credit risk for loans and advances designated at fair value	**741**	1,273	**-**	-
Total allowance for impairment losses	**20,247**	13,481	**-**	-
Impairment Losses Per Statement of Comprehensive Income				
Impairment losses on loans not at fair value through profit or loss	**5,847**	8,418	**-**	-
Charge to income statement for individually impaired assets	**12,014**	5,927	**-**	-
Total impairment losses per income statement	**17,861**	14,345	-	-
Impairment Allowance				
Individually impaired assets				
Balance at the beginning of the year	**4,925**	840	**-**	-
Charge to income statement	**12,014**	5,927	**-**	-
Bad debts written off	**(6,976)**	(1,842)	**-**	-
Balance at the end of the year	**9,963**	4,925	**-**	-

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

	Retail Unsecured Lending	**Residential Mortgage Loans**	**Corporate Exposures**	**Total**	Retail Unsecured Lending	Residential Mortgage Loans	Corporate Exposures	Total
	2010	**2010**	**2010**	**2010**	2009	2009	2009	2009
	$'000	**$'000**	**$'000**	**$'000**	$'000	$'000	$'000	$'000
Balance at beginning of the year	**3,190**	**1,734**	**2,359**	**7,283**	1,349	403	319	2,071
Impairment losses on loans not at fair value through profit or loss	**3,994**	**850**	**776**	**5,620**	5,047	1,331	2,040	8,418
Advances written off	**(3,360)**	**-**	**-**	**(3,360)**	(3,206)	-	-	(3,206)
Total collective allowance for impairment losses	**3,824**	**2,584**	**3,135**	**9,543**	3,190	1,734	2,359	7,283

11 BANKING DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (ie 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 fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, Kiwibank assesses counterparties using the same techniques as for its lending activities.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between 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.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate Kiwibank's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and financial liabilities, can fluctuate significantly from time to time. The fair value of derivative instruments is set out below.

	GROUP		PARENT	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Derivatives Held for Trading				
Foreign exchange derivatives				
- Forward contracts	**(3,623)**	717	-	
- Swap agreements	**812**	(1,065)	-	
Total foreign exchange derivatives	**(2,811)**	(348)	**-**	-
Interest rate derivatives				
- Forward rate agreements	**96**	406	-	-
- Swap agreements	**(74,155)**	(140,659)	-	-
- Futures contracts	**(574)**	(5)	-	-
Total interest rate derivatives	**(74,633)**	(140,258)	**-**	-
Total derivatives held for trading	**(77,444)**	(140,606)	**-**	-
Derivatives Designated as Cash Flow Hedges				
Interest rate derivatives				
- Swap agreements	**(93,178)**	(120,864)	-	-
Total derivatives designated as cash flow hedges	**(93,178)**	(120,864)	**-**	-
Derivatives Designated as Fair Value Hedges				
Interest rate derivatives				
- Swap agreements	**14,354**	6,525	-	-
Total derivatives designated as fair value hedges	**14,354**	6,525	**-**	-
Total Derivative Financial Instruments	**(156,268)**	(254,945)	**-**	-
Comprising:				
Current derivative financial instruments	**(49,089)**	(39,429)	-	-
Non-current derivative financial instruments	**(107,179)**	(215,516)	-	-
Total derivative financial instruments	**(156,268)**	(254,945)	**-**	-

Fair Value Hedges

Kiwibank has entered into asset swaps to hedge interest rate risk resulting from any potential change or movement in the fair value of fixed rate coupon 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 assets and interest rate swaps. The fair value gains and losses are recorded through the statement of comprehensive income as incurred. The opposing fair value adjustments to the carrying balance sheet value are amortised to the income statement as the fixed rate asset and interest rate swap near maturity.

Kiwibank also partially hedged the interest rate risk arising from any potential change in the fair value of fixed rate subordinated debt issuance. Kiwibank hedged this risk through the use of fixed interest rate swaps. The designated hedging relationships result in fair value gains and losses on the fixed rate liability and interest rate swaps. The fair value gains and losses are recorded through the income statement as incurred. The opposing fair value adjustments to the carrying statement of financial position value are amortised to the income statement as the fixed rate liability and interest rate swap near maturity.

Cash Flow Hedges

Kiwibank hedges the short term future reissuance of fixed rate customers and future retail term deposits through the use of interest rate swaps. Previously Kiwibank also hedged the cash flows from variable rate loan assets and liabilities. All underlying hedged cash flows are expected to be recognised in the statement of comprehensive income in the period in which they occur which is anticipated to take place over the next ten years.

12 INVESTMENT PROPERTIES

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Balance at the beginning of the year	**36,686**	70,160	**36,686**	70,160
(Impairment)/revaluation	**(295)**	(394)	**(295)**	(394)
Transfers from property, plant and equipment	**(4,200)**	-	**(4,200)**	-
Transfers to assets held for sale	**(1,705)**	(33,080)	**(1,705)**	(33,080)
Balance at the end of the year	**30,486**	36,686	**30,486**	36,686

Land and buildings are classified as investment property when:
- all of the space is occupied by external tenants; or
- there is a mixture of internal and external tenancies but the Group tenants occupy an insignificant portion of the total space (no more than 10%), and there is no clear intention for this to change in the future.

The above criteria is applied to each separable portion of a building, hence can result in part of a building being classified as investment property, and part being recognised as property, plant and equipment.

All investment properties were valued at 30 June 2010 and 30 June 2009 by Darroch Limited (an independent valuer), associates of the New Zealand Institute of Valuers. Investment Properties have been valued in accordance with NZ IAS 40. The valuation process complied with the New Zealand Property Institute Practice Standards. Valuations are at fair value. The valuations are based on current occupancy arrangements and property operating expenses, and the state of the New Zealand property market in general as well as the sub-markets into which the properties fall. Where vacant space exists it has been rentalised at a market level and added to actual lease rentals. Valuation techniques have been used as there are no binding sale and purchase agreements on these properties, and there are no recent comparable sales.

There are no restrictions on realisability, remittance of income or proceeds on disposal.

13 PROPERTY, PLANT AND EQUIPMENT

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Land	**80,311**	80,860	**80,311**	80,860
Buildings	**98,004**	98,907	**98,004**	98,907
Motor vehicles	**1,173**	1,199	**1,164**	1,180
Furniture and fittings	**39,861**	40,520	**33,212**	34,335
Office equipment	**7,895**	6,180	**524**	615
Computer equipment	**26,122**	25,363	**10,357**	10,853
Plant and equipment	**52,364**	42,526	**34,498**	34,582
Aircraft	**16,311**	20,545	**-**	-
Work in progress	**19,261**	13,944	**16,072**	12,787
Total Property, Plant and Equipment	**341,302**	330,044	**274,142**	274,119

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Land				
Cost at the beginning of the year	**80,860**	87,115	**80,860**	87,115
Classified as properties held for sale	**(670)**	-	**(670)**	-
Transferred from investment property	**2,350**	-	**2,350**	-
Disposals	**-**	(4,160)	**-**	(4,160)
(Impairment)/revaluations	**(2,229)**	(2,095)	**(2,229)**	(2,095)
Cost at the end of the year	**80,311**	80,860	**80,311**	80,860
Carrying amount of land	**80,311**	80,860	**80,311**	80,860
Buildings				
Cost at the beginning of the year	**98,907**	104,849	**98,907**	104,849
Additions	**-**	583	**-**	583
Classified as properties held for sale	**(735)**	-	**(735)**	-
Transferred from investment property	**1,850**	-	**1,850**	-
Disposals	**(582)**	(4,902)	**(582)**	(4,902)
(Impairment)/revaluations	**(1,436)**	(1,623)	**(1,436)**	(1,623)
Cost at the end of the year	**98,004**	98,907	**98,004**	98,907
Accumulated depreciation at the beginning of the year	**-**	-	**-**	-
Depreciation	**(2,949)**	(3,157)	**(2,949)**	(3,157)
Disposals	**-**	133	**-**	133
Revaluations	**2,949**	3,024	**2,949**	3,024
Accumulated depreciation at the end of the year	**-**	-	**-**	-
Carrying amount of buildings	**98,004**	98,907	**98,004**	98,907
Motor Vehicles				
Cost at the beginning of the year	**3,439**	2,975	**3,292**	2,828
Additions	**426**	771	**426**	771
Disposals	**(290)**	(307)	**(243)**	(307)
Cost at the end of the year	**3,575**	3,439	**3,475**	3,292
Accumulated depreciation at the beginning of the year	**(2,240)**	(2,091)	**(2,112)**	(1,974)
Depreciation	**(404)**	(368)	**(401)**	(365)
Disposals	**242**	219	**202**	227
Accumulated depreciation at the end of the year	**(2,402)**	(2,240)	**(2,311)**	(2,112)
Carrying amount of motor vehicles	**1,173**	1,199	**1,164**	1,180

	GROUP		PARENT	
	2010	2009	**2010**	2009
13 PROPERTY, PLANT AND EQUIPMENT continued	**$'000**	$'000	**$'000**	$'000
Furniture and Fittings				
Cost at the beginning of the year	**88,062**	79,019	**79,728**	71,910
Additions	**10,208**	9,442	**6,706**	7,926
Disposals	**(12,937)**	(399)	**(10,469)**	(108)
Cost at the end of the year	**85,333**	88,062	**75,965**	79,728
Accumulated depreciation at the beginning of the year	**(47,542)**	(44,150)	**(45,393)**	(41,462)
Depreciation	**(5,782)**	(6,495)	**(5,216)**	(6,024)
Disposals	**7,852**	3,103	**7,856**	2,093
Accumulated depreciation at the end of the year	**(45,472)**	(47,542)	**(42,753)**	(45,393)
Carrying amount of furniture and fittings	**39,861**	40,520	**33,212**	34,335
Office Equipment				
Cost at the beginning of the year	**16,081**	13,343	**5,301**	4,922
Additions	**2,072**	3,074	**248**	589
Disposals	**(375)**	(336)	**(336)**	(210)
Cost at the end of the year	**17,778**	16,081	**5,213**	5,301
Accumulated depreciation at the beginning of the year	**(9,901)**	(9,880)	**(4,686)**	(4,281)
Depreciation	**(277)**	(502)	**(215)**	(458)
Disposals	**295**	481	**212**	53
Accumulated depreciation at the end of the year	**(9,883)**	(9,901)	**(4,689)**	(4,686)
Carrying amount of office equipment	**7,895**	6,180	**524**	615
Computer Equipment				
Cost at the beginning of the year	**88,728**	79,904	**52,686**	48,557
Additions	**13,884**	10,737	**5,913**	5,990
Disposals	**(1,801)**	(1,913)	**(1,354)**	(1,861)
Cost at the end of the year	**100,811**	88,728	**57,245**	52,686
Accumulated depreciation at the beginning of the year	**(63,365)**	(55,114)	**(41,833)**	(38,760)
Depreciation	**(12,763)**	(10,308)	**(6,364)**	(5,023)
Disposals	**1,439**	2,057	**1,309**	1,950
Accumulated depreciation at the end of the year	**(74,689)**	(63,365)	**(46,888)**	(41,833)
Carrying amount of computer hardware	**26,122**	25,363	**10,357**	10,853
Plant and Equipment				
Cost at the beginning of the year	**111,978**	113,578	**88,862**	92,378
Additions	**21,722**	5,410	**2,498**	3,165
Disposals	**(3,157)**	(7,010)	**(1,053)**	(6,681)
Cost at the end of the year	**130,543**	111,978	**90,307**	88,862
Accumulated depreciation at the beginning of the year	**(69,452)**	(68,370)	**(54,280)**	(54,808)
Depreciation	**(11,199)**	(9,872)	**(6,667)**	(5,964)
Disposals	**2,472**	8,790	**5,138**	6,492
Accumulated depreciation at the end of the year	**(78,179)**	(69,452)	**(55,809)**	(54,280)
Carrying amount of plant and equipment	**52,364**	42,526	**34,498**	34,582
Aircraft				
Cost at the beginning of the year	**25,055**	13,385	**-**	-
Additions	**3,411**	11,670	**-**	-
Cost at the end of the year	**28,466**	25,055	**-**	-
Accumulated depreciation at the beginning of the year	**(4,510)**	(2,424)	**-**	-
Depreciation	**(4,394)**	(3,022)	**-**	-
Impairment	**(3,251)**	(345)	**-**	-
Impairment reversals	**-**	1,281	**-**	-
Accumulated depreciation at the end of the year	**(12,155)**	(4,510)	**-**	-
Carrying amount of aircraft	**16,311**	20,545	**-**	-

The agreement by which the Parent 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 Parent will be compensated by the Crown for any loss that occurs upon the resumption of any interest in land by the Crown.

Land and buildings were valued at 30 June 2010 and 30 June 2009 by Darroch Limited (an independent valuer), associates of the New Zealand Institute of Valuers Land and buildings have been valued in accordance with NZ IAS 16. The valuation process complied with the New Zealand Property Institute Practice Standards Valuations are at fair value. The valuations are based on current occupancy arrangements and property operating expenses, and the state of the New Zealand property market in general as well as the sub-markets into which the properties fall. Where vacant space exists it has been rentalised at a market level and added to actual lease rentals. Valuation techniques have been used as there are no binding sale and purchase agreements on these properties, and there are no recent comparable sales.

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

Land	**31,261**	30,558	**31,261**	30,558
Buildings	**59,366**	64,314	**59,366**	64,314

14 INTANGIBLE ASSETS

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Computer software - purchased	**9,067**	10,503	**1,890**	3,388
Computer software - internally developed	**47,418**	44,548	**21,069**	20,802
Acquired customer contracts	**2,123**	2,633	**-**	-
Acquired customer relationships	**3,452**	8,093	**-**	-
Goodwill	**54,916**	54,004	**-**	-
Other intangible assets	**58**	54	**58**	54
Software work in progress	**31,404**	25,003	**10,923**	10,486
Total Intangible Assets	**148,438**	144,838	**33,940**	34,730

Computer Software - purchased	GROUP 2010	GROUP 2009	PARENT 2010	PARENT 2009
Cost at the beginning of the year	**51,477**	44,253	**20,295**	22,211
Accumulated amortisation/impairment at the beginning of the year	**(40,974)**	(35,184)	**(16,907)**	(15,762)
Carrying value at the beginning of the year	**10,503**	9,069	**3,388**	6,449
Additions	**3,788**	7,560	**1,136**	1,782
Disposals	**(143)**	(1,676)	**(51)**	(1,530)
Amortisation expense	**(5,081)**	(4,450)	**(2,583)**	(3,313)
Balance at the end of the year	**9,067**	10,503	**1,890**	3,388
Comprising:				
Cost	**55,122**	51,477	**21,380**	20,295
Accumulated amortisation/impairment	**(46,055)**	(40,974)	**(19,490)**	(16,907)
Total computer software - purchased	**9,067**	10,503	**1,890**	3,388

Computer software - purchased relates to the amount spent on externally acquired software assets to be used in the future operations of the Group.
Computer software is being amortised over 3 to 5 years.

Computer Software - internally developed	GROUP 2010	GROUP 2009	PARENT 2010	PARENT 2009
Cost at the beginning of the year	**133,151**	113,748	**87,071**	77,301
Accumulated amortisation/impairment at the beginning of the year	**(88,603)**	(76,653)	**(66,269)**	(60,050)
Carrying value at the beginning of the year	**44,548**	37,095	**20,802**	17,251
Additions - internally developed	**20,384**	21,664	**7,921**	9,770
Amortisation expense	**(17,514)**	(14,211)	**(7,654)**	(6,219)
Balance at the end of the year	**47,418**	44,548	**21,069**	20,802
Comprising:				
Cost	153,535	133,151	**94,992**	87,071
Accumulated amortisation/impairment	(106,117)	(88,603)	**(73,923)**	(66,269)
Total computer software - internally developed	**47,418**	44,548	**21,069**	20,802

Computer software - internally developed relates to the amount spent on internally developed software assets to be used in the future operations of the Group.
Computer software is being amortised over 3 to 5 years.

