

Kiwibank

Financial Services Group

ANNUAL RESULTS
for the year ended 30 June 2018

Kiwi
bank.

> Content :

1. Kiwibank Financial Services Group

Group structure, headline results, key events & strategy

2. Earnings & performance

Kiwibank, Wealth & Insurance

3. Community & Partnerships

Highlights

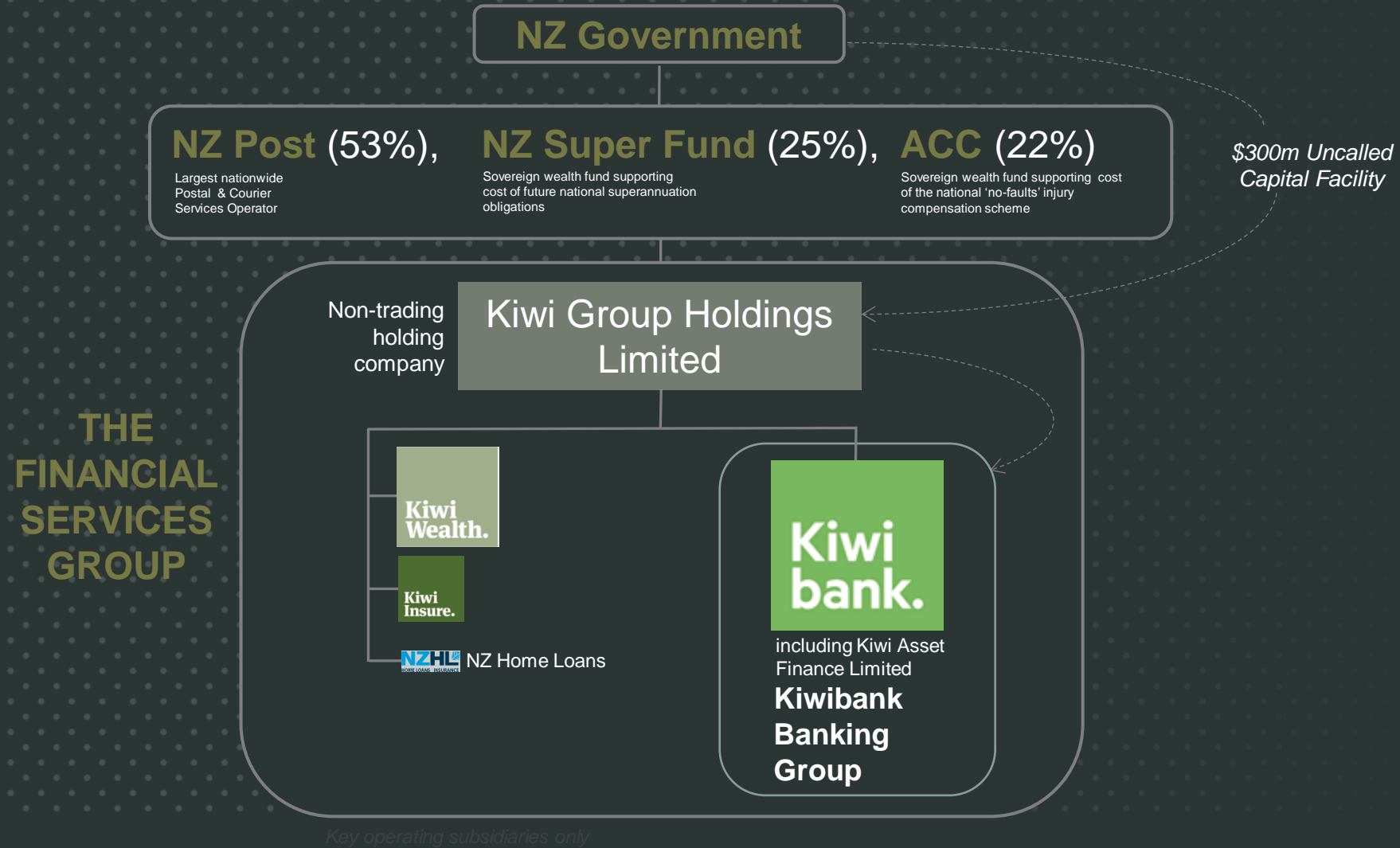
4. Appendices

Capital, funding and performance history

KIWIBANK FINANCIAL SERVICES GROUP

Kiwibank, Kiwi Wealth, Kiwi Insure, NZ Home Loans, Kiwi Asset Finance

Group structure and ownership



Group headline financial results

\$m	2018	2017	change
<i>Income statement (extract)</i>			
Net interest income	419	375	▲ 12%
Net fee & other income	193	180	▲ 7%
Operating expenses	(429)	(384)	▲ 12%
Net profit after tax	122	58	▲ 110%
<i>Reconciliation of net profit after tax to underlying profit:</i>			
<i>Reconciling items (net of tax):</i>			
Other impairment losses ¹	8	65	
Operating costs incurred to wind down CoreMod ²	7	-	
Net earthquake (recoveries)/costs ³	(4)	6	
Underlying profit	133	129	▲ 3%
Total assets	20,844	20,741	~
Total equity	1,558	1,455	▲ 7%

- Other impairment losses:** Impairment loss recognised in relation to computer software (the CoreMod IT project)
- Operating costs incurred to wind down CoreMod:** Operating costs incurred in relation to the CoreMod IT project subsequent to the Board decision to close the project
- Net earthquake (recoveries)/costs:** Earthquake costs are operating expenses incurred as a result of the November 2016 Kaikoura earthquake net of insurance receipts recognised to date

The year that was...

- > Underlying **profits rise a modest 3%**, shaking off a challenging first half year
