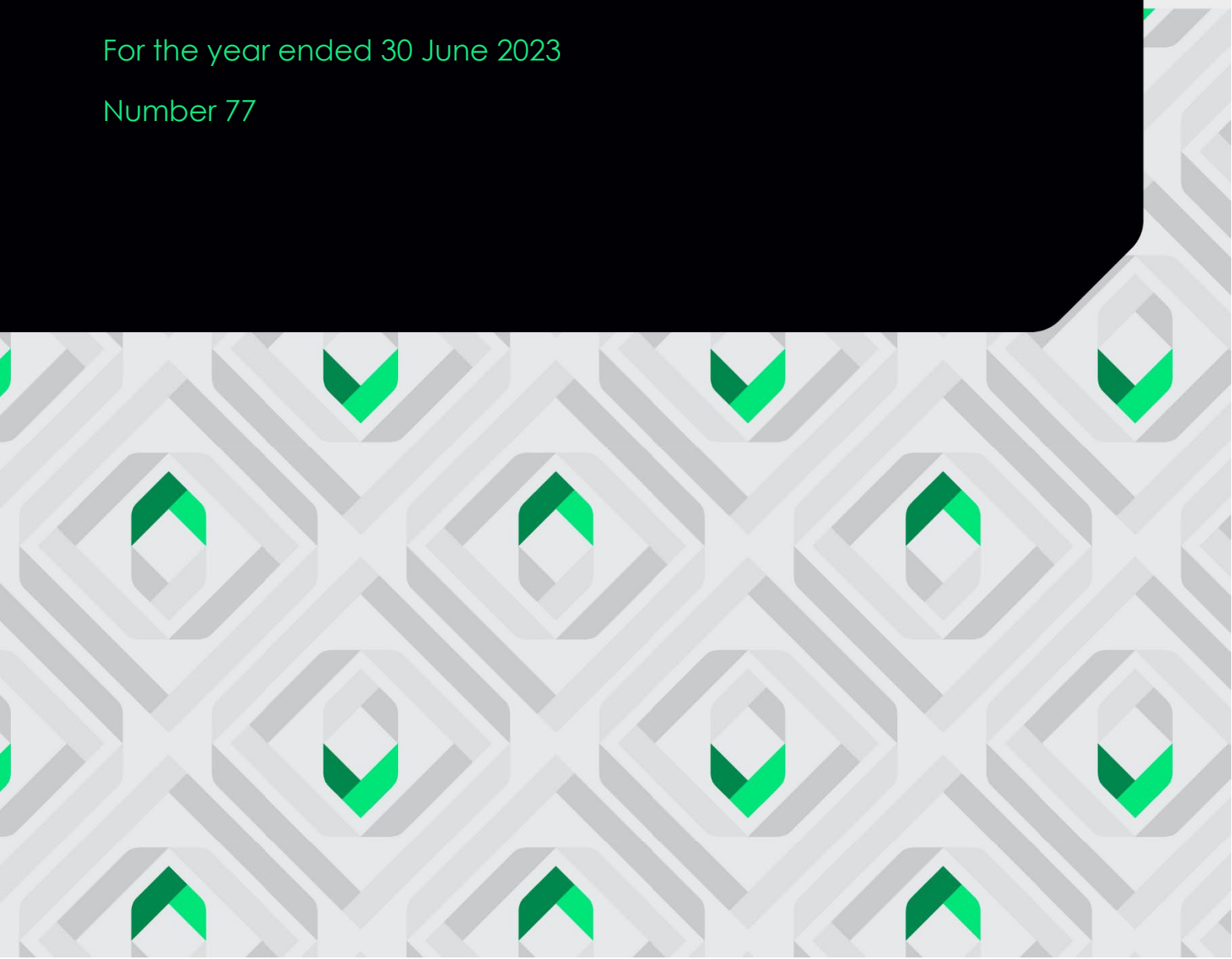




# Registered Bank Disclosure Statement

For the year ended 30 June 2023

Number 77



# Disclosure Statement

## For the year ended 30 June 2023

This Disclosure Statement has been issued by Kiwibank Limited (the "**Bank**" or "**Kiwibank**") for the year ended 30 June 2023 in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "**Order**").

In this Disclosure Statement, unless the context requires otherwise:

- > "**Banking Group**" means Kiwibank's financial reporting group, which consists of Kiwibank, all of its wholly owned entities and all other entities consolidated for financial reporting purposes; and
- > Words and phrases defined by the Order have the same meanings when used in this Disclosure Statement.



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# General matters

## Details of incorporation

Kiwibank Limited ("**Kiwibank**" or the "**Bank**") is a company domiciled in New Zealand and was incorporated in New Zealand under the Companies Act 1993 on 4 May 2001. On 29 November 2001, the Bank was registered as a bank under the Reserve Bank of New Zealand Act 1989 (now the Banking (Prudential Supervision) Act 1989) and was required to comply with the conditions of registration as laid down by the Reserve Bank of New Zealand ("**RBNZ**") from that date onwards.

## Registered office and address for service

The registered office and address for service is: Kiwibank Limited, Level 9, 20 Customhouse Quay, Wellington 6011, New Zealand.

## Ultimate holding company

The ultimate holding company of Kiwibank is Kiwi Group Capital Limited ("**KGCL**") whose address for service is: Level 9, 20 Customhouse Quay, Wellington 6011, New Zealand.

## Voting securities and power to appoint directors

As at 30 June 2023, there are 737 million voting shares in the Bank. KGCL is the registered and beneficial holder of all voting shares in the Bank. KGCL and the Sovereign in right of New Zealand, acting by and through the Minister of Finance and the Minister for State-Owned Enterprises (the Crown) (as the ultimate parent of KGCL) are the only holders of a direct or indirect qualifying interest in the voting shares of the Bank.

On 30 November 2022, 100% of the shares of Kiwi Group Holdings Limited ("**KGHL**") were acquired by KGCL, a new Crown company (Public Finance Act 1989 Schedule 4a). Previously KGHL was owned by NZ Post Limited (53%), NZSF Tui Investments Limited (25%) and Accident Compensation Corporation (22%). On 31 March 2023, KGHL was amalgamated into KGCL, which continued as the amalgamated company.

KGCL has the ability to directly appoint 100% of the Board of Directors of Kiwibank (the "**Board**"). No appointment of any director, chief executive, or executive, who reports or is accountable directly to the chief executive, shall be made in respect of the Bank unless:

1. the RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee; and
2. the RBNZ has advised that it has no objection to that appointment.

## Other material matters

The Board is of the opinion that there are no other matters relating to the business or affairs of Kiwibank or the Banking Group which are not contained elsewhere in this Disclosure Statement that would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which Kiwibank or any member of the Banking Group is the issuer.

## Pending proceedings or arbitration

The Board is not aware of any pending legal proceedings or arbitration concerning Kiwibank or any member of the Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on Kiwibank or the Banking Group.

For completeness, Kiwibank notes that the Financial Markets Authority issued proceedings against it on 9 December 2021. The proceedings seek a declaration that Kiwibank offended the fair dealing provisions of the FMC Act, and orders that Kiwibank pay a pecuniary penalty to the Crown and costs.

## Priority of creditors' claims

In the event of the liquidation of Kiwibank, claims of secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Customer deposits are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank. The priority of creditors is covered in Notes 18, 19 and 20.

In addition, all payment obligations of Kiwibank that existed on 28 February 2017 are guaranteed under the Crown Guarantee but only in relation to and to the extent of those obligations.

# General matters continued

## Directorate

### Independent non-executive director, Chair

**Jonathan Peter Hartley QSO**

**Qualifications:** BA (Hons), FCA (E&W), FCA (ANZ), ACA, FAICD

**Primary occupation:** Company director

**Country of residence:** New Zealand

**Audit and Risk Committee member:** Yes

**External Directorships:** Director of Timberlands Limited, Ngāi Tahu Holdings Corporation Limited.

### Independent non-executive directors

**Kevin Mark Malloy**

**Qualifications:** Dip Advertising & Marketing

**Primary occupation:** Company director

**Country of residence:** New Zealand

**Audit and Risk Committee member:** No

**External Directorships:** Director of each of Television New Zealand Limited (ceased 30 June 2023), KM54 Limited, NZ Cricket Board, Halberg Disability Sport Foundation, Super Rugby Governance Board.

**Mary Jane Daly**

**Qualifications:** BCom, MBA, CFInstD

**Primary occupation:** Company director

**Country of residence:** New Zealand

**Audit and Risk Committee member:** Yes (Chair)

**External Directorships:** Director of each of Kiwi Property Group Limited, FSF Management Company Limited, AIG Insurance New Zealand Limited.

**Ian Cameron Blair**

**Primary occupation:** Managing director

**Country of residence:** New Zealand

**Audit and Risk Committee member:** Yes

**External Directorships:** Director of each of Sapience Limited, WSP New Zealand Limited, Blair Family Corporate Trustee Limited.

**Kate Louise Jorgensen** (appointed on 1 June 2023)

**Qualifications:** MTF, CA, BBus, CMInstD

**Primary occupation:** Company director

**Country of residence:** New Zealand

**Audit and Risk Committee member:** Yes

**External Directorships:** Director of each of Asteron Life Limited, Chorus New Zealand Limited, Chorus Limited, Vero Liability Insurance Limited, Vero Insurance New Zealand Limited.

### Non-executive directors

**Scott John Pickering**

**Qualifications:** Associate Certified Insurance Professional, Certificate of Insurance (Non-Life)

**Primary occupation:** Company director

**Country of residence:** New Zealand

**Audit and Risk Committee member:** No

**External Directorships:** Director of Engage Consulting Limited, Insurance Australia Group (IAG) Limited.

### Changes in Board of Directors

John Gilbert Sproat resigned as an independent non-executive director on 30 November 2022.

Gregg Douglas Behrens retired as an independent non-executive director on 30 June 2023.

Carol Anne Campbell retired as a non-executive director on 30 June 2023.

Kate Louise Jorgensen was appointed as an independent non-executive director on 1 June 2023.