Acquired Customer Contracts	GROUP 2010	GROUP 2009	PARENT 2010	PARENT 2009
Cost at the beginning of the year	**3,568**	3,568	**-**	-
Accumulated amortisation/impairment at the beginning of the year	**(935)**	(425)	**-**	-
Carrying value at the beginning of the year	**2,633**	3,143	**-**	-
Amortisation expense	**(510)**	(510)	**-**	-
Balance at the end of the year	**2,123**	2,633	**-**	-
Comprising:				
Cost	**3,568**	3,568	**-**	-
Accumulated amortisation/impairment	**(1,445)**	(935)	**-**	-
Total acquired customer relationships	**2,123**	2,633	**-**	-

Acquired customer contracts relate to the expected future benefits of lease agreements held by the Group for aircraft assets and maintenance charges. Acquired customer contracts are being amortised over a seven year period to match the lease agreement terms. The seven years is due to expire in August 2014.

Acquired Customer Relationships	GROUP 2010	GROUP 2009	PARENT 2010	PARENT 2009
Cost at the beginning of the year	**17,388**	17,388	**-**	-
Accumulated amortisation/impairment at the beginning of the year	**(9,295)**	(5,520)	**-**	-
Carrying value at the beginning of the year	**8,093**	11,868	**-**	-
Disposals	**(2,647)**	-	**-**	-
Amortisation expense	**(1,994)**	(3,775)	**-**	-
Balance at the end of the year	**3,452**	8,093	**-**	-
Comprising:				
Cost	**12,749**	17,388		-
Accumulated amortisation/impairment	**(9,297)**	(9,295)	**-**	-
Total acquired customer relationships	**3,452**	8,093	**-**	-

Acquired customer relationships relate to the expected future benefits of customer accounts in place on acquisition of The New Zealand Home Loan Company.
Acquired customer relationships are being amortised over a period that reflects the expected life of the customer relationships (being from 21 months to 10 years).

14 INTANGIBLE ASSETS continued	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Goodwill				
Cost at the beginning of the year	**54,448**	37,096	**-**	-
Accumulated impairment at the beginning of the year	**(444)**	(444)	**-**	-
Carrying value at the beginning of the year	**54,004**	36,652	**-**	-
Acquisitions through business combinations	**1,245**	17,673	**-**	-
Translation adjustment	**(333)**	(321)	**-**	-
Balance at the end of the year	**54,916**	54,004	**-**	-
Comprising:				
Cost	**55,360**	54,448	-	-
Accumulated impairment	**(444)**	(444)	**-**	-
Total goodwill	**54,916**	54,004	**-**	-
Other Intangible Assets				
Cost at the beginning of the year	**257**	224	**257**	224
Accumulated amortisation/impairment at the beginning of the year	**(203)**	(97)	**(203)**	(97)
Carrying value at the beginning of the year	**54**	127	**54**	127
Additions - purchased	**8**	33	**8**	33
Amortisation expense	**(4)**	(106)	**(4)**	(106)
Balance at the end of the year	**58**	54	**58**	54
Comprising:				
Cost	**265**	257	**265**	257
Accumulated amortisation/impairment	**(207)**	(203)	**(207)**	(203)
Total other intangible assets	**58**	54	**58**	54

Impairment Testing for Goodwill

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

BUSINESS COMBINATION	CASH GENERATING UNIT
Acquisition of Outsource Australia (now Converga Pty Limited)	Converga Pty Limited Group operations
Acquisition of Moore Gallagher business	Datam Limited operations
Acquisition of Outsource Solutions (amalgamated into Datam Ltd)	Datam Limited operations
Acquisition of Tedis (now ECN Australia Pty Ltd)	ECN Australia Pty Ltd operations
Acquisition of Infolink Limited (amalgamated into The ECN Group Ltd)	The ECN Group Limited operations
Acquisition of The New Zealand Home Loans Company Limited	The New Zealand Home Loans Company Limited operations and related Kiwibank operations

The recoverable amounts of all cash generating units have been determined based on a value in use calculation using cash flow projections as at 31 March based on financial budgets approved by senior management covering a five year period.

The carrying value of goodwill assigned to each cash generating unit is:	Carrying Value 2010 $'000	Carrying Value 2009 $'000	Discount Rate 2010	Average Growth Rate * 2010	Terminal Value Growth Rate 2010
Converga Pty Limited Group operations	**17,820**	18,116	13.1%	7.8%	0%
Datam Pty Limited operations	**5,836**	5,836	12.3%	7.3%	0%
ECN Australia operations	**3,536**	3,573	14.6%	7.2%	0%
The ECN Group Limited operations	**981**	981	14.6%	7.1%	0%
The New Zealand Home Loans Company Limited	**26,743**	25,498	11.7%	6.5%	2%
Total goodwill	**54,916**	54,004			

* Average revenue growth rate across the forecast period

15 RELATED PARTY TRANSACTIONS

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 on an arm's length basis and 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 the Parent. This includes the subsidiaries, associate entities and jointly controlled entities identified in notes 16 and 17.

	GROUP		PARENT	
	2010	2009	**2010**	2009
Related Party Transactions	**$'000**	$'000	**$'000**	$'000
Shareholders				
- dividends paid	**5,696**	13,499	**5,696**	13,499
Subsidiaries				
- sale of goods and services	**-**	-	**25,279**	23,987
- purchase of goods and services	**-**	-	**12,278**	14,599
- interest (paid)/received	**-**	-	**(10,544)**	(856)
- loans (advanced)/repaid	**-**	-	**(5,362)**	(580,823)
- equity investments	**-**	-	**15,340**	20,050
- Dividends received in species	**-**	-	**586**	-
- sale of investment	**-**	-	**-**	724,000

In June 2009 the Parent sold its investment in Kiwibank Limited to Kiwi Group Holdings Limited for $724m. The carrying value of the investment for the Parent was $295m resulting in a gain on sale of $429m being recognised in the Income Statement during the year.

	GROUP 2010	GROUP 2009	PARENT 2010	PARENT 2009
Associates				
- purchase of goods and services	**24,261**	27,348	**24,261**	27,348
- dividends received	**-**	-	**4,578**	2,615
- equity investment	**-**	1,533	**-**	1,533
Jointly Controlled Entities				
- sale of goods and services	**42,178**	31,742	**35,076**	25,299
- purchase of goods and services	**68,998**	76,122	**74,622**	83,249
- interest received	**3,537**	4,463	**353**	406
- dividends received	**-**	-	**3,250**	5,000
- loans repaid/(advanced)	**362**	953	**362**	(73)
Other Related Parties				
- sale of goods and services	**48,781**	63,091	**48,194**	51,752
- purchase of goods and services	**16,316**	16,195	**16,316**	16,195

Other related parties include all entities under Crown control.

Related Party Balances

The amounts outstanding with related parties at balance date were:

	GROUP 2010	GROUP 2009	PARENT 2010	PARENT 2009
Subsidiaries				
- current accounts	**-**	-	**(3,570)**	(5,806)
- loans receivable	**-**	-	**826,252**	796,749
- loans payable	**-**	-	**(202,406)**	(197,721)
- investments	**-**	-	**75,601**	75,933
Total balances for subsidiaries	**-**	-	**695,877**	669,155
Associates				
- current accounts	**(3,176)**	(2,949)	**(3,176)**	(2,949)
- investments	**54,216**	48,076	**17,731**	17,731
Total balances for associates	**51,040**	45,127	**14,555**	14,782
Jointly Controlled Entities				
- current accounts	**7,032**	3,477	**(2,070)**	(2,403)
- loans receivable	**-**	-	**4,153**	4,515
- guarantee of obligations	**(2,084)**	(6,644)	**-**	-
- investments	**24,668**	51,212	**52,000**	52,000
Total balances for jointly controlled entities	**29,616**	48,045	**54,083**	54,112
Other Related Parties				
- current accounts	**5,547**	5,853	**4,960**	5,124
Total balances for other related parties	**5,547**	5,853	**4,960**	5,124
Represented by:				
Related party current accounts	**9,403**	6,381	**(3,856)**	(6,034)
Loans to related parties	**-**	-	**830,405**	801,264
Loans from related parties	**-**	-	**(202,406)**	(197,721)
Investments accounted for using the equity method	**74,627**	92,644	**69,731**	69,731
Investments in subsidiaries	**-**	-	**75,601**	75,933
Total related party balances	**84,030**	99,025	**769,475**	743,173
Key Management Personnel Compensation				
Short-term employee benefits	**5,146**	6,152	**3,447**	4,151
Termination benefits	**398**	-	**398**	-
Total key management personnel compensation	**5,544**	6,152	**3,845**	4,151

Key management personnel relates to Directors and Executive Team Members of the Parent.

16 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Investments in Associates	**54,408**	48,076	**17,731**	17,731
Investments in Jointly Controlled Entities	**20,219**	44,568	**52,000**	52,000
Total Investments Accounted for Using the Equity Method	**74,627**	92,644	**69,731**	69,731

Investments in Associates

NAME OF ENTITY	PRINCIPAL ACTIVITY	BALANCE DATE	% held	% held
Datacom Group Limited	Business solutions	31 March	**36**	36

	GROUP 2010	GROUP 2009	PARENT 2010	PARENT 2009
Balance at the beginning of the year	**48,076**	39,636	**17,731**	16,198
Acquisitions	**-**	1,533	**-**	1,533
Share of net profit of associates	**10,001**	9,522	**-**	-
Share of other comprehensive income of associates	**908**	-	**-**	-
Dividends received	**(4,577)**	(2,615)	**-**	-
Balance at the end of the year	**54,408**	48,076	**17,731**	17,731
Included within the above carrying value is:				
Goodwill at beginning of the year	**9,291**	8,349	**-**	-
Acquisitions	**207**	942	**-**	-
Goodwill at end of the year	**9,498**	9,291	**-**	-

During the year the Group decreased its controlling interest in Datacom Group Limited from 35.96% to 35.79% on 8 March 2010, due to an issue of new shares by Datacom. (In prior year, the Group increased its controlling interest from 35.57% to 35.96% on 4 August 2008)

The fair value of the Group's investment in Datacom Group Limited is $104.6m (30 June 2009 - $96.2m).

Summarised Financial Information of Associates	**31 March 10**	31 March 09
Total assets	**279,257**	236,611
Total liabilities	**156,026**	131,534
Total revenues	**666,856**	608,769
Total profit	**30,246**	27,049
Share of associate entity's capital commitments	**1,833**	2,327

Share of associate entity's contingent liabilities
Datacom owns a purpose built data centre with an estimated useful life of 25 years. Datacom have applied to the Inland Revenue Department for a special ruling to allow for depreciation to continue and therefore no deferred tax liability has been recognised for this property as at 30 June 2010. If this is disallowed, Datacom will need to recognise a further deferred tax expense of $5.5m. (2009: nil)

Investments in Jointly Controlled Entities

NAME OF ENTITY	PRINCIPAL ACTIVITY	BALANCE DATE	% held	% held
Parcel Direct Group Pty Limited*	Courier and distribution	30 June	**50**	50
Express Couriers Limited	Courier and distribution	30 June	**50**	50
Reach Media New Zealand Limited	Unaddressed mail	30 June	**50**	50

* Previously Express Couriers Australia Pty Limited

	GROUP 2010	GROUP 2009	PARENT 2010	PARENT 2009
Balance at the beginning of the year	**44,568**	52,881	**52,000**	52,000
Acquisitions	**352**	(1,483)	**-**	-
Loan repayment	**(714)**	(4,691)	**-**	-
Share of net profit/(loss) of jointly controlled entities	**(23,818)**	2,861	**-**	-
Reversal of unrecognised gain on sale	**3,081**	-	**-**	-
Dividends received	**(3,250)**	(5,000)	**-**	-
Balance at the end of the year	**20,219**	44,568	**52,000**	52,000

The share of net profit/(loss) includes impairment charges on goodwill of $22.8m.

	2010	2009
Share of jointly controlled entities' contingent liabilities	**-**	-

The Parent has guaranteed 50% of the bank debt of Express Couriers Limited, in line with its shareholding. There is no obligation at 30 June 2010 (30 June 2009 - no obligation).

	2010	2009
Share of jointly controlled entities' capital commitments	**3,522**	3,986
Summarised Financial Information of Jointly Controlled Entities		
Current assets	**92,844**	86,078
Non-current assets	**306,412**	331,203
Current liabilities	**94,016**	88,185
Non-current liabilities	**183,724**	168,063
Revenues	**587,200**	397,827
Expenditure	**636,879**	386,605

17 INVESTMENTS IN SUBSIDIARIES

Investment in Material Subsidiaries		**2010**	2009
NAME OF ENTITY	PRINCIPAL ACTIVITY	**% HELD**	% HELD
Air Post Limited	Airline freight services	**100**	100
Converga Pty Limited	Business process outsourcing	**100**	100
Datam Limited (previously Datamail Limited)	Print, create mail and data management	**100**	100
Kiwi Group Holdings Limited*	Holding company	**100**	100
Kiwibank Limited	Registered bank	**100**	100
Kiwibank Portfolio Investment Entity Unit Trust**	Investment management services	**-**	-
Kiwi Capital Securities Limited	Issuer of perpetual preference shares	**100**	-
The New Zealand Home Loan Company Limited	Mortgage services	**76**	51
New Zealand Post Australia Holdings Pty Limited	International mail business	**100**	100
New Zealand Post Group Finance Limited***	Financing services	**100**	100
New Zealand Post Holdings Limited	Holding company	**100**	100
New Zealand Post Recycle Centre****	Furniture Recycling company	**100**	100
The ECN Group Limited	Electronic services	**100**	100
The ECN Group Pty Limited	Electronic services	**100**	100

All subsidiary companies were incorporated in New Zealand with the exception of Converga Pty Limited, New Zealand Post Australia Holdings Pty Limited and The ECN Group Pty Limited, which were incorporated in Australia.

* Kiwi Group Holdings Limited was incorporated on 8 April 2009.
** The Group consolidates the Trust on the basis that Kiwibank is deemed to control the Trust as the activities of the Trust are conducted on behalf of Kiwibank according to Kiwibank's specific business needs.
*** New Zealand Post Group Finance Limited was incorporated on 27 February 2009.
**** New Zealand Post Recycle Centre was previously named Post Blue Limited.

Acquisition of Subsidiaries
During the year, the Group (through Kiwi Group Holdings Limited) increased its investment in The New Zealand Home Loan Company Limited from 51% to 76%.

There were no acquisitions of subsidiaries during the prior year.

Disposal of Subsidiaries
There were no disposals of subsidiaries from the Group during the year (2009: nil).

Amalgamation of Subsidiaries
No companies were amalgamated with the Parent during the year (2009: nil).