- > Margins returned to more 're-investment friendly' levels, finishing at **2.06%**
- > Funds under management by **Kiwi Wealth rose 19%**
- > Kiwibank maintained the **Highest Net Promoter Score** of the main banks for both personal and small business banking customers
- > Kiwibank ranked in the **top 20 most trusted companies** by the Colmar Brunton Corporate Reputation Index (one of only two banks)
- > **New CEO announced:** Steve Jurkovich joins Kiwibank as CEO
- > Other key appointments: new Chief Economist (Jarrod Kerr) and new Treasurer (Tim Main)
- > The RBNZ **confirms a favourable decision** on Kiwibank's capital instruments, ending a period of uncertainty that saw shareholders inject \$247m into Kiwibank during the previous financial year

...the year ahead

we have a responsibility to be a sustainable bank, here for generations of New Zealanders to come

1

***Customers** are demanding seamless, engaging, digital led experiences*

2

*In response, Kiwibank is re-imagining its current operating model to **build new customer-focused capabilities***

3

*To achieve this, Kiwibank has embarked on a journey to create a **next generation bank** which delivers irresistible customer experiences*

Strategic priorities

All about the customer

Build value for customers around their priority needs
Be the best bank for segments in which we already have strength

Faster and better

Build an operating model that can manage change at speed
Deliver an operating model with a significantly lower cost base

Uniquely Kiwi

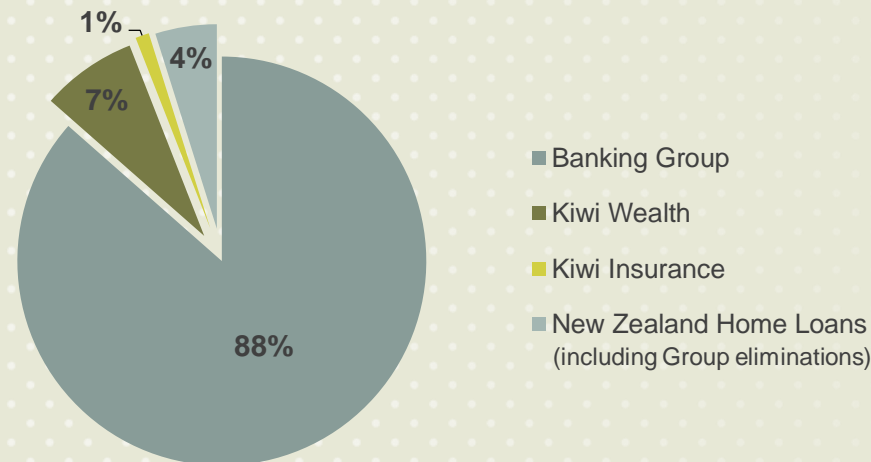
Build on our strong brand to continue to challenge the market

