New Zealand Post Group

Annual review 2015

volume 1 of 2

Contents

Foreword

from the Chairman and Chief Executive

"Across the Group we will continue to look for ways technology can build our business, reduce costs and give a better customer experience."

Reorienting the New Zealand Post Group to ensure its businesses remain relevant to the markets in which it operates gained momentum in 2014/2015

Nearly two years into our five-year reset strategy we delivered a solid financial performance in the 2015 financial year, achieving a profit of $143 million, 34% ($36 million) higher than the last financial year.

Kiwibank performed well and contributed the vast majority of profits. Kiwi Group Holdings Limited, which includes Kiwibank Limited and associated companies involved in Wealth Management, Insurance and New Zealand Home Loans, achieved an after tax profit of $132 million for the year. The result was largely driven by a focus on more profitable and diversified revenue growth, provided by solid performance in mortgage lending and customer deposits combined with a strong improvement in credit performance.

The sale of Australian-based courier company Couriers Please for AUD$95 million during the year was also a major contributor and delivered an excellent return on the Group's investment, reporting a gain on sale of $46 million. International parcel volume grew strongly in FY 2015, while domestic parcel volume also increased but not as much as we would have liked.

While this result was pleasing given prevailing market conditions, the Group continues to operate in a very challenging and competitive environment and in markets that are rapidly changing. Sound progress has been made in executing against our strategy but there is still more work to do, we remain in a period of substantial and ongoing change.

One of the most significant achievements over the past year has been the modernisation and reshaping of our processing and delivery networks to better match the decline in letter volume. This operational change is an important step in the Group's transformation and a core foundation for the future. We still have some way to go to however, to put our parcels and letters business on a sustainable footing.

Other major achievements during the year:

Mail and Logistics

- New eco vehicles piloted in New Plymouth to integrate parcels and letters delivery and online user preference services trialled.
- Agreements signed for three new 737-400 aircraft to support express parcel growth opportunities.
- Reached nearly 150,000 online shoppers using our YouShop e-commerce service.
- Successfully piloted New Zealand Post's Connect digital platform for students to complete StudyLink applications online rather than physically.
- Successfully supported communications for the 2014 General Election, the Northland By-election and bank interest rate change notifications.
- We achieved a record low Group-wide lost-time injury frequency rate (which measures the total number of lost-time injuries per million hours worked) of 3.5.
- Nearly 1300 staff participated in or gained qualifications from the Future Zone services we set up for staff whose jobs are changing or no longer exist.
- The Group-wide staff engagement level was calculated at 73.2%, a drop of just 0.01% on last year. This gives us confidence our people have the resilience to navigate change successfully.

Financial Services

- Kiwibank rewarded years of investment by the New Zealand Post Group, with its first ever dividend in FY15.
- Good progress in improving Kiwibank's competitive position through providing good value to customers and executing on its strategy, particularly progress in completing the first phase of a multi-year programme to deliver a new core banking system.
- The shift of postal and banking services from Group-owned retail stores to locally-owned businesses accelerated. Responsibility for the company owned branches was transferred to Kiwibank during 2014.
- Around 900,000 customers, or one in four New Zealanders with a bank account, now have an account with Kiwibank.
- Around 89% of service transactions were completed via digital channels. Innovating to transform the Group into a digital business will continue to be a focus.
- Share of the small business market grew from 6.3% to 7.8%.

The year ahead

The ongoing and accelerating decline in the core letters business, softening global and domestic economies and strong competition in all our markets mean we will have to move faster again this year to maintain positive momentum.

Our focus will be on innovating to better meet the needs of our customers, continuing to drive reductions in operational and support costs and working hard to bring our staff, customers and stakeholders with us as we transform the business.

Hon Sir Michael Cullen, KNZM
Chairman
New Zealand Post Group

Brian Roche
Chief Executive Officer
New Zealand Post Group

Strategy & Values

The New Zealand Post Group's strategy is around two business clusters — Mail and Logistics and Financial Services — with the goal of making each financially sustainable and capable of generating their own capital, setting the Group up for a successful future.

We will do this by:

Grow

- Carry more parcels
- Grow Kiwibank
- Help our customers find and reach their customers

Innovate & serve

- Improve the way we work
- Deliver different things in different ways
- Give our customers more choice about where, when and how they do business with us

Lower cost

- Simplify how we do things
- Get rid of duplication
- Be a leaner organisation

Values

The New Zealand Post Group always has been and always will be about people. As we go through change, it's important we have a rock-solid foundation of values, ensuring that we are doing the right thing for all concerned.

Do What's Right

is about doing what's right by our customers and our people. It includes confronting difficult realities and being open about discussing these, having a solution focus, respecting others, and taking personal responsibility for addressing issues. It's also about being fiscally responsible – don't just do things the same old way when there's a better, cheaper and more efficient way of doing them. It's about being socially responsible, ethical, and sustainable.

One Team

is about working collaboratively across and within the Group. It's about assuming genuine intent in others, being curious about the business – what we do and how we fit together, taking pride in each other's achievements, and having each other's backs.

Make It Easy

is about reducing unnecessary complexity, improving the experience our customers have, and constantly looking to improve the way we deliver our solutions and services.

Raise The Bar

is about pushing ourselves individually so that collectively we succeed. It's about taking calculated risks, having high expectations of each other, aiming for excellence, and applying the lessons from our mistakes to continually improve.

Material Matters

The Board of the New Zealand Post Group has identified 11 key issues (material matters) that have significant effects (both positive and negative) on our five-year *Delivering our Future* strategy, our ability to deliver a sustainable future beyond 2025, and our ability to create value.

These material matters provide a context and direction for everything we do, and are reflected in the capitals covered in this annual report.

How we identified the material matters: we surveyed senior leaders across the organisation as well as a broad range of external stakeholders. We also conducted face-to -face interviews with external stakeholders.

Digitisation — the growth of digital technologies such as mobile devices that change our customers' behaviour and the markets we operate in.

Execution of business transformation — our ability to change our systems and structure without compromising our service delivery.

Responding to changing customer needs — our ability to offer products and services our customers want.

Availability and competition for capital — the availability and management of capital needed to fund business programmes.

Economic well-being — the performance of NZ and global economies – as they grow, so does our ability to grow.

Ability to attract, nurture and retain talent — ensuring that we attract, nurture and retain the best talent to support business change and growth.

Regulation — foreseeing and responding to regulation and changes to government policy.

Our brand and reputation — how our brand is seen the eyes of the public.

Competitor threat — our ability, experience and capability to operate in competitive markets where there are few barriers to entry.

Environmental impacts — changes in the climate such as extreme weather, volatile fuel and energy costs, and dependency on nonrenewable fuels.

Geopolitical trends — such as the growth of China and greater freedom of the individual.

Stakeholders

The New Zealand Post Group's stakeholders are the driving force behind our success as a business.

Wherever possible we seek the views of our stakeholders in the decisions we make and consult those whose knowledge and expertise will add value to our business. We keep them informed of new developments and updated on how the strategy is performing.

How We Engage:

Bond holders – we communicate twice a year to report on the financial performance of the NZ Post Group, as published in the Annual and Half-Year Reports.

Our community – we engage with communities through our Government and Community Relations Manager to maintain a transparent and ongoing dialogue. We also engage through our partnership with Red Cross, helping build community resilience in New Zealand and abroad. Our people are active in our communities through our volunteer programme which gives every employee one day volunteer leave every year. We help kiwi kids stay active through ActivePost, which supports grassroots participation in sports and recreation.

Credit rating agencies – we engage via updates on specific business events and scheduled management meetings where analysis of financial and strategic performance is undertaken

The Crown – we regularly report to, update and consult with the Crown via our key relationship managers in The Treasury and office of the Minister for State-Owned Enterprises (SOEs) both to comply with our obligations as an SOE and to ensure we actively meet expectations to operate as a sustainable commercial business.

Customers – we engage with our customers daily through channels such as our branches, online, call centres and relationship managers. We regularly survey our customers to obtain their feedback on our products and services, business changes and future needs. We also have active conversations on social media.

Government – we engage with government agencies and ministries to ensure we meet various mandates, regulations and agreements, through our Regulatory Affairs and Network Access function.

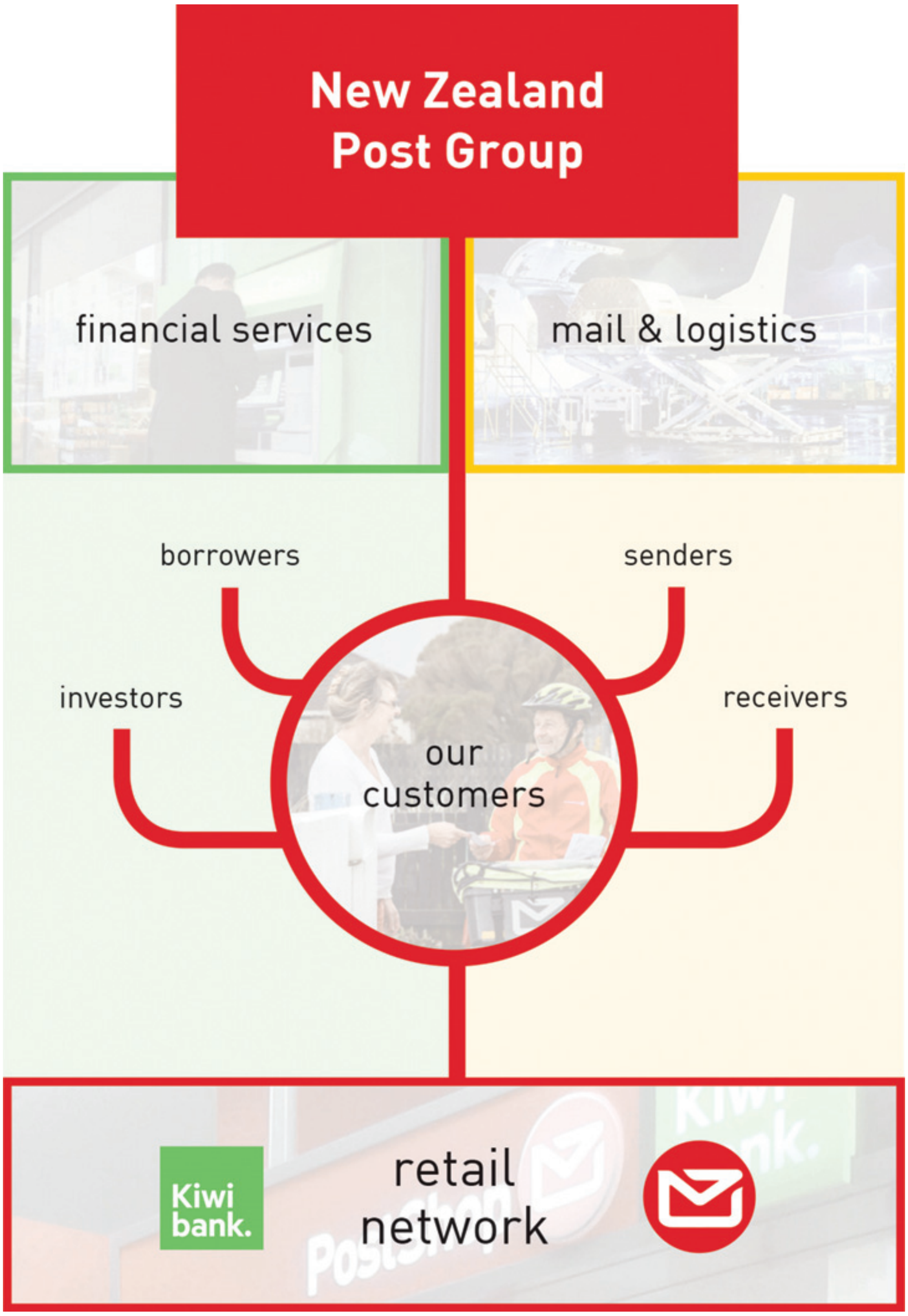
Media – we engage with the media, responding to queries and requests for information, and contacting the media directly when there are updates on our business plan. The media are also invited to attend briefings on key developments and announcements such as the annual financial results.

Our people – we actively engage and inform our people of changes we're going through as well as how we are performing as a group. This is done through communication such as frequent business updates and team briefs. Our people also engage with senior leaders in the organisation through our annual leader roadshows.

Stock Exchange – we communicate our annual and half-year results to the market as well as any other material that could impact the value of our listed debt securities (bonds, capital notes and covered bonds).

Suppliers – we work closely with suppliers, entering into contracts to document our respective rights and obligations.We have regular meetings with significant suppliers to ensure the goods and services we receive are fit for purpose, and meet our expectations.

Business model



How we create value

our strategy

Grow

- Build digital services that build customer trust and intimacy
- Targeted sponsorship and community investments

- Rationalise the property portfolio
- Develop an intellegent integrated mail and logistics delivery network
- Develop fit for purpose and differentiated distribution channels

Innovate & serve

- Delivering a new core banking system
- Advanced Reserve Bank of NZ accreditation for Kiwibank

- Targeted long-term return on equity (ROE) of 12%
- Maintaining an appropriate credit rating that supports Kiwibank's needs
- Revenue growth

Lower cost

- Minimising our carbon footprint
- Being more energy efficient
- Reducing waste

- Lift performance and productivity
- Proactively manage our people talent
- Maximise engagement and contribution of our diverse workforce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Relationships

The Group's 'relationships' capital is about our connections with our customers and other stakeholders. In particular it relates to our ability to meet their expectations and deliver value through our interactions.

Connections with our customers are under growing pressure owing to the dramatic growth in new technology and new communication channels. Mail and in-person transactions are being replaced with online and digital equivalents – that enable our customers to contact others, pay their bills and do their shopping wherever and whenever they want to.

This situation presents us with opportunities and challenges. For example, while mail deliveries are declining, online shopping – and therefore parcel deliveries – has brought new and exciting opportunities for our parcels business.

Our challenge is to make every stakeholder experience a positive one and to keep searching for and delivering new and innovative ways of providing physical and digital touchpoints. Only by doing this will we continue to meet our customers' needs and be the valued 'first-choice' partner we want to be.

Enhancing the value of our relationships capital

Our five-year Delivering our Future strategy is based on a commitment to put the customer at the heart of everything we do – and with this in mind we're making a significant investment in building the value of our relationships capital. For example, Kiwibank is:

- investing in new technology and systems to engage with customers, particularly those in rural and more isolated parts of the country who don't have branches nearby. The aim is to provide online and digital services that match as closely as possible to those provided in-branch
- developing a suite of smart digital solutions and other services to encourage customers to make Kiwibank their 'main bank'
- diversifying its customer base by focusing on small-to-medium-sized enterprises, investors and KiwiSaver members, and growing the KiwiAssure insurance business
- raising awareness of its brand through the 'Indepen-dance' campaign, which highlights the bank's core purpose: Kiwis making Kiwis better off.

We're also:

- growing the parcels business by developing partnerships with major shipping and retail businesses in our key international markets of Australia, the United States, the United Kingdom and China. For example, we now have partnerships with global transport specialists as well as leading online retailers
- developing stronger relationships with smaller online enterprises that send and receive goods via our PostShops. Our aim is to support them as they grow their business and, when they're ready, connect them to our online international logistics chain and a seamless labelling, fulfilment, tracking and returns service
- increasing the points of contact for large business customers that regularly use our services to create, print and dispatch personalised mail items. Instead of dealing only with relationship managers they can now talk directly to call centre staff – a move that's generated excellent feedback on our rapid and efficient response
- showing customers that our services extend well beyond 'mail' through the new 'You can' advertising campaign. A television commercial starring Game of Thrones star Charles Dance is supported with customer success stories and case studies.

We're now planning to launch:

- an e-commerce platform for offshore 'e-traders' and logistics businesses that use our global parcel delivery network. This platform will provide support throughout the delivery chain (including real-time updates on progress), regardless of the nature and number of service providers along the way
- an online 'delivery first time' service to enhance our customers' parcel delivery experience. It will enable them to specify where and when they want their parcels delivered, authorise deliveries in their absence and get notifications of expected arrival times.

Preserving the value of our relationships capital

During 2014/15 the Group contributed more than $2 million to community initiatives nationwide. At the end of the financial year a number of partnerships ended. We are focussed on ensuring that our sponsorship raises brand awareness while also driving commercial return.

Highlights of the year included the Group's support of Red Cross' disaster relief activities in the Asia-Pacific. When Tropical Cyclone Pam struck Vanuatu in March 2015, we set up and promoted a dedicated Kiwibank account to which Kiwis could donate, raising more than $150,000.

New Zealand Post's partnership with New Zealand Cricket also goes from strength to strength through initiatives such as:

- the New Zealand Post Junior Cricket Programme, which is introducing the sport to more than 120,000 children at clubs, communities and schools nationwide
- a primary school programme comprising: a curriculum-aligned course on the basics of batting, bowling and fielding; in-school and after-school programmes; and the New Zealand Post Cup and Shield national primary schools tournament
- sponsoring the White Ferns to raise awareness of the New Zealand women's cricket team and inspire young girls to engage, play and stay in the code.

Kiwibank has also strengthened its community partnerships and contributions within the community

- Providing the capital facility for two microfinance organisations which provide no or low interest loans to those in our communities that would not normally have access to fair finance
- Creating a budget for localised community investment to bring our purpose of Kiwis making Kiwis better off to life in the regions.

Networks

The Group's 'networks' capital comprises the physical systems, infrastructure and assets that make up our nationwide network, from which we provide products and services to our customers.

The value of this capital is being affected by local and international trends and developments, particularly our customers' increasing use of, and demand for, digital services and the continued decline in letter mail. We processed 627.3 million items of letter mail in 2014/15, a drop of 10.2% from 698.4 million last year and down from 1.1 billion in 2002.

While this trend is expected to continue, we remain committed to providing a nationwide mail and parcels delivery service and maintaining a presence in every New Zealand town. Achieving this has required us to make some major changes to our network and the way we manage, maintain and operate it.

Both the Mail and Logistics and Financial Services sides of the business are developing 'digital-first' solutions with Mail and Logistics enabling better customer experiences and convenience over both item sending and receiving at lower cost to the Group. This includes moving transactions to digital channels and developing a network of hosted drop off and collection points in locations easily accessible to our customers.

Enhancing the value of our networks capital

Introducing alternate-day delivery

In 2014/15 we completed one of the biggest changes for New Zealand Post in the past 170 years: developing and trialling the 'alternate-day' delivery service for standard mail, which was implemented from 1 July 2015.

The new service has meant huge change for posties in terms of how they work, schedules and operational processes. However, thanks to comprehensive planning and outstanding teamwork the posties continued to meet their performance target, with at least 95% of all standard mail delivered within three working days.

Integrating mail and courier functions

As part of our drive to be the most competitive parcel business in the country, we've made real progress in integrating our mail and parcels businesses. This is enabling us to remove duplication, reduce costs, simplify operations and combine the strengths of both organisations to deliver a great customer experience.
Key achievements included:

- announcing changes to the Group structure and Group Leadership Team accountabilities to better integrate our Mail and Logistics and parcels businesses and operate in a more customer centric way
- integrating the Post and Parcels leadership and support functions at 14 provincial delivery branches. Today, a single leader at each site is responsible for all the mail and parcels business, supported by an integrated administration/support team
- successfully conducting in New Plymouth a full operational pilot of battery-powered 'eco-vehicles' for delivering letters and parcels. The vehicles will be used to deliver mail and parcels from 1 July. If the pilot is successful we plan to roll out the vehicles nationwide starting from 2016.

We're now working to integrate the mail and parcels operational and IT systems – a complex task which, once complete, will make the customer experience richer and the teams' lives easier.

Investing in mail processing

As signalled in last year's report, we've completed the consolidation of all mail processing at three metro mail centres in Auckland, Palmerston North and Christchurch.

We're also about to begin construction on our new Southern Operations Centre. Located at the Christchurch International Airport, the centre will incorporate the latest automated parcel and packet processing technology, meaning enhanced distribution into and out of the South Island.

Preserving the value of our networks capital

The network transformation project included a new approach to the Group's retail network, with Kiwibank taking responsibility from 1 July 2014 for managing 138 Group-owned corporate stores (PostShops).

A subsequent review to optimise our network concluded it wasn't feasible to maintain the full complement of current stores in an owned capacity. Some were no longer fit for purpose or economically viable, while others were no longer in locations that delivered the necessary value or best met the changing needs of their community.

In rare situations a store closure will be unavoidable, but in the majority of cases we will reach agreement with local businesses to provide products and services on our behalf. Through this franchise model, Kiwibank and NZ Post maintain continuity of service for the community and reduce the costs of ownership, while the businesses benefit from being 'one-stop shops' for customers, with likely increased foot traffic and revenue.

While these changes have been unsettling, the considerable lead times have enabled a smooth transition process for affected staff. As at 30 June 2015, an additional eight stores had been franchised, leaving Kiwibank responsible for 130. While many will remain corporate stores, the Group will continue to pursue franchise opportunities where appropriate.

Kiwibank is now investing in the physical network to ensure that the stores reflect and meet customers' changing needs. This is in tandem with its 'digital first' programme, which will enable customers to access the services they need where and when they want to.

All these changes have required a massive investment in supporting our people through change – particularly those whose roles have altered or ceased to exist. This is a real credit to initiatives such as Future Zone, management support programmes and a comprehensive engagement strategy that has seen the majority of our people welcome the new direction and a significant number redeployed.

Expertise

The Group's 'expertise' capital refers to the capabilities, experience and knowledge we've developed through operating nationwide networks, providing innovative systems and services, and delivering performance excellence. It also encompasses our ability to find and exploit new sources of competitive advantage.

The value of this expertise is ultimately determined by how well the Group responds to market conditions and customer requirements and expectations. Together, these powerful influences are changing our world – and in turn inspiring us to change the way we think, behave and work.

Preserving the value of our expertise capital

The Group has a rich resource of expertise based on decades of performance and a commitment to investing in our people and new products, services and technology. It's a resource that's more critical to the business than ever, as market forces and customer preferences steer us more deeply into the digital space.

This is an enormous challenge requiring us to transform our organisation from the one we've been – essentially a distributor of products – to the organisation we need to become: a digitally aware, highly responsive and consistently customer-centric enterprise known for innovation and an in-depth understanding of customer needs.

Leading the charge is our 'digital first' strategy, an immense investment in personnel, money and intellectual capital through which we aim to achieve a competitive advantage in the mail, parcels and banking businesses. Delivering change on this scale is daunting but exciting, and we're already making progress.

Unfortunately technical challenges have delayed our plan to enhance our application programme interfaces (APIs) for offshore merchants selling products online and sending them to New Zealand addresses. These APIs integrate our shipping technology with the merchants' systems, and currently allow them to get accurate shipping prices and produce labels for goods based on those prices. We're still working to deliver a full purchase-to-fulfilment process that includes real-time shipping and delivery information.

Building a digital bank

Kiwibank has launched a major programme to build its digital capabilities, based on a state-of-the-art IT system and a new and refocused organisational structure. The programme will initially focus on enabling online and device-triggered banking transactions, and extend to cover the suite of lending, investment and insurance services. The aim is to ensure that, whether they're online, in branch or on the phone, customers get the world-class service they expect from a bank.

Making information-sharing easy

During the year we launched 'Connect' (www.connect.co.nz), a secure online data and document vault in which people gather and organise important information and share it with organisations they choose to connect with.

The service has been successfully implemented by StudyLink, enabling students applying for loans to share their key documents online. It's made a complex process simple and delivered cost and time savings for StudyLink. What's more, word is spreading: a number of other organisations with similar issues have been in touch to learn more.

Expanding YouShop

In October we extended our YouShop service to one of the world's biggest online markets: China. Kiwis can now buy from Chinese merchants who don't ship to New Zealand simply by using YouShop's Chinese delivery address and parcel-forwarding service. Businesses also benefit, as this offers an alternative shipping method for importing small quantities of product for resale or samples before buying in bulk.

In another development, YouShop in Europe and the United States has introduced parcel consolidation, a new service in which customers can consolidate up to 10 parcels bought from different retailers. We repack them into a single parcel and dispatch them to New Zealand, all for a single shipping cost. While this initially means reduced revenue for the Group, we expect it to encourage more repeat business and word-of-mouth recommendations, as well as reduced network costs.

As at 30 June there were approximately 140,000 registered YouShop users. Our challenge is to understand and use the associated data we receive to identify opportunities to grow the service as an easy way to access brands and product variety that are simply unavailable in New Zealand.

Taking businesses to China

To help Kiwi businesses capture a share of the fast-growing Chinese online shopping market we've set up an 'online storefront' for New Zealand businesses keen to enter the Chinese market.

Part of the Alibaba Group's hugely popular Tmall Global website (China's largest online marketplace), the store enables Kiwi businesses to showcase their products to an estimated 361 million Chinese online shoppers, at much lower cost and complexity than doing it on their own.

Our expertise in supply chain management means these Kiwi businesses' products reach Chinese buyers quickly and efficiently. The site is already providing market access to more than 10 Kiwi brands and it is expected to accommodate 50 Kiwi retail brands by mid-2016.

Enhancing the value of our expertise capital

We've been part of the New Zealand community for more than 170 years. We want to stay that way, but we need to do this in a way that enables our customers to interact with us via the digital channels they are increasingly preferring to use.

In the next 12 months we'll be investing more in the technology and expertise we need to lift our digital profile and transform our organisational headspace, a move away from physical transactions to operating in the cloud.

Finance

Our finance capital is all about the money side of the business – how we earn it, manage it and spend it, how we increase the Group's financial value, and how we retain our standing as a prudent, reputable and financially sustainable member of the business community.