### Audit and Risk Committee

The charter of the Audit and Risk Committee provides that the membership of the Committee must include a majority of independent directors, and at least one member with material accounting experience. In this disclosure period, the Committee was made up of four directors (four independent non-executive directors and one non-executive director).

# General matters continued

## Executive directors

There are no executive directors of the Bank.

## Communications with directors

Communications addressed to the directors and responsible persons may be sent to the Bank's address for service.

## Policy for avoiding and dealing with conflicts of interest

The policy and current practice of the Board is that conflicts of interest which may arise from the personal, professional or business interests of the directors, or any of them, must be disclosed to the Board. Directors are not entitled to vote on any matter in which they have an interest, unless KGCL has approved the waiver of this requirement. However, directors can be counted in the quorum for any part of a Board meeting in respect of which they have a conflict.

The Companies Act 1993 requires each director's interest to be entered in the interests register and disclosed to the Board:

- a) the nature and monetary value of the director's interest if its monetary value is able to be quantified; or
- b) the nature and extent of the director's interest if its monetary value is not able to be quantified.

## Directors' benefits

There is no transaction which any director or immediate relative or close business associate of any director has with Kiwibank which either has been entered into on terms other than those which would, in the ordinary course of business of Kiwibank, be given to any other person of like circumstances or means or could otherwise be reasonably likely to influence materially the exercise of that director's duties.

## Auditor

The Auditor-General is the auditor of the Bank and the Banking Group. The Auditor-General has appointed Jonathan Freeman, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements of the Banking Group and limited assurance on capital adequacy and regulatory liquidity ratios on his behalf. Jonathan Freeman's address for service is: PricewaterhouseCoopers, PwC Centre, 10 Waterloo Quay, Wellington 6011, New Zealand.

# Credit ratings

The Bank has the following credit ratings applicable to its long-term senior unsecured obligations payable in New Zealand dollars at the date the directors signed this Disclosure Statement.

Rating agency	Current credit rating	Rating outlook
Moody's Investors Service ("Moody's")	A1	Outlook Stable
Fitch Ratings ("Fitch")	AA	Outlook Stable

## Recent rating actions and changes in credit ratings

The most recent rating actions and any changes in the credit ratings or rating outlooks shown above that were made in the two years prior to signing date are outlined below:

### Moody's

- There have been no changes in the rating over the past two years.

### Fitch

- On 16 September 2022, Fitch affirmed Kiwibank's credit rating at AA with a stable outlook for senior unsecured debt obligations payable in New Zealand dollars. Fitch upgraded the credit rating from AA- with a positive outlook to AA with a stable outlook for senior unsecured debt obligations payable in other currencies.

The following table describes the steps in the applicable rating scales for each rating agency:

	Moody's	Fitch
Highest credit quality – ability to repay debt obligations is extremely strong	Aaa	AAA
High-quality, low credit risk – ability to repay debt obligations is very strong	Aa	AA
High quality – ability to repay is strong although may be susceptible to adverse changes in circumstances or in economic conditions	A	A
Low credit risk – satisfactory ability to repay debt obligations though changes in circumstances or in economic conditions are likely to impair this capacity	Baa	BBB
Ability to repay debt obligations is only adequate and likely to be affected by adverse economic change which might affect timeliness of repayment	Ba	BB
Risk of default due to greater vulnerability	B	B
Significant risk of default. Repayment of debt obligations requires favourable financial conditions	Caa	CCC
Poor protection, highest risk of default	Ca to C	CC to C
Obligations currently in default	–	RD to D

Credit ratings between AA and CCC by Fitch may be modified by the addition of a plus or minus sign (signalling higher and lower ends of the scale respectively). Moody's applies numeric modifiers 1, 2 and 3 to each generic rating classification between Aa and B with a 1 indicating a higher rating and a 3 indicating a lower rating within that generic rating category.

# Guarantees

As at the date the Board approved this Disclosure Statement, payment obligations of Kiwibank in relation to certain debt securities issued by Kiwibank have the benefit of a guarantee by Kiwi Covered Bond Trustee Limited (the "**Covered Bond Guarantee**").

Payment obligations of Kiwibank owed as at 28 February 2017 and still outstanding have the benefit of a deed poll guarantee by the Crown (the "**Crown Guarantee**").

## Covered Bond Guarantee

Certain debt securities ("**Covered Bonds**") issued by the Bank are guaranteed by Kiwi Covered Bond Trustee Limited (the "**Covered Bond Guarantor**"), solely in its capacity as Trustee of Kiwi Covered Bond Trust. No material conditions apply to the Covered Bond Guarantee other than non-performance by Kiwibank. There are no material legislative or regulatory restrictions in New Zealand which would have the effect of subordinating the claims under the guarantee of any creditors of the Banking Group on the assets of the Covered Bond Guarantor, to other claims on the Covered Bond Guarantor, in a winding up of the Covered Bond Guarantor. The Covered Bond Guarantee will remain in force until all moneys payable under the Covered Bond Guarantee have been paid.

The Covered Bond Guarantee is limited to the payment of interest on and the principal of Covered Bonds, and such guarantee is secured over a pool of assets. There are no other limits on the amount of obligations guaranteed. The carrying value of the Kiwi Covered Bond Trust pool at 30 June 2023 was \$700m (30 June 2022: \$700m).

The Covered Bond Guarantor's address for service is Level 16, SAP Tower, 151 Queen Street, Auckland 1010, New Zealand. The Covered Bond Guarantor is not a member of the Banking Group and has no applicable credit rating. The Covered Bonds have been assigned a long-term rating of Aaa and AAA by Moody's and Fitch respectively (refer to the ratings scale provided on the previous page). There has been no change in the ratings over the past two years.

## Crown Guarantee

The Crown Guarantee is an unsecured guarantee of all the payment obligations (excluding any payment obligations, the terms of which expressly provide in writing that they do not have the benefit of the Crown Guarantee) of Kiwibank owing as at 28 February 2017 and still outstanding. No material conditions apply to the Crown Guarantee other than non-performance by Kiwibank. The Crown Guarantee has no expiry date in relation to the payment obligations that continue to be guaranteed.

The address for service of the Crown is: 1 The Terrace, Wellington Central, Wellington 6011, New Zealand.

Information about this guarantee is available on the Kiwibank website – <https://www.kiwibank.co.nz/about-us/governance/legal-documents-and-information/legal-documents/#crown-guarantee-formally-known-as-new-zealand-post-guarantee>.

The financial statements of the Crown are available here – <https://www.treasury.govt.nz/publications/financial-statements-government>.

The Crown has a credit rating applicable to its long-term unsecured obligations payable in New Zealand, in New Zealand dollars, as set out below:

Rating agency	Current credit rating	Rating outlook
Moody's Investors Service (" <b>Moody's</b> ")	Aaa	Outlook Stable
Fitch Ratings (" <b>Fitch</b> ")	AA+	Outlook Stable
S&P Global Ratings (" <b>S&amp;P</b> ")	AAA	Outlook Stable

On 9 September 2022, Fitch upgraded the Crown's credit rating from AA with a positive outlook to AA+ with a stable outlook.

S&P's credit rating scale is consistent with the scale provided for Fitch on the previous page, with the exception of obligations currently in default where S&P only uses a rating of D.

# Directors' statement

The directors of Kiwibank state that each director believes, after due inquiry, that:

1. As at the date on which the Disclosure Statement is signed:
  - i) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
  - ii) the Disclosure Statement is not false or misleading.
2. During the year ended 30 June 2023:
  - i) Kiwibank has complied in all material respects with the conditions of registration applicable during the period;
  - ii) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
  - iii) Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

With agreement of the shareholder, the Bank has taken advantage of the concessions available to it under section 211 (3) of the Companies Act 1993.

Signed by Jonathan Peter Hartley and Mary Jane Daly as directors and responsible persons on behalf of all the directors listed in the Directorate of this Disclosure Statement.



23 August 2023

# Historical summary of financial statements

The amounts included in this summary have been taken from the audited financial statements of the Banking Group.

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22	Year ended 30/06/21	Year ended 30/06/20	Year ended 30/06/19
<b>Financial performance</b>					
Interest income	1,389	907	761	894	933
Interest expense	(595)	(277)	(233)	(439)	(488)
Net (losses)/gains on financial instruments	(17)	7	8	13	3
Other operating income	39	43	41	65	90
Operating expenses	(534)	(480)	(422)	(408)	(375)
Credit impairment (losses)/reversals	(37)	(16)	19	(51)	(12)
Other impairment losses	-	-	-	-	-
<b>Profit before taxation</b>	<b>245</b>	184	174	74	151
Income tax expense	(70)	(53)	(48)	(17)	(43)
<b>Profit after taxation</b>	<b>175</b>	131	126	57	108
Profit after taxation attributable to non-controlling interests	-	-	-	-	-
Dividends paid on ordinary shares	(14)	(17)	(6)	(17)	(25)
Distributions to the holder of the perpetual capital bond	-	(3)	(6)	(11)	(11)
Dividends paid to holders of perpetual preference shares	(9)	(4)	-	-	-

Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information. Comparatives for 30 June 2021 and prior periods were not restated.

Dollars in millions	As at 30/06/23	As at 30/06/22	As at 30/06/21	As at 30/06/20	As at 30/06/19
<b>Balance sheet</b>					
Total assets	33,838	31,547	28,229	25,518	22,734
Of which individually impaired assets	8	2	1	2	5
Total liabilities	31,527	29,345	26,505	23,948	21,185
Total equity	2,311	2,202	1,724	1,570	1,549

# Financial statements

## Income statement

For the year ended 30 June 2023

Dollars in millions	Note	Year ended 30/06/23	Year ended 30/06/22
Interest income	3	1,389	907
Interest expense	3	(595)	(277)
Net interest income		794	630
Net (losses)/gains on financial instruments	4	(17)	7
Other operating income	5	39	43
<b>Total operating income</b>		<b>816</b>	<b>680</b>
Operating expenses	6	(534)	(480)
<b>Profit before impairment and taxation</b>		<b>282</b>	<b>200</b>
Credit impairment losses	9	(37)	(16)
<b>Profit before taxation</b>		<b>245</b>	<b>184</b>
Income tax expense	7	(70)	(53)
<b>Profit after taxation</b>		<b>175</b>	<b>131</b>

Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information.