		GROUP		PARENT	
		2010	2009	**2010**	2009
	Note	**$'000**	$'000	**$'000**	$'000
18 TRADE AND OTHER PAYABLES					
Trade payables		**122,781**	142,527	**75,620**	113,406
Payables to related parties	15	**3,176**	2,949	**8,816**	11,158
Trail commissions payable		**4,932**	4,869	**-**	-
Payment services holding accounts		**27,037**	38,658	**22,323**	34,495
Unearned revenue		**25,240**	26,003	**24,254**	25,367
Accrued employee benefit liabilities		**66,312**	73,592	**46,247**	54,994
Interest payable		**3,660**	3,854	**1,766**	1,960
Other accruals and payables		**6,697**	7,661	**2,196**	2,500
Total Trade and Other Payables		**259,835**	300,113	**181,222**	243,880
Comprising:					
Current trade and other payables		**239,709**	277,596	**161,096**	221,363
Non-current trade and other payables		**20,126**	22,517	**20,126**	22,517
Total trade and other payables		**259,835**	300,113	**181,222**	243,880
19 PROVISIONS					
Employee medical claims		**2,806**	2,806	**2,806**	2,806
Restructuring costs		**1,218**	5,315	**1,165**	5,140
Onerous Lease Contract		**6,825**	-	**633**	-
Telephone rentals		**-**	1,123	**-**	1,123
Property restorations		**708**	431	**708**	431
Total Provisions		**11,557**	9,675	**5,312**	9,500
Employee Medical Claims					
Balance at the beginning of the year		**2,806**	3,667	**2,806**	3,667
Utilisation of provision		**(26)**	(11)	**(26)**	(11)
Additional provision		**26**		**26**	-
Reversal of provision		**-**	(850)	**-**	(850)
Balance at the end of the year		**2,806**	2,806	**2,806**	2,806
Comprising:					
Current portion		**561**	561	**561**	561
Non-current portion		**2,245**	2,245	**2,245**	2,245
Total employee medical claims		**2,806**	2,806	**2,806**	2,806

The Group is liable for employee medical claims relating to workplace injuries. The provision has been made in respect of future estimated costs relating to injuries that have occurred prior to balance date. Costs are expected to be paid over the next 5 years.

Restructuring Costs				
Balance at the beginning of the year	**5,315**	147	**5,140**	120
Additional provision	**1,218**	11,337	**1,165**	10,086
Utilisation of provision	**(4,418)**	(6,142)	**(4,243)**	(5,066)
Reversal of provision	**(897)**	(27)	**(897)**	-
Balance at the end of the year	**1,218**	5,315	**1,165**	5,140

All restructuring costs are expected to be paid in the next 12 months.
The Group is liable to pay redundancy benefits to employees where their jobs are disestablished. This provision has been made in respect of the redundancy costs expected to be paid to employees relating to restructures agreed and communicated prior to balance date.

Onerous Contracts				
Balance at the beginning of the year	**-**	-	**-**	-
Additional provision	**6,825**	-	**633**	-
Balance at the end of the year (current)	**6,825**	-	**633**	-

The Parent and Group have operating lease contracts. This provision has been made in respect of future estimated irrecoverable expenses for sub-let external leases. Lease expiry of this contract is within three years.
The Group has also provided for a claw-back relating to its sale of Couriers Please Pty Limited in 2008.

Telephone Rentals				
Balance at the beginning of the year	**1,123**	1,078	**1,123**	1,078
Additional provision	**-**	145	**-**	145
Utilisation of provision	**(1,123)**	(100)	**(1,123)**	(100)
Balance at the end of the year	**-**	1,123	**-**	1,123
Comprising:				
Current portion	**-**	98	**-**	98
Non-current portion	**-**	1,025	**-**	1,025
Total telepone rentals	**-**	1,123	**-**	1,123

During 2010, the Company has extinguised its requirement to pay retiree's telephone rental and domestic toll charges.

Property Restorations				
Balance at the beginning of the year	**431**	644	**431**	644
Additional provision	**277**	-	**277**	-
Release of provision	**-**	(213)	**-**	(213)
Balance at the end of the year	**708**	431	**708**	431
Comprising:				
Current portion	**23**	71	**23**	71
Non-current portion	**685**	360	**685**	360
Total property restorations	**708**	431	**708**	431

The Group has operating lease contracts. This provision has been made in respect of future obligations to restore leased property to its initial condition, but allowing for fair wear and tear over the period of occupancy.
The provision is based on the Company's accommodation projections and its history of property restoration settlements.
The timing of lease expiries is generally fixed but individual restoration settlements are difficult to predict.

20 BORROWINGS

New Zealand Post bond programme	**102,360**	104,095	**102,360**	104,095
New Zealand Post Group Finance subordinated notes	**199,118**	193,575	**-**	**-**
Kiwibank subordinated debt	**143,299**	143,566	**-**	-
Commercial paper	**39,780**	39,789	**39,780**	39,789
Bank loans	**12,361**	13,506	**-**	-
Total Borrowings	**496,918**	494,531	**142,140**	143,884
Comprising:				
Current portion	**52,141**	53,295	**39,780**	39,789
Non-current portion	**444,777**	441,236	**102,360**	104,095
Total borrowings	**496,918**	494,531	**142,140**	143,884

New Zealand Post Bond Programme				
Fair value of bonds under fair value hedge	**-**	64,103	**-**	64,103
Unamortised market value of bond	**2,365**	-	**2,365**	-
Bonds at amortised cost (unhedged)				
Face value of bonds at amortised cost (unhedged)	**100,000**	40,000	**100,000**	40,000
Unamortised discount	**(5)**	(8)	**(5)**	(8)
Total New Zealand Post bond programme	**102,360**	104,095	**102,360**	104,095

Bonds outstanding have a coupon rate of 7.10% (30 June 2009 - 7.10%) and a maturity date of 15 November 2011 (30 June 2009 - 15 November 2011).
All bonds are unsecured and rank equally with other unsecured creditors. The bonds carry an AA- credit rating from Standard & Poor's Pty Limited at balance date.

It is the Group's intention to reissue these bonds as they mature.

As at 31 December 2009, the hedge relationship was de-designated and the interest rate swap hedging instrument, changing fixed rate interest to floating rate interest, was sold (30 June 2009 - $60m). The unwind of the fair value is being amortised over the current remaining term of the bond.

20 BORROWINGS continued

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
New Zealand Post Group Finance Subordinated Notes				
Fair value of notes under fair value hedge	**142,406**	137,721	**-**	-
Face value of notes at amortised cost (unhedged)	**60,000**	60,000	**-**	-
Unamortised transaction costs	**(3,288)**	(4,146)	**-**	-
Total New Zealand Post Group Finance subordinated notes	**199,118**	193,575	**-**	-

Subordinated notes outstanding have a coupon rate of 7.50% and a maturity date of 15 November 2039. All subordinated notes are unsecured and subordinate and rank equally with all unsecured, subordinated creditors (other than creditors whose claims rank, or are intended or expressed to rank, subordinate to the obligations of the Issuer or Guarantor). The notes carry an A credit rating from Standard & Poor's Pty Limited at balance date. The subordinated notes are subject to a coupon rate change or remarketing process (which may include a redemption and/or coupon rate change) on 15 November 2014. The notes are guaranteed on an unsecured subordinated basis by the Parent.

$140m of the subordinated notes are hedged by interest rate swaps changing fixed rate interest to floating rate interest. Hedge documentation has been put in place to designate this hedge arrangement and hedge accounting has been applied in these financial statements. Effectiveness testing has been carried out at 30 June 2010. Any fair value adjustment on the bonds has been recognised in the income statement.

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Kiwibank Subordinated Debts				
Face value	**135,000**	135,000	**-**	-
Interest accrued	**2,947**	2,946	**-**	-
Premium	**(337)**	(457)	**-**	-
Fair value hedge adjustment	**5,689**	6,077	**-**	-
Total Kiwibank subordinated debts	**143,299**	143,566	**-**	-

$60m of subordinated debt outstanding have a coupon rate of 8.75% (30 June 2009 - 8.75%) and a maturity date of 30 September 2018 (30 June 2009 - 30 September 2018). This debt callable on 30 September 2013. $75m of subordinated debt outstanding have a coupon rate of 7.72% (30 June 2009 - 7.72%) and a maturity date of 20 March 2017 (30 June 2009 - 20 March 2017). This debt is callable on 20 March 2012.

The subordinated debt issues are subordinate to all other general liabilities of Kiwibank and are denominated in New Zealand dollars. The debt carries an A+ credit rating from Standard & Poor's Pty Limited as at balance date.

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Commercial Paper				
Face value of commercial paper on issue	**40,000**	40,000	**40,000**	40,000
Unearned interest on commercial paper	**(220)**	(211)	**(220)**	(211)
Total commercial paper	**39,780**	39,789	**39,780**	39,789

$40m commercial paper was outstanding at 30 June 2010 with an average yield of 3.16% and maturity date of 2 September 2010 (30 June 2009 - $40m with an average yield of 2.98% and maturity date of 2 September 2009).

Bank Loans

The Group has a US$10m revolving committed cash advance facility agreement with the ANZ Bank (30 June 2009 - US$10m with BNZ Bank). At 30 June 2010 US$8.7m had been drawn down on the loan. Interest is charged at 0.7128% and maturity date is 22 July 2010.

The US bank loan was taken out to hedge against the residual value of the aircraft held. This hedge has been documented and is accounted for as a cash flow hedge. Movements in the fair value of the bank loan that relate to the hedge of the residual value of the aircraft are accounted for through the cash flow hedge reserve within Equity. Effectiveness testing has been carried out at 30 June 2010. Unhedged movements in the fair value of the bank loan are accounted for in the Income Statement.

The Parent has a borrowing facility of $100m provided by the Bank of New Zealand (30 June 2009 - $100m provided by the Bank of New Zealand). At 30 June 2010 and 30 June 2009 the facility was undrawn.

21 SPECIFIC BANKING LIABILITIES

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Due to Other Financial Institutions				
Repurchase agreements	**100,247**	315,161	**-**	-
Items in course of settlement	**61,566**	-	**-**	-
ATM cash at other banks	**2,238**	1,487	**-**	-
Total due to other financial institutions	**164,051**	316,648	**-**	-

All amounts due to other financial institutions are expected to be settled within the next 12 months.

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Deposits				
Retail deposits	**6,911,909**	6,717,042	**-**	-
Wholesale deposits	**3,383,416**	1,548,534	**-**	-
Total deposits	**10,295,325**	8,265,576	**-**	-
New Zealand	**10,075,666**	8,054,029	**-**	-
Overseas	**219,659**	211,547	**-**	-
Total deposits	**10,295,325**	8,265,576	**-**	-
Comprising:				
Current deposits	**9,994,985**	7,985,152	**-**	-
Non-current deposits	**300,340**	280,424	**-**	-
Total deposits	**10,295,325**	8,265,576	**-**	-

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

	GROUP		PARENT	
	2010	2009	**2010**	2009
21 SPECIFIC BANKING LIABILITIES continued	**$'000**	$'000	**$'000**	$'000
Debt Securities Issued				
Certificates of deposit	**378,465**	824,476	**-**	-
Fixed rate bond	**308,212**	-	**-**	-
Other debt securities	**108,560**	88,064	**-**	-
Total debt securities issued	**795,237**	912,540	**-**	-
Comprising:				
Current debt securities	**403,619**	824,476	**-**	-
Non-current debt securities	**391,618**	88,064	**-**	-
Total debt securities issued	**795,237**	912,540	**-**	-

The fixed rate bonds outstanding have a coupon rate of 6.25% and a maturity date of 20 October 2014. The bonds were issued in Australian dollars for AU$250m. The contractual terms of the fixed rate bond expressly provide that it has the benefit of the deed poll guarantee granted by NZ Post. The debt is also covered by the Crown Guarantee scheme. The bonds carry an AA+ credit rating from Standard & Poor's Pty Limited and Aaa from Moodys Investors Service Incorporated at balance date.

22 DEFERRED SETTLEMENT LIABILITY

	GROUP 2010	GROUP 2009	PARENT 2010	PARENT 2009
Balance at beginning of the year	**22,295**	5,203	**-**	-
(Disposals)/Acquisitions	**(13,105)**	16,344	**-**	-
Finance costs	**1,598**	748	**-**	-
Total Deferred Settlement Liability	**10,788**	22,295	**-**	-
Comprising:				
Current deferred settlement liability	**-**	11,700	**-**	-
Non-current deferred settlement liability	**10,788**	10,595	**-**	-
Total deferred settlement liability	**10,788**	22,295	**-**	-

In 2006 the Group acquired a 51% shareholding in The New Zealand Home Loan Company Limited. An additional 25% shareholding was acquired on 1 July 2009, and the remaining shares are required to be purchased by 1 July 2012. The Group has recognised a deferred settlement liability for this option. The fair value of the option shown above is calculated by applying discounted cash flows analysis.

	GROUP		PARENT	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
23 RECONCILIATION OF PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) for the year	**1,279**	71,834	**(24,706)**	434,580
Non-cash items:				
Financial instruments at fair value net loss	**(36,823)**	5,089	**(1,530)**	306
Depreciation	**37,768**	33,724	**21,812**	20,991
Amortisation	**25,963**	23,200	**11,101**	9,786
Impairment	**22,674**	16,634	**3,059**	2,791
Impairment reversal - property, plant and equipment	**-**	(1,281)	**-**	-
Unrealised foreign exchange net gain	**4,808**	(1,648)	**4,786**	(1,329)
Discount unwind on deferred net settlement	**707**	338	**707**	338
Share of net (profit) / loss of associates and jointly controlled entities	**13,817**	(12,383)	**-**	-
	68,914	63,673	**39,935**	32,883
Items classified as investing activities:				
Sale of investments gain	**-**	(5,222)	**-**	-
Sale of assets net (gain)/loss	**(622)**	(1,066)	**(596)**	(1,438)
	(622)	(6,288)	**(596)**	(1,438)
Changes in assets and liabilities:				
Increase/(decrease) in trade and other receivables	**41,345**	(30,138)	**42,346**	(18,733)
(Increase)/decrease in inventories	**386**	56	**(482)**	319
(Increase)/decrease in other assets	**1,804**	(6,942)	**3,648**	(6,077)
Decrease/(increase) in due from other financial institutions	**(156,871)**	150,910	**-**	-
Increase in financial assets held for trading	**51,026**	(307,289)	**-**	-
Decrease/(increase) in available for sale assets	**138,751**	19,157	**-**	-
Increase in loans and advances	**(1,933,045)**	(2,787,485)	**-**	-
(Decrease)/increase in due to other financial institutions	**(152,597)**	(157,629)	**-**	-
Increase/(decrease) in trade and other payables	**(73,854)**	42,708	**(65,487)**	(398,435)
Increase/(decrease) in provisions	**1,882**	3,314	**(4,188)**	3,166
(Decrease)/increase in tax liabilities	**20,783**	2,987	**12,441**	133
Decrease in other liabilities	**1,122**	125	**1,122**	125
Increase in deposits	**2,002,648**	2,523,461	**-**	-
(Decrease)/increase in Kiwibank interest payable (net)	**21,862**	(15,590)	**-**	-
	(34,758)	(562,355)	**(10,600)**	(419,502)
Net cash flows from operating activities	**34,813**	(433,136)	**4,033**	46,523

The following cash flows have been recognised on a net basis
- Net payments to agencies - these cash flows represent transactions and operations of the agencies rather than the Parent.
- Changes in loans and advances to customers, deposits held by customers, balances with other banks, debt securities issued, available for sale assets, and financial assets held for trading - many of these cash flows reflect the activities of the customers rather than Kiwibank.