In the past couple of years the Group has established a solid cash reserve with which to withstand the decline in letter mail and invest in our strategy for the future. The two major contributors during 2014/15 were an outstanding financial performance from Kiwibank and the AUD$95 million sale of our Australian company Couriers Please to Singapore Post. As a result, we've delivered a net profit after tax of $143 million, an increase of 34% on 2013/14.

The challenge now is to ensure:

- we invest our capital wisely, whether it's in 'right-sizing' the business, investing in new technology and automated processes, engaging more closely with our customers or partnering with other businesses whose aspirations and capabilities complement our own
- changes made in the past year (such as the mail processing centre consolidation) and those planned and ready to launch (such as alternate-day delivery, battery-powered delivery vehicles and new technology investments) deliver the financial results needed for sustainable growth
- we continue to identify and act on new opportunities for business growth, particularly in the digital and technology spheres
- we're prepared to make tough decisions to ensure our viability in the marketplace.

Preserving the value of our finance capital

Kiwibank made a major contribution to the Group's financial result, delivering a profit after tax of $127 million and paying a dividend to New Zealand Post for the very first time, totalling $22 million.

This success largely reflects:

- strong growth in customer numbers, from 860,000 last year to 903,000
- the buoyant Auckland home loan market
- a healthy interest margin (the difference between money paid to depositors and the money earned through lending, as well as actively managing the cost of all sources of funds for the bank), which increased from 1.86% in 2013/14 to 2.12% (or $68 million) this year
- in addition, the number of Kiwi Wealth KiwiSaver Scheme members has grown (to 137,000) and Kiwibank has become a default KiwiSaver provider, which should see that growth continue.

While these are satisfying results, the challenge for the bank is to now:

- replace the bank's ageing core banking platform
- continue to meet its compliance obligations with the Reserve Bank of New Zealand, Inland Revenue and other international organisations, and under legislation such as the Anti-Money Laundering and Countering Financing of Terrorism Act, the amended Credit Contracts and Consumer Finance Act, and the United States' Foreign Account Tax Compliance Act.

Enhancing the value of our financial capital

Looking ahead, we must make cash-flow management our number one financial priority. That means considering all options, checking and questioning every financial decision, and responding to change proactively and reactively, while continuing to nurture our staff and serve our customers to the best of our ability.

In the midst of all this change, our credit rating and financial market credibility remain strong. In its most recent credit rating review Standard & Poor's signalled its continued support for our strategy with an A+ rating, tempering it with a negative outlook to reflect its inherent risks and the need for us to make significant progress in its implementation. A recent Kiwibank AT1 (Additional Tier 1) $150 million capital-raising initiative received strong investor support – a useful indicator of the bank's standing in the investment marketplace, and an encouraging sign for the future.

Environment

The Group's 'environment' capital comprises the natural and physical resources we use to develop and deliver our products and services, and the way we manage the impacts of use on our organisation and the communities where we work.

The Group has long had a formal commitment to managing, reducing and reporting on our greenhouse gas (GHG) emissions, energy consumption and waste management. We continue to monitor our environmental impacts throughout the supply chain – including at the supplier level – aiming to ensure changes in our business results in us being more efficient with the resources we use, while reducing our impact on the environment.

Enhancing the value of our environment capital

The measurement and reporting of our GHG emissions not only shows us our environmental impact but also helps us measure the efficiency of our operations. Reducing our emissions can reflect a reduction in our costs and an increase in business efficiency.

The Group's efforts to reduce GHG emissions continue to deliver results, with overall emissions reducing by 5.98% to 113,714 tonnes of carbon dioxide equivalent in 2014/15. This compares with our goal of a 1.5% reduction on 2013/14.

Introducing a new emission measurement model

In July the Group will implement a new approach to reporting on our emissions performance.

Called 'intensity-based reporting', the new methodology will provide a better indication of the progress and efficiency gains of discrete groups in the business (delivery functions, Kiwibank and the shared corporate functions). It was developed in consultation with members of the International Post Corporation (IPC) who are already using similar models and will ensure we have a best-practice, globally applicable standard we can use to benchmark our performance.

Reducing fuel consumption

As ground-based fuel use represents the majority (45% or 51,191 tonnes CO_2e) of our GHG footprint it continues to be a significant focus for the company. A number of events during 2014/15 brought opportunities to reduce our fuel consumption. They included:

- the consolidation of our mail processing centres. This has seen an increase in the utilisation of the trucks moving mail and parcels between centres
- the pilot of battery-powered electric vehicles for mail and parcel deliveries in Taranaki. This will reduce fuel consumption (through having fewer courier vans) and cut greenhouse emissions by approximately 2.4 tonnes a month.

In 2015/16 we plan to:

- target fuel reductions in our truck fleet by working with our drivers. We will use technology to gather information on consumption and driver behaviour in relation to braking, cornering and speed
- explore opportunities to deliver more through our vehicle fleet, therefore reducing the intensity of our carbon footprint. For example, utilising the reach of our RuralPost network to carry more newspapers and unaddressed mail as well as letters and parcels.

Reducing waste to landfill and energy consumption

The Group's 'reduce, reuse and recycle' programme remains in full swing. The target of reducing waste to landfill by 9% from the 2011/12 base year by 2015 has been well exceeded, reaching 36% over three years. Our waste index has reduced from 2.59 to 1.85 kg/m^2/year.

Meanwhile, our total building energy consumption reduced to 37.4 gigawatt hours (GWh) in 2014/15. This compares with 38.7GWh in 2013/14 and is a 13.95% reduction on the 2011/12 baseline year. The energy efficiency of our buildings was 108 kWh/m^2 /year compared with 113kWh/m^2/year in 2013/14 meaning we have achieved an ongoing increase in our building energy efficiency.

Preserving the value of our environment capital

The Group has recognised the benefits of partnering with others to achieve environmental sustainability and:

- contributes annual data and progress reports to the IPC's Environmental Measurement and Monitoring System, which benchmarks postal operators' environmental management. In 2013 we ranked 16th of the IPC's 23 participating members, compared with 11th in 2012. We improved our overall score in this period but not as fast as some of the other participating postal organisations
- supports the four-year 'Energy Cultures' research programme led by the University of Otago's Centre for Sustainability. The project examines habitual patterns of energy use and ways to change them
- contributes to a number of collaborative projects through the Sustainable Business Council. These include being part of the 'green precinct' initiative with Auckland International Airport and Air NZ and the 'green freight' working group which aims to find more efficient ways to move freight around the country.

People

The people capital comprises the skills, experience, capabilities and contributions of all our people across the group. The extent to which our people believe in our strategy and direction, both what we are doing and how we are going about our business, will influence how we are making the most of capital. In essence this will influence our ability to attract, engage, retain and motivate our people to deliver our strategy.

We have a diverse range of skills, experience and capabilities, united by a determination and a desire to provide a high quality service to our customers and to care for our people.

We are two years into our five-year transformation plan and this year has arguably seen some of the most significant changes in NZ Post's history. Over this time we have focused on all our priorities, delivering on our financial performance, ensuring our people are highly engaged, providing a work environment that is safe and free from harm, delivering on our service standards and executing our transformation plans to change the business for a sustainable future.

Protecting the value of our people capital

Our response to this uncertainty as we deliver on our plan reflects the old adage: treat others as you'd like to be treated yourself. This means being open and honest with all our staff, respecting and acknowledging their concerns, and supporting our leaders and their teams in preparing for, implementing and adjusting to change. This approach has been particularly valuable for those who've been with us for decades, and as a result have formed strong personal as well as professional connections to the business.

In 2014/15 we focused much of our effort on preparing our mail team for alternate-day delivery. This included holding workshops for leaders who needed help in being 'match fit for change' and, through our 'Future Zone' programme, providing information, support and services for people whose jobs were changing or would cease to exist. As a result:

- 120 mail officers and processing team leaders and 421 posties and delivery leaders completed national certificate qualifications that recognise their experience with the Group and arm them with skills and knowledge for future work opportunities
- 121 people attended retirement seminars
- 350 people attended CV workshops and 253 attended interview workshops.

Future Zone has proved a winner beyond the organisation too. In March 2015 the Human Resources Institute of New Zealand presented us with the Award for Corporate Social Responsibility – recognition that the programme is not only useful for our people, but also an industry standard for supporting employees through change.

Kiwibank commenced the KB2.0 transformation journey to transform the business and put in place a sustainable and profitable platform to allow delivery of the bank's purpose of 'Kiwis making Kiwis better off'. This included moving to a new organisation structure. Support programmes were provided to our people to help them through change as well as to those who left through the restructure processes.

Going forward, the people strategy supports the bank's progression to be a digital business, being 'frontline led', and adopting new ways of working. The people programmes we are investing in over the next three years are centred around the four themes of "Culture", "Leadership", "Capability", and "Productivity and performance".

Preserving the value of our people capital

The success of initiatives like these is reflected in the results of the 2015 staff engagement survey, in which 6,776 employees told us how connected they felt to the business. The Group-wide engagement level was calculated at 73.2%, a drop of just 0.01% on last year's 73.3%. Given the upheaval of the past year, this gives us confidence that our team has the resilience to navigate change successfully.

Our health and safety performance has continued to improve. Two years ago the Group-wide lost-time injury frequency rate (which measures the total number of lost-time injuries per million hours worked) was 7.21; this year it reached a record low of 3.5. This dramatic improvement reflects a concerted effort to equip our leaders with health and safety-related knowledge and skills, and the 'Look After Your Mates' programme, which stressed the importance of personal responsibility for health and safety in the workplace.

Enhancing our people capital

The coming 12 months will bring more opportunities to focus on the Group's people capital. Together we'll begin work on 're-setting' our Group culture – transforming a largely operational and product-based organisation into a modern, agile, adventurous enterprise that's attuned to its customers' needs and provides a stimulating, rewarding environment for those willing and prepared to be part of our future.

Highlights

Kiwibank profits exceed **$125m**

$200m New Zealand Post's hybrid bond successfully re-marketed

Group maintained its **A+ credit rating** (with S&P)

Kiwibank **pays first dividend** to the Group

sale of **Couriers Please** ($46m gain on sale)

Performance against objectives

The Group has set a series of targets in our Statement of Corporate intent. This section shows how we have tracked against those targets in the 2014/15 year.

Scorecard Targets

		2014 Actual	2015 Actual	2015 Plan
Shareholder Returns				
(a) Total shareholder return[1]	%	16.0%	29.0%	0.4%
(b) Dividend yield (excl Kiwibank)	%	0.5%	0.4%	0.4%
(c) Return on equity	%	10.8%	13.2%	11.8%
(d) Return on equity adjusted	%	10.4%	13.4%	11.8%
Profitability/Efficiency				
(e) Return on capital employed	%	5.5%	6.3%	5.7%
(f) Operating margin	%	13.5%	16.4%	14.1%
Leverage and Solvency				
(g) Generating ratio (net)	%	86.6%	88.4%	88.2%
(h) Interest cover	times	9.7	10.7	10.0
(i) Solvency (Current ratio)	times	1.2	1.1	1.2
Good Employer				
(j) People engagement index *(raw engagement score per the Annual Employee Engagement Survey)*	%	73.3%	73.2%	74.5%
(k) Lost Time Injury Frequency Rate *(lost time injuries per million house worked)*	per M	4.2	3.5	3.9
Corporate Responsibility				
(l) Standard letter service performance *(letters delivered to standard (Testpo Survey))*	%	95.1%	95.4%	96.5%
(m) Customer favourability *(% who rate NZP as 'excellent' or'very good'.[2])*	%	36.0%	36.0%	59.0%
(n) Emissions reduction	%	6.0%	6.0%	-1.5%

[1] FY14 and FY15 Total Shareholders Return include changes in commercial valuation. No changes in the commercial valuation is assumed in the outer plan years
[2] New methodology introduced in 2009/10.

5-Year Trend Summary

		2015	2014	2013	2012	2011
Operating revenue	($m)	1,643	1,651	1,688	1,309	1,280
Operating expenses	($m)	1,483	1,495	1,623	1,224	1,310
Profit/(loss) before tax	($m)	191	140	122	190	-35
Operating margin before tax	(%)	9.7	9.4	3.9	14.5	-2.7
Earnings per share	(cents)	74.5	55.7	63.0	88.0	-18.5
Total assets	($m)	19,217	17,583	16,140	15,851	14,682
Average shareholders' funds	($m)	1,078.5	994	878	731	667
Return on Average Shareholders Funds	(%)	13.3%	10.8%	13.8%	23.2%	-5.3%
Net asset backing per share	($)	6.1	6.2	5.7	5.0	3.37
Average shareholders' funds to total assets	(%)	5.6	5.7	5.4	4.6	4.5
Interim dividend per share	(cents)	1.3	1.3	1.3	1.3	0.9
Final dividend per share	(cents)	1.3	1.3	1.3	1.3	0.1

Directory

Chairman
Hon Sir Michael Cullen

Deputy Chair
Jackie Lloyd

Members
Carol Campbell
Alan Dunn
Richie Smith
Julia Hoare
Richard Leggat
David Willis

Group Leadership Team
Group Chief Executive Officer: Brian Roche
Group General Manager, People and Capability: Jo Avenell
Chief Executive Officer, Kiwibank Limited: Paul Brock
Group General Manager, Assurance: Malcolm Shaw
Cheif Operating Officer, Mail and Communications: Ashley Smout
Chief Operating Officer, Express Couriers Limited: Paul Trotman
Chief Financial Officer, David Walsh (as of 16 February 2015)

Bankers
Bank of New Zealand Limited

Auditor
Paul Clark assisted by PricewaterhouseCoopers, Wellington, on behalf of the Auditor-General.

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New Zealand Post House
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For more information about Kiwibank's products and services, please contact:

Kiwibank Customer Services Centre:
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Website: www.kiwibank.co.nz

New Zealand Post Group

Annual review 2015

volume 2 of 2

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Financial commentary 2014/15

The New Zealand Post Group achieved a net profit after tax of $143 million for the year ended 30 June 2015, compared to a reported profit in the previous year of $107m. The $36m (34%) improvement on last year is due to a combination of a strong result from our Financial Services group (including Kiwibank and Kiwi Wealth) as well as the net benefit from the divestment of Couriers Please. At an operating level, the Group increased its profit performance by 3.2% to $128m for the year to 30 June 2015, up from $124m last year.

Revenue in the Mail and Logistics business remained flat, reflecting in a segment loss of $3m. Domestic letter volumes fell 9.6%, re-emphasising the long-term trend of electronic substitution. In contrast, parcel deliveries provided the opportunity to support the overall revenue mix. Parcels revenues now surpass that of letters, widening last year's gap to nearly $100m (an increase of $39m). Through active cost management, delivery costs reduced by $16m this year and savings of $28m were made from restructuring and volume-related activity.

Now approximately two years into the Group's five-year transformation plan, the Mail and Logistic business has undergone significant change and will continue to be challenged by customer preference and competitive pressures until sustainable benefits from alternate-day delivery and greater operational integration are fully crystalised.

Kiwibank's banking services contributed $127m of the operating result, once again being the major contributor to Group earnings. The bank focused its efforts on profitable growth, especially during the second half of the year, and increased net interest margins to new highs. The result is pleasing given the challenging regulatory and competitive landscape, but also the work underway within Kiwibank to take its digital offering and wealth management services to the next level, while meeting the demands of a growing and diverse customer base. Loans and advances grew 6.6% from $14.6 billion to $15.6 billion during the year.

Last year, the Group announced its intention to sell the Couriers Please business in Australia, and successfully divested this business in December 2014 for AUD$95m (NZD$105m) to Singapore Post. A gain of $46m has been recognised for the disposal. The proceeds from this sale, along with those from the proposed Converga Group divestment (held for sale in this year's accounts), will provide the Group with the capital to keep driving the transformation strategy of the Mail and Logistics business into a parcel-focused delivery business, optimised for processing products in the most economically beneficial manner for our shareholders.

The Balance Sheet of the Group remains stable and liquidity supportive of the future goals of the business. The $200m hybrid bond was successfully re-marketed after receiving the necessary support from note holders for the re-price in November 2014.

The Group's credit rating was re-affirmed by Standard & Poor's during the year at A+ with a negative outlook (and again just prior to the release of the full-year results). The main risks to this are dominated by external factors, like weak economic growth, and while Kiwibank is in a healthier business position, the Mail and Logistics business need to fully execute the transformation plan to alleviate the downside risks to the overall rating.

Reconciliation of Profit for the year after taxation to underlying performance	**Year ended 30 June 2015 ($m)**	Year ended 30 June 2014 ($m)
Profit after taxation for the year	143	107
Less gain on sale of assets	46	-
Add back		
Restructuring costs	5	14
Other & impairments	26	3
Underlying profit after tax	128	124

NEW ZEALAND POST GROUP

FINANCIAL STATEMENTS

Financial statements

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

		GROUP		PARENT	
	Note	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Revenue from operations	2	**1,643**	1,651	**690**	727
Expenditure	3	**1,483**	1,495	**779**	765
Operating profit		**160**	156	**(89)**	(38)
Other income	2	**2**	6	**127**	37
Finance costs (net)	4	**(18)**	(23)	**(12)**	(16)
Share of net profit of joint venture		**1**	1	**-**	-
Gain on sale of investment	9	**46**	-	**1**	-
Profit before income tax		**191**	140	**27**	(17)
Income tax expense/(credit)	5	**48**	33	**(20)**	(18)
Profit for the year after taxation		**143**	107	**47**	1
Attributable to:					
Owners of the parent		**143**	107	**47**	1
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Gains on revaluation of land and buildings		**1**	2	**1**	2
Items that may be reclassified subsequently to profit or loss:					
Change in available-for-sale financial assets		**11**	(6)	**-**	-
Cash flow hedges		**(76)**	21	**(3)**	2
Currency translation differences		**(3)**	(8)	**-**	-
Total other comprehensive income/(loss) net of tax		**(67)**	9	**(2)**	4
Total comprehensive income net of tax		**76**	116	**45**	5

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

GROUP	Note	Fully Paid Ordinary Shares $m	Property Revaluation Reserve $m	Available For Sale Reserve $m	Cashflow Hedge Reserve $m	Foreign Currency Translation Reserve $m	Retained Earnings $m	Non-controlling Interest $m	Total $m
Balance at 30 June 2013		**192**	**56**	**3**	**-**	**(2)**	**694**	**147**	**1,090**
Profit for the period		-	-	-	-	-	107	-	107
Other comprehensive income/(expense)		-	3	(8)	29	(8)	-	-	16
Income tax relating to components of other comprehensive income		-	(1)	2	(8)	-	-	-	(7)
Total other comprehensive income/(expense), net of tax		-	2	(6)	21	(8)	-	-	9
Transfer between revaluation reserve and retained earnings		-	(24)	-	-	-	24	-	-
Transactions with Owners									
Dividends paid to shareholders		-	-	-	-	-	(5)	-	(5)
Dividends paid to non-controlling interest		-	-	-	-	-	(9)	-	(9)
Balance at 30 June 2014		192	34	(3)	21	(10)	811	147	1,192
Balance at 1 July 2014		**192**	**34**	**(3)**	**21**	**(10)**	**811**	**147**	**1,192**
Profit for the period		-	-	-	-	-	143	-	143
Other comprehensive income/(expense)		-	2	15	(106)	(3)	-	-	(92)
Income tax relating to components of other comprehensive income		-	(1)	(4)	30	-	-	-	25
Total other comprehensive income/(expense), net of tax		-	1	11	(76)	(3)	-	-	(67)
Transfer between revaluation reserve and retained earnings		-	(3)	-	-	-	3		-
Transfer between non-controlling interest and retained earnings		-	-	-	-	-	(3)	3	-
Reclassification to profit and loss on sale of investment						8	-	-	8
Transactions with Owners									
Repurchase of perpetual shares		-	-	-	-	-	-	(150)	(150)
Issue of perpetual capital	17	-	-	-	-	-	-	58	58
Dividends paid to shareholders		-	-	-	-	-	(5)	-	(5)
Dividends paid to non-controlling interest		-	-	-	-	-	(9)	-	(9)
Balance at 30 June 2015		**192**	**32**	**8**	**(55)**	**(5)**	**940**	**58**	**1,170**

PARENT	**Note**	**Fully Paid Ordinary Shares $m**	**Property Revaluation Reserve $m**	**Available For Sale Reserve $m**	**Cashflow Hedge Reserve $m**	**Foreign Currency Translation Reserve $m**	**Retained Earnings $m**	**Non-controlling Interest $m**	**Total $m**
Balance at 30 June 2013		**192**	**56**	**-**	**(3)**	**-**	**737**	**-**	**982**
Profit for the period		-	-	-	-	-	1	-	1
Other comprehensive income/(expense)		-	3	-	3	-	-	-	6
Income tax relating to components of other comprehensive income		-	(1)	-	(1)	-	-	-	(2)
Total other comprehensive income/(expense), net of tax		-	2	-	2	-	-	-	4
Transfer between revaluation reserve and retained earnings		-	(24)	-	-	-	24	-	-
Transactions with Owners									
Dividends paid to shareholders	17	-	-	-	-	-	(5)	-	(5)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-
Balance at 30 June 2014		192	34	-		-	757	-	982
Balance at 1 July 2014		192	34	-		-	757	-	982
Profit for the period		-	-	-	-	-	47	-	47
Other comprehensive income/(expense)		-	2	-	(4)	-	-	-	(2)
Income tax relating to components of other comprehensive income		-	(1)	-	1	-	-	-	-
Total other comprehensive income/(expense), net of tax		-	1	-	(3)	-	-	-	(2)
Transfer between revaluation reserve and retained earnings		-	(3)	-	-	-	3	-	-
Transactions with Owners									
Dividends paid to shareholders	17	-	-	-	-	-	(5)	-	(5)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-
Balance at 30 June 2015		**192**	**32**	**-**	**(4)**	**-**	**802**	**-**	**1,022**

STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2015

	Note	GROUP 2015 $m	GROUP 2014 $m	PARENT 2015 $m	PARENT 2014 $m
ASSETS					
Current assets					
Cash and cash equivalents	6	**83**	164	**55**	111
Short term deposits	6	**160**	-	**160**	-
Trade and other receivables	7	**165**	195	**99**	125
Inventories	8	**9**	11	**9**	8
Loans to related parties	18	**-**	-	**76**	46
Taxation receivable		**-**	-	**25**	16
Assets held for sale	9	**68**	84	**13**	13
Derivative financial assets	19	**3**	2	**6**	3
Other current assets		**12**	12	**4**	5
Total current assets		**500**	468	**447**	327
Non-current assets					
Trade and other receivables	7	**16**	17	**16**	16
Investment properties		**4**	4	**4**	4
Property, plant and equipment	13	**150**	156	**115**	119
Intangible assets	14	**414**	429	**27**	32
Loans to related parties	18	**-**	-	**72**	132
Deferred tax asset	5	**47**	26	**12**	18
Investment in joint venture		**4**	4	**3**	3
Investments in subsidiaries		**-**	-	**1,038**	1,096
Total non-current assets		**635**	636	**1,287**	1,420
Specific banking assets					
Cash and cash equivalents	23	**492**	461	**-**	-
Due from other financial institutions	23	**194**	121	**-**	-
Financial assets held for trading	23	**96**	44	**-**	-
Available for sale assets	23	**1,222**	1,093	**-**	-
Loans and advances	23	**15,598**	14,630	**-**	-
Derivative financial instruments	26	**480**	130	**-**	-
Total specific banking assets		**18,082**	16,479	**-**	-
Total assets		**19,217**	17,583	**1,734**	1,747

	Note	GROUP 2015 $m	GROUP 2014 $m	PARENT 2015 $m	PARENT 2014 $m
LIABILITIES					
Current liabilities					
Trade and other payables	10	**301**	346	**194**	241
Provisions	11	**21**	37	**20**	34
Taxation payable		**10**	5	**-**	-
Borrowings	16	**40**	242	**40**	40
Liabilities held for sale	9	**14**	21	**-**	-
Loans from related parties	18	**-**	-	**46**	246
Derivative financial liabilities	19	**14**	7	**16**	7
Total current liabilities		**400**	658	**316**	568
Non-current liabilities					
Trade and other payables	10	**12**	12	**12**	12
Provisions	11	**6**	6	**4**	5
Loans from related parties	18	**-**		**230**	30
Deferred settlement liability		**-**	3	**-**	-
Borrowings	16	**348**	150	**150**	150
Total non-current liabilities		**366**	171	**396**	197
Specific banking liabilities					
Due to other financial institutions	25	**325**	185	**-**	-
Deposits	25	**13,740**	12,751	**-**	-
Subordinated debt	25	**344**	247	**-**	-
Debt securities issued	25	**2,397**	2,143	**-**	-
Derivative financial instruments	26	**475**	236	**-**	-
Total specific banking liabilities		**17,281**	15,562	**-**	-
Total liabilities		**18,047**	16,391	**712**	765
EQUITY					
Ordinary parent shareholders' equity					
Share capital	17	**192**	192	**192**	192
Retained earnings		**940**	811	**802**	757
Other reserves		**(20)**	42	**28**	33
Total equity attributable to parent shareholder		**1,112**	1,045	**1,022**	982
Non-controlling interest	17	**58**	147	**-**	-
Total equity		**1,170**	1,192	**1,022**	982
Total equity and liabilities		**19,217**	17,583	**1,734**	1,747

The Board of Directors of New Zealand Post Limited authorised these financial statements for issue on 27 August 2015.