## Statement of comprehensive income

For the year ended 30 June 2023

Dollars in millions	Note	Year ended 30/06/23	Year ended 30/06/22
Profit after taxation		175	131
Other comprehensive income			
Net gains/(losses) from changes in reserves that may subsequently be reclassified to profit or loss:			
- Fair value reserve (net of tax)	26	15	(66)
- Cash flow hedge reserve (net of tax)	26	(58)	191
Other comprehensive income for the year		(43)	125
<b>Total comprehensive income for the year</b>		<b>132</b>	<b>256</b>

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

# Financial statements continued

## Statement of changes in equity

For the year ended 30 June 2023

Dollars in millions	Note	Ordinary shares	Retained earnings	Fair value reserve	Cash flow hedge reserve	Perpetual preference shares	Total equity
Balance at 30 June 2021		737	967	1	19	-	1,724
<b>Year ended 30 June 2022</b>							
Profit for the year		-	131	-	-	-	131
<b>Other comprehensive income</b>							
Movement in fair value of investment securities		-	-	(66)	-	-	(66)
Cash flow hedges (net of tax)		-	-	-	191	-	191
<b>Total other comprehensive income (net of tax)</b>		-	-	(66)	191	-	125
<b>Total comprehensive income</b>		-	131	(66)	191	-	256
<b>Transactions with owners</b>							
Issue of perpetual preference shares	26	-	-	-	-	246	246
Dividends paid on ordinary shares	26	-	(17)	-	-	-	(17)
Distributions to the holder of the perpetual capital bond	26	-	(3)	-	-	-	(3)
Distributions to holders of perpetual preference shares	26	-	(4)	-	-	-	(4)
<b>Balance at 30 June 2022</b>		737	1,074	(65)	210	246	2,202
<b>Year ended 30 June 2023</b>							
Profit for the year		-	175	-	-	-	175
<b>Other comprehensive income</b>							
Movement in fair value of investment securities		-	-	15	-	-	15
Cash flow hedges (net of tax)		-	-	-	(58)	-	(58)
<b>Total other comprehensive income (net of tax)</b>		-	-	15	(58)	-	(43)
<b>Total comprehensive income</b>		-	175	15	(58)	-	132
<b>Transactions with owners</b>							
Dividends paid on ordinary shares	26	-	(14)	-	-	-	(14)
Distributions to holders of perpetual preference shares	26	-	(9)	-	-	-	(9)
<b>Balance at 30 June 2023</b>		737	1,226	(50)	152	246	2,311

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

# Financial statements continued

## Balance sheet

As at 30 June 2023

Dollars in millions	Note	30/06/23	30/06/22
<b>Assets</b>			
Cash and cash equivalents	13	1,027	1,522
Due from other financial institutions	14	129	138
Investment securities	15	2,299	1,431
Derivative financial instruments	16	447	477
Loans and advances	8	29,682	27,751
Deferred taxation	7	38	-
Premises and equipment		129	142
Intangible assets		25	35
Other assets		62	51
<b>Total assets</b>		<b>33,838</b>	<b>31,547</b>
<i>Total interest-earning and discount-bearing assets</i>		<b>33,054</b>	<b>30,734</b>
<b>Liabilities</b>			
Due to other financial institutions	17	1,768	1,839
Deposits and other borrowings	18	25,756	24,216
Derivative financial instruments	16	243	207
Debt securities issued	19	3,038	2,579
Deferred taxation	7	-	6
Other liabilities	25	276	248
Subordinated debt	20	446	250
<b>Total liabilities</b>		<b>31,527</b>	<b>29,345</b>
<i>Total interest-earning and discount-bearing liabilities</i>		<b>26,644</b>	<b>23,848</b>
<b>Equity</b>			
Share capital	26	737	737
Reserves	26	1,328	1,219
Perpetual preference shares	26	246	246
<b>Total equity</b>		<b>2,311</b>	<b>2,202</b>
<b>Total liabilities and equity</b>		<b>33,838</b>	<b>31,547</b>

The Board of Directors of Kiwibank Limited authorised these financial statements for issue on 23 August 2023.



Jonathan Peter Hartley



Mary Jane Daly

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

# Financial statements continued

## Cash flow statement

For the year ended 30 June 2023

Dollars in millions	Note	Year ended 30/06/23	Year ended 30/06/22
<b>Cash flows from operating activities</b>			
Interest received		1,406	933
Interest paid		(460)	(265)
Fees and other income received		117	109
Direct fee expenses paid		(77)	(67)
Operating expenses paid		(474)	(456)
Taxes paid		(83)	(32)
<b>Net cash flows from operating activities before changes in operating assets and liabilities</b>		<b>429</b>	<b>222</b>
<b>Net changes in operating assets and liabilities</b>			
Investment securities		(867)	188
Loans and advances		(1,990)	(2,485)
Balances due from other financial institutions		9	(112)
Deposits and other borrowings		1,421	1,794
Balances due to other financial institutions		(330)	500
Other liabilities		-	(5)
<b>Net cash flows from operating activities</b>		<b>(1,328)</b>	<b>102</b>
<b>Cash flows from investing activities</b>			
Purchase of premises and equipment		(8)	(14)
Purchase of intangible assets		(3)	(3)
<b>Net cash flows from investing activities</b>		<b>(11)</b>	<b>(17)</b>
<b>Cash flows from financing activities</b>			
Repurchase agreements		259	621
Issue of debt securities	19	1,557	1,491
Redemption of debt securities	19	(1,132)	(1,452)
Payment of principal portion of lease liability		(14)	(14)
Issue of subordinated debt net of issuance costs	20	197	-
Issue of perpetual preference shares net of issuance costs	26	-	246
Repayment of subordinated debt	20	-	(150)
Dividends paid on ordinary shares		(14)	(17)
Distributions to the holder of the perpetual capital bond		-	(3)
Distributions to the holders of perpetual preference shares		(9)	(4)
<b>Net cash flows from financing activities</b>		<b>844</b>	<b>718</b>
<b>Increase in cash and cash equivalents</b>		<b>(495)</b>	<b>803</b>
Cash and cash equivalents at beginning of the year		1,522	715
Effect of exchange translation adjustments		-	4
<b>Cash and cash equivalents at end of the year</b>	13	<b>1,027</b>	<b>1,522</b>

Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information.

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

# Financial statements continued

## Cash flow statement continued

For the year ended 30 June 2023

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
<b>Reconciliation of profit after taxation to net cash flows from operating activities</b>		
Profit after taxation	175	131
<b>Non-cash movements and non-operating activities</b>		
Unrealised fair value adjustments	(11)	(5)
Amortisation and depreciation	41	45
Movement in deferred expenditure	38	38
Credit impairment provision	37	18
Movement in interest	114	-
Movement in current and deferred tax	(14)	21
Other non-cash movements	20	(26)
<b>Decrease/(increase) in operating assets</b>		
Investment securities	(838)	188
Loans and advances	(1,990)	(2,485)
Balances due from other financial institutions	9	(112)
<b>(Decrease)/increase in operating liabilities</b>		
Deposits and other borrowings	1,421	1,794
Other liabilities	-	(5)
Balances due to other financial institutions	(330)	500
<b>Net cash flows from operating activities</b>	<b>(1,328)</b>	<b>102</b>

The notes to the financial statements form an integral part of, and should be read in conjunction with, these financial statements.

# Notes to the financial statements

## 1. Corporate information

These consolidated financial statements are presented for the "**Banking Group**", which consists of Kiwibank Limited ("**Kiwibank**" or the "**Bank**") and its subsidiaries. Kiwibank is a for-profit entity incorporated and domiciled in New Zealand under the Companies Act 1993 and is registered as a bank under the Banking (Prudential Supervision) Act 1989 (previously the Reserve Bank of New Zealand Act 1989). The principal activity of the Banking Group is the provision of banking products and services to individuals and small to medium-sized businesses.

Kiwibank's immediate parent company is Kiwi Group Capital Limited ("**KGCL**"). KGCL is owned by the New Zealand Crown (the "**Crown**") whose address for service is: 1 The Terrace, Wellington 6011, New Zealand. The ultimate shareholder of Kiwibank is the Crown.

On 30 November 2022, 100% of the shares of KGHL were acquired by Kiwi Group Capital Limited, a new Crown company. Previously KGHL was the immediate parent company of the Banking Group. KGHL was owned by NZ Post Limited (53%), NZSF Tui Investments Limited (25%) and Accident Compensation Corporation (22%).

These financial statements for the year ended 30 June 2023 have been approved for issue by the Board of Directors on 23 August 2023.

## 2. Basis of preparation and general accounting policies

### 2.1 Basis of accounting

These financial statements are general purpose financial statements prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with New Zealand Equivalents to International Financial Reporting Standards ("**NZ IFRS**") and other applicable Financial Reporting Standards, as appropriate for for-profit entities, the Financial Markets Conduct Act 2013 and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "**Order**"). These financial statements also comply with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The principal accounting policies adopted in the preparation of these financial statements are set out below and in the relevant notes to the financial statements. These policies have been consistently applied to all financial years presented unless otherwise noted for policies adopted in the current period.

#### **Measurement base**

These financial statements are based on the general principles of historical cost accounting, modified by the application of fair value measurements for financial instruments measured at fair value through other comprehensive income, and financial instruments measured at fair value through profit or loss. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

#### **Accounting period and comparative amounts**

These audited financial statements are for the year ended 30 June 2023. Comparative amounts are from the audited financial statements for the year ended 30 June 2022.

Comparative information has been restated or reclassified, where appropriate, to align with the current period's presentation. All restatements and reclassifications have no impact on the previously reported net assets or net profit after tax.