EARNINGS & PERFORMANCE

Earnings mix

- > Group underlying profit¹ of \$133m for the year ending 30 June 2018 is up \$4m, or 3% on 2017
- > The bulk of the Group's underlying profit is provided by the Kiwibank Banking Group (Kiwibank) which delivered an underlying profit² of \$126m for the year ended 30 June 2018, up 3%
- > The earnings contribution across the Group has remained steady over the past year

Group operating income mix



1. See reconciliation to net profit after tax on page 5
2. See reconciliation to net profit after tax on page 23

Kiwibank Banking Group

Financial snapshot

Total lending ↑ **2.7%** on prior year

Customer deposits ↑ **1.2%** on prior year

Main bank share **11.6%** steady

Local Currency Credit ratings:

Agency	Rating	Outlook
S&P	A	Stable
Moody's	A1	Stable
Fitch	AA	Stable

	FY18	FY17	FY16	FY15
Net profit after tax	\$115m	\$53m	\$124m	\$127m
Underlying profit [†]	\$126m	\$122m	\$124m	\$127m
Cost to income ratio	69%	69%	63%	60%
Net interest margin ^{††}	2.06%	1.92%	2.05%	2.12%
Total equity	\$1,487m	\$1,380m	\$1,129m	\$1,033m
Return on equity ^{†††}	7.9%	10.1%	12.1 %	13.4 %
Tier 1 Capital Ratio	14.8%	12.3%	10.7%	11.0%
CET1 Capital Ratio	13.4%	12.3%	9.1%	9.3%
Customer deposits	\$16,173m	\$15,983m	\$14,782m	\$13,740m
Loans & advances	\$18,304m	\$17,815m	\$16,689m	\$15,598m
Impaired assets ^{††††}	0.06%	0.07%	0.09%	0.15%

All data as at 30 June of the respective Disclosure Statement

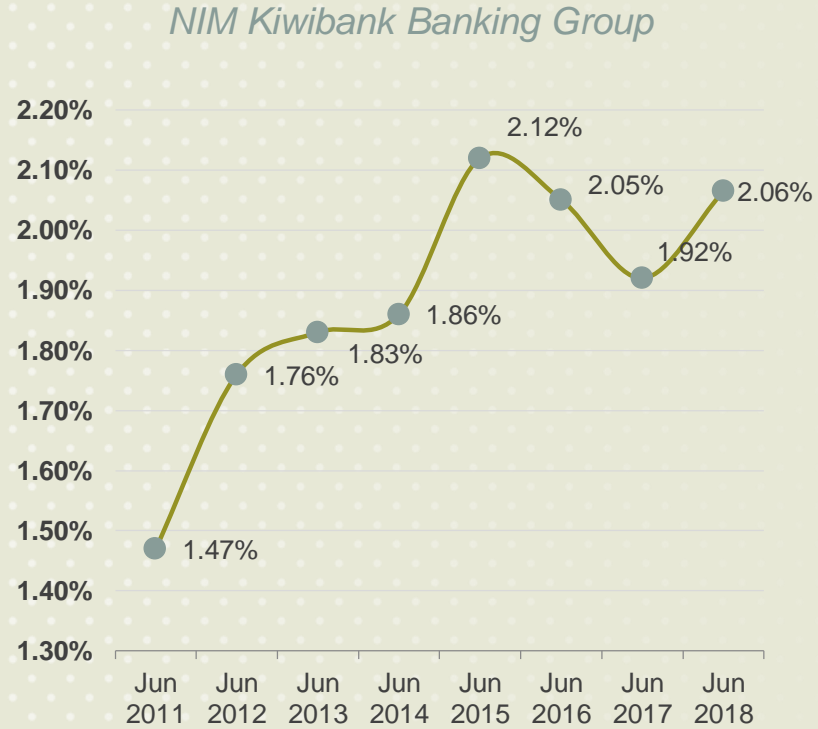
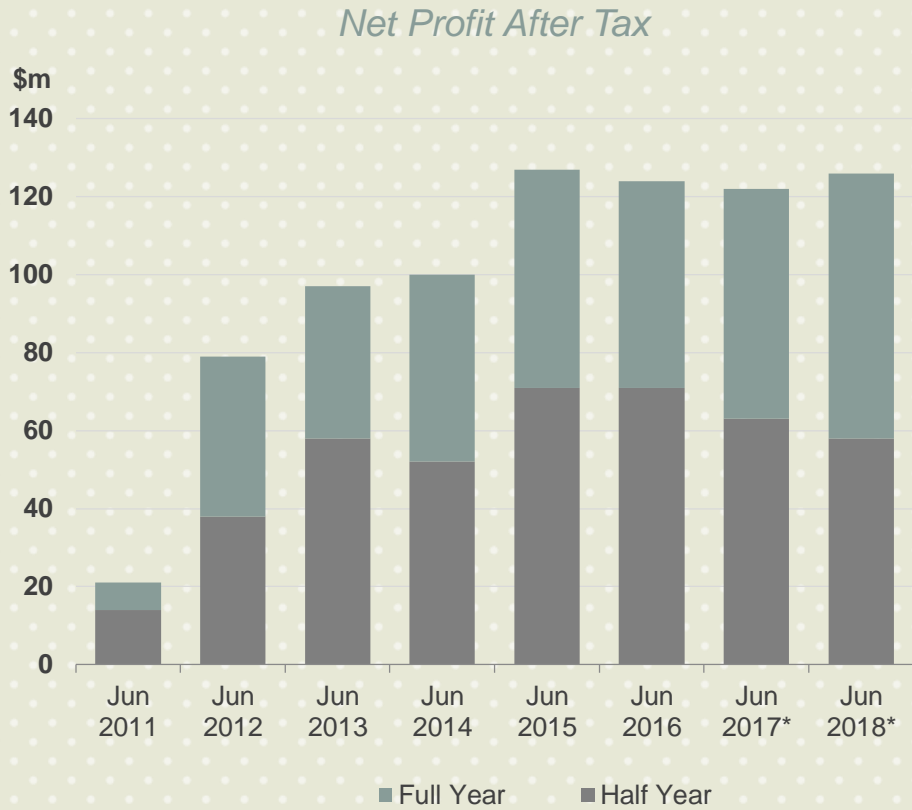
[†] See reconciliation to net profit after tax on page 23