Hon Sir Michael Cullen KNZM
Chair

Carol Campbell
Director

NEW ZEALAND POST LIMITED AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2015

		GROUP		PARENT	
	Note	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Cash flows from operating activities					
Receipts from customers		**1,306**	1,358	**685**	769
Kiwibank interest received		**974**	805	**-**	-
Other interest received		**7**	5	**18**	15
Dividends received		**-**	-	**128**	33
Payments to suppliers and employees		**(1,442)**	(1,457)	**(711)**	(763)
Net payments to agencies		**(22)**	(3)	**(28)**	(27)
Kiwibank interest paid		**(575)**	(502)	**-**	-
Other interest paid		**(24)**	(26)	**(33)**	(24)
Income tax paid		**(32)**	(30)	**-**	-
Net cash flows from operating activities before changes in operating assets and liabilities		**192**	150	**59**	3
Kiwibank (increase)/decrease in available for sale assets		**(129)**	(132)	**-**	-
Kiwibank (increase)/decrease in balances due from other financial institutions		**(73)**	(85)	**-**	-
Kiwibank (increase)/decrease in financial assets held for trading		**(52)**	111	**-**	-
Kiwibank (increase) in loans and advances		**(968)**	(1,406)	**-**	-
Kiwibank increase in deposits and other borrowings		**989**	632	**-**	-
Kiwibank increase/(decrease) in balances due to other financial institutions		**140**	37	**-**	-
Net cash flows from operating activities		**99**	(693)	**59**	3
Cash flows from investing activities					
Sale of property, plant and equipment		**5**	55	**5**	55
Sale of investments		**105**	3	**53**	3
Purchase of property, plant and equipment		**(34)**	(23)	**(17)**	(21)
Purchase of intangible software assets		**(56)**	(60)	**(4)**	(16)
Purchase of short term deposits		**(160)**	-	**(160)**	-
Acquisition of subsidiaries net of cash acquired		**-**	(18)	**-**	-
Repayments from/(advances to) subsidiaries		**-**	-	**14**	(36)
Investments in subsidiaries		**-**	-	**-**	(40)
Amalgamation of subsidiaries		**-**	-	**-**	7
Net cash flows from investing activities		**(140)**	(43)	**(109)**	(48)

	Note	GROUP 2015 $m	GROUP 2014 $m	PARENT 2015 $m	PARENT 2014 $m
Cash flows from financing activities					
Issue of borrowings		**139**	150	**139**	150
Repayment of borrowings		**(140)**	(140)	**(140)**	(140)
Dividends paid to parent shareholders		**(5)**	(5)	**(5)**	(5)
Dividends paid to non-controlling interest		**(9)**	(9)	**-**	-
Kiwibank (decrease)/increase in debt securities issued		**14**	719	**-**	-
Kiwibank repurchase of perpetual preference shares		**(150)**	-	**-**	-
Kiwibank net issue of perpetual capital		**147**	-	**-**	-
Kiwibank issue/(redemption) of sub-ordinated debt		**-**	40	**-**	-
Net cash flows from financing activities		**(4)**	755	**(6)**	5
Net increase in cash held		**(45)**	19	**(56)**	(40)
Cash at the beginning of the period		**625**	613	**111**	151
Effect of change translation adjustments		**9**	(7)	**-**	-
Cash at the end of the period		**589**	625	**55**	111
Composition of cash					
Kiwibank cash and cash equivalents	23	**492**	461	**-**	-
Cash – held for sale	9	**14**	-	**-**	-
Other cash and cash equivalents	6	**83**	164	**55**	111
Total cash		**589**	625	**55**	111

RECONCILIATION OF PROFIT TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Profit for the year	**143**	107	**47**	1
Non-cash items:				
Financial instruments at fair value net gain	**(2)**	(5)	**1**	(3)
Depreciation	**27**	30	**14**	15
Amortisation	**31**	30	**9**	7
Impairment	**26**	6	**11**	3
Other write-offs	**-**	10	**18**	(3)
Gain on sale of PPE	**-**	(5)	**-**	(5)
Increase/decrease in deferred expenditure	**22**	13	**-**	-
Gain on sale of investments in subsidiaries	**(46)**	-	**-**	(2)
Share of net (profit) of joint ventures	**(1)**	(1)	**-**	-
Decrease provision for credit impairment	**(6)**	(14)	**-**	-
Lending losses written off	**19**	10	**-**	-
Other	**(2)**	8	**4**	-
	68	82	**57**	12
Changes in assets and liabilities:				
(Increase)/decrease in trade and other receivables	**31**	(22)	**26**	(23)
(Increase)/decrease in inventories	**2**	-	**(1)**	-
(Increase)/decrease in other assets	**-**	(1)	**1**	(2)
Increase/(decrease) in trade and other payables	**(45)**	(18)	**(47)**	13
(Decrease)/increase in provisions	**(16)**	12	**(15)**	9
(Increase)/decrease in tax receivable	**-**	-	**(9)**	(7)
(Decrease)/increase in tax liabilities	**5**	2	**-**	-
(Decrease)/increase in other liabilities	**-**	2	**-**	-
(Decrease)/increase in financial assets held for trading	**(52)**	109	**-**	-
(Increase)/decrease in available for sale assets	**(115)**	(133)	**-**	-
(Increase)/decrease in loans and advances	**(971)**	(1,414)	**-**	-
(Increase)/decrease in balances due from other financial institutions	**(73)**	37	**-**	-
Increase in deposits and other borrowings	**967**	632		-
Increase/(decrease) in balances due to other financial institutions	**139**	(85)	**-**	-
Increase/(decrease) in Kiwibank interest payable (net)	**16**	(3)		-
	(112)	(882)	**(45)**	(10)
	99	(693)	**59**	3

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Reporting Entity and Statutory Base

The consolidated financial statements presented are for New Zealand Post Limited ("the Parent"), its subsidiaries and jointly controlled entity (together "the Group") for the year ended 30 June 2015. The Group is a leading provider of mail, logistical and financial services, predominantly to customers in New Zealand.

The Group provides a full range of packaging and delivery of mail products, business process operations and logistical and courier services. Banking services are provided by the Kiwibank Banking Group ("Kiwibank"), consisting of Kiwibank Limited and all other entities consolidated for financial reporting purposes for the publication of the Kiwibank disclosure statement. The Group also provides other financial services, such as wealth and insurance services.

The Company is incorporated and domiciled in New Zealand. The address of its registered office is New Zealand Post House, 7 Waterloo Quay, Wellington, New Zealand, 6011.

Basis of Accounting

Basis of preparation

The consolidated financial statements:

- have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993, the Financial Reporting Act 1993, and the State-Owned Enterprises Act 1986. They comply with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board (IASB), and New Zealand equivalents to International Financial Reporting Standards (NZ IFRS);
- New Zealand Post is considered a Conduit issuer under the Securities Act 1978 and therefore is an 'issuer' for the purposes of the Financial Reporting Act 1993. The Company has not yet transitioned to the Financial Markets Conduct Act 2013 ("FMCA") and in accordance with the FMCA transition provisions, will not be required to do so until 2016. As a result it is still required to comply with Financial Reporting Act 1993 and include Parent accounts in these financial statements;
- have been prepared using historical cost, as modified by the revaluation of certain assets and liabilities at fair value. The accrual basis of accounting has been used unless otherwise stated;
- are presented in New Zealand dollars and all values are rounded to the nearest million dollars unless otherwise stated;
- have had no material changes to accounting policies or disclosures;
- certain comparatives have been re-stated to align with the current periods presentation. In 2015 some Parent intercompany revenue has been changed to be a cost recovery. In 2014 Parent revenue and expenditure has been reduced by $52m to be comparable with the 2015 treatment.

Critical Accounting Judgments, Estimates and Assumptions

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

Note 10 Trade and Other Payables	Page 29
Note 11 Provisions	Page 30
Note 12 Fair Value	Page 31
Note 15 Impairment of Non-Financial Assets	Page 40

Basis of consolidation

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

Name of Entity	Location of Incorporation	Principal Place of Business	Functional Currency	Principal Activity
Converga Pty Limited	Australia	Australia	AUD	Business process outsourcing
Converga Group Limited	New Zealand	New Zealand	NZD	Business process outsourcing
Express Couriers Limited	New Zealand	New Zealand	NZD	Express delivery services
Kiwi Group Holdings Limited	New Zealand	New Zealand	NZD	Holding company
Kiwibank Limited	New Zealand	New Zealand	NZD	Registered bank
Kiwi Capital Securities Limited	New Zealand	New Zealand	NZD	Issuer of perpetual preference shares
Kiwi Wealth Management Limited	New Zealand	New Zealand	NZD	KiwiSaver services
New Zealand Post Group Finance Limited	New Zealand	New Zealand	NZD	Financing services
Kiwi Insurance Limited	New Zealand	New Zealand	NZD	Provider of insurance services
The New Zealand Home Loan Company Limited	New Zealand	New Zealand	NZD	Mortgage services

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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

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

Foreign currency translation

As at the reporting date, the assets and liabilities of overseas subsidiaries are translated into New Zealand dollars at the closing rate. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences arising from translation are recognised in other comprehensive income in the foreign currency translation reserve, together with unrealised gains and losses on foreign currency monetary liabilities that are identified as hedges against these operations.

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

Other accounting policies

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

Standards and interpretations effective in the current period

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

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

Standards and interpretations in issue but not yet effective

No new standards, amendments or interpretations to existing standards that are not yet effective, have been early adopted by the Group in these financial statements.

At the date of authorisation, the following new standards, amendments or interpretations to existing standards were in issue but not yet effective:

Standard	Effective for annual reporting periods beginning on or after:
NZ IFRS 9 – *Financial Instruments*	1 January 2018
NZIFRS 15 – *Revenue from Contracts with Customers*	1 January 2017

The Directors expect to adopt the above standards and interpretations in the period in which they become mandatory. With the exception of NZ IFRS 9 and NZ IFRS 15 the Directors anticipate that the above standards, amendments and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

NZ IFRS 9: *Financial Instruments*

NZ IFRS 9, issued in September 2014, replaces existing guidance in NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairments on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from NZ IAS 39.

Given the nature of Kiwibank and its operations, NZ IFRS 9 is expected to have a significant impact on the financial statements. In particular the calculation of impairment of financial instruments on an expected credit loss basis is expected to result in an increase in the overall level of impairment allowances. However, as the impact of adoption depends on the financial instruments held by Kiwibank at the date of adoption, it is not currently practical to quantify the effect.

NZ IFRS 15: *Revenue from Contracts with Customers*

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

1. SEGMENT INFORMATION

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.

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 have 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:

Mail and Logistics

Packaging and delivery of mail products, business process management operations and logistical services.

Financial Services – Banking

Banking services provided by Kiwibank and disclosed in the Kiwibank Disclosure Statement.

Financial Services – Non-Banking

Financial services, primarily wealth and insurance services, provided by subsidiaries of Kiwi Group Holdings Limited except for Kiwibank.

Shared Services

Includes Group Technology, Properties, Channels & Digital and Group Functions.

Other Operating Segments

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

1. SEGMENT INFORMATION continued

30 June 2015	Mail and Logistics $m	Financial Services Banking $m	Financial Services Non-Banking $m	Shared Services $m	Other Operating Segments $m	Inter-segment Reconciliations $m	Group $m
External revenue	**718**	**560**	**47**	**179**	**188**	**-**	**1,692**
Intersegment revenue	**-**	**-**	**-**	**76**	**-**	**(76)**	**-**
Total segment revenue from operations	**718**	**560**	**47**	**255**	**188**	**(76)**	**1,692**
Segment profit/(loss) before income tax	**12**	**176**	**8**	**(26)**	**21**	**-**	**191**
Segment profit/(loss)	**(3)**	**127**	**5**	**(26)**	**40**	**-**	**143**
Specific segment revenue from operations							
Net banking interest revenue	-	359	-	-	-	-	359
Specific segment other income (included in External Revenue)							
Gain on sale of investments	-	-	-	-	46	-	46
Share of net profit of and joint ventures	-	-	-	-	1	-	1
Specific segment expenditure:							
Depreciation	12	5	1	6	3	-	27
Amortisation	3	19	2	6	-	-	30
Impairment	4	-	-	1	21	-	26
Salaries and wages (including superannuation expenses)	276	123	12	124	66	2	603
Restructuring costs	-	-	-	-	-	-	-

Kiwibank has made a voluntary disclosure change to present direct fee expense within revenue in their Disclosure Statement. The impact of this presentation change in their Disclosure Statement results in External Revenue of $473m in 2015 (2014: $400m). In the Group, the direct fee expenses are included in Expenditure.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

1. SEGMENT INFORMATION continued

30 June 2014	Mail and Logistics $m	Financial Services Banking $m	Financial Services Non-Banking $m	Shared Services $m	Other Operating Segments $m	Inter-segment Reconciliations $m	Group $m
External revenue	713	479	45	215	216	-	1,668
Intersegment revenue	-	-	(3)	51		(47)	-
Total segment revenue from operations	713	479	42	266	215	(47)	1,668
Segment profit/(loss) before income tax	20	139	10	(24)	(5)	-	140
Segment profit/(loss)	10	100	8	(23)	12	-	107
Specific segment revenue from operations							
Net banking interest revenue	-	290	-	-	-	-	290
Specific segment other income (included in External Revenue)							
Gain on sale of investments	1	-	-	-	-	-	1
Share of net profit of associates and joint ventures	-	-	-	-	1	-	1
Specific segment expenditure:							
Depreciation	14	5	1	7	3	-	30
Amortisation	3	19	2	5	2	(1)	30
Impairment	-	3	1	1	1	-	6
Salaries and wages (including superannuation expenses)	291	117	8	128	73	(6)	611
Restructuring costs	14	3	-	7	(1)	-	23

	New Zealand		Australia	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Geographical information				
External revenue from operations	**1,577**	1,468	**115**	200
Non-current assets (excluding financial instruments and deferred tax assets)	**555**	541	**17**	52

Basis of measurement

The Group's reportable segment revenue, results 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 within the financial statements.

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

2. REVENUE FROM OPERATIONS

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Revenue from Operations				
Delivery of services	**1,115**	1,202	**676**	715
Sale of goods	**14**	12	**14**	12
Net banking interest revenue (as below)	**359**	290	**-**	-
Lending and credit fee income	**56**	53	**-**	-
Transaction and other fees	**99**	94	**-**	-
Total Revenue from Operations	**1,643**	1,651	**690**	727
Other Income/(Losses)				
Financial instruments at fair value net gain	**2**	5	**(1)**	3
Dividends from subsidiaries	**-**	-	**128**	33
Other income/(losses)	**-**	1	**-**	1
Total Other Income/(Losses)	**2**	6	**127**	37
Net Banking Interest Revenue				
Banking interest revenue				
– Loans and advances at amortised cost	**885**	760	**-**	-
– Government and local authority securities	**21**	19	**-**	-
– Other securities	**28**	4	**-**	-
– Cash and liquid assets	**14**	8	**-**	-
– Income from impaired assets	**3**	3	**-**	-
Total banking interest revenue	**951**	794	**-**	-
Banking interest expense				
– Deposits by customers	**469**	416	**-**	-
– Debt securities issued	**123**	88	**-**	-
Total banking interest expense	**592**	504	**-**	-
Net banking interest revenue	**359**	290	**-**	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

2. REVENUE FROM OPERATIONS continued

Recognition and measurement

Delivery of services

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

Sale of goods

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

Prepaid product revenue

An estimate is made for the amount of revenue from prepaid product sales as at balance date in respect of which the service has not yet been provided. This is included in unearned revenue in trade and other payables – refer to Note 10.

Banking interest revenue (net)

Interest income is accrued using the effective interest rate method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset 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.

Banking and lending fee revenue

Fees (including payment services) are generally recognised on an accrual basis when the service has been provided.

Banking commission fees

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 profit or loss.

Loan related fees and costs for loans not at fair value through profit or loss

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

Direct loan origination costs, 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.

3. EXPENDITURE

		GROUP		PARENT	
	Note	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Delivery costs		**315**	331	**194**	176
Cost of goods and services sold		**60**	75	**33**	42
Salaries and wages		**578**	583	**330**	335
Restructuring costs		**(1)**	23	**(2)**	19
Superannuation – defined contribution plans		**26**	28	**14**	15
Employee expenses		**603**	634	**342**	369
Property and operating costs		**57**	58	**51**	42
Property operational outgoings		**27**	27	**23**	19
Property expenses		**84**	85	**74**	61
Depreciation	13	**27**	30	**14**	15
Amortisation of intangibles	14	**31**	30	**9**	7
Depreciation and amortisation		**58**	60	**23**	22
Impairment of investments	15	**17**	-	**5**	-
Impairment of property, plant and equipment	13	**2**	-	**1**	-
Other impairment		**7**	6	**5**	2
Impairment expenses		**26**	6	**11**	2
Computer expenses		**69**	61	**35**	31
Marketing expenses		**30**	31	**12**	11
Bad debt expense		**18**	6	**1**	-
Other operating lease and rental costs		**17**	13	**11**	6
Fees paid to auditors		**3**	3	**1**	1
Other expenditure		**200**	190	**42**	44
Other expenses		**337**	304	**102**	93
Total Expenditure		**1,483**	1,495	**779**	765

Recognition and measurement

Employee expenses

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

3. EXPENDITURE continued

	GROUP		PARENT	
	2015 $000	2014 $000	**2015 $000**	2014 $000
Fees paid to Auditors				
Audit and review of financial statements (1)	**2,330**	2,435	**813**	805
Other services				
Other assurance services (2)	**118**	167	**18**	3
Tax services (3)	**25**	75	**25**	75
Other services (4)	**886**	509	**531**	132
Total other services	**1,029**	751	**574**	210
Total fees paid to auditors	**3,359**	3,186	**1,387**	1,015

1. The audit fee includes the fees for both the annual audit of the financial statements and the review of interim financial statements. This includes the audit fee for off balance sheet entities.
2. Other assurance services include accounting opinions and trustee reporting (2014: Kiwibank off-quarter disclosure statement agreed upon procedures, accounting opinions and trustee reporting).
3. Tax compliance relates to the review of tax returns.
4. Other services relate to procurement review and advice provided on projects and taxation advice (2014: advice provided on projects and taxation advice).

	GROUP		PARENT	
	2015 $000	2014 $000	**2015 $000**	2014 $000
Fees Paid to Directors				
Total fees paid to Directors	**1,075**	943	**463**	475

4. FINANCE COSTS (NET)

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Interest expense	**(25)**	(27)	**(28)**	(31)
Interest revenue	**7**	4	**16**	15
Total Finance Costs (Net)	**(18)**	(23)	**(12)**	(16)

Recognition and measurement

Interest Expense

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 profit or loss.

Interest Revenue

Interest revenue in the Group is for interest received in short term deposits. Interest revenue in the Parent includes revenue of $9m (2014: $11m) relating to interest on intercompany loans.

5. INCOME TAX

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Profit/(loss) before income tax	**191**	140	**27**	(17)
Tax at 28%	**53**	39	**8**	(5)
Non-assessable revenue – gain on sale of investments	**(13)**	-	**-**	-
Non-assessable revenue – dividends	**-**	-	**(36)**	(9)
Non-assessable revenue – other	**(1)**	(5)	**-**	
Non-deductible items – impairment	**6**	-	**8**	-
Non-deductible items – other	**4**	3	**1**	1
Other tax adjustments	**(1)**	(4)	**(1)**	(4)
Income Tax Expense/(Credit)	**48**	33	**(20)**	(18)
Comprising:				
Current tax	**42**	29	**(25)**	(16)
Tax adjustments	**(1)**	(4)	**(1)**	(4)
Deferred tax	**7**	8	**6**	2
Total income tax expense/(credit)	**48**	33	**(20)**	(18)
Deferred Tax Asset/(Liability)				
Balance at beginning of the year	**26**	32	**18**	14
Charged/credited to profit and loss	**(7)**	(8)	**(6)**	(2)
Revaluation of properties recognised in other comprehensive income	**(1)**	1	**1**	1
Prior year adjustment	**(2)**	6	**(2)**	2
Deferred tax on cash flow hedge reserve	**30**	(5)	**1**	(1)
Transfer to assets held for sale	**-**	(4)	**-**	-
Other adjustments	**1**	4	**-**	4
Balance at end of the year	**47**	26	**12**	18

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

5. INCOME TAX continued

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Comprising:				
Changes through other comprehensive income				
– Cash flow hedges	**22**	(7)	**1**	-
Changes through profit or loss:				
– Provision for loan impairment	**15**	17	**-**	-
– Commissions receivable	**1**	1	**-**	-
– Provisions & other deferred assets	**28**	30	**18**	23
Deferred tax asset	**66**	41	**19**	23
Changes through other comprehensive income:				
– Revalued land and buildings	**4**	3	**4**	3
Changes through profit or loss:				
– Intangible assets	**5**	5	**-**	-
– Amortisation on software assets	**8**	5	**2**	-
– Other	**2**	2	**1**	2
Deferred tax liability	**19**	15	**7**	5
Net deferred tax assets	**47**	26	**12**	18
Expected to be recovered after 12 months	**(10)**	(18)	**(2)**	(5)
Expected to be recovered within 12 months	**57**	44	**14**	23
Imputation Credits available for use in the future	**307**	266	**305**	266

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 or joint ventures.

Recognition and measurement

Current taxes

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

Deferred taxes

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

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

5. INCOME TAX continued

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

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

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

Offsetting deferred tax balances

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

6. CASH AND SHORT TERM DEPOSITS

	GROUP		PARENT	
Cash and cash equivalents	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Cash on hand	**11**	12	**11**	12
Cash at bank	**67**	102	**39**	29
Deposits	**5**	50	**5**	70
Total Cash and Cash Equivalents	**83**	164	**55**	111

Included within cash at bank with one institution is $122m (2014: $73m) of cash offset by a $86m (2014: $52m) overdraft which is part of a master netting arrangement.

	GROUP		PARENT	
Short term deposits	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Short term deposits	**160**	-	**160**	-
Total short term deposits	**160**	-	**160**	-

Recognition and measurement

Cash at bank and on hand

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

Short term deposits

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

7. TRADE AND OTHER RECEIVABLES

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Trade receivables	**167**	193	**106**	125
Provision for impairment	**(6)**	(1)	**(5)**	(1)
Trailing commissions receivable	**10**	9	**-**	-
Interest receivable	**5**	6	**5**	7
Receivables from related parties	**1**	1	**5**	6
Other Receivables	**4**	4	**4**	4
Total Trade and Other Receivables	**181**	212	**115**	141
Comprising:				
Current trade and other receivables	**165**	195	**99**	125
Non-current trade and other receivables	**16**	17	**16**	16
Total trade and other receivables	**181**	212	**115**	141
Trade Receivables Past Due but Not Impaired				
Past due up to 30 days	**14**	25	**7**	14
Past due 31–60 days	**4**	3	**2**	1
Past due 61–90 days	**1**	2	**1**	1
Past due -> 90 days	**4**	2	**1**	1
Total	**23**	32	**11**	17

Recognition and measurement

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

The amount which is neither overdue nor impaired has been assessed for collectability and no additional risk of default has been identified.

There is no collateral held over past due trade receivables.

Impairment of trade receivables

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

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

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

Trailing commissions receivable/payable

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

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

7. TRADE AND OTHER RECEIVABLES continued

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 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 profit or loss.

Refer to Note 10 Trade and other payables for trailing commissions payable.

8. INVENTORIES

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Raw materials/supplies	**2**	3	**2**	1
Finished goods	**7**	8	**7**	7
Total Inventories	**9**	11	**9**	8

Recognition and measurement

Inventories are valued at the lower of cost and net realisable value. The net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs to sell.

9. ASSETS AND LIABILITIES HELD FOR SALE

Properties Held for Sale

During the year thirteen properties with a carrying value of $6m were transferred from property, plant and equipment into this category (2014: eight properties with a carrying value of $13m were transferred). Five properties were sold during the year realising a net gain on sale of $0.3m (2014: Nine properties were sold realising a net gain on sale of $4m).

Properties held for sale at 30 June 2015 were $13m (2014: $13m).

Recognition and measurement

Properties and investments held for sale consist of all assets that the Board has agreed to sell, and that are actively being marketed for sale as at 30 June 2015. All properties and investments are expected to be sold within 12 months of balance date.

Investments Held for Sale

At 30 June 2015 the assets and liabilities related to Converga Group Limited and its subsidiaries detailed below have been classified as held for sale following management's decision to commence the process to sell Converga Group Limited and its subsidiaries domiciled in New Zealand and Australia.

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FOR THE YEAR ENDED 30 JUNE 2015

9. ASSETS AND LIABILITIES HELD FOR SALE continued

	CONVERGA	**COURIERS PLEASE**
	2015 $m	2014 $m
Assets		
Cash and cash equivalents	**14**	-
Trade and other receivables	**18**	-
Property, plant and equipment and software	**6**	1
Goodwill	**14**	34
Brands	**3**	22
Other assets	**-**	14
	55	71
Liabilities		
Trade and other payables	**10**	10
Other current liabilities	**3**	10
Provisions	**1**	1
	14	21

Disposal of Subsidiaries

At 30 June 2014, the Group sought to sell its investment in Couriers Please Holdings Ltd and recognised the assets and liabilities of Couriers Please Holdings Ltd and its subsidiaries as held for sale. On 3 December 2014, the Group sold its investment in Couriers Please Holdings to Singapore Post for a consideration of AUD$95m. The consideration was paid on 15 December 2014.

There is no contingency attached to the terms of the consideration. A gain of NZD$46m was recognised on disposal.