#### Restatements and reclassifications

##### *Interest income and expense in the income statement, cash flow statement and Note 3*

For the year ended 30 June 2022, interest on certain derivatives was reported within interest expense resulting in an overstatement of 'Interest income' and 'Interest expense'. Therefore, comparatives have been restated to decrease 'Interest income' and 'Interest expense' by \$12m. This adjustment also impacts the cash flow statement. In Note 3, comparatives have been restated to decrease interest income for 'Loans and advances – Other' and decrease interest expense for 'Deposits and other borrowings – Other' and 'Other interest expense'. The interest income and expense comparatives by category are decreased for 'Financial assets measured at FVTPL and hedging' and 'Financial liabilities measured at FVTPL and hedging'.

##### *Deposits and other borrowings (Note 18)*

A foreign exchange external cash deposit balance as at 30 June 2022 of \$102m has been restated from 'Demand deposits bearing interest' to 'Term deposits' to align with the classification in the current period.

##### *Offsetting financial assets and liabilities (Note 23)*

Cash collateral pledged as at 30 June 2022 has been restated to align with the classification in the current period.

# Notes to the financial statements continued

## 2. Basis of preparation and general accounting policies continued

### 2.1 Basis of accounting continued

#### *Risk management (Note 30)*

##### Interest repricing schedule

For the year ended 30 June 2022, the categorisation of 'Loans and advances' and 'Deposits and other borrowings' for interest repricing has been restated to align with the change in methodology used in the current year. The total on-balance-sheet gap has not changed. Net derivative notional principals have been restated to remove internal deals.

##### Liquid assets portfolio

For the year ended 30 June 2022, liquid assets have been restated to present the balances on a gross basis before any 'haircut'. A 'haircut' refers to the reduction in the current market value of the qualifying liquid assets. 'Local body stock and bonds' and 'Other bonds' have also been restated by \$120m to reclassify a qualifying Crown agent bond. Residential mortgage-backed securities are disclosed in the table without a haircut being applied.

##### Maturity analysis of financial liabilities

For the year ended 30 June 2022, the maturity analysis of financial liabilities note has been restated to align with the change in practice applied in the current period. The primary change in practice was to provide more granular information to readers by disaggregating the appropriate cash flows from the 'On demand' category into an 'Up to 1 month' category. The categorisation of cash flows for 'Due to other financial institutions' has been restated to recognise interest on cash flows related to the term lending facility and funding for lending programme. Derivative cash flows have been restated to remove derivative assets and internal deals.

### 2.2 Critical accounting judgements, estimates and assumptions

The preparation of these financial statements in accordance with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amount of assets, liabilities, revenues and expenses and the disclosed amount of contingent liabilities. Although Kiwibank has internal control systems in place to ensure that estimates can be reliably measured, actual amounts may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the Note 9 Credit impairment losses - measurement of expected credit losses ("ECL").

### 2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of Kiwibank and its subsidiaries for the year ended 30 June 2023. Subsidiaries are entities that are controlled by the Banking Group. Control is achieved when the Banking Group is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee.

Structured entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether the Banking Group has power over such entities in which it has an interest, the Banking Group also considers factors such as:

- the purpose and design of the entity;
- its practical ability to direct the relevant activities of the entity;
- the nature of the relationship with the entity; and
- the size of its exposure to the variability of returns of the entity.

The Banking Group reassesses whether it controls an investee if facts and circumstances indicate that there have been changes to the elements of control.

All intra-group balances, transactions, income, or expenses are fully eliminated on consolidation. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Banking Group's accounting policies.

### 2.4 New Accounting Standards and Interpretations

In the current year, the Banking Group applied amendments to Accounting Standards and Interpretations that are effective for an annual period that begins on or after 1 July 2022. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

No new standards, amendments or interpretations to existing standards that are not yet effective have been early adopted by the Banking Group in these financial statements. The directors expect to adopt any new relevant standards, amendments, or interpretations to existing standards in the period within which they become mandatory. The adoption of these changes is not expected to have any material impact on the disclosures or on the amounts reported in these financial statements.

# Notes to the financial statements continued

## 2. Basis of preparation and general accounting policies continued

### 2.5 Financial instruments

#### Recognition

The Banking Group initially recognises loans and advances, deposits and other borrowings, debt securities issued and subordinated debt on the date on which they were originated. All other financial instruments are recognised on trade-date – the date on which the Banking Group becomes a party to the contractual provisions of the instrument.

Financial instruments are measured initially at fair value, adjusted by, for an item not at fair value through profit or loss, transaction costs directly attributable to its acquisition or issue.

#### Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- the Banking Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full, without material delay, to a third party under a 'pass-through' arrangement and cannot sell or re-pledge the asset other than to the transferee; or
- either the Banking Group has transferred substantially all the risks and rewards of the asset, or the Banking Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A situation may arise where the Banking Group transfers its right to receive cash flows from an asset or has entered into a pass-through arrangement. In some cases the Banking Group would have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of these assets. Should this occur to the extent that the Banking Group has continuing involvement in the asset, the asset continues to be recognised in the balance sheet.

The Banking Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

#### Classification

##### *Financial assets*

On initial recognition, a financial asset is classified as measured at: amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI").

Financial assets in this category include cash and cash equivalents, due from other financial institutions, loans and advances, and other financial assets.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Financial assets in this category include investment securities and certain other assets included in 'Due from other financial institutions'.

On initial recognition of an equity investment that is not held for trading, the Banking Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

Financial assets in this category include derivative financial instruments and certain other assets.

In addition, on initial recognition, the Banking Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or as at FVOCI or as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

##### *Financial liabilities*

The Banking Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

#### Reclassifications

##### *Financial assets*

Financial assets are not reclassified subsequent to their initial recognition, except if there is a change in the business model for managing assets. Any such reclassifications are applied in the period after the change in business model.

# Notes to the financial statements continued

## 2. Basis of preparation and general accounting policies continued

### 2.6 Currency

#### Functional and presentation currency

The Banking Group's financial statements are presented in New Zealand dollars, which is the Bank's functional and presentation currency. All amounts are expressed in millions of New Zealand dollars, unless otherwise stated.

#### Foreign currency translation

Transactions in foreign currencies are translated into the functional currency at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement. At the reporting date, foreign denominated monetary assets and liabilities are translated at the closing exchange rate, with exchange variations arising from these translations being recognised in the income statement.

### 2.7 Cash flow statement

The following are definitions of the terms used in the cash flow statement:

- i) Cash and cash equivalents is considered to be cash on hand, current accounts with banks, ATMs and overnight bank deposits, net of bank overdrafts and inter-bank balances arising from the daily RBNZ settlement process.
- ii) Investing activities are those relating to the acquisition, holding and disposal of premises and equipment, intangibles and other long-term assets.
- iii) Financing activities are those activities that result in changes to the size and composition of the capital structure of the Banking Group. This includes both equity and debt not falling within the definition of cash. Repurchase agreements related to the Funding for Lending Programme ("FLP") and the Term Lending Facility ("TLF") have been included as financing activities.
- iv) Operating activities include all transactions and other events that are not investing or financing activities. The holding of investment securities has been classified as an operating activity for the purposes of the cash flow statement as they are considered a principal revenue-producing activity of the Banking Group.
- v) Certain cash flows have been netted to provide more meaningful disclosure, including changes in investment securities, loans and advances, balances due from other financial institutions, deposits and other borrowings, and other assets. Many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group.

### 2.8 Other accounting policies

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

# Notes to the financial statements continued

## 3. Interest income and expense



### Accounting policy

#### Recognition of interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

When calculating the effective interest rate for financial instruments, the Banking Group estimates future cash flows considering all contractual terms of the financial instrument, but not credit impairment losses. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

#### Recognition of loan-related fees and costs

Commitment fees are deferred and, if it is probable that the commitment is exercised, recognised in income over the remaining life of the loan as an adjustment of yield or, if unexercised, recognised in income on expiration of the commitment. Where the likelihood of exercise of the commitment is remote, commitment fees are recognised in income over the commitment period.

Direct loan origination costs are recognised over the life of the loan as an adjustment of yield. All other loan-related costs are expensed as incurred.

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
<b>Interest income</b>		
Cash and cash equivalents	44	9
Due from other financial institutions	4	-
<b>Loans and advances</b>		
Retail loans	1,016	695
Business loans	318	170
Other	(46)	15
Investment securities	53	18
<b>Total interest income</b>	<b>1,389</b>	<b>907</b>
<b>Interest expense</b>		
Due to other financial institutions	74	12
<b>Deposits and other borrowings</b>		
Retail deposits	489	141
Business deposits	52	13
Other	(179)	46
Debt securities issued	140	52
Subordinated debt	16	7
Other interest expense	3	6
<b>Total interest expense</b>	<b>595</b>	<b>277</b>

Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information.

Interest income and interest expense presented in relation to loans and advances, deposits and other borrowings, and debt securities also includes interest from derivatives used for hedging. Interest on derivatives is classified as interest income or interest expense consistent with the interest classification of the products and instruments economically hedged. Within the interest grouping of 'Loans and advances' and 'Deposits and other borrowings' interest on derivatives is classified as 'Other'.

# Notes to the financial statements continued

## 3. Interest income and expense continued

### Interest income and expense by measurement category

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
<b>Interest income</b>		
Financial assets measured at amortised cost	1,382	873
Financial assets measured at FVOCI	53	18
Financial assets measured at FVTPL and hedging	(46)	16
<b>Total interest income</b>	<b>1,389</b>	<b>907</b>
<b>Interest expense</b>		
Financial liabilities measured at amortised cost	829	261
Financial liabilities measured at FVTPL and hedging	(234)	16
<b>Total interest expense</b>	<b>595</b>	<b>277</b>

Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information.

## 4. Net (losses)/gains on financial instruments



### Accounting policy

Accounting policies relating to (losses)/gains on financial instruments at fair value are set out in Notes 15, 16, 19 and 20.