24 SEGMENT INFORMATION

30 June 2010	Postal Services	Banking Services	Business Solutions	Property Services	Other Operating Segments	Reconciliations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External revenue	664,910	301,442	180,696	19,833	37,338	-	1,204,219
Intersegment revenue	67,492	932	16,439	52,477	2,084	(139,424)	-
Total segment revenue from operations	732,402	302,374	197,135	72,310	39,422	(139,424)	1,204,219
Segment profit/(loss) before income tax	(1,356)	64,680	18,505	12,098	(16,333)	(43,522)	34,072
Segment profit/(loss)	(1,356)	45,848	16,034	12,098	(17,347)	(53,998)	1,279
Segment total assets	243,182	12,238,375	156,819	221,656	57,870	157,570	13,075,472
Specific segment revenue from operations:							
Banking interest revenue (net)	-	133,038	-	-	-	-	133,038
Banking and lending fee revenue	-	77,054	-	-	-	-	77,054
Rental income - properties held for sale	-	-	-	472	-	-	472
Rental income - investment properties	-	-	-	4,001	-	-	4,001
Specific segment other income							
Financial instruments at fair value net gain/(loss)	-	35,293	-	-	-	1,530	36,823
Specific segment expenditure:							
Depreciation	13,717	6,694	5,625	7,318	521	3,893	37,768
Amortisation	9,655	13,256	964	28	529	1,531	25,963
Bad debt expense	6,943	50	1	-	129	(3,593)	3,530
Impairment	-	16,710	-	742	5,222	-	22,674
Property operating lease and rental costs	262	6,589	4,465	37,327	312	(5,968)	42,987
Other operating lease and rental costs	8,473	3,036	2,835	79	735	47	15,205
Salaries and wages	277,099	75,771	99,569	2,759	13,408	(560)	468,046
Restructuring costs	1,647	48	1,009	346	458	601	4,109
Share of net profit of associates and jointly controlled entities		-	10,001	-	(23,818)	-	(13,817)

30 June 2009	Postal Services	Banking Services	Business Solutions	Property Services	Other Operating Segments	Reconciliations	Group
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
External revenue	701,968	306,380	185,259	17,951	42,288	-	1,253,846
Intersegment revenue	120,507	465	17,605	47,771	2,356	(188,704)	-
Total segment revenue	822,475	306,845	202,864	65,722	44,644	(188,704)	1,253,846
Segment profit before income tax	25,385	72,460	14,210	12,735	11,329	(42,643)	93,476
Segment profit	25,385	51,039	12,516	12,735	10,177	(40,018)	71,834
Segment total assets	309,213	10,392,197	143,588	305,825	81,237	71,911	11,303,971
Specific segment revenue from operations:							
Banking interest revenue (net)	-	164,857	-	-	-	-	164,857
Banking and lending fee revenue	-	89,143	-	-	-	-	89,143
Rental income - properties held for sale	-	-	-	770	-	-	770
Rental income - investment properties	-	-	-	5,626	-	-	5,626
Specific segment other income							
Sale of investments gain	-	-	-	-	5,222	-	5,222
Financial instruments at fair value net gain/(loss)	-	(4,783)	-	-	-	(306)	(5,089)
Specific segment expenditure:							
Depreciation	13,050	5,413	3,820	7,571	3,637	233	33,724
Amortisation	9,253	11,894	567	-	1,027	459	23,200
Bad debt expense	584	77	80	-	209	260	1,210
Impairment	793	14,345	194	2,089	494	(1,281)	16,634
Property operating lease and rental costs	134	5,331	4,707	28,194	320	(4,808)	33,878
Other operating lease and rental costs	7,746	2,068	2,802	116	787	(481)	13,038
Salaries and wages	292,523	67,725	98,241	3,017	14,820	3,972	480,298
Restructuring costs	9,382	50	1,141	-	-	464	11,037
Share of net profit of associates and jointly controlled entities	(427)	-	9,522	-	3,288	-	12,383

Basis of Segmentation

The Group's operating segments have primarily been determined with reference to differences in products and services. Operating segments have been aggregated for reporting purposes where the following criteria has been met:

(1) aggregation is consistent with the core principle of NZ IFRS 8 *Operating Segments*
(2) segments have similar economic characteristics
(3) segments are similar in each of the following respects:
  a. nature of the product and services
  b. nature of production process
  c. type or class of customer for their products and services
  d. methods used to distribute their products or provide their services
  e. nature of the regulatory environment.

The Group's reportable segments derive their revenue from the following products and services

Postal services	- Packaging and delivery of mail products
Banking services	- Financial management services
Business solutions	- Information/ process management services
Property services	- Property management services

Basis of Measurement

The Group's reportable segment revenue, result and assets disclosed above 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 in the summary of significant accounting policies.

	New Zealand		**Foreign Countries**	
	2010	2009	**2010**	2009
Geographical Information	**$'000**	$'000	**$'000**	$'000
External revenue from operations	**1,127,598**	1,184,377	**76,621**	69,469
Non-current assets (excluding financial instruments and tax assets)	**561,525**	575,643	**33,328**	28,569

Revenues are attributed to individual countries based on the country of residence of the entity earning the revenue.

25 FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK

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

Financial Instruments by Category

30 June 2010	**GROUP**				**PARENT**			
	Designated at FVTPL	**Loans and receivables**	**Derivatives used for hedging**	**Total**	**Designated at FVTPL**	**Loans and receivables**	**Derivatives used for hedging**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**-**	**126,253**	**-**	**126,253**	**-**	**128,358**	**-**	**128,358**
Trade and other receivables	**-**	**181,062**	**-**	**181,062**	**-**	**122,878**	**-**	**122,878**
Derivative financial assets	**85**	**-**	**2,141**	**2,226**	**85**	**-**	**2,141**	**2,226**
Loans to related parties	**-**	**-**	**-**	**-**	**-**	**830,405**	**-**	**830,405**
Total financial assets	**85**	**307,315**	**2,141**	**309,541**	**85**	**1,081,641**	**2,141**	**1,083,867**
	Derivatives used for hedging	**Designated at FVTPL**	**Other financial liabilities at amortised cost**	**Total**	**Derivatives used for hedging**	**Designated at FVTPL**	**Other financial liabilities at amortised cost**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade and other payables	**-**	**-**	**168,283**	**168,283**	**-**	**-**	**110,721**	**110,721**
Derivative financial liabilities	**3,326**	**-**	**-**	**3,326**	**3,326**	**-**	**-**	**3,326**
Loans from related parties	**-**	**-**	**-**	**-**	**-**	**202,406**	**-**	**202,406**
Borrowings	**-**	**142,406**	**211,213**	**353,619**	**-**	**-**	**142,140**	**142,140**
Total financial liabilities	**3,326**	**142,406**	**379,496**	**525,228**	**3,326**	**202,406**	**252,861**	**458,593**

30 June 2009	GROUP				PARENT			
	Designated at FVTPL	Loans and receivables	Derivatives used for hedging	Total	Designated at FVTPL	Loans and receivables	Derivatives used for hedging	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	177,900	-	177,900	-	171,186	-	171,186
Trade and other receivables	-	216,528	-	216,528	-	165,224	-	165,224
Derivative financial assets	1,983	-	3,949	5,932	1,983	-	3,949	5,932
Loans to related parties	-	-	-	-	-	801,264	-	801,264
Total financial assets	1,983	394,428	3,949	400,360	1,983	1,137,674	3,949	1,143,606
	Derivatives used for hedging	Designated at FVTPL	Other financial liabilities at amortised cost	Total	Derivatives used for hedging	Designated at FVTPL	Other financial liabilities at amortised cost	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Trade and other payables	-	-	177,563	177,563	-	-	163,519	163,519
Derivative financial liabilities	2,204	-	-	2,204	2,204	-	-	2,204
Loans from related parties	-	-	-	-	-	197,721	-	197,721
Borrowings	-	201,824	149,141	350,965	-	64,103	79,781	143,884
Total financial liabilities	2,204	201,824	326,704	530,732	2,204	261,824	243,300	507,328

Risk Management Policies

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), liquidity and operational risks. The management of risk is an essential element of the Group's strategy with emphasis placed on pro-active rather than retroactive management.

The 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 and Risk Committee), the Executive Treasury Group is responsible for strategy setting, and the Treasury team is responsible for execution of the policies and strategies.

25 FINANCIAL INSTRUMENTS FOR THE GROUP EXCLUDING KIWIBANK continued

Financing Risk

Financing risk is the risk of not being able to refinance debt obligations or other cash outflows when required, on terms that are no more unfavourable than those currently in place.

The main objectives of the management of financing risk is to ensure sufficient funding is available to meet the Group's requirements and to avoid liquidity crises, achieve competitive pricing on sources of funding and lines of credit, and diversify sources of funding and liquidity.

The Group manages financing risk through maintaining a portfolio of liquid assets, developing and maintaining appropriate funding diversification strategies, arranging and maintaining committed bank facilities, and reducing the amount of debt maturing in any given period.

Interest Rate Risk

Interest rate risk is defined as the risk of the Group's cost of funds changing 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 cost of debt.

The Group manages interest rate risk through derivatives to modify the exposure to changes in interest rates. Interest rate repricing on financial assets acts as an offset to repricing on financial liabilities.

Borrowings

The Group has $52.4m of floating rate borrowings at 30 June 2010 (30 June 2009 - $53.5m), and $300m of fixed rate borrowings (30 June 2009 - $300m). All borrowings are used to fund ongoing activities. The weighted average interest rate on borrowings (as amended by interest rate swaps) is 5.79% (30 June 2009 - 5.03%).

	GROUP		PARENT	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Derivative Financial Instruments				
The notional principal or contract amounts of interest rate swap/option contracts at balance date are:				
Interest rate swaps	**140,000**	200,000	**140,000**	200,000
Forward rate agreements	**90,000**	-	**90,000**	-

Repricing analysis

The following tables summarise the Group's and Parent's exposure to interest rate risk. It includes the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

GROUP 30 June 2010	**Total**	**Interest Insensitive**	**Within 1 Year**	**Between 1 and 2 Years**	**Between 2 and 3 Years**	**Between 3 and 4 Years**	**Over 4 Years**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**126,253**	**25,253**	**101,000**	**-**	**-**	**-**	**-**
Trade and other receivables	**181,062**	**181,062**	**-**	**-**	**-**	**-**	**-**
Derivative financial assets	**2,226**	**85**	**2,141**	**-**	**-**	**-**	**-**
Trade and other payables	**(168,283)**	**(168,283)**	**-**	**-**	**-**	**-**	**-**
Derivative financial liabilities	**(3,326)**	**-**	**-**	**(3,326)**	**-**	**-**	**-**
Term borrowings	**(353,619)**	**-**	**(52,141)**	**(102,360)**		**-**	**(199,118)**
Net effective interest rate gap	**(215,687)**	**38,117**	**51,000**	**(105,686)**	**-**	**-**	**(199,118)**

GROUP 30 June 2009	Total	Interest Insensitive	Within 1 Year	Between 1 and 2 Years	Between 2 and 3 Years	Between 3 and 4 Years	Over 4 Years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	177,900	40,901	136,999	-	-	-	-
Trade and other receivables	216,528	216,528	-	-	-	-	-
Derivative financial assets	5,932	1,983	3,949	-	-	-	-
Trade and other payables	(177,563)	(177,563)	-	-	-	-	-
Derivative financial liabilities	(2,204)	-	(2,204)	-	-	-	-
Term borrowings	(350,965)	-	(53,295)	-	(104,095)	-	(193,575)
Net effective interest rate gap	(130,372)	81,849	85,449	-	(104,095)	-	(193,575)

PARENT 30 June 2010	**Total**	**Interest Insensitive**	**Within 1 Year**	**Between 1 and 2 Years**	**Between 2 and 3 Years**	**Between 3 and 4 Years**	**Over 4 Years**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**128,358**	**17,358**	**111,000**	**-**	**-**	**-**	**-**
Trade and other receivables	**122,878**	**122,878**	**-**	**-**	**-**	**-**	**-**
Derivative financial assets	**2,226**	**85**	**2,141**	**-**	**-**	**-**	**-**
Loans to related parties	**830,405**	**739,000**	**55,583**	**-**	**-**	**-**	**35,822**
Trade and other payables	**(110,721)**	**(110,721)**	**-**	**-**	**-**	**-**	**-**
Derivative financial liabilities	**(3,326)**	**-**	**-**	**(3,326)**	**-**	**-**	
Loans from related parties	**(202,406)**	**-**	**-**	**-**	**-**	**-**	**(202,406)**
Term borrowings	**(142,140)**	**-**	**(39,780)**	**(102,360)**	**-**	**-**	**-**
Net effective interest rate gap	**625,274**	**768,600**	**128,944**	**(105,686)**	**-**	**-**	**(166,584)**

PARENT 30 June 2009	Total	Interest Insensitive	Within 1 Year	Between 1 and 2 Years	Between 2 and 3 Years	Between 3 and 4 Years	Over 4 Years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	171,186	34,187	136,999	-	-	-	-
Trade and other receivables	165,224	165,224	-	-	-	-	-
Derivative financial assets	5,932	1,983	3,949	-	-	-	-
Loans to related parties	801,264	728,147	53,747	-	-	-	19,370
Trade and other payables	(163,519)	(163,519)	-	-	-	-	-
Derivative financial liabilities	(2,204)	-	(2,204)	-	-	-	-
Loans from related parties	(197,721)	-	-	-	-	-	(197,721)
Term borrowings	(143,884)	-	(39,789)	-	(104,095)	-	-
Net effective interest rate gap	636,278	766,022	152,702	-	(104,095)	-	(178,351)

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 currency in which the Group primarily deals with is the United States Dollar.

The main objective of the management of currency risk is to manage the exposure to foreign exchange risk.

The Group manages currency risk through derivatives. The Group's policy is to hedge between 25% and 75% of net foreign currency cash flows forecast to occur within the next two years, and foreign currency capital expenditure over $1m.

	GROUP		PARENT	
	2010	2009	**2010**	2009
	$'000	$'000	**$'000**	$'000
Derivative Financial Instruments				
The notional or principal contract amounts of foreign exchange instruments outstanding at balance date are:				
Forward foreign exchange contracts	**22,645**	19,080	**22,645**	19,080

The following tables summarise the Group's and Parent's exposure to foreign currency risk (all figures NZD equivalents).

GROUP	**GBP**	**EUR**	**AUD**	**USD**	**Total**
30 June 2010	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**8,531**	**1,946**	**7,704**	**22,192**	**40,373**
Trade and other receivables	**1,507**	**-**	**11,442**	**64,594**	**77,543**
Derivative financial assets	**-**	**-**	**-**	**85**	**85**
Trade and other payables	**-**	**-**	**(5,718)**	**(49,632)**	**(55,350)**
Borrowings	**-**	**-**	**-**	**(12,361)**	**(12,361)**
Net on balance sheet financial position	**10,038**	**1,946**	**13,428**	**24,878**	**50,290**

GROUP	GBP	EUR	AUD	USD	Total
30 June 2009	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	7,184	1,626	8,958	18,050	35,818
Trade and other receivables	-	-	12,687	101,409	114,096
Derivative financial assets	-	-	-	1,983	1,983
Trade and other payables	-	-	(6,447)	(60,550)	(66,997)
Borrowings	-	-	-	(13,506)	(13,506)
Net on balance sheet financial position	7,184	1,626	15,198	47,386	71,394

PARENT	**GBP**	**EUR**	**AUD**	**USD**	**Total**
30 June 2010	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**3**	**12**	**57**	**1,029**	**1,101**
Trade and other receivables	**1,507**	**-**	**-**	**64,594**	**66,101**
Derivative financial assets	-	-	-	**85**	**85**
Trade and other payables	**-**	**-**	**-**	**(49,632)**	**(49,632)**
Net on balance sheet financial position	**1,510**	**12**	**57**	**16,076**	**17,655**

PARENT	GBP	EUR	AUD	USD	Total
30 June 2009	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	41	467	686	4,450	5,644
Trade and other receivables	-	-	-	101,409	101,409
Derivative financial assets	-	-	-	1,983	1,983
Trade and other payables	-	-	-	(60,550)	(60,550)
Net on balance sheet financial position	41	467	686	47,292	48,486

Credit 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.