10. TRADE AND OTHER PAYABLES

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Trade payables	**125**	113	**43**	42
Payables to related parties	**-**	-	**43**	34
Accrued employee benefit liabilities	**93**	113	**56**	74
Unearned revenue	**30**	55	**22**	46
Payment services holding accounts	**42**	42	**28**	30
Interest payable	**6**	10	**6**	11
Trail commissions payable	**3**	3	**-**	-
Other accruals and payables	**14**	22	**8**	16
Total Trade and Other Payables	**313**	358	**206**	253
Comprising:				
Current trade and other payables	**301**	346	**194**	241
Non-current trade and other payables	**12**	12	**12**	12
Total trade and other payables	**313**	358	**206**	253

Recognition and measurement

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

Accrued employee benefits

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

Unearned revenue

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

Trailing commissions receivable/payable

Refer to Note 7 for a description of trailing commissions receivable/payable.

Key estimate: *Unearned revenue – prepaid services*

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

The Group also applies judgment to determine the level of stockpiling customers apply before any prepaid product or service price increase. A review of customer trends is undertaken and any revenue earned from excess purchasing behaviour is deferred. The revenue is recognised in subsequent periods in line with normal customer purchasing trends.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

11. PROVISIONS

GROUP	Restructuring $m	Properties $m	Other $m	Total $m
Opening balance	35	6	2	43
Utilisation	(18)	(1)	-	(19)
Release of unused provision	(4)	-		(4)
Additional provision	5	-	2	7
Total provisions	18	5	4	27
Comprising:				
Current provisions	18	1	2	21
Non-current provisions	-	4	2	6
Total provisions	18	5	4	27

PARENT	Restructuring $m	Properties $m	Other $m	Total $m
Opening balance	32	5	2	39
Utilisation	(15)	-	-	(15)
Release of unused provision	(3)	(1)	(1)	(5)
Additional provision	4	-	1	5
Total provisions	18	4	2	24
Comprising:				
Current provisions	18	1	1	20
Non-current provisions	-	3	1	4
Total provisions	18	4	2	24

Recognition and measurement

Provisions are recognised when:

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

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

Restructuring

The Group recognises termination benefits at the earlier of:

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

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

Key estimate: *Restructuring provision – estimated costs*

The restructuring provision comprises estimated costs for redundancies. These charges are calculated based on detailed plans that are expected to improve the Group's cost structure and productivity. Judgment has been applied to determine the inputs (number of employees and cost per employee) used to calculate total restructure costs. The outcomes of similar historical restructuring plans have been utilised to minimise any uncertainties arising.

12. FAIR VALUE

Fair Value of Financial Assets and Liabilities

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

	GROUP			
Financial liabilities	**Carrying amount 2015 $m**	**Estimated Fair Value 2015 $m**	Carrying amount 2014 $m	Estimated Fair Value 2014 $m
Borrowings (excluding Kiwibank Group borrowings)	**388**	**420**	392	396

	PARENT			
Financial liabilities	**Carrying amount 2015 $m**	**Estimated Fair Value 2015 $m**	Carrying amount 2014 $m	Estimated Fair Value 2014 $m
Borrowings (excluding Kiwibank Group borrowings)	**190**	**195**	190	194

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

Fair value measurement

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

→ In the principal market for the asset or liability; or

→ In the absence of a principal market, in the most advantageous market for the asset or liability;

→ The Group must have access to the principal or most advantageous market at the measurement date.

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

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

Refer to Note 27 for the fair value hierarchy for the banking financial assets and liabilities.

Financial assets and liabilities carried at fair value

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

Borrowings

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

Derivative Financial Instruments

The fair values of exchange rate or interest rate contracts are obtained from observable market prices as at the reporting date, discounted cash flow models or option-pricing models as appropriate. Where such techniques are not appropriate, a cash basis has been adopted.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

12. FAIR VALUE continued

	Note	**GROUP EXCLUDING KIWIBANK BANKING GROUP**			
		Level 1	**Level 2**	**Level 3**	**Total**
30 June 2015					
Assets at fair value					
Investment properties		**-**	**-**	**4**	**4**
Land & Buildings	**13**	**-**	**-**	**52**	**52**
Derivative financial assets	**19**	**-**	**3**	**-**	**3**
Total financial assets at fair value		**-**	**3**	**56**	**59**
Liabilities at fair value					
Derivative financial liabilities	**19**	**-**	**14**	**-**	**14**
Borrowings (excluding Kiwibank subordinated debt)		**-**	**420**	**-**	**420**
Total financial liabilities at fair value		**-**	**434**	**-**	**434**

		GROUP EXCLUDING KIWIBANK BANKING GROUP			
		Level 1	Level 2	Level 3	Total
30 June 2014					
Assets at fair value					
Investment properties		-	-	4	4
Land & Buildings	13	-	-	59	59
Derivative financial assets	19	-	2	-	2
Total financial assets at fair value		-	2	63	65
Liabilities at fair value					
Derivative financial liabilities	19	-	7	-	7
Borrowings (excluding Kiwibank subordinated debt)		-	396	-	396
Total financial liabilities at fair value		-	403	-	403

12. FAIR VALUE continued

		PARENT			
	Note	**Level 1**	**Level 2**	**Level 3**	**Total**
30 June 2015					
Assets at fair value					
Investment properties		**-**	**-**	**4**	**4**
Land & Buildings	**13**	**-**	**-**	**52**	**52**
Derivative financial assets	**19**	**-**	**6**	**-**	**6**
Total financial assets at fair value		**-**	**6**	**56**	**62**
Liabilities at fair value					
Derivative financial liabilities	**19**	**-**	**16**	**-**	**16**
Borrowings (excluding Kiwibank subordinated debt)		**-**	**195**	**-**	**195**
Total financial liabilities at fair value		**-**	**211**	**-**	**211**

		PARENT			
		Level 1	Level 2	Level 3	Total
30 June 2014					
Assets at fair value					
Investment properties		-	-	4	4
Land & Buildings	13	-	-	59	59
Derivative financial assets	19	-	3	-	3
Total financial assets at fair value		-	3	63	66
Liabilities at fair value					
Derivative financial liabilities	19	-	7	-	7
Borrowings (excluding Kiwibank subordinated debt)		-	194	-	194
Total financial liabilities at fair value		-	201	-	201

The Group has used the following techniques in determining the fair values disclosed for the following assets classified as Level 3:

Investment Properties and Land and Buildings

Valuation

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

Fair value measurements

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

12. FAIR VALUE continued

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

Level 1

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

Level 2

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

Level 3

Fair value measurements where at least one input which could have a significant effect on the instruments valuation is not based on observable market data.

The key unobservable inputs used to measure fair value of investment properties and land and buildings and investment properties are disclosed below, along with their sensitivity to a significant increase or decrease:

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

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

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

30 June 2014 **Asset Class**	**Description**	**Market capitalisation rate %**	**Market rental $ psqm**
Property, plant and equipment	Post Shop	5.50–14.00	28–700
Property, plant and equipment	Mail Centre	8.25–11.00	48–93
Investment Property	Investment Property	6.50–11.00	63–268

13. PROPERTY, PLANT AND EQUIPMENT continued

GROUP	Land and Buildings	Motor Vehicles	Furniture, fittings and equipment	Computer Equipment	Property, Plant and Equipment	Aircraft	Work in Progress	Total $m
At 1 July 2013								
Cost or valuation	96	5	95	93	138	19	7	453
Accumulated depreciation	-	(4)	(67)	(82)	(99)	(15)	-	(267)
Net book amount	**96**	**1**	**28**	**11**	**39**	**4**	**7**	**186**
Year ended 30 June 2014								
Opening net book amount	96	1	28	11	39	4	7	186
Transferred (to)/from assets held for sale	(39)	-	-	-	(1)	-	-	(40)
Transferred (to)/from work in progress	-	-	4	2	2	-	(8)	-
Acquisitions through business combinations	-	-	1	-	-	-	-	1
Additions	-	1	7	5	14	1	8	36
Revaluation of land and buildings	2	-	-	-	-	-	-	2
Disposals	-	(1)	-	-	(1)	-	-	(2)
Depreciation charge	(1)	(1)	(7)	(6)	(14)	(1)	-	(30)
Accumulated depreciation – revaluations	1	-	-	-	-	-	-	1
Accumulated depreciation – disposals	-	1	-	-	1	-	-	2
Closing net book amount	**59**	**1**	**33**	**12**	**40**	**4**	**7**	**156**
At 1 July 2014								
Cost or valuation	59	5	107	100	152	20	7	450
Accumulated depreciation	-	(4)	(74)	(88)	(112)	(16)	-	(294)
Net book amount	**59**	**1**	**33**	**12**	**40**	**4**	**7**	**156**
Year ended 30 June 2015								
Opening net book amount	59	1	33	12	40	4	7	156
Transferred (to)/from assets intended for sale	(8)	-	(4)	-	-	-	(1)	(13)
Transferred (to)/from work in progress	-	-	10	-	2	-	(12)	-
Revaluation of land and buildings	1	-	-	-	-	-	-	1
Additions	-	1	2	10	3	-	18	34
Disposals	-	(1)	(4)	(2)	(4)	-	-	(11)
Depreciation charge	(1)	-	(8)	(7)	(10)	(1)	-	(27)
(Impairment)/reversal of impairment	-	-	-	-		(2)	-	(2)
Accumulated depreciation – revaluations	1	-	-	-	-	-	-	1
Accumulated depreciation – disposals	-	1	4	2	4	-	-	11
Closing net book amount	**52**	**2**	**33**	**15**	**35**	**1**	**12**	**150**
At 30 June 2015								
Cost or valuation	52	5	111	108	153	20	12	461
Accumulated depreciation	-	(3)	(78)	(93)	(118)	(19)	-	(311)
Net book amount	**52**	**2**	**33**	**15**	**35**	**1**	**12**	**150**

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

13. PROPERTY, PLANT AND EQUIPMENT continued

PARENT	Land and Buildings	Motor Vehicles	Furniture, fittings and equipment	Computer Equipment	Property, Plant and Equipment	Work in Progress	Total $m
At 1 July 2013							
Cost or valuation	96	4	81	30	78	5	294
Accumulated depreciation	-	(3)	(62)	(29)	(58)	-	(152)
Net book amount	96	1	19	1	20	5	142
Year ended 30 June 2014							
Opening net book amount	96	1	19	1	20	5	142
Transferred (to)/from assets held for sale	(39)	-	-	-	-	-	(39)
Transferred (to)/from work in progress	-	-	4	-	2	(6)	-
Additions	-	-	7	3	12	6	28
Revaluation of land and buildings	2	-	-	-	-	-	2
Disposals	-	(1)	-	-	(1)	-	(2)
Depreciation charge	(1)	-	(5)	(1)	(8)	-	(15)
Accumulated depreciation – revaluations	1	-	-	-	-	-	1
Accumulated depreciation – disposals	-	1	-	-	1	-	2
Closing net book amount	**59**	**1**	**25**	**3**	**26**	**5**	**119**
At 1 July 2014							
Cost or valuation	59	3	92	33	91	5	283
Accumulated depreciation	-	(2)	(67)	(30)	(65)	-	(164)
Net book amount	**59**	**1**	**25**	**3**	**26**	**5**	**119**
Year ended 30 June 2015							
Opening net book amount	59	1	25	3	26	5	119
Transferred (to)/from assets held for sale	(8)	-	-	-	-	-	(8)
Transferred (to)/from work in progress	-	-	7	1	2	(10)	-
Revaluation of land and buildings	1	-	-	-	-	-	1
Additions	-	-	-	-	1	17	18
Disposals	-	-	(7)	-	(3)	-	(10)
Depreciation charge	(1)	-	(4)	(2)	(7)	-	(14)
(Impairment)/reversal of impairment	-	-	-	-	(1)	-	(1)
Accumulated depreciation – revaluations	1	-	-	-	-	-	1
Accumulated depreciation – disposals	-	-	4	1	4	-	9
Closing net book amount	**52**	**1**	**25**	**3**	**22**	**12**	**115**
At 30 June 2015							
Cost or valuation	52	3	92	34	91	12	284
Accumulated depreciation	-	(2)	(67)	(31)	(69)	-	(169)
Net book amount	**52**	**1**	**25**	**3**	**22**	**12**	**115**

13. PROPERTY, PLANT AND EQUIPMENT continued

Recognition and measurement

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

Depreciation and amortisation

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

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

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

De-recognition

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

Land and Buildings

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

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

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Land	**4**	5	**4**	5
Buildings	**22**	21	**22**	21

Converga Group Ltd

Converga Group Ltd assets have been transferred to held for sale during the year. This has been done at the net book value level within the property, plant and equipment note. As a result, within the closing gross cost and accumulated depreciation numbers is $26m of cost and $26m of accumulated depreciation (net of the $5m net book value already transferred). This results in a nil impact on the closing net book value after transfer.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

14. GOODWILL AND INTANGIBLE ASSETS

GROUP	Goodwill	Brands	Computer Software	Acquired Customer Relationships	Computer Software – work in progress	Total $m
At 1 July 2013						
Cost	275	63	264	34	47	683
Accumulated amortisation and impairment	(8)	-	(216)	(15)	-	(239)
Net book amount	**267**	**63**	**48**	**19**	**47**	**444**
Year ended 30 June 2014						
Opening net book amount	267	63	48	19	47	444
Additions	14	-	16	3	45	78
Transferred (to)/from work in progress	-	-	38	-	(38)	-
Transferred (to)/from assets held for sale	(34)	(22)	-	-	-	(56)
Translation adjustment	(5)	-	-	-	-	(5)
Amortisation charge	-	-	(29)	(1)	-	(30)
Impairment charge	-	-	(1)	-	(1)	(2)
As at 30 June 2014	**242**	**41**	**72**	**21**	**53**	**429**
At 1 July 2014						
Cost	250	41	318	37	54	700
Accumulated amortisation and impairment	(8)	-	(246)	(16)	(1)	(271)
Net book amount	**242**	**41**	**72**	**21**	**53**	**429**
Year ended 30 June 2015						
Opening net book amount	242	41	72	21	53	429
Additions	-	-	4	-	52	56
Transferred (to)/from work in progress	-	-	35	-	(35)	-
Transferred (to)/from assets intended for sale	(14)	-	(1)	(3)	-	(18)
Translation adjustment	(5)	-	-	-	-	(5)
Disposals	-	-	(25)	-	-	(25)
Amortisation charge	-	-	(30)	(1)	-	(31)
Accumulated Amortisation – disposals	-	-	25	-	-	25
Impairment charge	(17)	-	-	-	-	(17)
As at 30 June 2015	**206**	**41**	**80**	**17**	**70**	**414**
At 30 June 2015						
Cost	231	41	331	34	71	708
Accumulated amortisation and impairment	(25)	-	(251)	(17)	(1)	(294)
Net book amount	**206**	**41**	**80**	**17**	**70**	**414**

14. GOODWILL AND INTANGIBLE ASSETS continued

PARENT	Computer Software	Computer Software – work in progress	Total $m
At 1 July 2013			
Cost	115	15	130
Accumulated amortisation and impairment	(108)	-	(108)
Net book amount	**7**	**15**	**22**
Year ended 30 June 2014			
Opening net book amount	7	15	22
Additions	12	6	18
Transferred (to)/from work in progress	10	(10)	-
Disposals	-	-	-
Translation adjustment	-	-	-
Amortisation charge	(7)	-	(7)
Impairment charge	-	(1)	(1)
As at 30 June 2014	**22**	**10**	**32**
At 1 July 2014			
Cost	137	11	148
Accumulated amortisation and impairment	(115)	(1)	(116)
Net book amount	**22**	**10**	**32**
Year ended 30 June 2015			
Opening net book amount	22	10	32
Additions	2	2	4
Transferred (to)/from work in progress	12	(12)	-
Disposals	(1)	-	(1)
Amortisation charge	(9)	-	(9)
Accumulated Amortisation – disposals	1	-	1
Impairment charge	(1)	1	-
As at 30 June 2015	**26**	**1**	**27**
At 30 June 2015			
Cost	150	1	151
Accumulated amortisation and impairment	(124)	-	(124)
Net book amount	**26**	**1**	**27**

Recognition and measurement

Brands & Goodwill

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

14. GOODWILL AND INTANGIBLE ASSETS continued

Acquired customer relationships

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

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less amortisation and any impairment losses. Intangible asset with a finite life are amortised from the date the underlying asset is held ready for use on a straight-line basis over the estimated useful life, which is as follows:

Computer Software 3–5 years

15. IMPAIRMENT OF NON-FINANCIAL ASSETS

Testing for impairment

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

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

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

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

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

Business Combination	Cash Generating Unit	Operating Segment
Acquisition of The New Zealand Home Loans Company Limited	The New Zealand Home Loans Company Limited operations and related Kiwibank operations	Financial Services Non-Banking
Acquisition of Kiwi Wealth Limited	Kiwi Wealth Limited operations	Financial Services Non-Banking
Acquisition of Express Couriers Limited	Express Couriers Limited operations	Mail and Logistics

Key assumptions used in Goodwill review:

30 June 2015	Carrying value $m	Pre-Tax Discount Rate	Average Growth Rate	Terminal Value Growth Rate
The New Zealand Home Loans Company Limited	31	14.4%	7.5%	2.7%
Kiwi Wealth Limited operations	44	13.5%	29.8%	2.8%
Express Couriers operations	132	13.4%	7.4%	-2.3%

30 June 2014	Carrying value $m	Pre-Tax Discount Rate	Average Growth Rate	Terminal Value Growth Rate
The New Zealand Home Loans Company Limited	31	15.1%	8.5%	-2.0%
Kiwi Wealth Limited operations	44	16.1%	26.1%	-6.8%
Express Couriers Limited operations	132	13.9%	5.8%	1.6%
Speedscan Group Holdings	14	N/A	N/A	N/A

15. IMPAIRMENT OF NON-FINANCIAL ASSETS continued

Recognised impairment

Converga Pty Ltd

During the year, Converga Pty Ltd lost a major customer who previously contributed significantly to the profitability and cash flows of the business. The carrying value of Converga Pty Ltd exceeded its recoverable amount and an impairment of $17m was recognised in respect of its goodwill in December.

The recoverable amount was determined by calculating the value in use of Converga Pty Ltd using a discounted cashflow model.

Key assumptions used in valuation: The recoverable amounts of all cash generating units were determined based on a value in use calculation using cash flow projections as at 30 June, based on financial budgets approved by senior management covering a three to five year period.

i. Cashflow projections are for three years (to 2018);
ii. Discount rate of 10.6%; and
iii. Growth rate of -2%.

The carrying value of Converga Pty Ltd (including its wholly owned subsidiary Speedscan Pty Ltd) was assessed to be $26m.

Parent Impairment

The Parent recognised a $5m impairment on its investment in New Zealand Post Holdings Limited.

Mail and Logistics Operating Segment

In the 2013 financial year, as a consequence of falling mail volumes, the Group recognised impairment losses of $30.6m, in relation to property, plant and equipment within the Mail and Logistics operating segment.

The Mail component of the segment operates under a Deed of Understanding (DOU) with the Crown which was amended in 2014 financial year to allow the Mail & Logistics business to make changes to its operational model in order to meet the changing requirements of the business. These changes are on-going and have included the rationalisation of processing centres and changes to the frequency of delivery.

The segment business includes certain specialised assets configured for the nationwide lodgement, transport and delivery of mail that an alternative provider would require to deliver those services.

The estimated fair value less costs to sell of this Group of assets, which has been determined based on market expectations of the present value of future cash flows that those assets would generate, supports their carrying amount. Other assets that the Directors consider would not be required by an alternative provider and would not be redeployed to more profitable parts of New Zealand Post, were written down to their estimated fair value less costs to sell based on market prices for similar assets.

At balance date, the Mail and Logistics business is continuing to adapt to meet future requirements. The impairment as at 30 June 2013 has been reassessed and it is considered that no further impairment or write back of the impairment is considered necessary.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

16. BORROWINGS

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Current borrowings				
Commercial Paper	**40**	40	**40**	40
New Zealand Post Group Finance subordinated notes	**-**	202	**-**	-
Total current borrowings	**40**	242	**40**	40
Non-current borrowings				
New Zealand Post bond programme	**150**	150	**150**	150
New Zealand Post Group Finance subordinated notes	**198**	-	**-**	-
Total non-current borrowings	**348**	150	**150**	150

Recognition and measurement

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

Funding Activities

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

Commercial Paper

During 12 months ended 30 June 2015 – $160m of commercial paper was issued and $159m was repaid.

New Zealand Post Bond Programme

Bonds outstanding have a coupon rate of 5.225% and a maturity of 15 November 2016 (30 June 2014: 5.225% and 15 November 2016). All bonds are unsecured and rank equally with other unsecured creditors. The bonds carry an A+ credit rating from Standard & Poors Pty Limited at balance date.

New Zealand Post Group Finance Subordinated Notes

The subordinated notes are part of the Group's core debt and have a maturity date of 15 November 2039. They were subject to a remarketing process which resulted in a coupon rate change from 7.5% to 6.35% in November 2014 that lead to the Notes being classified as current liabilities at 30 June 2014. Following the remarketing, the Notes have now been reclassified as non-current.

17. EQUITY

The nature of the Group's contributed equity

Ordinary Share Capital

At 30 June 2015 there were 492.2m authorised ordinary shares on issue (30 June 2014: 492.2m). 192.2m are fully paid (30 June 2014: 192.2m). The shares have no par value. All shares have equal voting rights and share equally in dividends and surplus on winding up. In 2011 the Group received from the Government an uncalled capital facility of $300m on commercial terms which can be drawn on in response to a significant unforeseen event.

A final dividend for 2014 of $2.5m was paid to shareholders in September 2014 ($0.01 per fully paid share). An interim dividend of $2.5m was paid to shareholders in March 2015 at $0.01 per fully paid share (2014: Interim Dividend $0.01 per fully paid share).

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Ordinary Share Capital				
Balance at the beginning of the year	**192**	192	**192**	192
Balance at the end of the year	**192**	192	**192**	192

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Non-controlling interest				
Balance at the beginning of the year	**147**	147	**-**	-
Repurchase of perpetual preference shares	**(147)**	-	**-**	-
Issue of perpetual capital notes (PCN)	**58**	-	**-**	-
Balance at the end of the year	**58**	147	**-**	-

Non-controlling Interest

On 27 May 2015, the $147m callable non-cumulative preference shares (net of costs associated with the original share issue) were repurchased. Kiwibank issued 150 million perpetual capital notes with a nominal value of $1 per note. The PCNs are deemed to be a compound instrument. The debt component is disclosed within Note 25.

Nature and purpose of reserves

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 where their functional currency differs from the Group's presentation currency.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

18. 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 in the normal course of business. Kiwibank settles transactions with other New Zealand registered banks by way of the payment and settlement system operated by the Reserve Bank of New Zealand in its capacity as the central bank of New Zealand. All members of the Group are considered to be related parties of NZ Post.
This includes the subsidiaries and joint ventures identified in the notes to the financial statements at page 133.

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Related Party Transactions				
Dividends paid				
– Shareholders	**5**	5	**5**	5
– Non-controlling interest	**9**	9	**-**	-
Subsidiaries				
– sale of goods and services	**-**	-	**24**	89
– purchase of goods and services	**-**	-	**83**	79
– dividends received			**128**	33
– interest (paid)/received			**(8)**	(8)
– loans (advanced)/repaid	**-**	-	**14**	(6)
– impaired investment	**-**	-	**(5)**	(28)
– impaired loan	**-**	-	**-**	28
– forgiven loan	**-**	-	**(18)**	-
Joint Venture				
– purchase of goods and services	**10**	9	**7**	6
– dividends received	**1**	1	**1**	1
Related Party Balances				
The amounts outstanding with related parties at balance date were:				
Subsidiaries				
– current accounts	**-**	-	**(39)**	(30)
– loans receivable	**-**	-	**145**	175
– loans payable	**-**	-	**(276)**	(276)
– investments	**-**	-	**1,038**	1,096
Total balances for subsidiaries	**-**	-	**868**	965

18. RELATED PARTY TRANSACTIONS continued

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Joint Venture				
– current accounts	**1**	1	**1**	1
– loans receivable	**2**	2	**3**	3
– investments	**2**	2	**3**	3
Total balances for joint ventures	**5**	5	**7**	7
Represented by:				
Related party current accounts	**1**	1	**(38)**	(29)
Loans to related parties	**-**	-	**148**	178
Loans from related parties	**-**	-	**(276)**	(276)
Investments accounted for using the equity method	**4**	4	**3**	3
Investments in subsidiaries	**-**	-	**1,038**	1,096
Total related party balances	**5**	5	**875**	972

Loans Receivable				
Loans receivable	**-**	-	**148**	178
Comprising:				
Current loans receivable	**-**	-	**76**	46
Non-current loans receivable	**-**	-	**72**	132
Total loans receivable	**-**	-	**148**	178

Loans Payable				
Loans payable	**-**	-	**(276)**	(276)
Comprising:				
Current loans payable	**-**	-	**(46)**	(246)
Non-current loans payable	**-**	-	**(230)**	(30)
Total loans receivable	**-**	-	**(276)**	(276)

Included within loans receivable from subsidiaries is a loan to Kiwi Group Holdings Limited of $93m (30 June 2014: $102.1m). $18m is repayable on demand but is not expected to be repaid within twelve months. $76m is payable within the next twelve months with fixed repayment dates. Interest is payable on the full amount at a weighted average interest rate of 5.51% (30 June 2014: interest was payable on full amount at weighted average rate of 5.62%).

On 31 January 2014 $18m intercompany loan was issued to Converga Group Limited. This was repayable on 31 January 2017 with interest payable quarterly at an interest rate of 4.83% however, the loan was forgiven by the Parent on the 30 June 2015.