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Financial instruments held for trading	(51)	(11)
Financial instruments at FVTPL	(2)	1
Cumulative (loss)/gain transferred from fair value reserve	(29)	2
Cumulative gain transferred from cash flow hedge reserve <sup>1</sup>	58	7
Net foreign exchange gains	7	8
<b>Total net (losses)/gains on financial instruments</b>	<b>(17)</b>	<b>7</b>

<sup>1</sup> The Banking Group de-designates interest rate swaps in cash flow hedge relationships to manage hedge capacity. Changes in swap values after de-designation are recorded as financial instruments \$58m (2022: \$6m). The amortisation of the swap values recorded in the cash flow hedge reserve before de-designation is recorded in cumulative gains transferred from cash flow hedge reserve \$58m (2022: \$7m). Interest paid or received under the de-designated swaps is recorded in interest expense.

Net ineffectiveness on qualifying cash flow hedges was insignificant (2022: insignificant). Net ineffectiveness on qualifying fair value hedges was insignificant (2022: insignificant).

# Notes to the financial statements continued

## 5. Other operating income



### Accounting policy

Other operating income is recognised as services are performed and the related performance obligations are fulfilled.

#### Principal vs Agent

The Banking Group is required to determine whether it is a principal or an agent on the basis of whether the goods or services are provided by the Banking Group itself or are provided by another entity (i.e. whether the Banking Group controls the provision of the goods or services).

Where the Banking Group has determined it is an agent the revenue and expenses related to the goods or services have been recorded net within 'Gross fee and other income'.

#### Performance obligations and timing of revenue recognition

The transaction price for contracts with customers, including any estimated variable consideration, is allocated to each distinct performance obligation within each contract and revenue is recognised as those performance obligations are fulfilled. The allocation of the transaction price to a performance obligation is based on the exact terms of the contract or, in the absence of exact terms, an appropriate method is used to estimate the price such as an adjusted market assessment approach, expected cost plus a margin approach, the residual approach, or a combination of these methods.

Direct fee expenses relate mainly to transaction and service fees and commissions paid, which are directly attributable to the generation of revenue, and are recognised on an accrual basis.

The nature and timing of the satisfaction of performance obligations in contracts with customers for each type of service are outlined further below.

### DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The nature and timing of the satisfaction of performance obligations in contracts with customers for each type of service are outlined below:

- *Transactional account and other services* – this includes services provided to customers and covers transactional accounts and other related services. Fees are generally charged monthly or are transaction-based fees charged at the point of the transaction. Revenue is recognised at the point in time when the transaction takes place or at the time it is charged for monthly fees.
- *Card services* – this includes credit card and debit card services offered to customers along with related long-term contracts with card schemes. Account or set-up fees are generally charged up front at the point the card is issued with a regular renewal period. The period covered by the fee is generally six to twelve months. These types of revenue are recognised on a straight-line basis over the period covered by the fee. Certain transaction-based fees are charged and recognised as income at the point in time when the transaction takes place. For longer-term contracts, revenue is recognised over time, consistent with when the Banking Group satisfies each performance obligation based on output methods measuring the value of the services transferred to date.
- *Lending services* – this includes fees related to lending and ancillary services to customers where the revenue is not caught by NZ IFRS 9 and treated as part of the effective interest rate. Fees are generally transaction-based fees charged at the point of the transaction. Revenue is recognised at the point in time when the transaction takes place.

In the following table, revenue from contracts with customers in the scope of NZ IFRS 15 is further disaggregated by the type of service provided to customers.

Dollars in millions	Year ended 30/06/23			Total
	Retail products	Business products	Other	
<b>Major service categories</b>				
Transactional account and other services	34	6	-	40
Card services	61	2	-	63
Lending services	2	4	1	7
<b>Total revenue from contracts with customers</b>	<b>97</b>	<b>12</b>	<b>1</b>	<b>110</b>
Other income	6	-	-	6
<b>Gross fee and other income</b>	<b>103</b>	<b>12</b>	<b>1</b>	<b>116</b>
Direct fee expenses	(73)	(4)	-	(77)
<b>Total other operating income</b>	<b>30</b>	<b>8</b>	<b>1</b>	<b>39</b>

# Notes to the financial statements continued

## 5. Other operating income continued

Dollars in millions	Year ended 30/06/22			
	Retail products	Business products	Other	Total
<b>Major service categories</b>				
Transactional account and other services	32	5	-	37
Card services	61	1	-	62
Lending services	4	4	2	10
<b>Total revenue from contracts with customers</b>	<b>97</b>	<b>10</b>	<b>2</b>	<b>109</b>
Other income	-	-	1	1
<b>Gross fee and other income</b>	<b>97</b>	<b>10</b>	<b>3</b>	<b>110</b>
Direct fee expenses	(66)	(1)	-	(67)
<b>Total other operating income</b>	<b>31</b>	<b>9</b>	<b>3</b>	<b>43</b>

## 6. Operating expenses



### Accounting policy

#### *Operating expense recognition*

Operating expenses are recognised on an accrual basis in the period services are provided, over the period in which assets are consumed, or as liabilities are created.

#### *Research and development costs*

Research and development costs primarily relate to software-as-a-service ("SaaS") arrangements. SaaS arrangements are cloud computing applications where the underlying software and associated infrastructure are hosted by a service provider independent of the Group. SaaS arrangements do not generally meet the intangible asset recognition criteria.

Where computer software does not meet the definition of an intangible asset, the costs are expensed as research and development in the period within which they are incurred.

Research and development tax incentives ("RDTI") are recognised as a credit to expenses when the relevant supplementary return is approved by Inland Revenue. A receivable is not recognised in relation to future RDTIs due to the uncertainty associated with the approval of each supplementary return.

#### *Employee benefits*

Employee entitlements to salaries and wages, bonuses, annual leave, long-service leave, retiring leave and other similar benefits are recognised in the income statement when they accrue to employees, and are calculated based on expected payments.

#### *Leases*

The Banking Group recognises the depreciation expense related to right-of-use assets within operating expenses and interest costs related to lease liabilities within interest expense.

# Notes to the financial statements continued

## 6. Operating expenses continued

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Salaries and wages	263	227
Other personnel-related costs	48	42
Information technology and system costs	102	94
Premises costs	18	16
Office supplies, postage and telephone	9	10
Consultancy and professional fees	17	16
Marketing and customer communications	20	17
Amortisation and depreciation	41	45
Other expenses	16	13
<b>Total operating expenses</b>	<b>534</b>	<b>480</b>

A total of \$65.4m of operating expenses recognised during the year ended 30 June 2023 related to research and development ("R&D") expenditure classified in accordance with NZ IAS 38 (30 June 2022: \$47.9m).

Included within operating expenses are RDTI of \$1.8m and \$3.8m that relate to eligible R&D expenditure incurred for the years ended 30 June 2021 and 30 June 2022 respectively. No receivable has been recognised in relation to the year ended 30 June 2023. A supplementary return for the year ended 30 June 2023 has not been submitted to the Inland Revenue.

Included within salaries and wages is \$10.3m of expenses paid to defined contribution plans for the year ended 30 June 2023 (30 June 2022: \$9.4m).

Dollars in thousands	Year ended 30/06/23	Year ended 30/06/22
Directors' fees	1,002	950

## 7. Taxation



### Accounting policy

The income tax expense charged to the income statement includes both current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the current year, using tax rates enacted or substantively enacted at the reporting date, after taking advantage of all allowable deductions under current taxation legislation and any adjustment to tax payable in previous years.

Deferred tax is provided in full, using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date. A deferred taxation benefit is recognised only to the extent that it is probable that a future taxable profit will be available against which the temporary differences can be utilised.

Current or deferred tax related to fair value measurement of investment securities and cash flow hedges, which is charged or credited to other comprehensive income, is subsequently recognised in the income statement if and when the deferred gain or loss on the related asset or liability affects profit or loss.

Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority and there is a legal right and intention to settle on a net basis and it is allowed under tax law.

# Notes to the financial statements continued

## 7. Taxation continued

### Income tax expense

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Profit before taxation	245	184
Tax calculated at a rate of 28%	(69)	(52)
Tax effect of:		
Income not subject to tax and non-deductible expenses	(3)	3
Prior period adjustment	2	(2)
Transfer of tax losses from other KGHL subsidiaries	-	(2)
<b>Tax charge as per the income statement</b>	<b>(70)</b>	<b>(53)</b>
Represented by:		
Current income tax	(98)	(60)
Deferred income tax	28	7
<b>Tax charge as per the income statement</b>	<b>(70)</b>	<b>(53)</b>
The deferred tax charge in the income statement comprises the following temporary differences:		
Accelerated tax depreciation	19	4
Other provisions and accruals	-	2
Credit impairment provisions	9	1
<b>Total movement in temporary differences</b>	<b>28</b>	<b>7</b>

### Deferred taxation

Dollars in millions	30/06/23	30/06/22
<b>Deferred tax</b>		
Balance at beginning of the year	(6)	19
Prior period adjustment	6	(1)
Movement in temporary differences	22	8
Tax on profits taken to reserves	16	(32)
<b>Balance at end of the year</b>	<b>38</b>	<b>(6)</b>
<b>Deferred income tax assets</b>		
Accelerated tax depreciation	21	2
Other provisions and accruals	11	11
Credit impairment provisions	30	21
<b>Total deferred income tax assets</b>	<b>62</b>	<b>34</b>
<b>Deferred income tax liabilities</b>		
Cash flow hedges	(24)	(40)
<b>Total deferred income tax liabilities</b>	<b>(24)</b>	<b>(40)</b>
<b>Net deferred taxation</b>	<b>38</b>	<b>(6)</b>

### Imputation credit account

The Banking Group is a member of the KGCL consolidated tax group and consequently does not maintain an imputation credit account.

# Notes to the financial statements continued

## 8. Loans and advances



### Accounting policy

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently at amortised cost using the effective interest method. Interest income, expected credit losses ("ECL") and reversals are recognised in the income statement.