The Group manages credit risk through the formulation of specific policy benchmarks and parameters set by the Board, which must be complied with in all situations. Credit risk is monitored on an ongoing basis. The Group does not have any significant concentrations of credit risk.

No collateral is held as at 30 June 2010 (30 June 2009 - nil).

Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements

The following table represents a worst case scenario of credit risk exposure to the Group and Parent at 30 June 2010 and 30 June 2009. The exposures set out are based on net carrying amounts as reported in the balance sheet.

	Group 2010	Group 2009	Parent 2010	Parent 2009
Credit Risk Relating to On Balance Sheet Assets				
Cash and cash equivalents	**126,253**	177,900	**128,358**	171,186
Trade and other receivables	**185,147**	217,259	**126,887**	165,922
Derivative financial assets	**2,226**	5,932	**2,226**	5,932
Loans to related parties	**-**	-	**830,405**	801,264
Total gross financial assets	**313,626**	401,091	**1,087,876**	1,144,304
Allowance for impairment losses	**(4,085)**	(731)	**(4,009)**	(698)
Total net financial assets	**309,541**	400,360	**1,083,867**	1,143,606

59% of the total maximum exposure is derived from trade and other receivables. Management is confident in its ability to control and sustain minimal exposure of credit risk resulting from its financial assets.

Credit Exposure Concentration
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.

Liquidity Risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities 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 fulfil commitments to lend.

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.

The tables below summarise the cash flows payable by the Group and Parent 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.

GROUP 30 June 2010	**Up To 3 Months $'000**	**Between 3 and 12 Months $'000**	**Between 1 and 5 Years $'000**	**More Than 5 Years $'000**	**Total $'000**
Non-derivative cash flows					
Cash and cash equivalents	**96,253**	**30,000**	**-**	**-**	**126,253**
Trade and other receivables	**165,872**	**-**	**15,190**	**-**	**181,062**
Trade and other payables	**(148,157)**	**-**	**(20,126)**	**-**	**(168,283)**
Borrowings	**(52,141)**	**-**	**(102,360)**	**(199,118)**	**(353,619)**
Net non derivative cash flows	**61,827**	**30,000**	**(107,296)**	**(199,118)**	**(214,587)**
Derivative cash flows					
Foreign exchange derivatives - inflows	**127**	**55**	**16**	**-**	**198**
Foreign exchange derivatives - outflows	**(85)**	**(21)**	**(7)**	**-**	**(113)**
Interest rate derivatives - inflows	**-**	**-**	**2,087**	**-**	**2,087**
Interest rate derivatives - outflows	**-**	**-**	**(3,319)**	**-**	**(3,319)**
Commitments					
Interest receipts	**-**	**5,250**	**-**	**-**	**5,250**
Interest payments	**(2,026)**	**(23,900)**	**(70,650)**	**(7,500)**	**(104,076)**
Capital commitments	**(4,351)**	**-**	**-**	**-**	**(4,351)**
Lease commitments	**(8,604)**	**(25,811)**	**(81,366)**	**(35,254)**	**(151,035)**
Lease receipts	**3,029**	**9,087**	**30,494**	**4,541**	**47,151**
Total off balance sheet cash flows	**(11,910)**	**(35,340)**	**(122,745)**	**(38,213)**	**(208,208)**
Net position	**49,917**	**(5,340)**	**(230,041)**	**(237,331)**	**(422,795)**

GROUP 30 June 2009	Up To 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows					
Cash and cash equivalents	87,900	90,000	-	-	177,900
Trade and other receivables	125,031	29,736	61,761	-	216,528
Trade and other payables	(126,521)	(28,525)	(22,517)	-	(177,563)
Borrowings	(53,295)	-	(104,095)	(193,575)	(350,965)
Net non derivative cash flows	33,115	91,211	(64,851)	(193,575)	(134,100)
Derivative cash flows					
Foreign exchange derivatives - inflows	318	1,733	-	-	2,051
Foreign exchange derivatives - outflows	(65)	-	(3)	-	(68)
Interest rate derivatives - inflows	-	-	3,949	-	3,949
Interest rate derivatives - outflows	-	-	-	(2,204)	(2,204)
Commitments					
Interest receipts	-	7,380	-	-	7,380
Interest payments	(2,438)	(24,318)	(70,650)	(7,500)	(104,906)
Capital commitments	(1,283)	(3,848)	-	-	(5,131)
Lease commitments	(9,282)	(27,845)	(83,779)	(37,185)	(158,091)
Lease receipts	3,096	9,289	8,704	375	21,464
Total off balance sheet cash flows	(9,654)	(37,609)	(141,779)	(46,514)	(235,556)
Net position	23,461	53,602	(206,630)	(240,089)	(369,656)

PARENT 30 June 2010	**Up To 3 Months $'000**	**Between 3 and 12 Months $'000**	**Between 1 and 5 Years $'000**	**More Than 5 Years $'000**	**Total $'000**
Non-derivative cash flows					
Cash and cash equivalents	**98,358**	**30,000**			**128,358**
Trade and other receivables	**107,688**		**15,190**		**122,878**
Loans to related parties	**-**	**-**	**55,583**	**774,822**	**830,405**
Trade and other payables	**(90,595)**	**-**	**(20,126)**	**-**	**(110,721)**
Loans from related parties	**-**	**-**	**-**	**(202,406)**	**(202,406)**
Borrowings	**(39,780)**	**-**	**(102,360)**	**-**	**(142,140)**
Net non derivative cash flows	**75,671**	**30,000**	**(51,713)**	**572,416**	**626,374**
Derivative cash flows					
Foreign exchange derivatives - inflows	**127**	**55**	**16**	**-**	**198**
Foreign exchange derivatives - outflows	**(85)**	**(21)**	**(7)**	**-**	**(113)**
Interest rate derivatives - inflows	**-**	**-**	**2,087**	**-**	**2,087**
Interest rate derivatives - outflows	**-**	**-**	**(3,319)**	**-**	**(3,319)**
Commitments					
Interest receipts	**-**	**5,250**	**-**	**-**	**5,250**
Interest payments	**(2,020)**	**(23,900)**	**(70,650)**	**(7,500)**	**(104,070)**
Capital commitments	**(1,447)**	**-**	**-**	**-**	**(1,447)**
Lease commitments	**(7,249)**	**(21,748)**	**(71,615)**	**(28,699)**	**(129,311)**
Lease receipts	**1,430**	**4,290**	**11,714**	**4,541**	**21,975**
Guarantees	**(39,361)**	**-**	**-**	**-**	**(39,361)**
Total off balance sheet cash flows	**(48,605)**	**(36,074)**	**(131,774)**	**(31,658)**	**(248,111)**
Net position	**27,066**	**(6,074)**	**(183,487)**	**540,758**	**378,263**

The Parent has also guaranteed the payment obligations of Kiwibank under a deed poll guarantee (refer to note 29).

PARENT 30 June 2009	Up To 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows					
Cash and cash equivalents	81,186	90,000	-	-	171,186
Trade and other receivables	73,727	29,736	61,761	-	165,224
Loans to related parties	-	53,747	-	747,517	801,264
Trade and other payables	(112,477)	(28,525)	(22,517)	-	(163,519)
Loans from related parties	-	-	-	(197,721)	(197,721)
Borrowings	(39,789)	-	(104,095)	-	(143,884)
Net non derivative cash flows	2,647	144,958	(64,851)	549,796	632,550
Derivative cash flows					
Foreign exchange derivatives - inflows	318	1,733	-	-	2,051
Foreign exchange derivatives - outflows	(65)	-	(3)	-	(68)
Interest rate derivatives - inflows	-	-	3,949	-	3,949
Interest rate derivatives - outflows	-	-	-	(2,204)	(2,204)
Commitments					
Interest receipts	-	7,380	-	-	7,380
Interest payments	(2,429)	(24,318)	(70,650)	(7,500)	(104,897)
Capital commitments	(716)	(2,147)	-	-	(2,863)
Lease commitments	(6,975)	(20,926)	(68,382)	(28,494)	(124,777)
Lease receipts	1,555	4,664	7,677	375	14,271
Total off balance sheet cash flows	(8,312)	(33,614)	(127,409)	(37,823)	(207,158)
Net position	(5,665)	111,344	(192,260)	511,973	425,392

Equity Risk
Equity risk results from the re-pricing of equity investments. The Group does not undertake equity trading and there are no significant exposures to equity instruments.

Capital Risk
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the development of its business.

The Group assesses its ability to absorb risk to ensure that it has sufficient financial resources to continue as a going concern even if it suffers a material unforeseen or unexpected event. To ensure adequate capital is maintained material risks are assessed and quantified through estimation/ judgement to provide information that enables management to monitor current and expected capital levels.

Components of Capital
Capital for the Group includes share capital, retained earnings, and reserves.

Sensitivity Analysis
The table below summarises the pre-tax sensitivity of financial assets and financial liabilities to changes in interest rate and currency risks with all other variables held constant. The market 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.

GROUP **30 June 2010**	**Carrying Value** **$'000**	**Interest Rate Risk** **-1% Statement of Comprehensive Income** **$'000**	**+1% Statement of Comprehensive Income** **$'000**	**Currency Risk** **-10% Statement of Comprehensive Income** **$'000**	**+10% Statement of Comprehensive Income** **$'000**	**Currency Risk** **-10% Equity** **$'000**	**+10% Equity** **$'000**
Cash and cash equivalents	**126,253**	**(1,110)**	**1,110**	**4,310**	**(3,526)**	**176**	**(144)**
Trade and other receivables	**181,062**	**-**	**-**	**7,345**	**(6,009)**	**1,271**	**(1,040)**
Derivative financial assets	**2,226**	**-**	**-**	**9**	**(8)**	**-**	**-**
Trade and other payables	**168,283**	**-**	**-**	**(5,515)**	**4,512**	**(635)**	**520**
Derivative financial liabilities	**3,326**	**12**	**(12)**	**-**	**-**	**-**	**-**
Borrowings	**353,619**	**3,524**	**(3,524)**	**(824)**	**674**	**(549)**	**449**

GROUP 30 June 2009	Carrying Value $'000	Interest Rate Risk -1% Statement of Comprehensive Income $'000	+1% Statement of Comprehensive Income $'000	Currency Risk -10% Statement of Comprehensive Income $'000	+10% Statement of Comprehensive Income $'000	Currency Risk -10% Equity $'000	+10% Equity $'000
Cash and cash equivalents	177,900	(1,370)	1,370	3,821	(3,126)	159	(130)
Trade and other receivables	216,528	-	-	11,268	(9,219)	1,410	(1,153)
Derivative financial assets	5,932	(39)	39	220	(180)	-	-
Trade and other payables	(177,563)	-	-	(6,728)	5,505	(716)	586
Derivative financial instruments	(2,204)	22	(22)	-	-	-	-
Borrowings	(350,965)	3,535	(3,535)	(900)	737	(600)	491

PARENT **30 June 2010**	**Carrying Value** **$'000**	**Interest Rate Risk** **-1% Statement of Comprehensive Income** **$'000**	**+1% Statement of Comprehensive Income** **$'000**	**Currency Risk** **-10% Statement of Comprehensive Income** **$'000**	**+10% Statement of Comprehensive Income** **$'000**	**Currency Risk** **-10% Equity** **$'000**	**+10% Equity** **$'000**
Cash and cash equivalents	**128,358**	**(1,110)**	**1,110**	**122**	**(100)**	-	-
Trade and other receivables	**122,878**	**-**	**-**	**7,345**	**(6,009)**	-	-
Derivative financial assets	**2,226**	**-**	**-**	**9**	**(8)**	-	-
Loans to related parties	**830,405**	**(988)**	**988**	**-**	**-**	-	-
Trade and other payables	**110,721**	**-**	**-**	**(5,515)**	**4,512**	-	-
Derivative financial liabilities	**3,326**	**12**	**(12)**	**-**	**-**	-	-
Loans from related parties	**202,406**	**2,000**	**(2,000)**	**-**	**-**	-	-
Borrowings	**142,140**	**1,400**	**(1,400)**	**-**	**-**	-	-

PARENT 30 June 2009	Carrying Value $'000	Interest Rate Risk -1% Statement of Comprehensive Income $'000	 +1% Statement of Comprehensive Income $'000	Currency Risk -10% Statement of Comprehensive Income $'000	 +10% Statement of Comprehensive Income $'000	Currency Risk -10% Equity $'000	 +10% Equity $'000
Cash and cash equivalents	171,186	(1,370)	1,370	627	(513)	-	-
Trade and other receivables	165,224	-	-	11,268	(9,219)	-	-
Derivative financial assets	5,932	(39)	39	220	(180)	-	-
Loans to related parties	801,264	(731)	731	-	-	-	-
Trade and other payables	(163,519)	-	-	(6,728)	5,505	-	-
Derivative financial instruments	(2,204)	22	22	-	-	-	-
Loans from related parties	(197,721)	2,000	(2,000)	-	-	-	-
Borrowings	(143,884)	1,400	(1,400)	-	-	-	-

The sensitivity % applied above reflect a reasonable movement in variables that could likely impact the financial assets and financial liabilities of the Group and Parent.

	GROUP **2010** **$'000**	 2009 $'000	PARENT **2010** **$'000**	 2009 $'000
Fair Values of Financial Instruments				
The estimated fair values of the Group's financial assets and financial liabilities which differ from their carrying values are noted below.				
Borrowings - carrying values	**353,619**	350,965	**142,140**	143,884
Borrowings - fair values	**358,622**	362,784	**144,958**	147,442

Fair Value Estimation

Quoted market prices, when available, are used as the measure of fair values for financial instruments. However, for some of the Group's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using present value or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgements made regarding risk characteristic of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair value.

The fair value estimates were determined by application of the methods and assumptions described below.

Cash and cash equivalents
For cash assets, the carrying amount is equivalent to the fair value. For short term liquid assets, estimated fair values are based on quoted market prices.

Trade and other receivables (including tax receivable)
For receivables, the carrying amount is equivalent to the fair value.

Loans to related parties
For loans to related parties, the carrying amount is equivalent to the fair value.

Trade payables
For trade payables, the carrying amount is equivalent to the fair value.

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
For derivative financial instruments, the carrying amount is equivalent to the fair value.

Fair Value heirarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Techniques using inputs which have a significant effect on the recorded fair value and which are not based on observable market data.

GROUP	**Level 1** **$'000**	**Level 2** **$'000**	**Level 3** **$'000**	**Total** **$'000**
Financial Assets				
Derivative financial assets	-	**2,226**	-	**2,226**
Total financial assets	**-**	**2,226**	**-**	**2,226**
Financial Liabilities				
Derivative financial liabilities	-	**3,326**	-	**3,326**
Borrowings designated at FVTPL	**142,406**	**-**	-	**142,406**
Total financial liabilities	**142,406**	**3,326**	**-**	**145,732**

PARENT	**Level 1** **$'000**	**Level 2** **$'000**	**Level 3** **$'000**	**Total** **$'000**
Financial Assets				
Derivative financial assets	-	**2,226**	-	**2,226**
Total financial assets	**-**	**2,226**	**-**	**2,226**
Financial Liabilities				
Derivative financial liabilities	-	**3,326**	-	**3,326**
Borrowings	**202,406**	**-**	-	**202,406**
Total financial liabilities	**202,406**	**3,326**	**-**	**205,732**

There were no transfers in or out of level 3, or between levels 1 and 2, during the period.