^{††} Source: Kiwibank

^{†††} As a percentage of total equity attributable to owners of the parent – FY17 & FY18 adjusted for underlying profit after tax reconciling items

^{††††} Gross impaired assets as a percentage of gross loans and advances

Kiwibank profitability



Source: *Kiwibank Disclosure Statements*
 *Underlying NPAT for Jun 2017 and Jun 2018



Kiwibank performance

- > **Revenue lift** has been driven by improved funding and lending margins despite sluggish balance sheet growth
- > Aside from the one-off insurance receipts (Kaikoura earthquake), **fee income is trending lower** due to competitive changes and shifts in customers' behaviour
- > The increases in operating costs were necessary to close out the former IT programme (CoreMod) in the first quarter of the year, as well as supporting the ongoing **branch network transformation**
- > The favourable credit environment and good management has seen continued **lower levels of bad debts**

13



Kiwibank customers

- > Our **active customer base** in our target demographic is growing in line with population
- > **Digital service interactions** growing 57% year-on-year in line with our expectations
- > **90%** of all bank transactions are digital/self-service
- > Customer use of the Kiwibank app and internet banking to **re-fix mortgages increased 86%** over the year
- > Our Business Banking team is cementing its presence in the SME sector

14



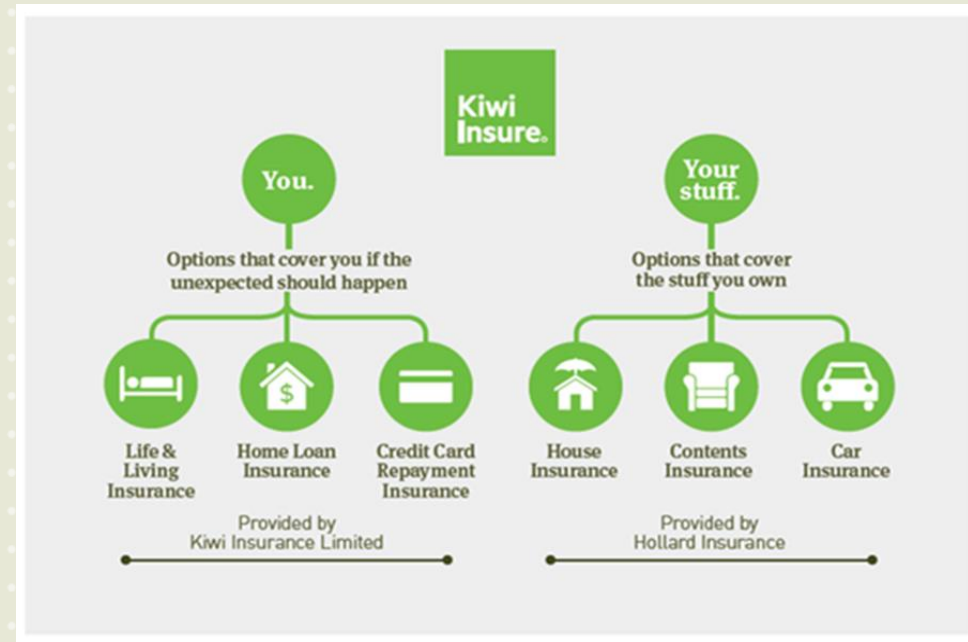
Kiwi Wealth

- > *Five years following the acquisition of the wealth management and KiwiSaver businesses, both brand and name have been changed to **Kiwi Wealth***
- > *Funds under management rose 19% over the year to **\$5.5b***
- > *Automation: the Financial Markets Authority (FMA) granted Kiwi Wealth's request to provide **personalised digital advice**, the first organisation in New Zealand to be licensed to provide 'robo-advice'*
- > *Building on Future You[®] : We also listened to the members of the Kiwi Wealth KiwiSaver Scheme who wanted recommendations on how to improve their projected retirement forecast after using **Future You[®]***
- > ***Responsible investing**: Kiwi Wealth's KiwiSaver Scheme investment funds have each been independently certified by Australasia's leading certifier of responsible investors, the Responsible Investment Association Australasia (RIAA)*

Kiwi Insurance

Key performance elements

- > *Operating income increased 14%*
- > *The in-force book has risen by 18% to \$18.4m*
- > *Entered a new distribution relationship with Ando and Hollard for general insurance in April 2018*



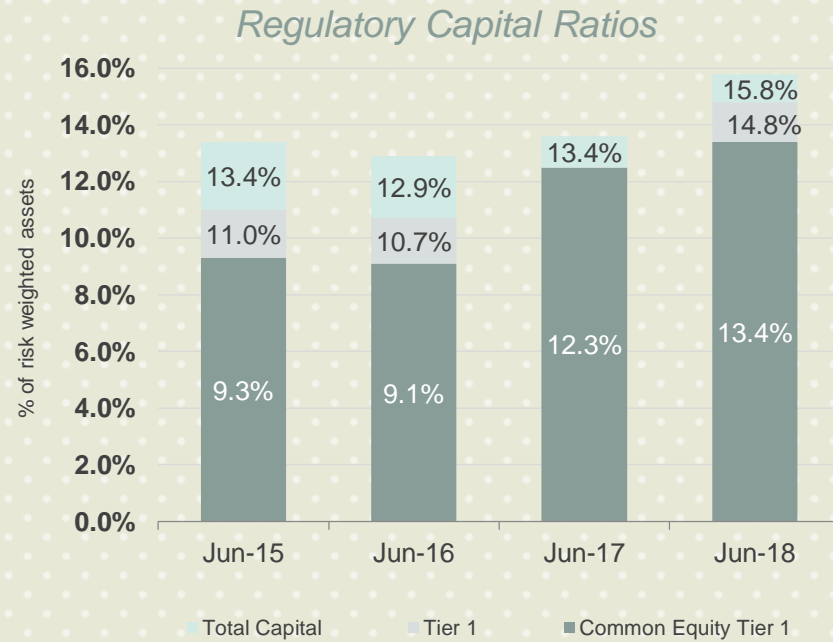
COMMUNITY & PARTNERSHIPS

Highlights this year...