Dollars in millions	30/06/23	30/06/22
Overdrafts	226	168
Credit cards	346	348
Term loans – housing	24,248	23,152
Other term lending	4,459	3,787
Other lending	504	363
<b>Gross loans and advances</b>	<b>29,783</b>	<b>27,818</b>
Credit impairment provision	(101)	(67)
<b>Net loans and advances</b>	<b>29,682</b>	<b>27,751</b>
<b>Contractual maturity</b>		
Current	2,892	2,382
Non-current	26,790	25,369

### Business Finance Guarantee Scheme

The Minister of Finance established the Business Finance Guarantee Scheme (the "Scheme") in April 2020 to help banks support New Zealand businesses facing hardship due to COVID-19 via an indemnity pursuant to section 65ZD of the Public Finance Act 1989, with further deeds of indemnity executed in August 2020 and December 2020. The Scheme closed for applications on 30 June 2021 and existing loans will be repaid over the period to 30 June 2026.

The carrying amount of loans under this Scheme as at 30 June 2023 was \$65.8m (30 June 2022: \$90.4m).

### Reconciliation of mortgage-related amounts – On-balance-sheet exposures

Dollars in millions	30/06/23
<b>Gross term loans – housing per loans and advances (Note 8)</b>	<b>24,248</b>
Other residentially secured term lending including corporate lending	1,160
<b>Gross residential mortgage loans per asset quality (Note 10)</b>	<b>25,408</b>
Provision for credit impairment	(42)
Deferred arrangement fees	(86)
<b>Residential mortgages total on-balance-sheet exposures (Capital Adequacy)</b>	<b>25,280</b>

The residential mortgages above include balances for the purpose of investment in residential property and owner-occupied housing.

# Notes to the financial statements continued

## 9. Credit impairment losses



### Accounting policy

The Banking Group recognises credit impairment provisions for expected credit losses ("ECL") on the following financial instruments:

- financial assets measured at amortised cost;
- debt instruments measured at fair value through other comprehensive income ("FVOCI");
- lease receivables; and
- certain loan commitments and financial guarantees.

In accordance with the Order, loans and advances are classified as:

- retail unsecured lending (including other exposures but excluding exposures to sovereigns and central banks, multilateral development banks and other international organisations, public-sector entities, and banks);
- residential mortgage loans; and
- corporate exposures.

#### Measurement of ECL

A three-stage approach is applied to measuring ECL based on credit migration between the stages as follows:

Stage 1: On initial recognition, a provision equivalent to 12 months of ECL is recognised.

Stage 2: Where there has been a significant increase in credit risk since initial recognition, a provision equivalent to full lifetime ECL is recognised.

Stage 3: This stage comprises all accounts that are impaired including those in default. Lifetime ECL is recognised for loans where there is objective evidence of impairment. Where an economic loss is expected, a specific provision is raised which is calculated as the difference between contracted cash flows and the estimated realisable value of the security.

ECL are probability-weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

The ECL models use three main components to determine ECL (as well as the time value of money), including:

- probability of default ("PD"): the probability that a counterparty will default;
- loss-given default ("LGD"): the loss that is expected to arise in the event of default; and
- exposure at default ("EAD"): the estimated outstanding amount of credit exposure at the time of default.

Changes to ECL are assessed through four economic scenarios:

- a central scenario reflecting the expected track for the economy;
- an upside scenario;
- a downside scenario; and
- a severe stress scenario.

The macroeconomic variables used in these scenarios are based on current economic forecasts and are the Consumer Price Index ("CPI"), Gross Domestic Product ("GDP"), unemployment rate, interest rates, and the house price index. The probability weightings attached to each scenario are reviewed by Kiwibank's Executive Risk Committee at least half-yearly, with the scenarios and the associated probability weightings reviewed more frequently when there are material changes in macroeconomic conditions impacting the economy. Details of the scenarios and the probability weightings applying at year-end are outlined in this note.

#### Significant increase in credit risk ("SICR")

##### i) Determination of SICR

The determination of a SICR (i.e. the movement from stage 1 to stage 2) is based on changes in internally assessed customer risk characteristics since origination of the loan facility. Those changes include arrears on loan facilities (at or less than the 30-day backstop), material movements in risk grades or behavioural scores, or other information the Banking Group becomes aware of which indicates that repayment on the original terms and conditions may now be uncertain. Where terms have not been substantially modified, the existing financial asset is not derecognised, and its date of origination continues to be used to determine SICR. The movement between stages 2 and 3 is based on whether financial assets are credit impaired at the reporting date.

# Notes to the financial statements continued

## 9. Credit impairment losses continued



### Accounting policy continued

#### ii) Backstop criterion

The Banking Group uses 30 days past due arrears as a backstop criterion. When SICR conditions are no longer applicable or no longer credit impaired they move back to stage 1 from stage 2 or 3, with no probationary period applied.

#### Credit-impaired financial assets

At each reporting date, the Banking Group assesses whether financial assets carried at amortised cost and debt instruments measured at FVOCI are credit impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset may be credit impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Banking Group on terms that it would not consider otherwise;
- the borrower entering bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a temporary deterioration in the borrower's condition is usually transitioned to stage 2 (e.g. due to hardship). These renegotiated loans would not be considered credit impaired unless there is evidence that deterioration may be for an extended period so that the risk of not receiving contractual cash flows has increased significantly. A retail loan that is overdue for 90 days or more is considered credit impaired.

#### Model overlays

When assessing ECL, other credit risks are considered where there is an identified risk but no observable data demonstrating historical losses is available. Model overlays can be used in these circumstances where the existing inputs, assumptions and model techniques do not fully capture all the risk factors to the Banking Group's lending portfolios. This includes considering the risks associated with lending to customers who could be impacted by climate change.

#### Presentation of allowance for ECL in the balance sheet

Credit impairment provisions for ECL are presented in the balance sheet as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- where a financial instrument includes both a drawn and an undrawn component, the Banking Group presents the undrawn credit impairment provision in 'Other liabilities' to the extent that it exceeds the drawn component; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the balance sheet because the carrying amount of these assets is their fair value. However, the credit impairment provision is recognised in the fair value reserve.

#### Write-off

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Banking Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'Credit impairment losses' in the income statement.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Banking Group's procedures for recovery of amounts due.

# Notes to the financial statements continued

## 9. Credit impairment losses continued



### Critical accounting estimates and judgements

Loan portfolios are assessed for impairment on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, judgements are made as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

In determining ECL, management makes a number of key judgements and assumptions, including but not limited to the following components:

- modelling inputs – PD, EAD, and LGD;
- the criteria under which exposures move between IFRS stages, particularly when moving to and from fully performing (stage 1) and demonstrating a significant increase in credit risk (stage 2);
- the macroeconomic inputs used within each of the economic scenarios;
- the weightings given to each economic scenario; and
- any overlays required to estimate impairments due to potential loss events that could occur (such as natural disasters) as well as loss events that have occurred but where those impacts had not yet been incorporated into the ECL models.

These judgements and assumptions are reviewed and assessed at least half-yearly or when underlying economic conditions materially change.

Dollars in millions	Year ended 30/06/23			
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Credited/(charged) to the income statement for collectively assessed provisions	1	(11)	(19)	(29)
(Charged)/credited to the income statement for individually assessed provisions	(1)	(1)	(3)	(5)
Amounts written off directly to the income statement	(5)	-	-	(5)
Recovery of amounts previously written off	2	-	-	2
<b>Total credit impairment losses per income statement</b>	<b>(3)</b>	<b>(12)</b>	<b>(22)</b>	<b>(37)</b>

Dollars in millions	Year ended 30/06/22			
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Credited/(charged) to the income statement for collectively assessed provisions	2	(11)	(4)	(13)
Credited/(charged) to the income statement for individually assessed provisions	-	-	-	-
Amounts written off directly to the income statement	(5)	-	-	(5)
Recovery of amounts previously written off	2	-	-	2
<b>Total credit impairment losses per income statement</b>	<b>(1)</b>	<b>(11)</b>	<b>(4)</b>	<b>(16)</b>

# Notes to the financial statements continued

## 9. Credit impairment losses continued

### Analysis of total credit impairment provisions

Further analysis of the significant judgements and associated assumptions in relation to changes in model inputs, scenario weightings (included within ECL movements), and model overlays is detailed below. Total credit impairment provisions includes credit impairment provision on loans and advances, and undrawn commitments.

Dollars in millions	Year ended 30/06/23			Total provision
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	
<b>Individually assessed provisions</b>	1	1	3	5
<b>Collectively assessed provisions</b>				
Modelled ECL on loans	5	24	43	72
ECL allowance on undrawn facilities	2	1	4	7
Judgemental modelled overlays – interest repricing	-	7	-	7
Other judgemental overlays	2	10	5	17
<b>Total collectively assessed provisions</b>	9	42	52	103
<b>Total credit impairment provisions</b>	10	43	55	108

Dollars in millions	Year ended 30/06/22			Total provision
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	
<b>Individually assessed provisions</b>	-	-	1	1
<b>Collectively assessed provisions</b>				
Modelled ECL on loans	7	19	25	51
ECL allowance on undrawn facilities	2	2	4	8
Judgemental modelled overlays - interest repricing	-	5	-	5
Other judgemental overlays	1	5	4	10
<b>Total collectively assessed provisions</b>	10	31	33	74
<b>Total credit impairment provisions</b>	10	31	34	75

### Changes in model overlays

#### Judgemental model overlays – interest repricing

Kiwibank has increased the overlay that covers the risk that some home loan borrowers may be unable to maintain loan payments as their loans reprice on to higher interest rates with uncertainty around how long New Zealand remains in a high interest rate and inflationary environment. This overlay has been calculated using a probability assessment on a cohort of customers facing large increases in repayments and are due to reprice over the next 12 to 18 months. Kiwibank monitors impacted customers and has seen a slow increase in requests for assistance; however, this has been supported by a strong labour market. The Banking Group will continue to monitor and reassess this overlay, with an expected release as customers reprice on to higher interest rates and any impacted customers move to stage 2.

#### Other judgemental overlays

Model overlays are required in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to the Banking Group's lending portfolios. The Banking Group holds overlays reflecting credit risks that are not yet incorporated into ECL models due to limited loss histories, limitations in model design and for emerging risks the Banking Group is currently unable to model. These are expected to be maintained until the current limitations can be incorporated into future ECL models. Management overlays are reviewed every six months with two new overlays relating to the impact of severe weather events and a continued decline in house prices impacting loan-to-value ratios, applied as at 30 June 2023.