26 KIWIBANK FINANCIAL INSTRUMENTS

Financial Instruments by Category

30 June 2010	**Loans and receivables**	**Available-for-sale**	**Assets at fair value through profit and loss: Held for trading**	**Assets at fair value through profit and loss: Designated at FVTPL**	**Derivatives used for hedging**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	**303,866**	**-**	**-**	**-**	**-**	**303,866**
Due from other financial institutions	**156,871**	**-**	**-**	**-**	**-**	**156,871**
Financial assets held for trading	**-**	**-**	**671,152**	**-**	**-**	**671,152**
Available-for-sale assets	**-**	**544,453**	**-**	**-**	**-**	**544,453**
Loans and advances	**9,182,738**	**-**	**-**	**1,235,764**	**-**	**10,418,502**
Derivative financial instruments	**-**	**-**	**24,071**	**-**	**22,249**	**46,320**
Other financial assets	**5,584**	**-**	**-**	**-**	**-**	**5,584**
Total financial assets	**9,649,059**	**544,453**	**695,223**	**1,235,764**	**22,249**	**12,146,748**

	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 cost**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Due to other financial institutions	**-**	**-**	**-**	**164,051**	**164,051**
Deposits and other borrowings	**-**	**-**	**-**	**10,295,325**	**10,295,325**
Derivative financial instruments	**101,515**	**-**	**101,073**	**-**	**202,588**
Debt securities issued	**199,116**	**-**	**-**	**596,121**	**795,237**
Term subordinated debt	**-**	**-**	**-**	**143,299**	**143,299**
Other financial liabilities	**-**	**-**	**-**	**32,362**	**32,362**
Total financial liabilities	**300,631**	**-**	**101,073**	**11,231,158**	**11,632,862**

30 June 2009	Loans and receivables	Available-for-sale	Assets at fair value through profit and loss: Held for trading	Assets at fair value through profit and loss: Designated at FVTPL	Derivatives used for hedging	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	293,805	-	-	-	-	293,805
Financial assets held for trading	-	-	726,492	-	-	726,492
Available-for-sale assets	-	697,407	-	-	-	697,407
Loans and advances	6,370,429	-	-	2,121,584	-	8,492,013
Derivative financial instruments	-	-	30,072	-	19,270	49,342
Other financial assets	5,879	-	-	-	-	5,879
Total financial assets	6,670,113	697,407	756,564	2,121,584	19,270	10,264,938

30 June 2009	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 cost	Total
	$'000	$'000	$'000	$'000	$'000
Due to other financial institutions	-	316,648	-	-	316,648
Deposits and other borrowings	-	-	-	8,265,576	8,265,576
Derivative financial instruments	170,678	-	133,609	-	304,287
Debt securities issued	824,476	-	-	88,064	912,540
Term subordinated debt	-	90,393	-	53,173	143,566
Other financial liabilities	-	-	-	31,653	31,653
Total financial liabilities	995,154	407,041	133,609	8,438,466	9,974,270

Risk Management Policies

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:
- The Board providing leadership and direction through setting formal risk appetites and strategies, and monitoring progress.
- Through approval, delegation and limit structures responsibility is delegated to the CEO and executive management for managing the various elements of risk.
- Business unit level accountability for the management of risks in accordance with agreed strategies and the Bank's risk management framework.
- Independent oversight of business unit risk management 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 explicitly responsible for the stewardship of Kiwibank. To help discharge this obligation, the Board has established the Finance, Audit and Risk Committee (which includes members who have appropriate financial experience and understanding of the banking industry in which Kiwibank operates), which is responsible for:
- Review and approval of Kiwibank's frameworks and policies for managing business, credit, market and operational risk and maintaining an effective risk management framework.
- Monitoring the bank's risk profile, performance, exposures against limits, capital levels and management of Kiwibank's risks.
- Monitoring anticipated changes in the economic and business environment and other factors relevant to Kiwibank's risk profile.
- Review and approval of limits and conditions that apply to risk taking including the authorities delegated to the CEO and executive team.
- Review of internal audit activities and significant audit issues.

The CEO and executive management team are responsible for implementing the risk management framework approved by the Board and for developing appropriate strategies, policies, controls, processes and procedures for identifying, measuring and managing risk. Three specialised management committees have been formed to ensure bank-wide input and appropriate focus on specific risk matters, namely i) the Asset-Liability Committee (ALCO - which is concerned with balance sheet structure, capital, funding and market risk); ii) the Credit Committee (focused on credit risk); and iii) the Project Governance Board (which considers certain risks associated with the Bank's information technology capabilities).

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, submitting reports on the bank's risk profile to the Board Finance, Audit and Risk Committee.

Kiwibank has an independent internal audit function, which has no direct authority over the activities of management. Internal audit undertake an annual review programme, the scope of which is determined by risk-based analysis, and results in operational, compliance, financial and systems audits over the business activities and support functions within Kiwibank. Internal audit provides independent assurance as to the effectiveness of the Bank's management systems and internal controls to the Board Finance, Audit and Risk Committee. The head of internal audit has unfettered access to the Board Finance, Audit and Risk Committee.

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

Strategic risk management – A framework and set of processes that the bank uses to plan, organise, lead and control risk management activities in an effort to minimise the effects and impacts of risk events on the Bank's capital and earnings. This reflects the Basel 2 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/categorisation of all risks deemed material to the Bank, which forms the basis of reporting the Bank's risk profile.
ii) Risk appetite – a formal statement of the Bank's willingness to take on financial risks and a basic operational pre-requisite for the establishment of consistent risk limits.
iii) Risk policy statements - these explicitly articulate the Bank's fundamental attitude towards risk and risk management. The risk policy statements are intended to ensure employees understanding of the Bank's risk management goals throughout the organisation.
iv) Risk principles – these are central rules for risk management decision-making and form the basis for maximum uniformity in risk management decision-making.

Capital management and capital adequacy – Kiwibank's capital management strategy seeks to ensure the Bank is adequately capitalised while recognising capital is often an expensive form of funding or insurance. The Bank seeks to maintain and acquire capital in an economically effective manner so as to i) support future development and growth aspirations; ii) comply at all times with regulatory capital requirements; iii) maintain a strong internal capital base to cover all material inherent risks; and iv) maintain an investment grade credit rating.

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

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

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

The Bank monitors its risk profile and internal and regulatory capital adequacy, and reports this on a regular basis to the Board. In the event of large, unexpected losses, the Bank is committed to restoring its capital position. Management have developed plans accordingly.

Risk assessment and risk prioritisation – This function administered by the Risk Management Unit is designed to identify and assess the real risks facing the Bank. The prioritisation process is intended to ensure that management focus and appropriate resources are directed at isolating, reducing or controlling expected (probable) risk events. The risk prioritisation process involves assessing the probability and severity of losses using (where possible) quantitative risk and control data.

Operations risk management – Irrespective of their relative significance, the majority of risk situations facing the bank occur in the day-to-day operations of the business. These risks (referred to as operations 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 four main types of risk (or risk domains). Specifically:
Credit risk – the risk of financial loss arising from the failure of a customer or counterparty to honour any financial or contractual obligation.
Market risk – the potential for losses arising from adverse movements in the level and volatility of market factors, such as interest rates and foreign exchange rates.
Operational risk – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events. This risk domain includes legal risks (i.e. loss resulting from the failure to comply with laws) as well as prudent ethical standards and contractual obligations). It also includes exposure to litigation from all aspects of the Bank's activities.
Business risk – events that impede or prevent the Bank achieving its stated business goals or strategies, including missed opportunities and potential losses/damage arising from a poor strategic business decisions.

Credit 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:

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

Kiwibank's Credit 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.

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

The integrity and effectiveness of the Bank's credit risk management practices and asset quality is supported by independent assessments by the Risk Management Unit and Internal Audit function.

Portfolio structure and monitoring – Kiwibank's credit portfolio is divided into two segments, Personal (Consumer), and Corporate and Institutional.

The Personal segment is comprised of housing loan, credit card and personal loan facilities. This segment is managed on a delinquency band approach.

The Corporate segment consists of lending to small and medium sized businesses. Each exposure is assigned an internal risk rating that is based on an assessment of the risk of default. These exposures are generally required to be reviewed on an annual basis, unless they are small facilities that are managed on a behavioural basis after their initial rating at origination.

The Institutional portfolio is comprised of commercial exposures, including bank and government exposures. Exposures in the Institutional portfolio are all individually rated and are of minimum investment grade or equivalent quality.

The overall composition and quality of the credit portfolios is monitored taking into account the potential changes in economic conditions.

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

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

Collateral security in the form of real property 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.

Larger credit facilities are approved through a hierarchy of delegated approval authorities that reflect the skill and experience of lending management.

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/recovery strategies are established and enacted. Kiwibank will seek additional collateral from a customer or counterparty if impairment is evident on individual loans and advances.

Credit risk portfolios are regularly assessed for objective evidence of impairment. Kiwibank creates portfolio impairment provisions where there is objective evidence that the portfolio contains probable losses that will be identified in future periods. Kiwibank also creates an individually assessed provision against specific credit exposures when there is objective evidence that it will not be able to collect all amounts due.

Operations control environment – Operationally, credit risk is controlled through a combination of approvals, limits, monitoring and review procedures. Functions are segregated so that no one person is in a position to control all significant stages of processing a credit transaction, thereby reducing the chance of error or defalcation escaping detection. Preparation of formal lending documentation only occurs after an independent officer in the operations area has ensured that the credit has been approved and the facility documentation matches the terms of the credit approval.

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 financial assets by industry sector at balance date is as follows:

	GROUP	
	2010	2009
	$'000	$'000
New Zealand		
- government, local bodies and services	**780,754**	456,241
- finance, investment and insurance	**713,377**	947,880
- households	**8,996,176**	7,217,995
- transport and storage	**17,637**	213,732
- communications	**24,058**	2,048
- electricity, gas and water	**27,820**	35,743
- construction	**59,734**	46,760
- property services	**1,021,922**	885,287
- agriculture	**23,245**	11,381
- health and community services	**30,923**	20,998
- personal and other services	**86,798**	152,233
- retail and wholesale trade	**60,096**	39,730
- food and other manufacturing	**115,232**	106,628
Overseas		
- finance, investment and insurance	**202,898**	134,611
Total financial assets (interest earning)	**12,160,670**	10,271,267
Less collective allowance for impairment losses	**(19,506)**	(12,208)
Other financial assets	**5,584**	5,879
Total financial assets	**12,146,748**	10,264,938

An analysis of financial assets by geographical sector at balance date is as follows:

New Zealand		
- Upper North Island	**4,505,936**	3,645,138
- Lower North Island	**3,219,352**	2,584,693
- South Island	**2,226,102**	1,778,266
Overseas	**202,898**	134,611
Exposures not classified by geographical sector	**1,992,460**	2,122,230
Total financial assets	**12,146,748**	10,264,938

Exposures not classified by geographical sector relate to investment securities which cannot be meaningfully allocated to a geographic location.

Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements

Credit Risk Relating to On Balance Sheet Assets		
Fixed rate mortgages	**6,234,605**	5,835,636
Variable rate mortgages	**3,967,613**	2,439,599
Unsecured lending	**235,790**	228,986
Due from other financial institutions	**156,871**	-
Derivative financial instruments	**46,320**	49,342
Financial assets held for trading	**671,152**	726,492
Available for sale assets	**544,453**	697,407
Cash and cash equivalents	**303,866**	293,805
Other assets	**5,584**	5,879
Total gross financial assets	**12,166,254**	10,277,146
Allowance for impairment losses	**(19,506)**	(12,208)
Total net financial assets	**12,146,748**	10,264,938

The above table represents a worst case scenario of credit risk exposure to Kiwibank at 30 June 2010 and 30 June 2009, without taking account of any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above 86% of the total maximum exposure of Kiwibank is derived from loans and advances to retail and corporate customers (30 June 2009 - 83%). Management is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from both its loan and advances portfolio and its wholesale assets.

Credit Exposure Concentrations

Credit Exposure to Individual Counterparties

Credit exposure concentrations are disclosed on the basis of actual exposures and gross of set-offs. The number of individual counterparties, excluding connected persons and the central government of any country with a long-term credit rating of A- or A3 above, or its equivalent, where the period end and peak end-of-day aggregate actual credit exposures, net of individual credit impairment allowances (which are nil), equalled or exceeded 10% of Kiwibank's shareholder's equity as at balance date are:

	3 months ended 30 June 2010 Non-Bank	3 months ended 30 June 2010 Bank	3 months ended 30 June 2009 Non-Bank	3 months ended 30 June 2009 Bank
As at balance date				
10% - 19%	**-**	**4**	2	6
20% - 29%	**-**	**1**	-	-
30% - 39%	**-**	**-**	-	1
40% - 49%	**-**	**-**	-	1
60% - 69%	**-**	**-**	-	1
80% - 89%	**-**	**-**	-	1
Peak exposure				
10% - 19%	**1**	**3**	2	7
20% - 29%	**-**	**2**	1	-
30% - 39%	**-**	**-**	-	-
40% - 49%	**-**	**1**	-	-
50% - 59%	**-**	**-**	-	1
70% - 79%	**-**	**-**	-	2
80% - 89%	**-**	**-**	-	1

Market Risk

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

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

Interest rate risk management – The Board expects reasonable stability in Kiwibank's net interest income over time. Kiwibank's Treasury function has been tasked with managing the sensitivity of net income to changes in wholesale market interest rates. This sensitivity (known as structural interest rate risk) arises from the bank's lending and deposit taking activities and investment of capital and other liabilities. The provision of loans and accepting deposits at both fixed and variable rates gives rise to the risk that Kiwibank could have unmatched positions leading to material exposures in a shifting interest rate environment. Other activities, such as current account facilities and employing 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 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 table below summarises Kiwibank's exposure to interest rate risk. It includes the financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The fair value adjustment on the revaluation of financial assets and financial liabilities is categorised in the interest insensitive category below.