- > Continued to partner with financial literacy tool **Banqer** to fund 2,100 classrooms and reach over 60,000 Kiwi kids
- > Increased support to \$500,000 for **Ngā Tangata Microfinance** to provide small, no-interest and no-fee loans to help people on low incomes to reduce the burden of high-interest debt. We also work with Aviva in Christchurch providing no interest loans under a similar scheme
- > Renewed partnership with the **Ākina Foundation** to build the social enterprise sector in New Zealand, helping create businesses that are both resilient and work towards having a positive impact for our society or environment with investment readiness grants
- > Celebrated 10 years as sponsor of the **Kiwibank New Zealander of the Year Awards** and **Local Hero of the Year Awards** to honour extraordinary Kiwis whose selflessness, creativity and vision make us proud to call New Zealand home
- > Facilitated the second **Kiwibank FinTech Accelerator** programme supporting Kiwi start-ups to build, launch, and expand products into global markets. Committed to a third programme in 2019

APPENDICES

Kiwibank capital ratios



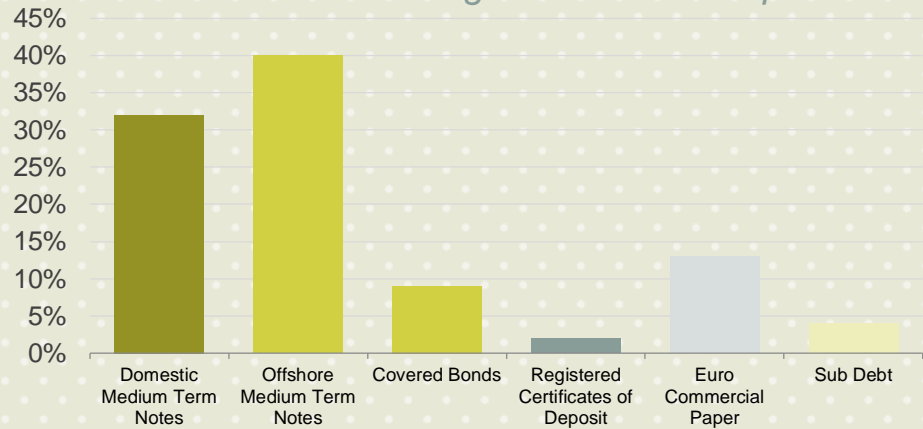
	<i>Regulatory Minimum</i> (including 2.5% buffer ratio)	Kiwibank
Common Equity Tier 1 ratio	7.00%	13.4%
Tier 1 capital ratio	8.50%	14.8%
Total capital ratio	10.50%	15.8%



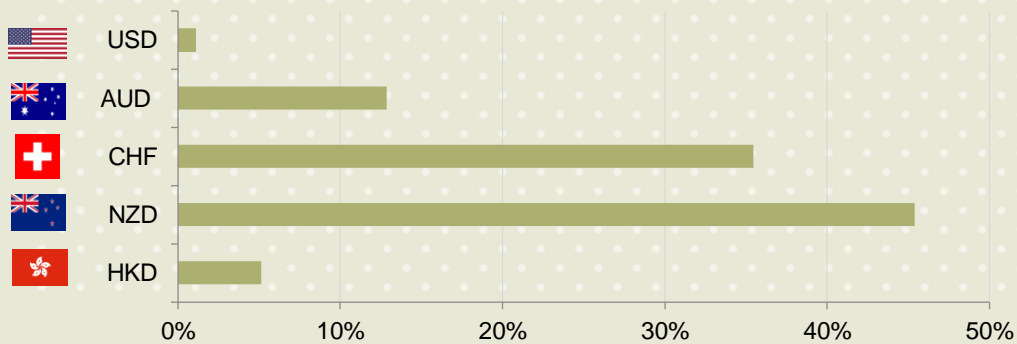
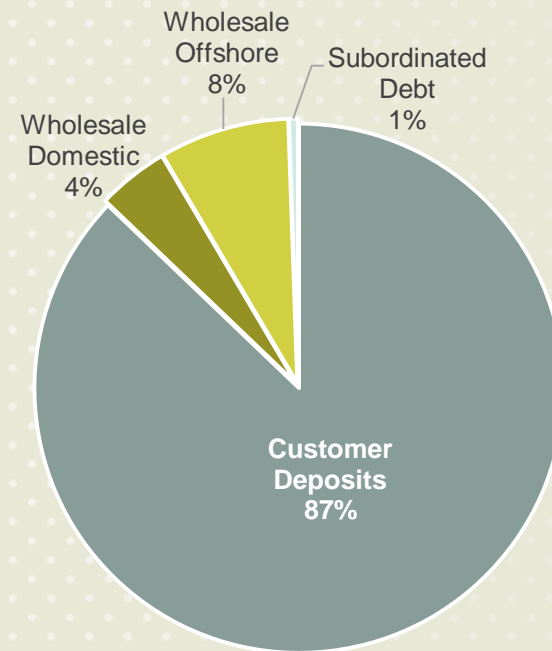
Kiwibank funding mix