# Notes to the financial statements continued

## 9. Credit impairment losses continued

### Changes in ECL model assumptions and inputs

The modelled provision for ECL is an estimate of forward-looking losses based on the Banking Group's view of four different economic scenarios. Kiwibank's assumptions around the macroeconomic factors used within each scenario and the weighting applied to each scenario are key judgements applied to the ECL models. The Banking Group has adjusted the macroeconomic variables used in the ECL model based on current economic forecasts. The weightings assigned to each scenario have been reassessed and retained. The economic variables reflect the continuing uncertainty and higher potential downside risks for the global and domestic economy to deteriorate more than expected over the forecast period.

The Banking Group's four macroeconomic scenarios have been updated for the year ended 30 June 2023 as follows:

- **Central scenario:** this is the Banking Group's base case scenario which assumes a continuation of recent macroeconomic trends. The domestic economy experiences three quarters of recession with the RBNZ holding the cash rate at 5.5% to December 2023, with rate cuts expected thereafter as inflation falls within the target range of 1 to 3% by the end of financial year 2024. The economy then returns to low GDP growth from June 2024. Unemployment increases and peaks at 5.2% in September 2024 but remains relatively low compared to previous recessions. House prices continue to fall in the short term with prices increasing again from the end of financial year 2024.
- **Upside scenario:** this scenario reflects more favourable macroeconomic conditions than the central scenario which leads to lower-than-expected credit losses. The upside scenario is a more positive outlook than the central scenario.
- **Downside scenario:** this scenario reflects more unfavourable macroeconomic conditions than the central scenario. This scenario will lead to credit losses higher than expected under the central scenario reflecting a deterioration in the credit risk factors.
- **Severe stress scenario:** this scenario is based on the severe economic stress test scenarios that were used in the RBNZ 2022 industry stress test. It reflects a prolonged contraction of the economy and more severe impacts on house prices in an environment where interest rates and unemployment remain elevated.

The changes in the scenario variables and weighting used at 30 June 2023 and at 30 June 2022 are presented below.

### Changes in scenario variables - increase/(decrease)

As at 30/06/23		Forecast financial year		
Scenario	Macroeconomic assumption	2024	2025	2026
Central	GDP (annual % change)	0.6%	3.5%	3.7%
	Unemployment rate	4.9%	5.1%	4.7%
	House price index (annual % change)	4.2%	4.9%	4.0%
	Consumer price index (annual % change)	2.6%	2.1%	2.0%
	90-day bank bill rate	5.0%	4.0%	3.3%
Upside	GDP (annual % change)	1.8%	3.7%	4.3%
	Unemployment rate	4.6%	4.7%	4.5%
	House price index (annual % change)	5.4%	5.9%	5.0%
	Consumer price index (annual % change)	3.3%	2.7%	2.6%
	90-day bank bill rate	6.0%	5.0%	4.0%
Downside	GDP (annual % change)	(0.9%)	3.2%	4.1%
	Unemployment rate	5.2%	5.7%	5.0%
	House price index (annual % change)	0.2%	4.4%	3.0%
	Consumer price index (annual % change)	1.7%	1.4%	1.5%
	90-day bank bill rate	4.8%	2.8%	1.7%
Severe stress	GDP (annual % change)	(3.0%)	(2.0%)	(0.0%)
	Unemployment rate	5.9%	8.4%	9.6%
	House price index (annual % change)	(21.9%)	(18.6%)	(8.7%)
	Consumer price index (annual % change)	4.9%	4.9%	4.1%
	90-day bank bill rate	7.5%	9.5%	9.8%

# Notes to the financial statements continued

## 9. Credit impairment losses continued

As at 30/06/22		Forecast financial year		
Scenario	Macroeconomic assumption	2023	2024	2025
Central	GDP (annual % change)	3.0%	1.9%	1.8%
	Unemployment rate	3.7%	4.1%	4.2%
	House price index (annual % change)	(3.0%)	4.3%	2.5%
	Consumer price index (annual % change)	2.5%	2.2%	2.1%
	90-day bank bill rate	3.8%	3.4%	3.2%
Upside	GDP (annual % change)	3.6%	2.3%	2.5%
	Unemployment rate	3.3%	3.8%	4.1%
	House price index (annual % change)	3.7%	2.6%	3.4%
	Consumer price index (annual % change)	2.2%	2.1%	2.0%
	90-day bank bill rate	3.1%	3.0%	2.4%
Downside	GDP (annual % change)	(1.4%)	2.9%	2.2%
	Unemployment rate	5.2%	4.6%	4.4%
	House price index (annual % change)	(9.9%)	4.3%	3.5%
	Consumer price index (annual % change)	5.6%	2.3%	2.1%
	90-day bank bill rate	4.8%	3.9%	3.3%
Severe stress	GDP (annual % change)	(0.4%)	(2.6%)	0.3%
	Unemployment rate	6.7%	9.4%	9.2%
	House price index (annual % change)	(15.0%)	(15.0%)	(10.0%)
	Consumer price index (annual % change)	0.1%	(0.1%)	0.3%
	90-day bank bill rate	2.4%	2.4%	2.4%

### Scenario weightings

The weightings applied to the scenarios are outlined below.

Scenario weighting applied	30/06/23	30/06/22
Central	<b>45%</b>	45%
Upside	<b>10%</b>	10%
Downside	<b>35%</b>	35%
Severe stress	<b>10%</b>	10%

The weightings as at 30 June 2023 reflect a central forecast of a shallow recession impacting the domestic economy in 2024. However, downside risks to the current forecast remain, given local and global uncertainty.

# Notes to the financial statements continued

## 9. Credit impairment losses continued

### Sensitivity of ECL to key judgements and assumptions

The assumptions which underlie each scenario and the weightings applied may vary significantly from the actual track of the economy. Other events, including those with a low likelihood but a high impact on the economy and on credit losses, might also occur over the forecast period so that the actual economy might perform differently to the scenarios modelled. Those variances will result in an understatement or overstatement of the credit impairment provision. Given this uncertainty, and as the impact of judgements is significant, a sensitivity analysis is included below to outline the impact of applying different scenario weightings and overlay assumptions on the level of ECL.

The following table outlines the sensitivity of ECL to the key factors used to determine provisions as at 30 June 2023 and 30 June 2022. This sensitivity includes giving each economic scenario a 100% weighting, adjusting some model overlays to reflect those scenario conditions while holding all other modelling factors constant.

Dollars in millions	Year ended 30/06/23		Year ended 30/06/22	
	Total ECL	Impact	Total ECL	Impact
If 1% of stage 1 exposure transitions to stage 2	114	6	80	5
If 1% of stage 2 exposure transitions to stage 1	108	-	75	-
Reported probability-weighted ECL	108	-	75	-
100% upside scenario ECL	70	(38)	51	(24)
100% central scenario ECL	93	(15)	66	(9)
100% downside scenario ECL	126	18	86	11
100% severe stress ECL	160	52	106	31

The sensitivity outlined above represents the Banking Group's best estimate of the range of reasonably plausible outcomes but, due to economic uncertainty, the actual range might be significantly greater.

## 10. Asset quality

### Summary of lending

Dollars in millions	Year ended 30/06/23			
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Neither past due nor impaired	356	25,313	3,949	29,618
Past due but not impaired	13	94	50	157
Impaired	1	1	6	8
<b>Gross loans and advances</b>	<b>370</b>	<b>25,408</b>	<b>4,005</b>	<b>29,783</b>
Credit impairment provision	(8)	(42)	(51)	(101)
Fair value hedge adjustments	-	-	-	-
<b>Net loans and advances</b>	<b>362</b>	<b>25,366</b>	<b>3,954</b>	<b>29,682</b>

Dollars in millions	Year ended 30/06/22			
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Neither past due nor impaired	354	24,220	3,127	27,701
Past due but not impaired	14	80	21	115
Impaired	-	-	2	2
<b>Gross loans and advances</b>	<b>368</b>	<b>24,300</b>	<b>3,150</b>	<b>27,818</b>
Credit impairment provision	(8)	(29)	(30)	(67)
Fair value hedge adjustments	-	-	-	-
<b>Net loans and advances</b>	<b>360</b>	<b>24,271</b>	<b>3,120</b>	<b>27,751</b>

# Notes to the financial statements continued

## 10. Asset quality continued

### Loans and advances past due but not impaired

Dollars in millions	Year ended 30/06/23			Total
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	
Past due less than 30 days	11	48	23	82
Past due 30 – 59 days	1	16	15	32
Past due 60 – 89 days	1	8	6	15
Past due 90 days or greater	-	22	6	28
<b>Total loans and advances past due but not impaired</b>	<b>13</b>	<b>94</b>	<b>50</b>	<b>157</b>

Dollars in millions	Year ended 30/06/22			Total
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	
Past due less than 30 days	10	44	16	70
Past due 30 – 59 days	2	17	2	21
Past due 60 – 89 days	1	6	-	7
Past due 90 days or greater	1	13	3	17
<b>Total loans and advances past due but not impaired</b>	<b>14</b>	<b>80</b>	<b>21</b>	<b>115</b>

### Other asset quality information

Dollars in millions	Year ended 30/06/23			Total
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	
Undrawn lending commitments to counterparties with individually impaired assets	-	-	1	1
Other assets under administration	-	-	2	2

Dollars in millions	Year ended 30/06/22			Total
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	
Undrawn lending commitments to counterparties with individually impaired assets	-	-	-	-
Other assets under administration	-	-	-	-

# Notes to the financial statements continued

## 10. Asset quality continued

### Movement in credit impairment provision and gross carrying amounts

The following pages include tables summarising the movement in credit impairment provision split by category of retail unsecured lending, residential mortgage loans, and corporate exposures. Aggregate information for all categories is presented also.