30 June 2010	**Total $'000**	**Interest Insensitive $'000**	**Within 6 Months $'000**	**Between 6 months and 1 Year $'000**	**Between 1 and 2 Years $'000**	**Between 2 and 5 Years $'000**	**Over 5 Years $'000**
Financial Assets							
Cash and cash equivalents	**303,866**	**303,866**	**-**	**-**	**-**	**-**	**-**
Due from other financial institutions	**156,871**	**156,871**	**-**	**-**	**-**	**-**	**-**
Financial assets held for trading	**671,152**	**-**	**241,718**	**44,043**	**211,927**	**173,464**	**-**
Available for sale assets	**544,453**	**-**	**141,736**	**44,875**	**80,652**	**277,190**	**-**
Loans and advances	**10,418,502**	**(1,519)**	**6,252,528**	**1,204,621**	**2,150,934**	**811,938**	**-**
Derivative financial instruments	**46,320**	**46,320**	**-**	**-**	**-**	**-**	**-**
Other financial assets	**5,584**	**5,584**	**-**	**-**	**-**	**-**	**-**
Total financial assets	**12,146,748**	**511,122**	**6,635,982**	**1,293,539**	**2,443,513**	**1,262,592**	**-**
Financial Liabilities							
Due to other financial institutions	**164,051**	**2,238**	**161,813**	**-**	**-**	**-**	**-**
Deposits	**10,295,325**	**559,736**	**8,136,514**	**1,395,909**	**108,824**	**94,342**	**-**
Debt securities issued	**795,236**	**-**	**422,925**	**9,798**	**20,510**	**342,003**	**-**
Derivative financial instruments	**202,588**	**202,588**	**-**	**-**	**-**	**-**	**-**
Term subordinated debt	**143,299**	**-**	**-**	**-**	**76,483**	**66,816**	**-**
Other financial liabilities	**32,362**	**32,362**	**-**	**-**	**-**	**-**	**-**
Total financial liabilities	**11,632,861**	**796,924**	**8,721,252**	**1,405,707**	**205,817**	**503,161**	**-**
On balance sheet gap	**513,887**	**(285,802)**	**(2,085,270)**	**(112,168)**	**2,237,696**	**759,431**	**-**
Net derivative notional principals	**(10)**	**-**	**3,543,084**	**(308,000)**	**(2,710,233)**	**(524,861)**	
Net effective interest rate gap	**513,877**	**(285,802)**	**1,457,814**	**(420,168)**	**(472,537)**	**234,570**	**-**

26 KIWIBANK FINANCIAL INSTRUMENTS continued

30 June 2009	Total	Interest Insensitive	Within 6 Months	Between 6 months and 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Cash and cash equivalents	293,805	41,269	252,536	-	-	-	-
Due from other financial institutions	-	-	-	-	-	-	-
Financial assets held for trading	726,492	-	700,889	-	-	25,603	-
Available for sale assets	697,407	-	229,346	10,355	129,472	328,234	-
Loans and advances	8,492,013	2,973	3,736,424	1,197,473	1,900,832	1,654,311	-
Derivative financial instruments	49,342	49,342	-	-	-	-	-
Other financial assets	5,879	5,879	-	-	-	-	-
Total financial assets	10,264,938	99,463	4,919,195	1,207,828	2,030,304	2,008,148	-
Financial Liabilities							
Due to other financial institutions	316,648	1,487	264,483	50,678	-	-	
Deposits	8,265,576	444,514	6,373,120	1,168,936	201,954	77,052	
Debt securities issued	912,540	-	867,004	14,724	-	30,812	
Derivative financial instruments	304,287	304,287	-	-	-	-	
Term subordinated debt	143,566	-	-	-	-	143,566	
Other financial liabilities	31,653	31,653	-	-	-	-	
Total financial liabilities	9,974,270	781,941	7,504,607	1,234,338	201,954	251,430	-
On balance sheet gap	290,668	(682,478)	(2,585,412)	(26,510)	1,828,350	1,756,718	-
Net derivative notional principals	-	-	3,162,470	122,530	(1,768,000)	(1,517,000)	-
Net effective interest rate gap	290,668	(682,478)	577,058	96,020	60,350	239,718	-

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. Foreign currency denominated revenue and expense flows are forecast and hedged on a proportional basis determined by the ALCO. Residual currency risks are monitored in terms of open positions in each currency. Currency risks are monitored daily.

30 June 2010	**NZD**	**AUD**	**USD**	**GBP**	**EUR**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets						
Cash and cash equivalents	**266,729**	**4,517**	**21,461**	**8,528**	**1,933**	**303,168**
Due from other financial institutions	**156,871**	**-**	**-**	**-**	**-**	**156,871**
Financial assets held for trading	**544,125**	**58,820**	**46,776**	**-**	**21,431**	**671,152**
Available for sale assets	**473,845**	**70,608**	**-**	**-**	**-**	**544,453**
Loans and advances	**10,418,502**	**-**	**-**	**-**	**-**	**10,418,502**
Derivative financial instruments	**78,194**	**3,403**	**(14,575)**	**-**	**(20,702)**	**46,320**
Other financial assets	**5,584**	**-**	**-**	**-**	**-**	**5,584**
Total financial assets	**11,943,850**	**137,348**	**53,662**	**8,528**	**2,662**	**12,146,050**
Financial Liabilities						
Due to other financial institutions	**164,051**	**-**	**-**	**-**	**-**	**164,051**
Deposits	**10,268,018**	**2,427**	**13,969**	**8,528**	**1,685**	**10,294,627**
Derivative financial instruments	**355,155**	**(186,625)**	**33,066**	**-**	**992**	**202,588**
Debt securities issued	**483,899**	**311,338**	**-**	**-**	**-**	**795,237**
Term subordinated debt	**143,299**	**-**	**-**	**-**	**-**	**143,299**
Other financial liabilities	**32,362**	**-**	**-**	**-**	**-**	**32,362**
Total financial liabilities	**11,446,784**	**127,140**	**47,035**	**8,528**	**2,677**	**11,632,164**
Net on balance sheet financial position	**497,066**	**10,208**	**6,627**	**-**	**(15)**	**513,886**

30 June 2009	NZD	AUD	USD	GBP	EUR	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets						
Cash and cash equivalents	265,131	6,839	13,600	7,077	1,158	293,805
Financial assets held for trading	575,664	50,120	14,856	-	85,852	726,492
Available for sale assets	591,640	105,767	-	-	-	697,407
Loans and advances	8,492,013	-	-	-	-	8,492,013
Derivative financial instruments	200,000	(62,607)	(17,749)	-	(70,302)	49,342
Other financial assets	5,879	-	-	-	-	5,879
Total financial assets	10,130,327	100,119	10,707	7,077	16,708	10,264,938
Financial Liabilities						
Due to other financial institutions	316,648	-	-	-	-	316,648
Deposits	8,242,995	2,135	12,217	7,077	1,152	8,265,576
Derivative financial instruments	193,405	97,635	(3,450)	-	16,697	304,287
Debt securities issued	912,540	-	-	-	-	912,540
Term subordinated debt	143,566	-	-	-	-	143,566
Other financial liabilities	31,653	-	-	-	-	31,653
Total financial liabilities	9,840,807	99,770	8,767	7,077	17,849	9,974,270
Net on balance sheet financial position	289,520	349	1,940	0	(1,141)	290,668

26 KIWIBANK FINANCIAL INSTRUMENTS 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. Responsibility for liquidity management is delegated to the Bank's Treasury function, 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 and deposits on call with high credit quality counterparties to provide for any unexpected patterns in cash movements; and ii) by seeking a stable funding base.

Kiwibank maintains a stock of prime liquid assets. Some assets classified as investment securities in the balance sheets fit the definition of liquid assets for this purpose.

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

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

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

Treasury (under oversight of the ALCO) is responsible for monitoring the Kiwibank's funding base and ensuring that this base is prudently maintained and adequately diversified.

Liquidity Risk
Kiwibank Liquidity Policy is approved by the Board and defines the core principles for measuring, managing and monitoring liquidity risk across Kiwibank.

Liquidity risk management process
Kiwibank's liquidity management responsibilities include:
- Day-to-day liquidity requirements. RBNZ liquidity ratios (PLR) are calculated and monitored daily to ensure that Kiwibank:
  - is compliant with part 11 of the Conditions of registration and the RBNZ "Liquidity policy" (BS13)
  - maintains a prudent level of cash and highly liquid assets ("primary liquid assets") and marketable assets of limited credit risk ("secondary liquid assets") to meet anticipated wholesale and retail outflows over a one week, one month and one year period as well as provide adequate cover against funding stress or unexpected run-off risk.
- Securing an appropriately matched profile of future cash flows from maturing assets and liabilities.
- Implementing the banks funding plan which includes the development of sustainable wholesale funding capacity.
- Stress testing the banks funding and liquidity position with a range of adverse events covering a Kiwibank name crisis, an international credit crisis a macro-economic event and a significant earning loss.

Up to 31 March 2010 Kiwibank used its internal PLR ratio to monitor liquidity on a daily basis, with management oversight by ALCO. From 1 April 2010 onwards the RBNZ liquidity ratios have been used. The table below shows the liquidity ratio for Kiwibank as at 30 June 2009 using the PLR and also discloses the ranges calculated for the RBNZ ratios for the period from 1 April 2010 to 30 June 2010.

	2009 $'000
PLR ratios - 10 working days basis	169%
NZD stock - primarily liquidity	591,854
Wholesale NZD outflows	130,386
NZD retail deposit outflow	160,198
Committed lines granted by the bank	59,279
	349,863
PLR Basis 1	169%
PLR Basis 2	237%
PLR ratio (minimum of Basis 1 and 2)	169%

RBNZ Mismatch ratio
The RBNZ quantitative requirements for liquidity-risk management with effect from 1 April 2010 are as follows:
a) the one-week mismatch ratio of Kiwibank is not less than zero per cent at the end of each business day;
b) the one-month mismatch ratio of Kiwibank is not less than zero per cent at the end of each business day; and
c) the one-year core funding ratio of Kiwibank is not less than 65% at the end of each business day;

Kiwibank's core funding ratio has remained stable within a 1% range of 79-80% since adoption of BS13. Kiwibank's mismatch ratio has ranged within a 4% variance, with the one week ratio being within a range of 8-11% and 1 month mismatch ratio operating within a 7-10% range.

Non-Derivative Cash Flows
The table below summarises the cash flows payable by Kiwibank under non-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 using the PLR measure.

Derivative Cash Flows
Derivatives settled on a net basis
The table below 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 balance sheet 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 table below 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 balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

26 KIWIBANK FINANCIAL INSTRUMENTS continued

30 June 2010	Up To 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows					
Financial Liabilities					
Due to other financial institutions	164,051	-	-	-	164,051
Deposits	6,711,617	3,486,467	252,132	-	10,450,216
Debt securities issued	325,805	104,771	466,388	-	896,964
Term subordinated debt	5,520	5,520	153,915	-	164,955
Other financial liabilities	32,362	-	-	-	32,362
Total financial liabilities	7,239,355	3,596,758	872,435	-	11,708,548
Financial Assets					
Cash and cash equivalents	303,866	-	-	-	303,866
Due from other financial institutions	156,871	-	-	-	156,871
Financial assets held for trading	178,673	97,853	437,449	-	713,975
Available for sale assets	30,466	111,676	461,475	39,120	642,737
Loans and advances	398,470	755,030	2,764,703	19,821,868	23,740,071
Other financial assets	5,584	-	-		5,584
Total financial assets	1,073,930	964,559	3,663,627	19,860,988	25,563,104
Net non derivative cash flows	(6,165,425)	(2,632,199)	2,791,192	19,860,988	13,854,556
Derivative cash flows - net					
Interest rate derivatives	(45,646)	(61,649)	(49,549)	-	(156,844)
Total derivative cash flows - net	(45,646)	(61,649)	(49,549)	-	(156,844)
Derivative cash flows - gross					
Foreign exchange derivatives					-
Inflow	120,187	67,364	397,246	-	584,797
Outflow	(122,500)	(59,877)	(398,468)	-	(580,845)
Total derivative cash flows - gross	(2,313)	7,487	(1,222)	-	3,952
Off balance sheet cash flows					
Capital commitments	(2,756)	-	-	-	(2,756)
Loan commitments	(863,888)	-	-	-	(863,888)
Lease commitments	(105)	(315)	(354)	-	(774)
Total off balance sheet cash flows	(866,749)	(315)	(354)	-	(867,418)
Net position	(7,080,133)	(2,686,676)	2,740,067	19,860,988	12,834,246
Cumulative net position	(7,080,133)	(9,766,809)	(7,026,742)	12,834,246	12,834,246

30 June 2009	Up To 3 Months $'000	Between 3 and 12 Months $'000	Between 1 and 5 Years $'000	More Than 5 Years $'000	Total $'000
Non-derivative cash flows					
Financial Liabilities					
Due to other financial institutions	185,836	132,379	-	-	318,215
Deposits	6,527,114	1,642,813	314,235	30	8,484,192
Debt securities issued	729,923	102,934	101,112	-	933,969
Term subordinated debt	5,520	5,520	164,955	-	175,995
Other financial liabilities	31,653	-	-	-	31,653
Total financial liabilities	7,480,046	1,883,646	580,302	30	9,944,024
Financial Assets					
Cash and cash equivalents	293,805	-	-	-	293,805
Financial assets held for trading	568,574	120,260	48,138	-	736,972
Available for sale assets	96,381	110,843	560,822	-	768,046
Loans and advances	585,515	529,686	2,539,947	16,952,699	20,607,847
Other financial assets	4,456	-	-	-	4,456
Total financial assets	1,548,731	760,789	3,148,907	16,952,699	22,411,126
Net non derivative cash flows	(5,931,315)	(1,122,857)	2,568,605	16,952,669	12,467,102
Derivative cash flows - net					
Interest rate derivatives	(56,140)	(118,502)	(86,204)	-	(260,846)
Total derivative cash flows - net	(56,140)	(118,502)	(86,204)	-	(260,846)
Derivative cash flows - gross					
Foreign exchange derivatives					
Inflow	107,654	99,355	78,040	-	285,049
Outflow	(105,778)	(98,664)	(80,325)	-	(284,767)
Total derivative cash flows - gross	1,876	691	(2,285)	-	282
Off balance sheet cash flows					
Capital commitments	(1,256)	-	-	-	(1,256)
Loan commitments	(863,993)	-	-	-	(863,993)
Lease commitments	(101)	(301)	(562)	-	(964)
Total off balance sheet cash flows	(865,350)	(301)	(562)	-	(866,213)
Net position	(6,850,929)	(1,240,969)	2,479,554	16,952,669	11,340,325
Cumulative net position	(6,850,929)	(8,091,898)	(5,612,344)	11,340,325	11,340,325

Equity risk – Equity risk results from the re-pricing of equity investments. Kiwibank does not undertake equity trading and there are no significant exposures to equity instruments.

Operational Risk

Operational risk is the potential exposure to financial and other damage arising from the way in which Kiwibank pursues its business objectives. While operational risk can never be eliminated, Kiwibank endeavours to minimise the impact of operational incidents by ensuring that the appropriate risk management methodologies, controls, systems, staff and processes are in place.

The key sources of operational risk included in the Bank's operational risk measurement framework are i) internal fraud; ii) external fraud; iii) acts inconsistent with workplace employment, health and safety laws; iv) unintentional or negligent failure to meet professional obligations to specific customers (including fiduciary and suitability requirements) or from the design of a product; v) failed transaction processing or process management; vi) disruption to business or system failures; and vii) loss or damage to physical assets from natural disaster or other events.

Operational risk management within Kiwibank is based on the following core elements:
- Senior management are accountable to the Board for maintaining an adequate and effective control environment that is commensurate with Kiwibank's risk appetite and business objectives.
- Business units are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility.
- A central Risk Management Unit supports business units with operational risk identification, measurement and prioritisation. This unit also includes the Bank's legal function, which assists business units with legal and legislative compliance. The Risk Management Unit undertakes elementary quantitative operational risk measurements (using internal loss and potential loss data) across the Bank and reports quarterly to the Board Finance, Audit and Risk Committee on the Kiwibank's overall operational risk profile.
- An independent Internal Audit function, which appraises the adequacy and effectiveness of the internal control environment, and reports results to both management and the Board Finance, Audit and Risk Committee.

Key management and control techniques employed by Kiwibank, include clear delegation of authority, segregation of duties, sound project management, change control disciplines and business continuity planning. These techniques are enhanced by a focus on staff competency and supervision. Where appropriate these management practices are augmented by risk transfer mechanisms such as insurance, and by regular risk and control assessments.