- > *Strong customer deposit funding franchise creates a modest wholesale funding task*
- > *Diversified wholesale funding mix*

Wholesale funding breakdown & exposure



Balance Sheet funding sources



Debt & Capital Programmes

<i>Programme</i>	<i>Market</i>	<i>Term</i>	<i>Size</i>	<i>As at 30 June 2018</i>
RCD	NZ	Short	n/a	NZ\$56m
RMBS	NZ	Short	NZ\$1,100m	-
ECP	Offshore	Short	US\$2,000m	NZ\$298m
MTN	NZ	Long	Unlimited	NZ\$740m
Capital Note (Jul 2024)	NZ	Long	Stand-alone	NZ\$100m
Perpetual Capital Note	NZ	Perpetual	Stand-alone	NZ\$150m
Covered Bond (Dec 2020)	Offshore	Long	NZ\$3,000m	CHF150m
Kangaroo	Australia	Long	A\$1,500m	A\$409m
Swiss Senior Bonds	Switzerland	Long	Stand-alone	CHF325m

Kiwibank performance history

\$m	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Interest income	798	957	898	831	879
Interest expense	(505)	(596)	(525)	(463)	(468)
Net Interest Income	293	361	373	368	411
Gains/(losses) on financial instruments at fair value	3	5	3	8	9
Net fee income	104	107	101	118	119
Operating expenses	(265)	(284)	(301)	(339)	(373)
Impairment reversals/(losses) on loans and advances	4	(13)	(11)	6	(1)
Other impairment losses	-	-	-	(90)	(11)
Profit before taxation	139	176	165	71	154
Income tax expense	(39)	(49)	(41)	(18)	(39)
Net profit after tax	100	127	124	53	115
Reconciliation of net profit after tax to underlying profit					
Net profit after tax	100	127	124	53	115
Reconciling items (net of tax):					
Other impairment losses ¹	-	-	-	65	8
Operating costs incurred to wind down CoreMod ²	-	-	-	-	7
Net earthquake costs/(recoveries) ³	-	-	-	4	(4)
Underlying profit	100	127	124	122	126
CTI	66%	60%	63%	69%	69%
Dividends paid on ordinary shares	-	(22)	(29)	(5)	-
Other distributions paid	(9)	(9)	(11)	(13)	(11)

23

Source: Kiwibank Disclosure Statement at 30 June full year

1. **Other impairment losses:** Impairment loss recognised in relation to computer software (the CoreMod IT project)

2. **Operating costs incurred to wind down CoreMod:** Operating costs incurred in relation to the CoreMod IT project subsequent to the Board decision to close the project.

3. **Net earthquake costs/(recoveries):** Earthquake costs are operating expenses incurred as a result of the November 2016 Kaikoura earthquake net of insurance receipts recognised to date.



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Kiwibank balance sheet history

\$m	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Assets					
Loans and advances	14,630	15,598	16,689	17,815	18,304
Other assets	2,046	2,746	2,668	2,801	2,411
Total Assets	16,676	18,344	19,357	20,616	20,715
Liabilities					
Deposits and other borrowings	12,751	13,740	14,782	15,983	16,173
Debt securities issued	2,143	2,397	2,207	2,258	2,265
Other liabilities	779	1,174	1,239	995	790
Total Liabilities	15,673	17,311	18,228	19,236	19,228
Equity					
Share Capital	400	400	400	737	737
Reserves	454	633	729	643	750
Non-controlling interest	149	-	-	-	-
Total equity	1,003	1,033	1,129	1,380	1,487
Total liabilities and shareholders' equity	16,676	18,344	19,357	20,616	20,715

24

Source: Kiwibank Disclosure Statement at 30 June full year

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