All other loans and borrowings to and from related parties are on demand with fixed expiry dates. None of these loans are expected to be repaid within twelve months. Refer to Note 22 for contingencies for all related parties.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

18. RELATED PARTY TRANSACTIONS continued

	GROUP		PARENT	
	2015 $m	2014 $m	**2015 $m**	2014 $m
Short-term employee benefits and Directors fees	**7**	7	**4**	5
Total key management personnel compensation	**7**	7	**4**	5
Loans to key management personnel	**1**	1	**-**	-
Deposits from key management personnel compensation	**1**	3	**-**	-

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly including Directors. Key management personnel relates to Directors and Executive Team Members of the Parent and Kiwibank.

19. 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 included in Note 26.

	GROUP				PARENT			
30 June 2015	**FVTPL $m**	**Loans and receivables $m**	**Derivatives used for hedging $m**	**Total $m**	**FVTPL $m**	**Loans and receivables $m**	**Derivatives used for hedging $m**	**Total $m**
Cash and cash equivalents	**-**	**243**	**-**	**243**	**-**	**215**	**-**	**215**
Trade and other receivables	**-**	**178**	**-**	**178**	**-**	**119**	**-**	**119**
Derivative financial assets	**3**	**-**	**-**	**3**	**6**	**-**	**-**	**6**
Loans to related parties	**-**	**-**	**-**	**-**	**-**	**148**	**-**	**148**
Total financial assets	**3**	**421**	**-**	**424**	**6**	**482**	**-**	**488**

	FVTPL $m	**Other financial liabilities at amortised cost $m**	**Derivatives used for hedging $m**	**Total $m**	**FVTPL $m**	**Other financial liabilities at amortised cost $m**	**Derivatives used for hedging $m**	**Total $m**
Trade and other payables	**-**	**313**	**-**	**313**	**-**	**206**	**-**	**206**
Derivative financial liabilities	**14**	**-**	**-**	**14**	**16**	**-**	**-**	**16**
Loans from related parties	**-**	**-**	**-**	**-**	**-**	**(276)**	**-**	**(276)**
Borrowings	**-**	**390**	**-**	**390**	**-**	**190**	**-**	**190**
Total financial liabilities	**14**	**703**	**-**	**717**	**16**	**120**	**-**	**136**

	GROUP				PARENT			
30 June 2014	FVTPL $m	Loans and receivables $m	Derivatives used for hedging $m	Total $m	FVTPL $m	Loans and receivables $m	Derivatives used for hedging $m	Total $m
Cash and cash equivalents	-	164	-	164	-	111	-	111
Trade and other receivables	-	212	-	212	-	141	-	141
Derivative financial assets	2	-	-	2	3	-	-	3
Loans to related parties	-	-	-	-	-	178	-	178
Total financial assets	2	376	-	378	3	430	-	433

	FVTPL $m	Other financial liabilities at amortised cost $m	Derivatives used for hedging $m	Total $m	FVTPL $m	Other financial liabilities at amortised cost $m	Derivatives used for hedging $m	Total $m
Trade and other payables	-	262	-	262	-	253	-	253
Derivative financial liabilities	7	-	-	7	7	-	-	7
Loans from related parties	-	-	-	-	-	276	-	276
Borrowings	-	392	-	392	-	190	-	190
Total financial liabilities	7	654	-	661	7	719	-	726

19. FINANCIAL INSTRUMENTS FOR THE GROUP (EXCLUDING KIWIBANK) continued

Designation of financial instruments

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Group designates as at 'fair value through profit or loss'. Loans and receivables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method. Allowances for estimated irrecoverable amounts are recognised when there is objective evidence that the asset is impaired. Interest, impairment losses and foreign exchange gains and losses are recognised in profit or loss.

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

Recognition and measurement

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

Financial assets are de-recognised 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.

Asset Quality

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

A 90 day past due asset is any loan which has not been operated by the borrower within its key terms for at least 90 days and which is not an impaired asset. An asset under administration is any credit exposure which is not an impaired asset or a past due asset, but which is to a counterparty who is in receivership, liquidation, bankruptcy, statutory management or any form of administration. These are classified as "other assets under administration" separately.

Financial Liabilities

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

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

Derivative Financial Instruments

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

19. FINANCIAL INSTRUMENTS FOR THE GROUP (EXCLUDING KIWIBANK) continued

Hedge Accounting

For derivatives designated as hedging instruments the method of recognising the resulting gain or loss depends on the nature of the item being hedged. The Group designates certain derivatives as either:

- Hedges of fair value of recognised asset or liabilities or a firm commitment (fair value hedge); or
- Hedges of particular risk associated with a recognised asset or liability or a highly probably forecast transaction (cash flow hedge);

Derivatives that are designated as hedging instruments in a hedging relationship that qualifies for hedge accounting are accounted for as follows:

- Fair Value Hedges – gains or losses are recognised in profit or loss 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 profit or loss. 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 profit or loss within other income.
- 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 profit or loss within other income.

Gains or losses recognised directly in equity are transferred to profit or loss in the same periods as when the hedged item affects profit or loss.

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.

20. FINANCIAL RISK MANAGEMENT (EXCLUDING KIWIBANK)

For the purposes of this note, 'the Group' refers to the Group excluding Kiwibank. Kiwibank risk management policies are included in Note 26.

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

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

- Liquidity Risk (Note 20(b));
- Market risk, including foreign currency, interest rate and commodity price risk (Note 20(c)); and
- Credit risk (Note 20(d))

20(a) Offsetting financial instruments

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

20(b) Liquidity risk

Nature of the risk

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

Liquidity risk management

Management of liquidity risk is designed to ensure that the Group has the ability to generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis. The Group monitors this risk daily, primarily by forecasting future cash requirements.

Group borrowings include New Zealand Post Group Finance subordinated notes and Parent loans from related parties include a payable to New Zealand Post Group Finance for these notes.

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FOR THE YEAR ENDED 30 JUNE 2015

20. FINANCIAL RISK MANAGEMENT (EXCLUDING KIWIBANK) continued

The Parent has guaranteed the payment obligations at Kiwibank under a deed poll guarantee. Refer to Note 26 which shows the amount of Kiwibank specific banking liabilities and Note 22 for further details on the guarantee (consistent with 2014).

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 EXCLUDING KIWIBANK BANKING GROUP				
30 June 2015	**Up To 3 Months**	**Between 3 and 12 Months**	**Between 1 and 5 Years**	**More Than 5 Years**	**Total**
Non-derivative cash flows					
Cash and cash equivalents	**82**	**1**	**-**	**-**	**83**
Trade and other receivables	**159**	**6**	**16**	**-**	**181**
Trade and other payables	**(310)**	**(1)**	**(2)**	**-**	**(313)**
Borrowings	**(40)**	**(198)**	**(150)**	**-**	**(388)**
Net non derivative cash flows	**(109)**	**(192)**	**(136)**	**-**	**(437)**
Derivative cash flows					
Foreign exchange derivatives – inflows	**16**	**6**	**-**	**-**	**22**
Foreign exchange derivatives – outflows	**(15)**	**(5)**	**-**	**-**	**(20)**
Interest rate derivatives – inflows	**-**	**10**	**9**	**5**	**24**
Interest rate derivatives – outflows	**(8)**	**(33)**	**(66)**	**(5)**	**(112)**
Commitments					
Capital commitments	**(4)**	**(8)**	**(2)**	**-**	**(14)**
Lease commitments	**-**	**(60)**	**(151)**	**(33)**	**(244)**
Lease receipts	**-**	**1**	**3**	**-**	**4**
Total off balance sheet cash flows	**(11)**	**(89)**	**(207)**	**(33)**	**(340)**
Net position	**(120)**	**(281)**	**(343)**	**(33)**	**(777)**

20. FINANCIAL RISK MANAGEMENT (EXCLUDING KIWIBANK) continued

	GROUP EXCLUDING KIWIBANK BANKING GROUP				
30 June 2014	Up To 3 Months	Between 3 and 12 Months	Between 1 and 5 Years	More Than 5 Years	Total
Non-derivative cash flows					
Cash and cash equivalents	114	50	-	-	164
Trade and other receivables	189	6	17	-	212
Trade and other payables	(258)	(1)	(3)	-	(262)
Borrowings	(40)	(223)	(162)	-	(425)
Net non derivative cash flows	5	(168)	(148)	-	(311)
Derivative cash flows					
Foreign exchange derivatives – inflows	7	3	-	-	10
Foreign exchange derivatives – outflows	(6)	(3)	-	-	(9)
Interest rate derivatives – inflows	-	14	41	17	72
Interest rate derivatives – outflows	(3)	(36)	(57)	(17)	(113)
Commitments					
Capital commitments	(5)	(14)	(11)	-	(30)
Lease commitments	(14)	(44)	(128)	(37)	(223)
Lease receipts	-	1	1	-	2
Total off balance sheet cash flows	(21)	(79)	(154)	(37)	(291)
Net position	(16)	(247)	(302)	(37)	(602)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

20. FINANCIAL RISK MANAGEMENT (EXCLUDING KIWIBANK) continued

	PARENT EXCLUDING KIWIBANK BANKING GROUP				
30 June 2015	**Up To 3 Months**	**Between 3 and 12 Months**	**Between 1 and 5 Years**	**More Than 5 Years**	**Total**
Non-derivative cash flows					
Cash and cash equivalents	55	-	-	-	55
Trade and other receivables	93	6	16	-	115
Loans to related parties	28	38	82	-	148
Trade and other payables	(203)	(1)	(2)	-	(206)
Loans from related parties	-	(46)	(230)	-	(276)
Borrowings	(40)	(150)	-	-	(190)
Net non derivative cash flows	(67)	(153)	(134)	-	(354)
Derivative cash flows					
Foreign exchange derivatives – inflows	16	6	-	-	22
Foreign exchange derivatives – outflows	(15)	(5)	-	-	(20)
Interest rate derivatives – inflows	4	20	29	5	58
Interest rate derivatives – outflows	(9)	(34)	(71)	(5)	(119)
Commitments					
Interest receipts	3	8	11	-	22
Interest payments	(5)	(22)	(26)	-	(53)
Capital commitments	(1)	(7)	-	-	(8)
Lease commitments	-	(48)	(123)	(29)	(200)
Lease receipts	-	6	20		26
Total off balance sheet cash flows	(7)	(76)	(160)	(29)	(272)
Net position	(74)	(229)	(294)	(29)	(626)

20. FINANCIAL RISK MANAGEMENT (EXCLUDING KIWIBANK) continued

	PARENT EXCLUDING KIWIBANK BANKING GROUP				
30 June 2014	Up To 3 Months	Between 3 and 12 Months	Between 1 and 5 Years	More Than 5 Years	Total
Non-derivative cash flows					
Cash and cash equivalents	71	40	-	-	111
Trade and other receivables	118	5	18	-	141
Loans to related parties	33	46	99	-	178
Trade and other payables	(249)	(1)	(3)	-	(253)
Loans from related parties	-	(246)	(30)	-	(276)
Borrowings	(40)	-	(150)	-	(190)
Net non derivative cash flows	(67)	(156)	(66)	-	(289)
Derivative cash flows					
Foreign exchange derivatives – inflows	7	3	-	-	10
Foreign exchange derivatives – outflows	(6)	(3)	-	-	(9)
Interest rate derivatives – inflows	3	22	58	17	100
Interest rate derivatives – outflows	(4)	(40)	(67)	(17)	(128)
Commitments					
Interest receipts	3	7	11	-	21
Interest payments	(1)	(26)	(15)	-	(42)
Capital commitments	(5)	(14)	(11)	-	(30)
Lease commitments	(10)	(30)	(95)	(29)	(164)
Lease receipts	1	4	18	4	27
Total off balance sheet cash flows	(12)	(77)	(101)	(25)	(215)
Net position	(79)	(233)	(167)	(25)	(504)

20(c) Market risk

Nature of foreign currency risk

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

Foreign currency risk management

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

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20. FINANCIAL RISK MANAGEMENT (EXCLUDING KIWIBANK) continued

Exposure

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

	GROUP			
	2015		2014	
	AUD NZD$m	USD NZD$m	AUD NZD$m	USD NZD$m
Cash and cash equivalents	**11**	**1**	28	1
Trade and other receivables	**10**	**44**	14	37
Trade and other payables	**(17)**	**(16)**	(28)	(15)
Net on balance sheet financial position	**4**	**29**	14	23

	PARENT			
	2015		2014	
	AUD NZD$m	USD NZD$m	AUD NZD$m	USD NZD$m
Cash and cash equivalents	**-**	**1**	3	1
Trade and other receivables	**-**	**44**	-	37
Trade and other payables	**1**	**(16)**	-	(15)
Net on balance sheet financial position	**1**	**29**	3	23

The Group's sensitivity to foreign exchange movements

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

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

20. FINANCIAL RISK MANAGEMENT (EXCLUDING KIWIBANK) continued

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

			+10%		-10%
2014	Total Currency Exposure NZD$m	Impact on profit NZD$m	Impact on equity NZD$m	Impact on profit NZD$m	Impact on equity NZD$m
Financial assets/(liabilities)					
Cash and cash equivalents	29	(3)	(3)	3	3
Trade and other receivables	51	(5)	(5)	5	5
Trade and other payables	(43)	3	3	(3)	(3)
Net impact	37	(5)	(5)	5	5

	PARENT				
		+10%		-10%	
2015	**Total Currency Exposure NZD$m**	**Impact on profit NZD$m**	**Impact on equity NZD$m**	**Impact on profit NZD$m**	**Impact on equity NZD$m**
Financial assets/(liabilities)					
Cash and cash equivalents	**1**	**-**	**-**	**-**	**-**
Trade and other receivables	**44**	**4**	**4**	**(4)**	**(4)**
Trade and other payables	**(15)**	**(2)**	**(2)**	**2**	**2**
Net impact	**30**	**2**	**2**	**(2)**	**(2)**

		+10%		-10%	
2014	Total Currency Exposure NZD$m	Impact on profit NZD$m	Impact on equity NZD$m	Impact on profit NZD$m	Impact on equity NZD$m
Financial assets/(liabilities)					
Cash and cash equivalents	4	-	-	-	-
Trade and other receivables	37	(4)	(4)	4	4
Trade and other payables	(15)	2	2	(2)	(2)
Net impact	26	(2)	(2)	2	2

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20. FINANCIAL RISK MANAGEMENT (EXCLUDING KIWIBANK) continued

Nature of interest rate risk

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

Interest rate risk management

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

Exposure

The Group has floating rate borrowings with a face value of $40m at 30 June 2015 (30 June 2014 – $40m), and fixed rate borrowings with a face value of $350m (30 June 2014 – $350m). All borrowings are used to fund ongoing activities. As at 30 June 2015, the weighted average interest rate on borrowings (as amended by interest rate swaps) is 6.53% (30 June 2014 – 6.23%).

The Group's sensitivity to interest rate movements

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

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

20. FINANCIAL RISK MANAGEMENT (EXCLUDING KIWIBANK) continued

		GROUP			
		+1%		-1%	
2015	**NZD$m**	**Impact on profit NZD$m**	**Impact on equity NZD$m**	**Impact on profit NZD$m**	**Impact on equity NZD$m**
Financial assets/(liabilities)					
Cash and cash equivalents	**83**	**1**	**1**	**(1)**	**(1)**
Borrowings	**(388)**	**(4)**	**(4)**	**4**	**4**
Net impact	**(305)**	**(3)**	**(3)**	**3**	**3**

		+1%		-1%	
2014	NZD$m	Impact on profit NZD$m	Impact on equity NZD$m	Impact on profit NZD$m	Impact on equity NZD$m
Financial assets/(liabilities)					
Cash and cash equivalents	164	(2)	(2)	2	2
Borrowings	(392)	4	-	(4)	-
Net impact	(228)	2	(2)	(2)	2

		PARENT			
		+1%		-1%	
2015	**NZD$m**	**Impact on profit NZD$m**	**Impact on equity NZD$m**	**Impact on profit NZD$m**	**Impact on equity NZD$m**
Financial assets/(liabilities)					
Cash and cash equivalents	**55**	**1**	**1**	**(1)**	**(1)**
Borrowings	**(190)**	**(2)**	**(2)**	**2**	**2**
Net impact	**(135)**	**(1)**	**(1)**	**1**	**1**

		+1%		-1%	
2014	NZD$m	Impact on profit NZD$m	Impact on equity NZD$m	Impact on profit NZD$m	Impact on equity NZD$m
Financial assets/(liabilities)					
Cash and cash equivalents	111	(1)	-	1	-
Borrowings	(190)	2	-	(2)	-
Net impact	(79)	1	-	(1)	-

20(d) Credit risk

Nature of the risk

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

Credit risk management

The Group manages credit risk through the formulation of specific policy benchmarks and parameters (including credit terms for customers and debtors days targets) set by the Board which must be complied with in all situations. Credit risk is monitored on an ongoing weekly and monthly basis by management and the Board. No collateral is held as at 30 June 2015 (30 June 2014 – nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

20. FINANCIAL RISK MANAGEMENT (EXCLUDING KIWIBANK) continued

Credit risk exposure

The following table represents a worst case scenario of credit risk exposure to the Group at 30 June 2015 and 30 June 2014. The exposures set out are based on net carrying amounts as reported in the balance sheet.

As balance date, 69% of the total maximum exposure is derived from trade and other receivables (30 June 2014 – 58%). Management is confident in its ability to control and sustain minimal exposure of credit risk resulting from its financial assets.

There are no individual counterparties or connected persons where their credit exposure equalled or exceeded 10% of the Group's total credit exposure during the year (2014 – nil).

	GROUP		PARENT	
	2015 $m	**2014 $m**	**2015 $m**	**2014 $m**
Cash and cash equivalents	**83**	164	**55**	111
Trade and other receivables	**181**	213	**115**	142
Derivative financial assets	**3**	2	**6**	3
Loans to related parties	**-**	-	**148**	178
Total gross financial assets	**267**	379	**324**	434
Allowance for impairment losses	**(6)**	(1)	**(5)**	(1)
Total net financial assets	**261**	378	**319**	433

21. COMMITMENTS

	GROUP		PARENT	
	2015 $m	**2014 $m**	**2015 $m**	**2014 $m**
Non-Cancellable Operating Lease Commitments				
Group as lessee (i)				
Payable no later than one year	**60**	58	**48**	40
Payable later than one, not later than five years	**151**	128	**123**	95
Payable later than five years	**33**	37	**29**	29
	244	223	**200**	164
Group as lessor (ii)				
Receivable no later than one year	**1**	1	**6**	5
Receivable later than one, not later than five years	**3**	1	**20**	18
Receivable later than five years	**-**	-	**-**	4
	4	2	**26**	27
Non-Cancellable Finance Lease Commitments (iii)				
Payable no later than one year	**2**	2	**2**	2
Payable later than one, not later than five years	**5**	7	**5**	7
Payable later than five years	**-**	-	**-**	-
	7	9	**7**	9
Contractual commitments for acquisition of:				
Property, plant and equipment	**8**	21	**8**	21
Intangible assets – software	**7**	17	**-**	9
	15	38	**8**	30

i. The Group leases a majority of its sites. All leases are standard operating leases. No leases have purchase options, onerous restrictions on use or contingent rental payments. Lease terms vary from monthly to long term. Many leases have rights of renewal. Operating leases, where the lessor substantially retains the risks and rewards of ownership, are recognised in the statement of profit or loss and other 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.

21. COMMITMENTS continued

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

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

Recognition and measurement

Finance Leases

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

Operating Leases

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

22. CONTINGENCIES

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

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

Property

In 2013, New Zealand Post sold and leased back its Head Office property at 7 Waterloo Quay, Wellington to Argosy Property Trust. As part of the sale agreement New Zealand Post and Argosy Property Trust agreed on a scope of works to refurbish the property. These refurbishment works (to be paid by Argosy Property Trust in addition to the purchase price) were capped and any agreed savings would be shared equally by both parties. Any agreed cost overruns would be borne by New Zealand Post.

In 2014, New Zealand Post identified a potential cost overrun in respect of the removal or encapsulation of asbestos. Since the refurbishment commenced it has become evident that the property has a greater level of residual asbestos than previously documented. New Zealand Post may therefore be subject to pay an additional sum if the refurbishment costs are in excess of the amount agreed in the sale and purchase agreement for asbestos removal. Both parties are currently in negotiations to mitigate any cost overruns but the outcome of this is not yet determined. This is a complex issue and the likelihood, timing and amount of any amount payable, is not able to be determined as at the date of signing these financial statements.

Guarantees

Kiwibank

i. 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. No call has been made on this guarantee as at 30 June 2015 (30 June 2014: nil);

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

New Zealand Post Group Finance

The Parent has guaranteed the payment obligations of New Zealand Post Group Finance Limited in relation to its subordinated notes (refer Note 16). The face value of the notes on issue at balance date is $200m. No call has been made on this guarantee as at 30 June 2015 (30 June 2014: nil).

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

23. KIWIBANK – SPECIFIC BANKING ASSETS

Cash and cash equivalents

	GROUP	
	2015 $m	**2014 $m**
Cash in hand	**32**	31
Cash with central banks	**393**	353
Call and overnight advances to financial institutions	**67**	77
Total cash and cash equivalents – current	**492**	461

Recognition and measurement

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

Due from other financial institutions

Unsettled receivables	**32**	5
Short term advances due from other financial institutions	**23**	20
Collateralised loans	**139**	96
Total due from other financial institutions – current	**194**	121

As at 30 June 2015, included within the balance above, is $138.5m of collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties (30 June 2014: $95.4m).

Recognition and Measurement

Reverse Repurchase Agreements

Under Reverse Repurchase Agreements, Kiwibank receives collateral in the form of securities from a third party, giving cash in exchange. Kiwibank may sell or re-pledge any collateral received, but has an obligation to return the collateral at the maturity of the contract and the counterparty retains substantially all the risks and rewards of ownership. Consequently the collateral is not recognised by Kiwibank which instead records a receivable for the cash given. The difference between the purchase and sale price represents interest income and is recognised in the profit or loss over the term of the reverse repurchase agreement.

23. KIWIBANK – SPECIFIC BANKING ASSETS continued

Financial assets held for trading

	2015 $m	2014 $m
Other securities	**96**	44
Total financial assets held for trading – current	**96**	44

Available for sale assets

	2015 $m	2014 $m
Government stock and multilateral development banks	**765**	640
Treasury bills	**187**	38
Local authority securities	**22**	13
Other debt securities	**248**	402
Total available for sale assets – current	**1,222**	1,093

Loans and advances

	2015 $m	2014 $m
Gross loans and advances at amortised cost	**15,651**	14,689
Allowance for impairment losses	**(53)**	(59)
Total net loans and advances	**15,598**	14,630
Comprising:		
Current	**1,059**	1,102
Non-current	**14,539**	13,528
Total loans and advances	**15,598**	14,630

Lending

Loans and advances – impairment losses/(reversals)

	GROUP	
	2015 $m	**2014 $m**
Allowance for impairment losses in balance sheet		
Collective allowance for impairment losses	**41**	37
Allowance for individually impaired loans	**12**	22
Total allowance for impairment losses	**53**	59
Impairment Losses Per Statement of Profit or Loss and Other Comprehensive Income		
Collective impairment losses/(reversals) on loans not at fair value through profit or loss	**4**	(3)
Individual impairment losses/(reversals) on loans not at fair value through profit or loss	**9**	(1)
Total impairment losses/(reversals) per income statement	**13**	(4)

NOTES TO THE FINANCIAL STATEMENTS
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23. KIWIBANK – SPECIFIC BANKING ASSETS continued

Summary of Lending

	Loans and advances to					
	Retail Customers 2015 $m	**Corporate and Institutional Customers 2015 $m**	**Total 2015 $m**	Retail Customers 2014 $m	Corporate and Institutional Customers 2014 $m	Total 2014 $m
Neither past due nor impaired	**13,963**	**1,527**	**15,490**	13,026	1,477	14,503
Past due but not impaired	**133**	**5**	**138**	138	4	142
Impaired	**8**	**15**	**23**	12	32	44
Gross	**14,104**	**1,547**	**15,651**	13,176	1,513	14,689
Collective allowance for impairment	**(21)**	**(20)**	**(41)**	(18)	(19)	(37)
Individual allowance for impairment	**(3)**	**(9)**	**(12)**	(3)	(19)	(22)
Net loans and advances	**14,080**	**1,518**	**15,598**	13,155	1,475	14,630

Past due but not impaired

Loans and Advances Past Due but Not Impaired

	Retail Unsecured Lending 2015 $m	**Residential Mortgage Loans 2015 $m**	**Corporate Exposures 2015 $m**	**Total Loans and Advances 2015 $m**
Past due up to 30 days	**29**	**69**	**2**	**100**
Past due 30–59 days	**10**	**8**	**2**	**20**
Past due 60–89 days	**4**	**3**	**-**	**7**
Past due 90 days or greater	**3**	**7**	**1**	**11**
Total	**46**	**87**	**5**	**138**

	Retail Unsecured Lending 2014 $m	Residential Mortgage Loans 2014 $m	Corporate Exposures 2014 $m	Total Loans and Advances 2014 $m
Past due up to 30 days	29	77	2	108
Past due 30–59 days	7	7	1	15
Past due 60–89 days	3	5	-	8
Past due 90 days or greater	4	6	1	11
Total	43	95	4	142

23. KIWIBANK – SPECIFIC BANKING ASSETS continued

Impaired Assets

	Retail unsecured lending		Residential mortgage loans		Corporate Exposures	
	2015 $m	2014 $m	**2015 $m**	2014 $m	**2015 $m**	2014 $m
Gross Impaired						
Balance at the beginning of the year	**1**	1	**14**	22	**29**	31
Transfers from performing	**5**	1	**6**	12	**9**	19
Transfers to performing	**-**	-	**(2)**	(6)	**(2)**	(4)
Asset realisations and loans repaid	**-**	-	**(5)**	(10)	**(13)**	(15)
Amounts written off	**(5)**	(1)	**(2)**	(4)	**(12)**	(2)
Balance at the end of the year	**1**	1	**11**	14	**11**	29

Collective allowance for impairment

	Retail Unsecured Lending 2015 $m	**Residential Mortgage Loans 2015 $m**	**Corporate Exposures 2015 $m**	**Total Loans and Advances 2015 $m**
Balance at beginning of the year	**8**	**15**	**14**	**37**
Impairment losses on loans not at fair value through profit or loss	**1**	**2**	**1**	**4**
Advances written off	**-**	**-**		**-**
Total collective allowance for impairment losses	**9**	**17**	**15**	**41**

	Retail Unsecured Lending 2014 $m	Residential Mortgage Loans 2014 $m	Corporate Exposures 2014 $m	Total Loans and Advances 2014 $m
Balance at beginning of the year	9	15	20	44
Impairment losses on loans not at fair value through profit or loss	3	-	(6)	(3)
Advances written off	(4)	-	-	(4)
Total collective allowance for impairment losses	8	15	14	37

Interest revenue foregone on impaired assets is calculated using actual interest written off and interest suspended during the year. There are no real estate or other assets acquired through the enforcement of security/collateral held at 30 June 2015 (30 June 2014: nil). There are no assets under administration as at 30 June 2015 (30 June 2014: nil). There are no unrecognised impaired assets as at 30 June 2015 (30 June 2014: nil). The aggregate amount of undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired is $0.5m at 30 June 2015 (30 June 2014: $0.6m).