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

Kiwibank has three core business risk management strategies aimed at supporting the business strategies of the Bank. Specilfically:
- Establishment and maintenance of an internal organisational environment in which Business risk can meaningfully be managed.
- Establishment and maintenance of formal conceptual structures, measurement basis and risk management processes for the evaluation and management of business risks.
- Building intelligent and sustainable 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. An analysis of financial liabilities by industry sector and geography at balance date is as follows:

	GROUP	
	2010	2009
	$'000	$'000
New Zealand		
- transport and storage	**204,714**	251,006
- financing, investment and insurance	**2,978,704**	2,157,988
- electricity, gas and water	**3,938**	8,508
- food and other manufacturing	**91,220**	17,601
- construction	**19,773**	15,566
- communications	**5,034**	-
- government, local bodies and services	**685,236**	349,161
- agriculture	**45,488**	33,227
- health and community services	**198,474**	177,323
- personal and other services	**107,141**	127,022
- property and business services	**363,782**	362,428
- education	**234,400**	222,805
- retail and wholesale trade	**69,795**	71,420
- households	**6,074,930**	5,972,014
Overseas		
- financing, investment and insurance	**308,212**	-
- households - Australia	**37,647**	27,808
- households - rest of the world	**182,012**	183,740
Total financial liabilities (interest bearing)	**11,610,500**	9,977,617
Other financial liabilites	**34,476**	34,225
Total financial liabilities	**11,644,976**	10,011,842

Sensitivity Analysis

The table below summarises the pre-tax sensitivity of financial assets and financial liabilities to changes in the two key risk variables, interest rate and currency risks using a reasonable change in these rates. The market 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.

30 June 2010 — **Interest Rate Risk**

	Carrying Value $'000	-1% Statement of Comprehensive Income $'000	+1% Statement of Comprehensive Income $'000	-1% Equity $'000	+1% Equity $'000
Financial Assets					
Cash and cash equivalents	**303,866**	**-**	**-**	**-**	**-**
Due from other financial institutions	**156,871**	**-**	**-**	**-**	**-**
Financial assets held for trading	**671,152**	**8,417**	**(8,246)**	**8,417**	**(8,246)**
Available for sale assets	**544,453**	**-**	**-**	**14,928**	**(14,209)**
Loans and advances	**10,418,502**	**21,532**	**(21,224)**	**21,532**	**(21,224)**
Derivative financial instruments	**46,320**	**24,759**	**(23,853)**	**27,461**	**(26,474)**
Other financial assets	**5,584**	**-**	**-**	**-**	**-**
Total financial assets	**12,146,748**	**54,708**	**(53,323)**	**72,338**	**(70,153)**
Financial Liabilities					
Due to other financial institutions	**164,051**	**209**	**(200)**	**209**	**(200)**
Deposits	**10,295,325**	**(3,238)**	**3,229**	**(3,238)**	**3,229**
Derivative financial instruments	**202,588**	**(29,006)**	**28,411**	**(76,429)**	**74,591**
Debt securities issued	**795,237**	**(13,762)**	**13,201**	**(13,762)**	**13,201**
Term subordinated debt	**143,299**	**(1,984)**	**1,929**	**(1,984)**	**1,929**
Other financial liabilities	**32,362**	**-**	**-**	**-**	
Total financial liabilities	**11,632,862**	**(47,781)**	**46,570**	**(95,204)**	**92,750**

30 June 2010 — **Currency Risk**

	Carrying Value $'000	-10% Statement of Comprehensive Income $'000	10% Statement of Comprehensive Income $'000	-10% Equity $'000	10% Equity $'000
Financial Assets					
Cash and cash equivalents	**303,866**	**4,014**	**(3,284)**	**4,014**	**(3,284)**
Due from other financial institutions	**156,871**	**-**	**-**	**-**	**-**
Financial assets held for trading	**671,152**	**14,114**	**(11,548)**	**14,114**	**(11,548)**
Available for sale assets	**544,453**	**-**	**-**	**7,845**	**(6,419)**
Loans and advances	**10,418,502**	**-**	**-**	**-**	**-**
Derivative financial instruments	**46,320**	**(3,542)**	**2,898**	**(3,542)**	**2,898**
Other financial assets	**5,584**	**-**	**-**	**-**	**-**
Total financial assets	**12,146,748**	**14,586**	**(11,934)**	**22,431**	**(18,353)**
Financial Liabilities					
Due to other financial institutions	**164,051**	**-**	**-**	**-**	**-**
Deposits	**10,295,325**	**(3,734)**	**3,055**	**(3,734)**	**3,055**
Derivative financial instruments	**202,588**	**16,952**	**(13,870)**	**16,952**	**(13,870)**
Debt securities issued	**795,237**	**(35,380)**	**28,948**	**(35,380)**	**28,948**
Term subordinated debt	**143,299**	**-**	**-**	**-**	**-**
Other financial liabilities	**32,362**	**-**	**-**	**-**	**-**
Total financial liabilities	**11,632,862**	**(22,162)**	**18,133**	**(22,162)**	**18,133**

30 June 2009 — Interest Rate Risk

	Carrying Value $'000	-1% Income Statement $'000	+1% Income Statement $'000	-1% Equity $'000	+1% Equity $'000
Financial Assets					
Cash and cash equivalents	293,805	-	-	-	-
Financial assets held for trading	726,492	1,539	(1,535)	1,539	(1,535)
Available for sale assets	697,407	-	-	11,465	(11,160)
Loans and advances	8,492,013	34,628	(34,579)	34,628	(34,579)
Derivative financial instruments	49,342	9,333	(9,076)	2,981	(3,141)
Other financial assets	5,879	-	-	-	-
Total financial assets	10,264,938	45,500	(45,190)	50,613	(50,415)
Financial Liabilities					
Due to other financial institutions	316,648	(554)	550	(554)	550
Deposits	8,265,576	(3,267)	3,258	(3,267)	3,258
Derivative financial instruments	304,287	(28,052)	27,387	(69,294)	67,390
Debt securities issued	912,540	(2,095)	2,068	(2,095)	2,068
Term subordinated debt	143,566	(2,758)	2,656	(2,758)	2,656
Other financial liabilities	31,653	-	-	-	-
Total financial liabilities	9,974,270	(36,726)	35,919	(77,968)	75,922

26 KIWIBANK FINANCIAL INSTRUMENTS continued

30 June 2009		Currency Risk			
	Carrying Value $'000	-10% Income Statement $'000	10% Income Statement $'000	-10% Equity $'000	10% Equity $'000
Financial Assets					
Cash and cash equivalents	293,805	3,186	(2,607)	3,186	(2,607)
Financial assets held for trading	726,492	16,759	(13,712)	16,759	(13,712)
Available for sale assets	697,407	-	-	11,752	(9,615)
Loans and advances	8,492,013	-	-	-	-
Derivative financial instruments	49,342	(16,740)	13,696	(16,740)	13,696
Other financial assets	5,879	-	-	-	-
Total financial assets	10,264,938	3,205	(2,623)	14,957	(12,238)
Financial Liabilities					
Due to other financial institutions	316,648	-	-	-	-
Deposits	8,265,576	(2,509)	2,053	(2,509)	2,053
Derivative financial instruments	304,287	(12,320)	10,080	(12,320)	10,080
Debt securities issued	912,540	-	-	-	-
Term subordinated debt	143,566	-	-	-	-
Other financial liabilities	31,653	-	-	-	-
Total financial liabilities	9,974,270	(14,829)	12,133	(14,829)	12,133

Fair Value of Financial Instruments

	Carrying Amount 2010 $'000	**Estimated Fair Value 2010 $'000**	Carrying Amount 2009 $'000	Estimated Fair Value 2009 $'000
Financial Assets				
Cash and cash equivalents	**303,866**	**303,866**	293,805	293,805
Due from other financial institutions	**156,871**	**156,871**	-	-
Financial assets held for trading	**671,152**	**671,152**	726,492	726,492
Available for sale assets	**544,453**	**544,453**	697,407	697,407
Loans and advances	**10,418,502**	**10,453,603**	8,492,013	8,550,701
Derivative financial instruments	**46,320**	**46,320**	49,342	49,342
Other financial assets	**5,584**	**5,584**	5,879	5,879
Total financial assets	**12,146,748**	**12,181,849**	10,264,938	10,323,626
Financial Liabilities				
Due to other financial institutions	**164,051**	**164,051**	316,648	316,648
Deposits	**10,295,325**	**10,305,234**	8,265,576	8,284,091
Derivative financial instruments	**202,588**	**202,588**	304,287	304,287
Debt securities issued	**795,237**	**797,433**	912,540	913,978
Term subordinated debt	**143,299**	**144,190**	143,566	137,575
Other financial liabilities	**32,362**	**32,362**	31,653	31,653
Total financial liabilities	**11,632,862**	**11,645,858**	9,974,270	9,988,232

Fair Value Estimation

Quoted market prices, when available, are used as the measure of fair values for financial instruments. However, for some of Kiwibank's financial instruments, quoted market prices do not exist. For such financial instruments, fair values presented are estimates derived using present value of future cash flows or other market accepted valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and judgements made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could significantly affect these estimates and the resulting fair value.

The fair value estimates were determined by application of the methods and assumptions described below.

Cash and cash equivalents
For cash assets, the carrying amount is equivalent to the fair value. For short term liquid assets, estimated fair values are based on quoted market prices.

Held for trading securities
For held for trading securities, estimated fair values are based on quoted market prices.

Available for sale securities
For available for sale securities, estimated fair values are based on quoted market prices.

Loans and advances
For variable rate loans and advances, the carrying amount is a reasonable estimate of fair value. For fixed rate loans and advances, fair values have been estimated using a discounted cash flow model with reference to market interest rates, prepayment rates and rates of estimated credit losses.

Other financial assets
For other financial assets, the carrying amount is equivalent to the fair 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.

26 KIWIBANK FINANCIAL INSTRUMENTS continued

Debt securities issued
For debt securities issued, estimated fair values are based on quoted market prices.

Term subordinated debt
For term subordinated debt, estimated fair values are based on quoted market prices.

Other financial liabilities
For other financial liabilities, the carrying amount is equivalent to the fair value.

Impaired and past due assets
For non-accrual and restructured impaired assets as well as past due loans, the fair values are estimated by discounting the estimated 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.

Interest rate contracts
For interest rate contracts, fair values were obtained from quoted market prices, discounted cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate, a cash basis has been adopted.

Foreign exchange contracts
For foreign exchange contracts, fair values were obtained from quoted market prices, discounting cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate a cash basis has been adopted.

Fair Value heirarchy
Kiwibank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
Level 3: Techniques using inputs which have a significant effect on the recorded fair value and which are not based on observable market data.

30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial Assets				
Derivative financial assets				
Interest rate swaps	-	37,916	-	37,916
Currency swaps	-	8,007	-	8,007
Forward foreign exchange contracts	-	244	-	244
Futures contracts	7	-	-	7
Forward rate agreements	-	146		146
Total	7	46,313	-	46,320
Other financial assets held for trading				
Bank bills	-	189,288	-	189,288
Other securities	220,850	261,014	-	481,864
Total	220,850	450,302	-	671,152
Available-for-sale assets				
Government stock and multilateral development banks	261,538	88,530	-	350,068
Local authority securities	-	18,927	-	18,927
Other debt securities	-	175,458	-	175,458
Total	261,538	282,915	-	544,453
Financial assets designated at FVTPL				
Loans and advances	-	-	1,235,764	1,235,764
Total	-	-	1,235,764	1,235,764
Total financial assets	482,395	779,530	1,235,764	2,497,689
Financial Liabilities				
Derivative financial liabilities				
Interest rate swaps	-	190,895	-	190,895
Currency swaps	-	7,195	-	7,195
Forward foreign exchange contracts	-	3,867	-	3,867
Futures contracts	581	-	-	581
Forward rate agreements	-	50	-	50
Total	581	202,007	-	202,588
Debt securities issued	-	199,116	-	199,116
Total financial liabilities	581	401,123	-	401,704

Loans and receivables designated at fair value through profit or loss
For loans and receivables designated at fair value through profit or loss, a discounted cash-flow model is used based on various assumptions, including current and expected future credit losses, market rates of interest, prepayment rates and assumptions regarding market liquidity, where relevant. At balance date, a one basis point movement in credit spread or underlying interest rate would impact the income statement by $99k (June 09; $270k).

The following table presents the changes in level 3 instruments for the year-ended 30 June 2010:

	Loans and Advances $'000	Total $'000
Balance at 1 July 2009	2,121,584	2,121,584
Total losses recorded in statement of comprehensive income	(41,550)	(41,550)
Loan repayments	(844,270)	(844,270)
As at 30 June 2010	1,235,764	1,235,764

There were no transfers in or out of level 3, or between levels 1 and 2, during the period.

27 LEASES

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Non-Cancellable Operating Lease Commitments				
Payable no later than one year	**34,414**	37,127	**28,997**	27,901
Payable later than one year and no later than five years	**81,366**	83,779	**71,615**	68,382
Payable later than five years	**35,254**	37,185	**28,699**	28,494
Total operating lease commitments	**151,034**	158,091	**129,311**	124,777

The Company leases a majority of its sites. All leases are standard operating leases. No leases have purchase options, onerous restrictions on use, contingent rent, etc. Lease terms vary from monthly to long term. Many leases have rights of renewal.

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Non-Cancellable Future Operating Lease Receipts				
Receivable no later than one year	**12,116**	12,385	**5,720**	6,218
Receivable later than one year and no later than five years	**30,494**	8,704	**11,714**	7,677
Receivable later than five years	**4,541**	375	**4,541**	375
Total future operating lease receipts	**47,151**	21,464	**21,975**	14,270

The Company 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, contingent rent, etc. Lease terms vary from monthly to long term. Many leases have rights of renewal.

28 CAPITAL COMMITMENTS

	GROUP 2010 $'000	GROUP 2009 $'000	PARENT 2010 $'000	PARENT 2009 $'000
Contractual commitments for acquisition of:				
Property, plant and equipment	**4,228**	4,894	**1,447**	2,863
Intangible assets - software	**123**	236	**-**	-
Total contractual commitments	**4,351**	5,130	**1,447**	2,863

29 CONTINGENCIES

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 Parent 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 Parent to the creditors. There is no obligation at 30 June 2010 (30 June 2009 - nil).

The Parent has guaranteed the payment obligations of New Zealand Post Group Finance Limited in relation to its subordinated notes (refer note 20). The face value of the notes on issue at balance date is $200m. There is no obligation at 30 June 2010 (30 June 2009 - guarantee the payment obligations of New Zealand Post Group Finance Limited in relation to its subordinated notes.)

The Parent has guaranteed 50% of the bank debt of Express Couriers Limited, in line with its shareholding. There is no obligation at 30 June 2010 (30 June 2009 - nil).

The Parent has guaranteed the bank loan for Air Post Limited (US$10m). There is no obligation at 30 June 2010 (30 June 2009 - nil).

During 2008, New Zealand Post sold its wholly owned subsidiary, NZP Australia Pty Limited ("NZPA") to Parcel Direct Group Pty Limited. The sale and purchase agreement contained an 'earn-out' and 'claw-back' mechanism with respect to the Couriers Please business owned by NZPA based on the net profit before tax of this business operation as at 30 June 2009. The maximum 'claw-back' amount that New Zealand Post may be required to pay under the mechanism is A$25.75m. A final determination on any 'claw-back' is yet to be agreed.

During 2010, the Postal Workers Union of Aotearoa lodged an appeal to the Employment Court that New Zealand Post has incorrectly calculated and paid relevant daily pay in breach of the Holidays Act 2003. New Zealand Post was successful in the Employment Relations Authority.

The Group is subject to additional claims, contingencies and investigations incurred in the normal course of business. The Directors do not believe these will result in any significant exposure to the Group.

30 EVENTS OCCURRING AFTER BALANCE DATE

The Board of New Zealand Post has declared a final dividend of $720k which will be paid on 15 September 2010.

No other material events have occurred subsequent to balance date that require recognition of, or additional disclosure in these financial statements