NOTES TO THE FINANCIAL STATEMENTS
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24. KIWIBANK – SPECIFIC BANKING DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

iv. Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. Kiwibank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, Kiwibank assesses counterparties using the same techniques as for its lending activities.

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

vi. The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the 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.

24. KIWIBANK – SPECIFIC BANKING DERIVATIVE FINANCIAL INSTRUMENTS continued

	2015 $m Notional Value	**2015 $m Fair Value Assets**	**Liabilities**	2014 $m Notional Value	2014 $m Fair Value Assets	Liabilities
Foreign exchange derivatives	**1,051**	**51**	**(22)**	1,569	6	(75)
Interest rate derivatives	**40,381**	**291**	**(311)**	26,639	96	(104)
Total derivatives held for trading	**41,432**	**342**	**(333)**	28,208	102	(179)
Derivatives Held for Hedging						
Designated as Cash Flow Hedges						
– Interest rate derivatives	**8,240**	**8**	**(120)**	7,322	23	(19)
– Exchange rate swaps	**678**	**123**	**(19)**	510	-	(37)
Total derivatives designated as cash flow hedges	**8,918**	**131**	**(139)**	7,832	23	(56)
Designated as Fair Value Hedges						
Interest rate derivatives						
– Interest rate swap agreements	**261**	**7**	**(3)**	442	5	(1)
Total derivatives designated as fair value hedges	**261**	**7**	**(3)**	442	5	(1)
Total derivatives held for hedging	**9,179**	**138**	**(142)**	8,274	28	(57)
Total Derivative Financial Instruments	**50,611**	**480**	**(475)**	36,482	130	(236)
Comprising:						
Current derivative financial instruments		**345**	**(350)**		116	(183)
Non-current derivative financial instruments		**135**	**(125)**		14	(53)
Total loans and advances (total derivative financial instruments)		**480**	**(475)**		130	(236)

Fair Value Hedges

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

24. KIWIBANK – SPECIFIC BANKING DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash Flow Hedges

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

Dual fair value and cash flow hedges

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

25. KIWIBANK – SPECIFIC BANKING LIABILITIES

Due to other financial institutions

	GROUP	
	2015 $m	2014 $m
Repurchase agreements	**176**	170
Cash collateral pledged	**120**	-
Short term borrowings	**-**	6
Unsettled payables	**21**	5
Transaction balances with other financial institutions	**8**	4
Total due to other financial institutions – current	**325**	185

Recognition and measurement

Repurchase Agreements

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

Deposits and other borrowings

Demand deposits not bearing interest	**1,255**	1,078
Demand deposits bearing interest	**2,747**	2,553
Term deposits	**9,738**	9,120
Total deposits from customers	**13,740**	12,751
Comprising:		
Current deposits	**13,385**	12,398
Non-current deposits	**355**	353
Total deposits from customers	**13,740**	12,751

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

25. KIWIBANK – SPECIFIC BANKING LIABILITIES continued

Debt securities issued

	2015 $m	2014 $m
Short term debt		
Commercial paper at fair value through profit or loss	**615**	731
Certificates of deposit – amortised cost	**191**	206
Long term debt		
Medium term notes	**1,328**	1,005
Covered bonds	**236**	191
Fair value hedge adjustment	**27**	10
Total debt securities issued	**2,397**	2,143
Comprising:		
Current	**836**	1,212
Non-current	**1,561**	931
Total debt securities issued	**2,397**	2,143

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

Kiwibank has not had any defaults of principal, interest or other breaches with respect to debt securities issued during the year (year ended 30 June 2014: nil).

Subordinated debt

	2015 $m	2014 $m
Subordinated bonds	**149**	149
Capital notes	**106**	98
Perpetual capital notes	**89**	-
Total subordinated debt	**344**	247
Comprising:		
Current	**3**	1
Non-current	**341**	246
Total subordinated debt	**344**	247

During the year $nil of subordinated debt was issued and called by Kiwibank (30 June 2014 – $100m was issued and $60m was called).

As at 30 June 2015, $208m (30 June 2014: $168m) of the subordinated debt qualified as Tier 2 capital for capital adequacy calculation purposes.

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

Kiwibank has not had any defaults of principal, interest or other breaches with respect to subordinated debt during the year (year ended 30 June 2014: nil).

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

Instrument	Issue Date	Amount $m	Coupon Rates	Call Dates	Maturity Dates	Credit Rating
Subordinated bonds	10 December 2012	150	5.80% p.a.	15 December 2017	15 December 2022	BB+
Capital notes	6 June 2014	100	6.61% p.a.	15 July 2019	15 July 2024	BB+

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FOR THE YEAR ENDED 30 JUNE 2015

25. KIWIBANK – SPECIFIC BANKING LIABILITIES continued

Subordinated bonds

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

Capital Notes

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

Perpetual Capital Notes

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

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

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

The equity component of the PCN's are disclosed within Note 17.

Recognition and measurement

Financial instruments issued by Kiwibank, that are not designated at fair value through profit or loss, are classified as liabilities under either Debt securities issued or Subordinated debt, where the substance of the contractual arrangement results in the bank having an obligation either to deliver cash or another financial asset to the holder.

After initial measurement the debt components are subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

A compound financial instrument, which contains both a liability and an equity component, is separated at the date of issue. A portion of the net proceeds of the compound instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined by discounting the contractual cash flows at the original coupon rate). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component.

European Commercial Paper issued has been designated at fair value through profit or loss as Kiwibank holds related derivatives at fair value through profit or loss, and designation therefore eliminates or significantly reduces an accounting mismatch that would otherwise arise.

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS

Financial Instruments by Category

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

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

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

Risk Management Policies

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

Organisational perspective

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

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

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

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

iv. Independent oversight of business unit risk management by both internal and external audit functions to i) provide regular risk evaluation and reporting; and ii) assess the adequacy and effectiveness of management's control of risk.

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

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

i. Review and approval of Kiwibank's frameworks and policies for managing business, credit, market and operational risk and maintaining an effective risk management framework.
ii. Monitoring the Bank's key risks, performance, exposures against limits, capital levels and management of Kiwibank's risks.
iii. Monitoring anticipated changes in the economic and business environment and other factors relevant to Kiwibank's risk profile.
iv. Review and approval of limits and conditions that apply to risk taking.
v. Review of internal audit activities and significant audit issues.
vi. Review of financial and disclosure statements.

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

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

Internal audit

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

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

Risk management framework

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

Strategic risk management

A framework and set of processes that the Bank uses to plan, organise, lead and control risk management activities in an effort to minimise the effects and impacts of risk events on the Bank's capital and earnings. This reflects the Basel III accord requirements for a properly framed structure from which risk management strategies and policy can be devolved. This framework provides:

i. A high level "risk structure" for the classification and categorisation of all risks deemed material to the Bank, which forms the basis of reporting the Bank's risk profile.
ii. Risk appetite – the Bank's willingness to take on financial risks and a basic operational pre-requisite for the establishment of consistent risk limits.
iii. Risk policy statements – these explicitly articulate the Bank's fundamental attitude towards risk and risk management. The risk policy statements are intended to ensure employees understand the Bank's risk management goals throughout the organisation.
iv. Risk principles – these are central rules for risk management decision-making and form the basis for maximum uniformity in risk management decision-making.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Capital management and capital adequacy

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

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

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

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

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

i. *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.
ii. *Enterprise risk management* – Irrespective of their relative significance, the majority of risk situations facing the Bank occur in the day-to-day operations of the business. These risks (referred to as enterprise risks – as they arise from operating the business) are not confined to formal risk domains (i.e. credit, market, or operational risk) or business lines. As it is considered desirable to manage risk in a consistent and comprehensive manner across the whole of Kiwibank, a decision support model exists for any manager needing to make a risk management decision about a specific risk matter arising in their current or proposed operations (i.e. day-to-day business activities).

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

i. *Credit risk (Note 26(a))* – the risk of financial loss arising from the failure of a customer or counterparty to honour any financial or contractual obligation.
ii. *Market risk (Note 26(b))* – the potential for losses arising from adverse movements in the level and volatility of market factors, such as interest rates and foreign exchange rates. This risk domain also includes the risk that Kiwibank will not have sufficient funds available to meet financial and transactional cash-flow obligations.
iii. *Operational risk (Note 26(c))* – the risk of direct or indirect losses resulting from inadequate or failed internal processes, people, and systems, or from external events. This risk domain includes legal and regulatory risk, which includes, but is not limited to, exposure to fines, penalties, or punitive damages resulting from regulatory actions, as well as private settlements.
iv. *Business and strategic risk(Note 26(d))* – macro or micro environmental events that could impede or prevent the Bank achieving its stated business goals or strategies, including missed opportunities and potential losses/damage arising from poor strategic business decisions.
v. *Governance Risk (Note 26(e))* – the risk arising from inadequate oversight and assurance of the Bank's Credit Policies and frameworks within Risk Management.

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

26(a) Credit Risk

Nature of the risk

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

Key elements of the Credit risk management framework are:

Credit Risk Management

Key elements of the Credit risk management framework are:

Strategy and organisational structure

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

Kiwibank's Executive Risk Committee (comprising of executive management) is tasked with producing robust credit policies, credit management processes and asset writing strategies; examining portfolio standards, concentrations of lending, asset impairment; and monitoring compliance with policy.

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

The integrity and effectiveness of the Bank's credit risk management practices, asset quality and compliance with policy is supported by independent assessments by the Quality Assurance and internal audit functions.

Credit risk mitigation

Kiwibank's Board approved wholesale credit management policy sets out the parameters for which it can enter into credit exposures arising from on and off-balance sheet transactions. Kiwibank also has legal arrangements with its major institutional counterparties to allow netting of off-balance sheet exposures along with collateral management arrangements.

Portfolio structure and monitoring

Kiwibank's credit portfolio is divided into two Asset Classes, Retail and Wholesale. The Retail Asset Class is comprised of housing loan, credit card and personal loan facilities and small to medium enterprise business lending. This segment is managed on a delinquency band approach and on a behavioural basis.

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

Credit approval standards

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

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

Collateral security in the form of real property and/or general security interest over business assets is generally taken for business credit except for government, bank and corporate counterparties of strong financial standing. The Bank uses ISDA agreements to document derivative activities and limit exposures to credit losses. Under ISDA protocols, in the event of default, all contracts with the counterparty are terminated and settled on a net basis.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Problem credit facility management

Credit exposures are monitored regularly through the examination of irregular and delinquent accounts. This enables doubtful debts to be immediately identified so that specific provisions for potential losses can be established as early as possible. Problem credit facilities are monitored to ensure workout and collection and recovery strategies are established and enacted promptly to minimise risk of potential losses.

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

Operations control environment

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

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Concentration of Credit Risk

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

	GROUP	
	2015 $m	2014 $m
New Zealand		
– government, local bodies and services	**1,244**	1,019
– finance, investment and insurance	**1,279**	858
– households	**13,906**	12,876
– transport and storage	**44**	52
– professional, scientific and technical services	**41**	64
– electricity, gas and water	**4**	25
– construction	**165**	156
– property services	**1,015**	1,020
– agriculture	**25**	35
– health and community services	**68**	80
– personal and other services	**79**	85
– retail and wholesale trade	**74**	87
– food and other manufacturing	**203**	184
Overseas		
– finance, investment and insurance	**65**	74
Total financial assets (interest earning)	**18,212**	16,615
Less collective allowance for impairment losses	**(53)**	(59)
Other financial assets	**10**	10
Total financial assets	**18,169**	16,566

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

Credit Risk Relating to Statement of Financial Position Assets

Fixed rate lending at amortised cost	**11,387**	9,834
Variable rate lending	**3,883**	4,521
Unsecured lending	**381**	334
Balances with related parties	**77**	77
Due from other financial institutions	**194**	121
Derivative financial instruments	**480**	130
Financial assets held for trading	**96**	44
Available for sale assets	**1,222**	1,093
Cash and cash equivalents	**492**	461
Other assets	**10**	10
Total gross financial assets	**18,222**	16,625
Allowance for impairment losses	**(53)**	(59)
Total net financial assets	**18,169**	16,566

The above table represents a worst case scenario of credit risk exposure to Kiwibank at 30 June 2015 and 30 June 2014, without taking account of any collateral held or other credit enhancements attached.

The exposures set out above are based on net carrying amounts as reported in the statement of financial position. Australian and New Zealand Standard Industrial Classification ("ANZIC") codes have been used as the basis for disclosing customer industry sectors.

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

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

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

Kiwibank is potentially exposed to credit risk for undrawn loan commitments for an amount equal to the undrawn balance.

Credit Exposure Concentrations

Credit Exposure to Individual Counterparties

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

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

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

26(b) Market Risk

Nature of the risk

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

Market risk management

The key elements of Kiwibank's Market risk management framework are:

Interest rate risk management

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

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

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

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

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

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.

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 daily in terms of open positions in each currency and are managed within pre-approved limits.

Liquidity and funding risk management

Liquidity risk is the risk that Kiwibank will not have sufficient funds available to meet its financial and transactional cash flow obligations.

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

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

Kiwibank maintains a stock of prime liquid assets. Some assets classified as investment securities in the balance sheet 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 liquidity and funding strategies. This modelling helps ensure that an appropriate portion of the Banking Group's assets are funded by customer liabilities, bank borrowing, and equity. This approach also recognises the favourable liquidity characteristics of long term customer liabilities and wholesale debt funding, in reducing the impact or volatility of short term funding.

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

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

Equity risk

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Interest repricing

The tables below summarise Kiwibank's exposure to interest rate risk. They include banking financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. For further information on how interest rate risk is managed refer to Note 26(d).

30 June 2015	Total $m	Non Interest Bearing $m	Up to 3 Months $m	3 to 6 Months $m	6 Months to 1 Year $m	Between 1 and 2 Years $m	Over 2 Years $m
Financial Assets							
Cash and cash equivalents	**492**	**32**	**460**	**-**	**-**	**-**	**-**
Due from other financial institutions	**194**	**32**	**139**	**23**	**-**	**-**	**-**
Financial assets held for trading	**96**	**-**	**3**	**-**	**1**	**1**	**91**
Available for sale assets	**1,222**	**-**	**258**	**110**	**51**	**-**	**803**
Loans and advances	**15,598**	**(28)**	**4,881**	**936**	**2,616**	**5,040**	**2,153**
Derivative financial instruments	**480**	**480**	**-**	**-**	**-**	**-**	**-**
Balances with related parties	**77**	**1**	**45**	**-**	**-**	**31**	**-**
Other financial assets	**10**	**10**	**-**	**-**	**-**	**-**	**-**
Total financial assets	**18,169**	**527**	**5,786**	**1,069**	**2,668**	**5,072**	**3,047**
Financial Liabilities							
Due to other financial institutions	**(325)**	**(28)**	**(297)**	**-**	**-**	**-**	**-**
Deposits and other borrowings	**(13,740)**	**(1,255)**	**(8,562)**	**(1,936)**	**(1,632)**	**(177)**	**(178)**
Derivative financial instruments	**(475)**	**(475)**	**-**	**-**	**-**	**-**	**-**
Debt securities issued	**(2,397)**	**-**	**(1,306)**	**(59)**	**(15)**	**(112)**	**(905)**
Subordinated debt	**(255)**	**-**	**-**	**-**	**-**	**-**	**(255)**
Balances with related parties	**(6)**	**(6)**	**-**	**-**	**-**	**-**	**-**
Other financial liabilities	**(58)**	**(58)**	**-**	**-**	**-**	**-**	**-**
Total financial liabilities	**(17,256)**	**(1,822)**	**(10,165)**	**(1,995)**	**(1,647)**	**(289)**	**(1,338)**
On balance sheet gap	**913**	**(1,295)**	**(4,379)**	**(926)**	**1,021**	**4,783**	**1,709**
Net derivative notional principals	**107**	**-**	**5,681**	**674**	**(1,623)**	**(4,009)**	**(616)**
Net effective interest rate gap	**1,020**	**(1,295)**	**1,302**	**(252)**	**(602)**	**774**	**1,093**

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

30 June 2014	Total $m	Non Interest Bearing $m	Up to 3 Months $m	3 to 6 Months $m	6 Months to 1 Year $m	Between 1 and 2 Years $m	Over 2 Years $m
Financial Assets							
Cash and cash equivalents	461	31	430	-	-	-	-
Due from other financial institutions	121	5	116	-	-	-	-
Financial assets held for trading	44	-	-	-	1	-	43
Available for sale assets	1,093	-	373	-	414	11	295
Loans and advances	14,630	(37)	5,907	1,498	2,322	3,173	1,767
Derivative financial instruments	130	130	-	-	-	-	-
Balances with related parties	77	1	45	-	-	-	31
Other financial assets	10	10	-	-	-	-	-
Total financial assets	16,566	140	6,871	1,498	2,737	3,184	2,136
Financial Liabilities							
Due to other financial institutions	(185)	(9)	(176)	-	-	-	-
Deposits and other borrowings	(12,751)	(1,078)	(7,773)	(1,918)	(1,634)	(213)	(135)
Derivative financial instruments	(236)	(236)	-	-	-	-	-
Debt securities issued	(2,143)	-	(1,115)	(368)	-	(10)	(650)
Subordinated debt	(247)	-	-	-	-	-	(247)
Balances with related parties	(27)	(7)	(20)	-	-	-	-
Other financial liabilities	(49)	(49)	-	-	-	-	-
Total financial liabilities	(15,638)	(1,379)	(9,084)	(2,286)	(1,634)	(223)	(1,032)
On balance sheet gap	928	(1,239)	(2,213)	(788)	1,103	2,961	1,104
Net derivative notional principals	(102)	-	5,507	(348)	(1,759)	(2,621)	(881)
Net effective interest rate gap	826	(1,239)	3,294	(1,136)	(656)	340	223

Foreign Exchange Risk

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

30 June 2015	NZD $m	AUD $m	USD $m	GBP $m	EUR $m	CHF $m	OTHER $m	Total $m
Financial Assets								
Cash and cash equivalents	**428**	**12**	**31**	**11**	**7**	**-**	**3**	**492**
Due from other financial institutions	**194**	**-**	**-**	**-**	**-**	**-**	**-**	**194**
Financial assets held for trading	**96**	**-**	**-**	**-**	**-**	**-**	**-**	**96**
Available for sale assets	**1,222**	**-**	**-**	**-**	**-**	**-**	**-**	**1,222**
Loans and advances	**15,597**	**-**	**-**	**-**	**1**	**-**	**-**	**15,598**
Derivative financial instruments	**(857)**	**244**	**440**	**4**	**5**	**561**	**83**	**480**
Balances with related parties	**77**	**-**	**-**	**-**	**-**	**-**	**-**	**77**
Other financial assets	**10**	**-**	**-**	**-**	**-**	**-**	**-**	**10**
Total financial assets	**16,767**	**256**	**471**	**15**	**13**	**561**	**86**	**18,169**
Financial Liabilities								
Due to other financial institutions	**(325)**	**-**	**-**	**-**	**-**	**-**	**-**	**(325)**
Deposits	**(13,655)**	**(14)**	**(42)**	**(14)**	**(11)**	**(1)**	**(3)**	**(13,740)**
Derivative financial instruments	**(473)**	**(1)**	**(62)**	**(1)**	**(2)**	**(1)**	**65**	**(475)**
Debt securities issued	**(1,110)**	**(237)**	**(367)**	**-**	**-**	**(537)**	**(146)**	**(2,397)**
Subordinated debt	**(255)**	**-**	**-**	**-**	**-**	**-**	**-**	**(255)**
Balances with related parties	**(6)**	**-**	**-**	**-**	**-**	**-**	**-**	**(6)**
Other financial liabilities	**(58)**	**-**	**-**	**-**	**-**	**-**	**-**	**(58)**
Total financial liabilities	**(15,882)**	**(252)**	**(471)**	**(15)**	**(13)**	**(539)**	**(84)**	**(17,256)**
Net on balance sheet financial position	**885**	**4**	**-**	**-**	**-**	**22**	**2**	**913**

30 June 2014	NZD $m	AUD $m	USD $m	GBP $m	EUR $m	CHF $m	OTHER $m	Total $m
Financial Assets								
Cash and cash equivalents	388	13	37	12	9	-	2	461
Due from other financial institutions	121	-	-	-	-	-	-	121
Financial assets held for trading	44	-	-	-	-	-	-	44
Available for sale assets	1,093	-	-	-	-	-	-	1,093
Loans and advances	14,629	-	-	-	1	-	-	14,630
Derivative financial instruments	106	2	46	-	-	-	(24)	130
Balances with related parties	77	-	-	-	-	-	-	77
Other financial assets	10	-	-	-	-	-	-	10
Total financial assets	16,468	15	83	12	10	-	(22)	16,566
Financial Liabilities								
Due to other financial institutions	(185)	-	-	-	-	-	-	(185)
Deposits	(12,673)	(12)	(43)	(12)	(9)	-	(2)	(12,751)
Derivative financial instruments	(1,743)	369	517	66	(1)	436	120	(236)
Debt securities issued	(635)	(365)	(557)	(66)	-	(426)	(94)	(2,143)
Subordinated debt	(247)	-	-	-	-	-	-	(247)
Balances with related parties	(27)	-	-	-	-	-	-	(27)
Other financial liabilities	(49)	-	-	-	-	-	-	(49)
Total financial liabilities	(15,559)	(8)	(83)	(12)	(10)	10	24	(15,638)
Net on balance sheet financial position	909	7	-	-	-	10	2	928

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Liquidity Risk

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

Liquidity risk management

Kiwibank's liquidity management responsibilities include:

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

Non-Derivative Cash Flows

The tables below summarise 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. Kiwibank does not manage the liquidity risk on the basis of the information provided below.

Derivative Cash Flows

Derivatives settled on a net basis

The 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 reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

Derivatives settled on a gross basis

The 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 reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows using forward rates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

30 June 2015	On Demand $m	Up To 3 Months $m	Between 3 and 12 Months $m	Between 1 and 5 Years $m	More Than 5 Years $m	Total $m
Financial Liabilities						
Non-derivative cash flows						
Due to other financial institutions	(325)	-	-	-	-	(325)
Deposits and other borrowings	(5,385)	(4,525)	(3,683)	(412)	-	(14,005)
Debt securities issued	(423)	(325)	(133)	(1,416)	(333)	(2,630)
Subordinated debt	(3)	-	(12)	(48)	(293)	(356)
Balances with related parties	(6)	-	-	-	-	(6)
Other financial liabilities	(58)	-	-	-	-	(58)
Total financial liabilities	(6,200)	(4,850)	(3,828)	(1,876)	(626)	(17,380)
Financial Assets						
Cash and cash equivalents	492	-	-	-	-	492
Due from other financial institutions	194	-	-	-	-	194
Financial assets held for trading	-	1	6	87	15	109
Available for sale assets	34	99	252	932	-	1,317
Loans and advances	173	328	987	3,705	27,541	32,734
Balances with related parties	-	1	47	32	-	80
Other financial assets	10	-	-	-	-	10
Total financial assets	903	429	1,292	4,756	27,556	34,936
Net non derivative cash flows	(5,297)	(4,421)	(2,536)	2,880	26,930	17,556
Derivative cash flows – net						
Interest rate derivatives	(3)	(12)	(48)	(68)	(3)	(134)
Total derivative cash flows – net	(3)	(12)	(48)	(68)	(3)	(134)
Derivative cash flows – gross						
Foreign exchange derivatives						
Inflow	378	382	184	572	333	1,849
Outflow	(356)	(374)	(197)	(547)	(240)	(1,714)
Total derivative cash flows – gross	22	8	(13)	25	93	135
Off balance sheet cash flows						
Capital commitments	-	(3)	(1)	(2)	-	(6)
Undrawn loan commitments	(2,442)	-	-	-	-	(2,442)
Lease commitments	-	(1)	(4)	(18)	-	(23)
Total off balance sheet cash flows	(2,442)	(4)	(5)	(20)	-	(2,471)
Net position	(7,720)	(4,429)	(2,602)	2,817	27,020	15,086
Cumulative net position	(7,720)	(12,149)	(14,751)	(11,934)	15,086	15,086

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

30 June 2014	On Demand $m	Up To 3 Months $m	Between 3 and 12 Months $m	Between 1 and 5 Years $m	More Than 5 Years $m	Total $m
Financial Liabilities						
Non-derivative cash flows						
Due to other financial institutions	(185)	-	-	-	-	(185)
Deposits and other borrowings	(4,570)	(4,164)	(3,668)	(413)	-	(12,815)
Debt securities issued	(304)	(643)	(298)	(803)	(319)	(2,367)
Subordinated debt	(1)	-	(12)	(52)	(304)	(369)
Balances with related parties	(27)	-	-	-	-	(27)
Other financial liabilities	(49)	-	-	-	-	(49)
Total financial liabilities	(5,136)	(4,807)	(3,978)	(1,268)	(623)	(15,812)
Financial Assets						
Cash and cash equivalents	461	-	-	-	-	461
Due from other financial institutions	121	-	-	-	-	121
Financial assets held for trading	-	-	3	43	7	53
Available for sale assets	53	157	486	475	-	1,171
Loans and advances	163	316	939	3,372	25,775	30,565
Balances with related parties	-	-	1	48	32	81
Other financial assets	10	-	-	-	-	10
Total financial assets	808	473	1,429	3,938	25,814	32,462
Net non derivative cash flows	(4,328)	(4,334)	(2,549)	2,670	25,191	16,650
Derivative cash flows – net						
Interest rate derivatives	(1)	(14)	21	(3)	(3)	-
Total derivative cash flows – net	(1)	(14)	21	(3)	(3)	-
Derivative cash flows – gross						
Foreign exchange derivatives						
Inflow	422	534	384	511	299	2,150
Outflow	(430)	(543)	(447)	(588)	(257)	(2,265)
Total derivative cash flows – gross	(8)	(9)	(63)	(77)	42	(115)
Off balance sheet cash flows						
Capital commitments	(4)	-	(1)	(3)	-	(8)
Undrawn loan commitments	(2,089)	-	-	-	-	(2,089)
Lease commitments	-	(1)	(4)	(18)	(4)	(27)
Total off balance sheet cash flows	(2,093)	(1)	(5)	(21)	(4)	(2,124)
Net position	(6,430)	(4,358)	(2,596)	2,569	25,226	14,411
Cumulative net position	(6,430)	(10,788)	(13,384)	(10,815)	14,411	14,411

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

26(c) Operational Risk

Nature of the risk

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

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

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

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

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

Operational risk management

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

i. Operational risk management relies on the support and participation of all Kiwibank staff. Kiwibank has adopted the Three Lines of Defence model to manage its operational risks. Senior management are accountable to the Board for maintaining an adequate and effective control environment that is commensurate with Kiwibank's risk appetite and business objectives.
ii. Business units (first line) are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility.
iii. A central (second line) Risk Management Unit owns and manages the operational risk and compliance framework and provides guidance, review and challenge to the first line
iv. An Internal Audit function (third line) provides an independent assessment of the adequacy and effectiveness of the internal control environment, and reports results to Management and the Board Finance, Audit and Disclosures Committee.
v. KBLT members and some General Managers provide attestations regarding their operational risk and compliance systems and any weaknesses identified as part of their quarterly MAAP. A summary of the responses and any issues identified is reported to the executive Disclosures Committee and to the RCC.
vi. Central Operational Risk and Compliance will provide risk reporting on a bank-wide basis to the relevant governance committees.

26(d) Business and Strategic Risk

Nature of the risk

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

It is only through sound business strategies and 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.

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Business and strategic risk management

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

i. Establishment and maintenance of an internal organisational environment in which business and strategic risk can meaningfully be managed.

ii. Establishment and maintenance of structures, measurement basis and risk management processes for the evaluation and management of business and strategic risks.

iii. Building capability within Kiwibank to enable both the pursuit of opportunities and mitigation of vulnerabilities.

Concentration of Funding

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

	2015 $m	2014 $m
New Zealand		
– transport and storage	**114**	86
– financing, investment and insurance	**3,727**	2,845
– electricity, gas and water	**6**	33
– food and other manufacturing	**39**	45
– construction	**66**	43
– communications	**23**	8
– government, local bodies and services	**363**	432
– agriculture	**32**	23
– health and community services	**153**	117
– personal and other services	**231**	237
– property and business services	**379**	399
– education	**163**	139
– retail and wholesale trade	**52**	70
– households	**10,200**	9,300
Overseas		
– financing, investment and insurance – Australia	**62**	327
– financing, investment and insurance – rest of world	**1,350**	1,227
– households – Australia	**33**	32
– households – rest of the world	**197**	220
Total financial liabilities (interest bearing)	**17,190**	15,583
Other financial liabilities	**66**	55
Total financial liabilities	**17,256**	15,638

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Sensitivity Analysis

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

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

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

The sensitivity to currency movements models the impact on net profit of a 10% movement, both up and down, in the New Zealand Dollar relative to all currencies where Kiwibank held a material exposure

Any changes in the value of financial assets and financial liabilities due to currency movements are considered to impact the net profit and, therefore, equity equally.

Interest Rate Risk – Fair Values

30 June 2015	Carrying Value $m	-1% SOCI $m	+1% SOCI $m	-1% Equity $m	+1% Equity $m
Financial Assets					
Cash and cash equivalents	**492**	**-**	**-**	**-**	**-**
Due from other financial institutions	**194**	**-**	**-**	**-**	**-**
Financial assets held for trading	**96**	**3**	**(3)**	**3**	**(3)**
Available for sale assets	**1,222**	**-**	**-**	**25**	**(24)**
Loans and advances	**15,598**	**-**	**-**	**-**	**-**
Derivative financial instruments	**480**	**329**	**(315)**	**343**	**(329)**
Other financial assets	**10**	**-**	**-**	**-**	**-**
Total financial assets	**18,092**	**332**	**(318)**	**371**	**(356)**
Financial Liabilities					
Due to other financial institutions	**(325)**	**-**	**-**	**-**	**-**
Deposits and other borrowings	**(13,740)**	**-**	**-**	**-**	**-**
Derivative financial instruments	**(475)**	**(295)**	**283**	**(401)**	**387**
Debt securities issued	**(2,397)**	**(34)**	**32**	**(34)**	**32**
Subordinated debt	**(255)**	**(3)**	**3**	**(3)**	**3**
Other financial liabilities	**(58)**	**-**	**-**	**-**	**-**
Total financial liabilities	**(17,250)**	**(332)**	**318**	**(438)**	**422**

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

30 June 2014	Carrying Value $m	-1% SOCI $m	+1% SOCI $m	-1% Equity $m	+1% Equity $m
Financial Assets					
Cash and cash equivalents	461	-	-	-	-
Due from other financial institutions	121	-	-	-	-
Financial assets held for trading	44	2	(2)	2	(2)
Available for sale assets	1,093	-	-	14	(13)
Loans and advances	14,630	-	-	-	-
Derivative financial instruments	130	(31)	30	(74)	72
Other financial assets	10	-	-	-	-
Total financial assets	16,489	(29)	28	(58)	57
Financial Liabilities					
Due to other financial institutions	(185)	-	-	-	-
Deposits and other borrowings	(12,751)	-	-	-	-
Derivative financial instruments	(236)	65	(62)	20	(19)
Debt securities issued	(2,143)	(35)	33	(35)	33
Subordinated debt	(247)	(4)	4	(4)	4
Other financial liabilities	(49)	-	-	-	-
Total financial liabilities	(15,611)	26	(25)	(19)	18

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

Currency Risk

30 June 2015	**Carrying Value $m**	**-10% SOCI $m**	**+10% SOCI $m**	**-10% Equity $m**	**+10% Equity $m**
Financial Assets					
Cash and cash equivalents	**492**	**7**	**(6)**	**7**	**(6)**
Due from other financial institutions	**194**	**-**	**-**	**-**	**-**
Financial assets held for trading	**96**	**-**	**-**	**-**	**-**
Available for sale assets	**1,222**	**-**	**-**	**-**	**-**
Loans and advances	**15,598**	**-**	**-**	**-**	**-**
Derivative financial instruments	**480**	**133**	**(121)**	**133**	**(121)**
Other financial assets	**10**	**-**	**-**	**-**	**-**
Total financial assets	**18,092**	**140**	**(127)**	**140**	**(127)**
Financial Liabilities					
Due to other financial institutions	**(325)**	**-**	**-**	**-**	**-**
Deposits and other borrowings	**(13,740)**	**(10)**	**9**	**(10)**	**9**
Derivative financial instruments	**(475)**	**-**	**-**	**-**	**-**
Debt securities issued	**(2,397)**	**(129)**	**117**	**(129)**	**117**
Subordinated debt	**(255)**	**-**	**-**	**-**	**-**
Other financial liabilities	**(58)**	**-**	**-**	**-**	**-**
Total financial liabilities	**(17,250)**	**(139)**	**126**	**(139)**	**126**

30 June 2014	Carrying Value $m	-10% SOCI $m	+10% SOCI $m	-10% Equity $m	+10% Equity $m
Financial Assets					
Cash and cash equivalents	461	8	(7)	8	(7)
Due from other financial institutions	121	-	-	-	-
Financial assets held for trading	44	-	-	-	-
Available for sale assets	1,093	-	-	-	-
Loans and advances	14,630	-	-	-	-
Derivative financial instruments	130	5	(1)	5	(1)
Other financial assets	10	-	-	-	-
Total financial assets	16,489	13	(8)	13	(8)
Financial Liabilities					
Due to other financial institutions	(185)	-	-	-	-
Deposits and other borrowings	(12,751)	(10)	8	(10)	8
Derivative financial instruments	(236)	165	(138)	165	(138)
Debt securities issued	(2,143)	(168)	138	(168)	138
Subordinated debt	(247)	-	-	-	-
Other financial liabilities	(49)	-	-	-	-
Total financial liabilities	(15,611)	(13)	8	(13)	8

26. KIWIBANK – BANKING FINANCIAL INSTRUMENTS continued

26(e) Risk Governance

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

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

Key elements of the Risk Governance function are:

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

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

   Kiwibank's Executive Risk Committee (comprising of executive management) is tasked with producing robust credit policies, credit management processes and asset writing strategies; examining portfolio standards, concentrations of lending, asset impairment; and monitoring compliance with policy.

ii. *Quality Assurance of credit activities* – This provides assurance that Credit Policy, processes and systems are being used as designed, by both individual staff and systematically across the Bank.

   The Risk governance function includes reviewing material credit change initiatives ensuring they are working as designed and producing intended outcomes.

iii. *Model Assurance* – to provide assurance that models are fit for purpose and working as intended, the function is tasked with developing model validation standards with the primary focus on models used for rating credit exposure.

27. KIWIBANK – FAIR VALUE OF BANKING FINANCIAL INSTRUMENTS

Fair Value of Financial Assets and Liabilities

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

	Carrying Amount 2015 $m	**Estimated Fair Value 2015 $m**	Carrying Amount 2014 $m	Estimated Fair Value 2014 $m
Financial Assets				
Financial assets held for trading	**96**	**96**	44	44
Available for sale assets	**1,222**	**1,222**	1,093	1,093
Loans and advances	**15,598**	**15,704**	14,630	14,613
Derivative financial instruments	**480**	**480**	130	130
Financial Liabilities				
Deposits	**(13,740)**	**(13,759)**	(12,751)	(12,753)
Derivative financial instruments	**(475)**	**(475)**	(236)	(236)
Debt securities issued	**(2,397)**	**(2,405)**	(2,143)	(2,154)
Subordinated debt	**(255)**	**(262)**	(247)	(249)

Unless otherwise noted the following disclosures are provided separately for assets and liabilities at fair value and those carried at amortised cost.

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

27. KIWIBANK – FAIR VALUE OF BANKING FINANCIAL INSTRUMENTS continued

Financial Assets and Liabilities Carried at Fair Value

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

30 June 2014	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial assets				
Derivative financial assets	-	130	-	130
Financial assets held for trading	44	-	-	44
Available-for-sale financial assets	534	559		1,093
Total financial assets at fair value	578	689	-	1,267
Financial liabilities				
Derivative financial liabilities	-	236	-	236
Debt securities issued	-	731	-	731
Total financial liabilities at fair value	-	967	-	967

Recognition and measurement – Kiwibank Fair Value Estimation

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

The fair value of financial instruments that are not quoted in an active market is determined by using valuation techniques. Management use a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Asset backed securities not traded in active markets are valued using observable external third party inputs.

Valuation methodology

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

Held for trading and available-for-sale securities

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

Debt securities issued

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

27. KIWIBANK – FAIR VALUE OF BANKING FINANCIAL INSTRUMENTS continued

Derivative financial instruments

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

i. Interest rate swaps which are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from quoted rates.

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

Financial assets and liabilities carried at amortised cost

30 June 2015	**Level 1 $m**	**Level 2 $m**	**Level 3 $m**	**Total $m**
Financial Assets at amortised cost				
Loans and advances	**-**	**-**	**15,704**	**15,704**
Due from related parties	**-**	**-**	**77**	**77**
Financial Liabilities at amortised cost				
Deposits and other borrowings	**-**	**-**	**13,759**	**13,759**
Debt securities issued	**-**	**1,790**	**-**	**1,790**
Subordinated debt	**-**	**262**	**-**	**262**
Due to related parties	**-**	**-**	**6**	**6**

30 June 2014	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Financial Assets at amortised cost				
Loans and advances	-	-	14,613	14,613
Due from related parties	-	-	77	77
Financial Liabilities at amortised cost				
Deposits and other borrowings	-	-	12,753	12,753
Debt securities issued	-	1,423	-	1,423
Subordinated debt	-	249	-	249
Due to related parties	-	-	27	27

Valuation methodology

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

Loans and advances

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

27. KIWIBANK – FAIR VALUE OF BANKING FINANCIAL INSTRUMENTS continued

Impaired and past due loans and advances

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

Deposits by customers

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

Debt securities issued and subordinated debt

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

28. KIWIBANK – OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

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

30 June 2015	**Gross amounts of recognised financial assets $m**	**Net amounts of financial assets presented in the SOFP $m**	**Financial instruments $m**	**Cash collateral received $m**	**Net amount $m**
Derivative financial assets	**480**	**480**	**(331)**	**(120)**	**29**
Reverse repurchase agreements	**-**	**-**	**-**	**-**	**-**
Total	**480**	**480**	**(331)**	**(120)**	**29**
30 June 2014					
Derivative financial assets	130	130	(125)	-	5
Reverse repurchase agreements	-	-	-	-	-
Total	130	130	(125)	-	5

30 June 2015	**Gross amounts of recognised financial liabilities $m**	**Net amounts of financial assets presented in the SOFP $m**	**Financial instruments $m**	**Cash collateral pledged $m**	**Net amount $m**
Derivative financial liabilities	**475**	**475**	**(331)**	**(139)**	**5**
Repurchase agreements	**176**	**176**	**(176)**	**-**	**-**
Total	**651**	**651**	**(507)**	**(139)**	**5**
30 June 2014					
Derivative financial liabilities	236	236	(125)	(96)	15
Repurchase agreements	170	170	(170)	-	-
Total	406	406	(295)	(96)	15

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

29. EVENTS OCCURRING AFTER REPORTING DATE

The Board of New Zealand Post Limited has declared a final dividend of $2.5m which will be paid on 30 September 2015.

Auditors' report

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Independent Auditor's Report

to the readers of New Zealand Post Limited and Group's Financial Statements for the year ended 30 June 2015

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

We have audited the financial statements of the Company and Group on pages 5 to 93, that comprise the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

Financial statements

In our opinion the financial statements of the Company and Group on pages 5 to 93:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the Company and Group's:
  - financial position as at 30 June 2015; and
  - financial performance and cash flows for the year ended on that date.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the Company and Group as far as appears from an examination of those records.

Our audit was completed on 27 August 2015. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

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Independent Auditor's Report
New Zealand Post Limited

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

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

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors
The Board of Directors is responsible for preparing financial statements that:
- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the Company and Group's financial position, financial performance and cash flows.

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

The Board of Directors' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

Responsibilities of the Auditor
We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

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

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

Paul Clark
On behalf of the Auditor-General
Wellington, New Zealand

PricewaterhouseCoopers

NEW ZEALAND POST GROUP

NON-FINANCIAL INFORMATION

Our performance in the community

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

Frequency of Delivery Services – Summary as at 30 June 2015

SERVICE	Delivery Points	6/7 Day	5 Day	1–4 Day
Residential	1,423,208	1,419,156	4,052	0
Business	80,324	79,890	434	0
Private Box Farmers	3,123	2,875	248	0
Private Box/Bag, Individual and Business	166,215	155,866	10,347	2
Counter, Community Mailbox	29,964	19,490	10,224	250
Rural	240,636	214,324	24,750	1,562
TOTAL	**1,943,470**	**1,891,601**	**50,055**	**1,814**
PERCENT	100.00%	97.33%	2.58%	0.09%

Frequency of Delivery

	Our performance	Our commitment
Six day delivery to	97.33%	(required minimum = 95.00%)
Five or six day delivery to	99.91%	(required minimum = 99.88%)
Counter, Community Mailbox percentage	1.43%	(allowed maximum = 3%)

1. 2258 points in the Counter and Community Mailbox category are excluded from the calculation of the percentage of delivery points as these are where people have elected to take this service over another that is available, as per clause 5 of the Deed. The number of people using temporary counter services (for up to three months) is excluded from the category.
2. The number of Counter and Community Mailbox users has been established by a survey and may differ slightly from practice.
3. Community mail boxes/counter services include instances where people are provided with a free PO Box or Private Bag by NZ Post rather than a Community Mailbox.

	Our performance
PostShop Stores (Corporate and Franchise)	274
PostCentre Outlets	606
Total Retail Outlets	880

	Our performance	Our commitment*
Personal Assistance Service Points**	819	240
Total Service Points***	880	880

* Commitment as specified in 2013 Deed of Understanding.

** "Personal Assistance Service Points" means Service Points where personal assistance is available to consumers for the purchase of local, national and international parcel and packet services excluding bulk mail and courier services.

*** "Service Points" means service points at which consumers can purchase basic postal services, including but not limited to the acceptance of Basic Postal Items, excluding bulk mail. "Basic Postal Items" means a postal item that does not exceed 260mm height, 385mm length, 20mm thickness and/or 1kg weight, excluding parcel, priority, courier or express services. Service Points may include outlets owned by New Zealand Post, service points hosted in other businesses and electronic kiosks.

LETTER DELIVERY PERFORMANCE

Level 3 435 Khyber Pass Road
Newmarket
PO Box 99069
Newmarket, Auckland
New Zealand

T +64 9 5243999
F +64 9 5243980

To The Directors; New Zealand Post Limited

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

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

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

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

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

From October 2009 continuous measurement has been conducted and reported on a monthly basis. The annual result was calculated using the data collected continuously from July 2014 to June 2015, this is the fifth annual result reported using a full year of continuous measurement. In our opinion this report fairly represents the service performance achieved by New Zealand Post Limited during the time of measurement.

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

	Weighted Results*
Total within specification	96.0%
Total within three days of specification	99.7%
More than three days later than specified	0.3%

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

Yours sincerely

TNS New Zealand Ltd

Bindi Norwell
Director

TNS New Zealand Ltd
TNS is a trade mark of Taylor Nelson Sofres plc.

Environment

Greenhouse Gas (GHG) Emissions

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

The Group Emissions report has been reconfigured since previous annual reports to comply with the CEMARS® certification methodology. The Group has applied a baseline year of 2012–13 for its emissions inventory. The operational control consolidation approach has been used to account for operational emissions with reference to the methodology described in the GHG Protocol and ISO 14064-1:2006 standards.

Figure 1: 2014–15 GHG emissions by source

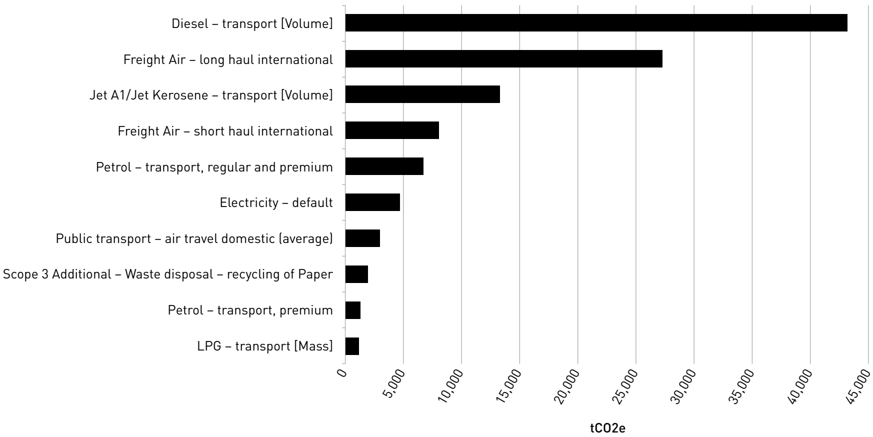

Figure 2: GHG emissions data summary (tCO2e)

	2012–13 (base year)	2013–14	2014–15	Change from base year
Scope 1	16,351	16,054	15,650	-4.30%
Scope 2	5,562	4,253	4,664	-16.10%
Scope 3 (incl additional)	105,605	100,637	93,400	-11.60%
Total	**127,518**	**120,943**	**113,714**	**-10.80%**

This statement is a summary of the verified information considered for CEMARS® certification. The full disclosure statement can be found at www.cemars.co.nz

**Totals for 2012/13 and 2013/14 have increased slightly from those published in the 2014 Annual Report due to a discrepancy identified in supplier data.*

Emissions audit statement

Certified Emissions Measurement And Reduction Scheme

CEMARS®

This is to certify that

New Zealand Post Limited

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

Karen Tipper - Certifier

Company Address: 7 Waterloo Quay, Wellington, New Zealand
Certificate Number: 2014069J
Date Issued: 30 June 2014
Valid until: 30 June 2017
Certification status: Certified organisation
Certification Year Level of Assurance: Reasonable

Certified by Enviro-Mark Solutions Limited

JAS-ANZ

WWW.JAS-ANZ.ORG/REGISTER

Please refer to the disclosure page of www.carbonzero.co.nz for further details

Landcare Research
Manaaki Whenua

New Zealand Post Limited and Subsidiaries
For the year ended 30 June 2015

Statutory Information

Consolidated earnings statement – information disclosure for the year ended 30 June 2015

	Letter Deliveries $m	Other Services $m	Total $m
Operating Revenue	316	1,327	1,643
Operating Expenses	323	1,160	1,483
Operating Surplus Before Income Tax	(-7)	167	160

Accounting Policies

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

Statement of Assumptions

Operating revenue has been calculated using the Group's product costing model which has calculated the operating revenue for letter deliveries using actual financial data for the 2014/15 year. The costing model identifies the relevant letter products and the revenue earned by them. In keeping with the original intention of the legislation, all Fast Post standard letter product for the full financial year has been included in the calculation of Letter Deliveries, even though the price of FastPost letters has increased to $1.40 effective 1 July 2012 which is above the amount set out in the legislation of $0.80 for this calculation.

Operating Expenses

Operating expenses have been calculated using the Group's product costing model which has calculated the operating expenditure for letter deliveries using actual financial data for the 2014/15 year. The costing model identifies the cost of activities within the Group based on resource drivers. The cost of each activity is assigned to letter deliveries or other services based on the activity drivers.

Any exchange gains or losses have not been included in this calculation.

pwc

Independent Review Report

To the Directors of New Zealand Post Limited

Report on the Consolidated Earnings Statement – Information Disclosure

We have reviewed the accompanying Consolidated Earnings Statement – Information Disclosure (the "Consolidated Earnings Statement") for New Zealand Post Limited (the "Company") and its controlled entities (together the "Group") for the year ended 30 June 2015.

Directors Responsibility

The Directors of the Company are responsible for the preparation of the Consolidated Earnings Statement in accordance with the Statement of Assumptions and the Postal Services (Information Disclosure) Regulations 1998 and for such internal control as the Directors determine is necessary to enable the preparation of the Consolidated Earnings Statement that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the Consolidated Earnings Statement that based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the Consolidated Earnings Statement, taken as a whole, is not prepared in all material respects, in accordance with the Statement of Assumptions and the Postal Services (Information Disclosure) Regulations 1998.

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

Our firm carries out other services for the Company in the areas of assurance, tax and advisory services. These services have not impaired our independence as auditors of the Company.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Consolidated Earnings Statement for the year ended 30 June 2015 has not been prepared, in all material respects, in accordance with the Statement of Assumptions and the Postal Services (Information Disclosure) Regulations 1998.

Restriction on Use

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

PricewaterhouseCoopers

PricewaterhouseCoopers — Wellington
27 August 2015

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

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

Statement of Corporate Governance

Shareholders

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

Shareholder Communications

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

Board Governance

The Board

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

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

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

As at 30 June 2015, the Board comprised eight Directors. Each Director is considered to be 'independent', in that each is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of the Directors' unfettered and independent judgement.

Role of the Board

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

→ to be as profitable and efficient as comparable private sector businesses;

→ to be a good employer; and

→ to exhibit a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

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

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

Board Meetings

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

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

Board Committees

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

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

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

Finance, Risk and Investment Committee

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

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

Human Resources Committee

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

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

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

Access to Independent Information

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

Risk Management

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

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

The Group Risk Team takes a systematic, disciplined approach to maintaining and continuously improving the effectiveness of risk management, internal control, project management and associated governance processes.

The following specific actions are taken:

- a Group risk profile that considers the principal risks to the New Zealand Post Group, and the management actions to mitigate such risks, is updated throughout the year;

- the Board's Finance, Risk and Investment Committee periodically reviews the Group's principal risk profile; and
- internal controls are assessed in line with a risk-based internal audit plan, with the outcomes being considered by the Board's Finance Risk and Investment Committee.

Integrity Standards

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

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

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

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

Conflict of Interest

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

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

Governance Requirements and Best Practice

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

Health and Safety

Health and safety governance is a key priority for the Board. The Board supports the "Good Governance Practices Guidelines for Managing Health and Safety Risks" produced by the Institute of Directors and the Ministry of Business, Innovation and Employment.

Report of the Human Resources Committee on Executive Remuneration

The Human Resources Committee comprises five Directors from the New Zealand Post Group Board. The primary purpose of the Human Resources Committee is to assist the Board in fulfilling its oversight of "good employer" and human resources governance responsibilities relating to the New Zealand Post Group. The Committee also has some specific responsibilities in respect to remuneration for New Zealand Post Group's Chief Executive and executive leadership team, and for remuneration policy applicable to New Zealand Post Limited Managers.

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

At the end of FY2014 most managers (other than those in sales-focused roles and the most senior leadership positions) had the at-risk component of their remuneration cashed-up and added to salary. In addition to this, the payment of the 2014 incentive for this same group was paid in August 2015.

Those in the most senior leadership positions have an incentive component as part of their total remuneration which is linked to organisational performance and the individual's contribution to our business transformation plan outcomes. Directors are not covered by this type of remuneration arrangement.

A number of restructures were completed in 2015 resulting in redundancies and termination payments. These payments are included in the total remuneration paid in the remuneration band table.

Across the Group, including jointly-controlled entities, the total cost of remuneration for our employees during the year was $578m. Pay rates vary across the Group depending on market conditions in relation to each business sector.

Remuneration Bands

Remuneration Band	Total in Band for FY15
100000 – 109999	238
110000 – 119999	170
120000 – 129999	117
130000 – 139999	114
140000 – 149999	87
150000 – 159999	76
160000 – 169999	54
170000 – 179999	51
180000 – 189999	22
190000 – 199999	14
200000 – 209999	22
210000 – 219999	20
220000 – 229999	12
230000 – 239999	13
240000 – 249999	16
250000 – 259999	12
260000 – 269999	9
270000 – 279999	8
280000 – 289999	4
290000 – 299999	3
300000 – 309999	4
310000 – 319999	5
320000 – 329999	7
330000 – 339999	1
340000 – 349999	2
350000 – 359999	-
360000 – 369999	-
370000 – 379999	4
380000 – 389999	2
390000 – 399999	-
400000 – 409999	1
410000 – 419999	3
420000 – 429999	1
430000 – 439999	-
440000 – 449999	-
450000 – 459999	1
460000 – 469999	-
480000 – 489999	2
490000 – 499999	-
500000 – 509999	2
510000 – 519999	-
520000 – 529999	1
540000 – 549999	1
560000 – 569999	1
570000 – 579999	2
590000 – 599999	1
600000 – 609999	1
630000 – 639999	1
670000 – 679999	1
690000 – 699999	-
700000 – 709999	1
730000 – 739999	-
740000 – 749999	-
790000 – 799999	-
810000 – 819999	1
930000 – 939999	-
1110000 – 1119999	1
1290000 – 1299999	-
1410000 – 1419999	1
TOTAL	1110

* Includes all payments made to employees between 1 July 2014 and 30 June 2015, including base salary, incentive payments and other benefits, termination payments, and superannuation.

Donations

During the year, the New Zealand Post Group made donations of **$131,082.14**. No donations were made to political parties.

Auditors

The auditor for the Group is Paul Clark assisted by PricewaterhouseCoopers, Wellington on behalf of the Auditor-General. The amount payable by the Group to PricewaterhouseCoopers as audit fees in respect of the year is **$2,330,000**. The amount incurred in respect of the year for other services provided by PricewaterhouseCoopers is **$1,029,000**.

Directors' and Employees' Indemnity and Insurance

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

Directors' Fees and Benefits*

The total fees paid to members of the New Zealand Post Limited Board during the 2014/2015 financial year were $454,000.00. The total Board fees are within the amount authorised by shareholding Ministers.

Name	Total fees and benefits*
Hon Sir Michael Cullen	$96,000
Carol Campbell	$54,500
Alan Dunn	$48,000
Temuera Hall (resigned as a Director of New Zealand Post as at 30 April 2015)	$40,000
Richard Leggat	$48,000
Jackie Lloyd	$63,500
David Willis	$48,000
Julia Hoare	$48,000
Richie Smith (Appointed as a Director 1 May 2015)	$8,000

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

Directors' Disclosures

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

General disclosures of interest made by the Directors of New Zealand Post Limited and New Zealand Post Limited subsidiaries pursuant to s140(2) of the Companies Act 1993 as at 30 June 2015 are:

New Zealand Post Limited

Director	Interest
Hon Sir Michael Cullen (Chair)	Chair and Trustee, New Zealand Post Superannuation Plan Chief Treaty Claims Negotiator, Tuwharetoa Chair, Tuhoe Investment Committee Trustee, TOI-EDA (until May 2015)
Carol Campbell	Director, The Business Advisory Group Ltd Director, Hick Bros Holdings Limited Director, Turners & Growers Limited Director, AlphaXRT Limited Director, Woodford Properties Limited Director, Brave Star Media Limited Trustee, Ronald McDonald House Charities Director, Kingfish Limited Director, Marlin Global Limited Director, Barramundi Limited Director, Key Assets NZ Limited Director, Fostering First New Zealand Limited Director, NPT Limited (from May 2015)
Alan Dunn	Director, Burger Fuel Worldwide Limited Director, DPA Technologies Limited (until August 2014) Director, Z Energy Limited Director, Z Energy LTI Trustees Limited Director, Z Energy ESPP Trustees Limited Director, Vertical 4 Systems Limited (from May 2015)
Temuera Hall *(resigned as a Director of New Zealand Post as at 30 April 2015)*	Executive Director, Taupo Moana Iwisaver Limited Managing Director, Taupo Moana Group Limited Executive Director, Taupo Moana Funds Limited Chair, Unimar Limited Director, Ranginui Station Limited Partnership Chair, Opepe Farm Trust Interim Chair, Waimihia Forest Hapu Clusten Trust Director, CNI Iwi Holdings Limited
Julia Hoare	Director, Watercare Services Limited Director, AWF Group Limited Director, The A2 Milk Company Limited Committee Member, Institute of Directors (New Zealand) Inc (from August 2014)
Richard Leggat	Director, Tourism NZ Chair, BikeNZ Chair, Eating Disorder Assn. NZ (until August 2014) Director, Trophy Metropolitan Limited Director, Mortleg Limited Director, Education New Zealand Director, Snow Sports NZ Chairman, New Zealand Cycle Trail Inc Director, NZ Markets Disciplinary Tribunal President, UCI Ethics Commission Chair, NZ Cycle Safety Panel (until March 2015) Director, Waterfront Auckland (from December 2014) Member, Urban Cycleways Investment Panel (from March 2015) Director, Development Auckland (from May 2015)

Director	Interest
Jackie Lloyd	Member, Wellington Regional Strategy Committee Trustee, Wellington Museums Trust Chair & Member, Institute of Directors (NZ) Inc Director, Worldwide Investments Limited Member, State Services Commission Audit and Risk Committee Director & Trustee, Chair of Central Region Grants Committee, Lion Foundation (from July 2014)
Richie Smith *(Appointed as a director 1 May 2015)*	Director/Shareholder, Hilton Haulage Limited Director/Shareholder, Richie Smith Limited Director/Shareholder, Heavy Diesel Parts and Services Limited Director, Southfuels Limited Director/Shareholder, Lands and Survey South Limited Director/Shareholder, Lands and Survey Limited Director, Ngai Tahu Farming Limited Director/Shareholder, The Trusty Holding Company Limited Director/Shareholder, The Trusty Delivery Company Limited Director/Shareholder, Alray Industries Limited Director/Shareholder, Ligno Process Systems Limited Director/Shareholder, Proteus Holdings Limited Director/Shareholder, The New Zealand Milk Company Limited Director/Shareholder, Maniototo Holdings Limited Director/Shareholder, West Coast Fresh Limited Director/Shareholder, Pure New Zealand Milk Limited Director, Carrickmore Limited Director/Shareholder, Pacific Biocomposites Limited Director/Shareholder, Biocomposites Limited Director/Shareholder, Tonhil Investments Limited Director/Shareholder, EX KFL Limited Director/Shareholder, Major Hornblower Holdings Limited Director/Shareholder, The Toot Project Limited Director/Shareholder, GSG Capital Partners Limited Director, Timaru District Holdings Limited Director/Shareholder, Hades Holdings Limited Member of Advisory Board, Pivot Software Limited Member of Advisory Board, Tekapo Springs Limited Member of Advisory Board, Industrial Controls South Canterbury Limited Member of Advisory Board, Industrial Controls Christchurch Limited
David Willis	Director, Bank of Queensland Limited and subsidiaries Director, CBH Grain Pty Limited (Co-operative Bulk Handling) Director, Interflour Holdings Limited (Singapore) Advisor, Bain and Company (Australia) Chair, The Horizons Program Director, Virgin Money Australia Director, St Andrew's Group (Australia)

Subsidiary Disclosures

Director	Interest
Nicholas Astwick	Director and Shareholder, Memorial Investments Limited Director, (Alternate), Payments NZ Limited Trustee, Leadership New Zealand
Paul Brock	Director and Shareholder, Hotspur Limited Director and Shareholder, Stratx Limited Trustee and beneficiary, Brock Family Trust Chair & Trustee, Eastern Hutt School Board of Trustees
Elizabeth Dawson	Director, New Zealand Cricket Director, New Zealand Olympic Committee Director, Hurricanes GP Limited Director and Shareholder, Forsyth Morrison Limited Trustee, Wellington Regional Stadium Trust (until March 2015) Director, St Kilda Football Club Melbourne Trustee and Beneficiary, Liz Dawson Family Trust
Alison Gerry	Director, Lindis Crossing Vineyard Limited Director, Glendora Holdings Limited Director, Glendora Avocados Limited Director, Random Walk (2010) Limited Director, Queenstown Airport Corporation Limited (until 31 July 2014) Director, Television New Zealand Limited Director, Pioneer Generation Limited (until July 2015) Director, NZX Limited Shareholder, Maungatapere Water Company Limited Director, Infratil Limited (from 27 August 2014) Director, New Zealand Clearing and Depository Corporation Limited (from 27 August 2014)
Wayne Hawkyard	Trustee and Beneficiary, Willowdene Family Trust Advisor, Rangiora Golf Club Inc Treasurer, Waimakariri Combined Probus Club Vice President and Member, Rangiora Tramping Club Limited Partner, Glenross Forest (NO19) Limited
Robert (Rob) Morrison	Director, Tamata Horticulture Limited Director, Tamata Holdings Limited Director, Acer Export Partnership Limited Director, Agriculture General Partner Limited Director, RWB Nominees Limited Director, Blind Pig Properties Limited Director, Kotu Farms Limited Director, Kotu Management Limited Director, Falkirk Management Limited Director, Welnix GP Limited Director, Investnix Holdings Limited Member, Asian Corporate Governance Association Chair, H.R.L Morrison & Co Group GP Limited Chairman, Pure Advantage Trustee, Rob Morrison Family Trust Shareholder, Fisher Funds Management Limited Shareholder, Palliser Estate Wines of Martinborough Limited Trustee, Moa Conservation Trust (from 27 May 2015)
Alistair Nicholson	Shareholder, BPV Direct Management Investment Limited Director, Glendora Avocados Limited Director, Glendora Holdings Limited Director and Shareholder, Hrothgar NZ Agri Holdings Limited Shareholder, Maungatapere Water Company Limited Director & Shareholder, Random Walk (2010) Limited Chair, Audit and finance Committee, Teach First New Zealand Executive Chair, Vulpes Investment Management Limited

Director	Interest
Dame Alison Paterson	Shareholder, Alandale Orchard Ltd Chair, BPAC NZ Limited Shareholder, Brick Lane Limited Chair Governing Board, Centre of Research Excellence for Growth and Development (University of Auckland) Chair, Crown Irrigation Investments Limited Shareholder, Fairmount Farms Limited Chair, Farm IQ Systems Limited Member, Health Quality and Safety Commission Chair, New Zealand Formulary Limited Director, NGC Holdings Limited Chair, Stevenson Agricultural Limited Shareholder, Storey Line Limited Director, Vector Limited Director, Vector Communications Limited Director, Vector Metering Data Services Limited Shareholder, Woodstock Investments Limited Director, Advanced Metering Assets Limited (from March 2015) Director, Advanced Metering Services Limited (from March 2015)
Paul Reid *(until July 2014)*	Director, Software Education Limited Director, Maven International Limited Director, Projects International Limited Director, Pukeko Pictures GP Limited
Brian Roche	Director, Valley Road Forest Limited Trustee, Victoria University Foundation Trustee, St Patrick's Foundation Trustee, BJ and ML Roche Family Trust Director, CV International Post Corporation UA Member, Trustee Council for the New Zealand Business and Parliamentary Trust Chair, Hurricanes GP Limited Chair, First World War Centenary Panel Chairman Major Events Investment Panel
Catherine Savage	Managing Director and Shareholder, CMS Capital Limited Director, Comrad Holdings Limited Director, Comrad Trustee Limited Managing Director and Shareholder, Savage Group Limited Director, Radsoft Holdings Limited Director, Comrad Medical Systems Limited Director, Safco Limited Director, Annuitas Management Limited Director, Todd Family Office Limited Director, Pathfinder Asset Management Limited Director, The Griffin Savage Coy. Limited Director, Waiwhetu Distributors Limited Chair – Board of Trustees, National Provident Fund Board Member, Guardians of the NZ Superannuation Fund Chair – Management Board, Samuel Marsden Collegiate School Director, Industrial Distributors Limited Director, New Zealand Institute of Chartered Accountants Director, Ruapehu Alpine Lifts (until June 2015) Director, Savage Capital Limited Director, Savage Capital Holdings Limited Director, Hyklene Limited Courtnay Nominees Limited (From February 2015)
Ashley Smout	Director, Muritai Investments Limited Trustee, Astrolabe Trust Advisory Trustee, Smout Family Trust

Directors of New Zealand Post Subsidiaries

Director	Subsidiary	Fees and Benefits
Dan Alexander	Converga Asia (Philippines) Limited (From October 2014)	
Nick Astwick	AMP Home Loans Limited (Alternate Director) KB Custodial Services Limited (Alternate Director) Kiwi Asset Finance Limited Kiwibank Investment Management Limited Kiwibank Nominees Limited (Alternate Director) Kiwi Insurance Limited The New Zealand Home Loan Company Limited New Zealand Home Lending Limited (Alternate Director) The New Zealand Home Loan Company Limited	
Paul Bellette	Converga Group Limited (from August 2014) Speedscan Limited (from August 2014) Datacap Limited (from August 2014) Converga (ACT) Pty Limited (from August 2014) Converga Inc (USA) (from August 2014) Converga Information Management Pty Ltd (from August 2014) Speedscan Group Holdings Pty Limited (from August 2014) Speedscan Pty Limited (from August 2014) New Zealand Post Australia Holdings Pty Limited (from August 2014)	
Paul Brock	AMP Home Loans Limited GMI General Partner Limited Kiwi Wealth Limited Portfolio Custodial Nominees Limited KB Custodial Services Limited Kiwi Asset Finance Limited (Alternate Director until April 2015) Kiwibank Investment Management Limited Kiwibank Nominees Limited Kiwi Wealth Management Limited New Zealand Home Lending Limited Kiwi Wealth Limited GMI Wealth Limited Kiwi Capital Funding	
Carol Campbell	Kiwibank Limited	$46,500
Stephen Cole	Kiwi Asset Finance Limited	$253,000
Gary Crawford	Portfolio Custodial Nominees Limited (From March 2015) Kiwi Capital Funding Limited (from March 2015)	
Hon Sir Michael Cullen	Kiwibank Limited	$46,500
Leo Davis	Kiwi Asset Finance Limited	
Elizabeth Dawson	Kiwi Insurance Limited	$40,000
Gary Edstein	Express Couriers Limited Couriers Please Holdings Pty Limited (until December 2014)	
Alison Gerry	Kiwibank Limited	$64,750
Sophie Haslem	Transend Worldwide Limited (South Africa)	
Wayne Hawkyard	Kiwi Insurance Limited	$25,000
Talal Ibrahim	Express Couriers Limited (Alternate Director)	
Theresa Kim	Converga Asia (Philippines) Limited (From October 2014)	
Harlis Malkic	Hills Parcel Direct Pty Limited (until December 2014)	
Rhiannon McKinnon	New Zealand Post Trust Management Services Limited	

Director	Subsidiary	Fees and Benefits
Rob Morrison	Kiwibank Limited	$100,000
Skye Nicholls	Converga Asia (Philippines) Reach Media New Zealand Limited	
Kiran Patel	Datam Limited (Alternate Director until 12 December 2014) Reach Media New Zealand Limited	
Neil Richardson	The New Zealand Home Loan Company Limited	$30,000
Brian Roberts	New Zealand Post Australia Holdings Pty Limited (until August 2014) Converga (ACT) Pty Limited (until August 2014) Converga Inc (USA) (until August 2014) Converga Information Management Pty Limited (until August 2014) Converga Group Limited(until August 2014) Speedscan Group Holdings Pty Limited (until August 2014) Speedscan Pty Limited (until August 2014) Speedscan Limited (until August 2014) Datacap Limited (until August 2014)	
Brian Roche	Converga Inc (USA) Datam Limited Express Couriers Limited Kiwibank Limited Kiwi Group Holdings Limited Localist Limited (Until March 2014) New Zealand Post Australia Holdings Pty Limited New Zealand Post Holdings Limited New Zealand Post Group Finance Limited Couriers Please Pty Limited (until December 2014) Couriers Please Holdings Pty Limited (until December 2014) Converga Pty Limited Converga Group Limited Converga Holdings Limited New Zealand Post CX Limited GMI General Partner Limited (until August 2014) Portfolio Custodial Nominees Limited (until August 2014) Kiwi Wealth Limited Kiwi Wealth Management Limited Speedscan Group Holdings Pty Limited (From January 2014) Speedscan Pty Limited Speedscan Limited Datacap Limited (Until July 2015)	
Roy Santos	Converga Asia (Philippines)	
Catherine Savage	Kiwibank Limited	$46,500
Janet Selwood	Converga Pty Limited (from February 2015)	
Lee Shaddock	Converga Asia (Philippines) (Until October 2014)	
Trent Shirkey	Kiwi Asset Finance Limited (Until June 2015)	
Ashley Smout	New Zealand Post Recycle Centre Limited (Until June 2015) Express Couriers Limited	

Director	Subsidiary	Fees and Benefits
Mark Stephen	AMP Home Loans Limited (Alternate Director) (Until May 2015)	
	KB Custodial Services Limited (Alternate Director) (Until May 2015)	
	Kiwi Asset Finance Limited	
	Kiwi Capital Management Limited (Alternate Director) (Until June 2015)	
	Kiwi Capital Securities Limited (Alternate Director) (Until June 2015)	
	Kiwi Insurance Limited	
	Kiwibank Investment Management Limited (Alternate Director) (Until May 2015)	
	Kiwibank Nominees Limited (Alternate Director) (Until May 2015)	
	New Zealand Home Lending Limited (Alternate Director) (Until May 2015)	
	The New Zealand Home Loan Company Limited (Alternate Director) (Until May 2015)	
Mahendra Thamarajah	Hills Parcel Direct Pty Limited (until August 2014)	
Virginia Viray	Converga Asia (Philippines)	
David Walsh	Kiwibank Limited (Alternate Director) (From May 2015)	
	Kiwi Group Holdings Limited (From February 2015)	
	Express Couriers Limited (From February 2015)	
	New Zealand Post Holdings Limited (From February 2015)	
	Converga Group Limited (From February 2015)	
	Datam Limited (From February 2015)	
	New Zealand Post CX Limited (From February 2015)	
	New Zealand Post Group Finance Limited (From February 2015)	
	Converga (ACT) Pty Limited (From February 2015)	
	Converga Holdings Pty Limited (From February 2015)	
	Converga Pty Limited (From February 2015)	
	Converga Inc (USA) (From February 2015)	
	New Zealand Post Australia Holdings Pty Limited (From February 2015)	
	Converga Information Management Pty Ltd (From February 2015)	
Graham Watt	Kiwi Capital Securities Limited (until June 2015)	
	Kiwi Capital Funding Limited (until March 2015)	
	Kiwi Capital Management Limited (until June 2015)	
	The New Zealand Home Loan Company Limited	
David Willis	Kiwibank Limited (until June 2015)	$46,500
	Converga Pty Limited	$9,580 AUD
	Couriers Please Holdings Pty Limited (until December 2014)	$13,110 AUD
	Couriers Please Australia Pty Limited (until December 2014)	
	Converga Holdings Pty Limited	
	Couriers Please Pty Limited (until December 2014)	
John Willis	New Zealand Post Trust Management Services Limited	
	New Zealand Post Holdings Limited (Alternate Director) (until December 2014)	
Blair Woodbury	New Zealand Post Trust Management Services Limited (Alternate Director From November 2013)	
	Kiwi Group Holdings Limited (Alternate Director (until December 2014))	
	Datam Limited from December 2014)	
Mark Wilkshire	Kiwibank Investment Management Limited	
Lindsay Wright	Kiwibank Limited	$46, 500
	GMI Wealth Limited (Until April 2015)	
	Portfolio Custodial Nominees (Until April 2015)	
	Kiwi Wealth Limited (Until April 2015)	
	GMI General Partner Limited (Until April 2015)	$33,330

Director	Subsidiary	Fees and Benefits
Mark Yeoman	Converga Holdings Limited (Until December 2014) Converga Group Limited (Until December 2014) Converga Inc (USA) (Until December 2014) Converga Pty Limited (Until December 2014) Converga (ACT) Pty Limited (From 21 May 2013) (Until December 2014) Converga Information Management Pty Limited (Until December 2014) Converga Asia (Philippines) (Until December 2014) Datam Limited (Until December 2014) Express Couriers Limited (Until December 2014) Kiwi Group Holdings Limited (Until December 2014) New Zealand Post CX Limited (Until December 2014) New Zealand Post Group Finance Limited New Zealand Post Holdings Limited(Until December 2014) Transend Worldwide Limited (South Africa) New Zealand Post Australia Holdings Limited (Until December 2014) Kiwibank Limited (Alternate Director) (Until December 2014) Couriers Please Australia Pty Limited (Until December 2014) Couriers Please Holdings Pty Limited (Until December 2014) Couriers Please Pty Limited (Until December 2014) Kiwi Wealth Management Limited (Until December 2014)	
Alistair Nicholson	GMI General Partner Limited Portfolio Custodial Nominees Limited Kiwi Wealth Limited GMI Wealth Limited	$40,000
Dame Alison Paterson	GMI General Partner Limited Portfolio Custodial Nominees Limited Kiwi Wealth Limited GMI Wealth Limited	$48,000

Directors' Statement

This Annual Report is for the period 1 July 2014 to 30 June 2015 and is signed on behalf of the New Zealand Post Board by:

Hon Sir M.J. Cullen
Chairman

Carol Campbell
Director

This Annual Report is dated 27 August 2015.

Directory

Chairman	Hon Sir Michael Cullen
Deputy Chair	Jackie Lloyd
Members	Carol Campbell Alan Dunn Julia Hoare Richard Leggat Richie Smith David Willis
Group Leadership Team	
Group Chief Executive Officer	Brian Roche
Group General Manager, People & Capability	Jo Avenell
Chief Executive Officer, Kiwibank Limited	Paul Brock
Group General Manager, Assurance	Malcolm Shaw
Chief Operating Officer, Mail & Communications	Ashley Smout
Chief Operating Officer, Express Couriers Limited	Paul Trotman
Chief Financial Officer	David Walsh (as of 16 February 2015)
Bankers	Bank of New Zealand Limited
Auditor	Paul Clark assisted by PricewaterhouseCoopers, Wellington, on behalf of the Auditor-General.
Registered Office	12th Floor New Zealand Post House 7 Waterloo Quay Wellington New Zealand
For further information about the contents of this report, please contact:	New Zealand Post Group Corporate Affairs Team Private Bag 39990 Wellington Mail Centre Lower Hutt 5045 New Zealand Telephone: +64-4-496 4999 Facsimile +64-4-496 4479 Email: post.communications@nzpost.co.nz
For more information about New Zealand Post's products and services, please contact	New Zealand Post Customer Services Centre: Telephone toll free: 0800 501 501 Email: enquiry@nzpost.co.nz Website: www.nzpost.co.nz
For information about Kiwibank's products and services, please contact:	Kiwibank Customer Services Centre: Telephone toll free: 0800 11 33 55 Website: www.kiwibank.co.nz

This document [supporting information 2015] is volume 2 of the New Zealand Post Group's Annual Report for 2015. The first volume of this Annual Report [Annual Review 2015] can be seen online at www.nzpost.co.nz/about-us/investor-centre/reports-presentations

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

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