The movement tables are presented on the following basis:

- Additions are amounts from new commitments and loan facilities drawn during the period.
- Deletions are amounts repaid or closed and commitments utilised or closed during the period.
- Transfers between ECL stages show the impact of the initial transfer calculated on the net movements between the start of the period and the end of the period.
- Net remeasurement of loss allowance includes the subsequent increase or decrease of the provision for transferred amounts and the impact of changes in credit quality of existing lending.
- Other changes in ECL includes the impact of non-significant changes in the credit quality of existing lending, changes in future economic forecast assumptions and other model or overlay changes.

### Definitions

"**Impaired asset**" means any credit exposures against which an individually assessed provision has been recorded in accordance with NZ IFRS 9 – *Financial instruments*.

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 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" and reported separately.

'Charged/(credited) to income statement for collectively assessed provisions' is referenced as 'Charged/(credited) to IS for CP' in the following tables.

'Charged/(credited) to income statement for individually assessed provisions' is referenced as 'Charged/(credited) to IS for IP' in the following tables.

# Notes to the financial statements continued

## 10. Asset quality continued

### Movement in credit impairment provision – retail unsecured lending

Dollars in millions	Year ended 30/06/23				Total
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	
Total credit impairment provision at start of the period	5	5	-	-	10
Transfers between stages	1	(1)	-	-	-
Net remeasurement of loss allowances	(1)	2	-	-	1
Changes due to additions and deletions	-	(1)	-	-	(1)
Changes due to amounts written off	-	(2)	-	-	(2)
Other changes	1	-	-	-	1
(Credited)/charged to IS for CP	-	(1)	-	-	(1)
New and increased provisions	-	-	-	1	1
Write-back of provisions no longer required	-	-	-	-	-
Charged/(credited) to IS for IP	-	-	-	1	1
Amounts written off from individually assessed provisions	-	-	-	-	-
<b>Total credit impairment provision</b>	<b>6</b>	<b>3</b>	<b>-</b>	<b>1</b>	<b>10</b>
Credit impairment provision on loans and advances	4	3	-	1	8
Credit impairment provision on undrawn commitments	2	-	-	-	2
<b>Total credit impairment provision at end of the period</b>	<b>6</b>	<b>3</b>	<b>-</b>	<b>1</b>	<b>10</b>

Impact of changes in gross carrying amount and credit commitments on ECL					
Gross carrying amount at start of the period	288	79	1	-	368
Net transfers between stages	-	-	-	-	-
Additions	97	21	-	1	119
Deletions	(97)	(14)	(1)	-	(112)
Amounts written off	-	(5)	-	-	(5)
<b>Gross carrying amount at end of the period</b>	<b>288</b>	<b>81</b>	<b>-</b>	<b>1</b>	<b>370</b>
Off-balance-sheet credit commitments at start of the period	869	20	-	-	889
Net transfers between stages	(9)	9	-	-	-
Additions	118	7	-	-	125
Deletions	(139)	(15)	-	-	(154)
<b>Off-balance-sheet credit commitments at end of the period</b>	<b>839</b>	<b>21</b>	<b>-</b>	<b>-</b>	<b>860</b>

The unchanged credit impairment provisions of \$10m on retail unsecured lending for the year ended 30 June 2023 reflect:

- remeasurement of ECL due to exposures migrating to higher risk grades (+\$1m);
- changes to the economic scenarios (+\$1m); and
- \$5m of gross balances that were written off from stage 2 (-\$2m).

# Notes to the financial statements continued

## 10. Asset quality continued

### Movement in credit impairment provision – residential mortgage loans

Dollars in millions	Year ended 30/06/23				
	Stage 1	Stage 2	Stage 3		Total
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	
Total credit impairment provision at start of the period	20	9	2	-	31
Transfers between stages	2	(2)	-	-	-
Net remeasurement of loss allowances	(4)	7	2	-	5
Changes due to additions and deletions	(1)	1	-	-	-
Changes due to amounts written off	-	-	-	-	-
Other changes	6	-	-	-	6
Charged/(credited) to IS for CP	1	8	2	-	11
New and increased provisions	-	-	-	1	1
Write-back of provisions no longer required	-	-	-	-	-
Charged/(credited) to IS for IP	-	-	-	1	1
Amounts written off from individually assessed provisions	-	-	-	-	-
<b>Total credit impairment provision</b>	<b>23</b>	<b>15</b>	<b>4</b>	<b>1</b>	<b>43</b>
Credit impairment provision on loans and advances	22	15	4	1	42
Credit impairment provision on undrawn commitments	1	-	-	-	1
<b>Total credit impairment provision at end of the period</b>	<b>23</b>	<b>15</b>	<b>4</b>	<b>1</b>	<b>43</b>

Impact of changes in gross carrying amount and credit commitments on ECL					
Gross carrying amount at start of the period	23,604	678	18	-	24,300
Net transfers between stages	(281)	265	15	1	-
Additions	5,081	107	2	-	5,190
Deletions	(3,943)	(130)	(9)	-	(4,082)
Amounts written off	-	-	-	-	-
<b>Gross carrying amount at end of the period</b>	<b>24,461</b>	<b>920</b>	<b>26</b>	<b>1</b>	<b>25,408</b>
Off-balance-sheet credit commitments at start of the period	2,722	29	-	-	2,751
Net transfers between stages	(15)	15	-	-	-
Additions	791	8	-	-	799
Deletions	(1,029)	(23)	-	-	(1,052)
<b>Off-balance-sheet credit commitments at end of the period</b>	<b>2,469</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>2,498</b>

The increase of \$12m in credit impairment provisions on residential mortgage loans for the year ended 30 June 2023 reflects:

- remeasurement of ECL as a result of exposures migrating to higher risk grades (+\$5m);
- changes to the economic scenarios, model changes and model overlays (+\$6m); and
- an increase in individually assessed provisions (+\$1m).

### Reconciliation of mortgage-related amounts – off-balance-sheet exposures

Dollars in millions	30/06/23
Gross residential mortgages per asset quality (Note 10)	2,498
Adjustment for off-balance-sheet credit conversion factor	(1,767)
Residential mortgages total off-balance-sheet exposures (Capital Adequacy)	731

# Notes to the financial statements continued

## 10. Asset quality continued

### Movement in credit impairment provision – corporate exposures

Dollars in millions	Year ended 30/06/23				Total
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	
Total credit impairment provision at start of the period	23	9	1	1	34
Transfers between stages	-	(1)	1	-	-
Net remeasurement of loss allowances	(1)	3	5	-	7
Changes due to additions and deletions	6	5	3	-	14
Changes due to amounts written off	-	-	-	-	-
Other changes	(1)	(1)	-	-	(2)
Charged/(credited) to IS for CP	4	7	8	-	19
New and increased provisions	-	-	-	3	3
Write-back of provisions no longer required	-	-	-	-	-
Charged/(credited) to IS for IP	-	-	-	3	3
Amounts written off from individually assessed provisions	-	-	-	(1)	(1)
<b>Total credit impairment provision</b>	<b>27</b>	<b>15</b>	<b>10</b>	<b>3</b>	<b>55</b>
Credit impairment provision on loans and advances	25	14	9	3	51
Credit impairment provision on undrawn commitments	2	1	1	-	4
<b>Total credit impairment provision at end of the period</b>	<b>27</b>	<b>15</b>	<b>10</b>	<b>3</b>	<b>55</b>

Impact of changes in gross carrying amount and credit commitments on ECL					
Gross carrying amount at start of the period	3,010	134	4	2	3,150
Net transfers between stages	(104)	90	11	3	-
Additions	1,792	70	9	3	1,874
Deletions	(986)	(29)	(2)	(1)	(1,018)
Amounts written off	-	-	-	(1)	(1)
<b>Gross carrying amount at end of the period</b>	<b>3,712</b>	<b>265</b>	<b>22</b>	<b>6</b>	<b>4,005</b>
Off-balance-sheet credit commitments at start of the period	888	21	1	-	910
Net transfers between stages	(5)	2	2	1	-
Additions	471	18	2	-	491
Deletions	(633)	(11)	(2)	-	(646)
<b>Off-balance-sheet credit commitments at end of the period</b>	<b>721</b>	<b>30</b>	<b>3</b>	<b>1</b>	<b>755</b>

The increase of \$21m in credit impairment provisions on corporate exposures for the year ended 30 June 2023 reflects:

- increase in ECL due to \$701m of exposure growth (+\$4m);
- changes to economic scenarios and model overlays (+\$2m);
- remeasurement and changes in ECL due to exposures migrating to higher risk grades (+\$15m), partly offset by other changes (-\$2m); and
- an increase in individually assessed provisions (+\$3m), partly offset by balances that were written off (-\$1m).

# Notes to the financial statements continued

## 10. Asset quality continued

### Movement in credit impairment provision – total exposures

Dollars in millions	Year ended 30/06/23				Total
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	
Total credit impairment provision at start of the period	48	23	3	1	75
Transfers between stages	3	(4)	1	-	-
Net remeasurement of loss allowances	(6)	12	7	-	13
Changes due to additions and deletions	5	5	3	-	13
Changes due to amounts written off	-	(2)	-	-	(2)
Other changes	6	(1)	-	-	5
Charged/(credited) to IS for CP	5	14	10	-	29
New and increased provisions	-	-	-	5	5
Write-back of provisions no longer required	-	-	-	-	-
Charged/(credited) to IS for IP	-	-	-	5	5
Amounts written off from individually assessed provisions	-	-	-	(1)	(1)
<b>Total credit impairment provision</b>	<b>56</b>	<b>33</b>	<b>14</b>	<b>5</b>	<b>108</b>
Credit impairment provision on loans and advances	51	32	13	5	101
Credit impairment provision on undrawn commitments	5	1	1	-	7
<b>Total credit impairment provision at end of the period</b>	<b>56</b>	<b>33</b>	<b>14</b>	<b>5</b>	<b>108</b>

Impact of changes in gross carrying amount and credit commitments on ECL					
Gross carrying amount at start of the period	26,902	891	23	2	27,818
Net transfers between stages	(385)	355	26	4	-
Additions	6,970	198	11	4	7,183
Deletions	(5,026)	(173)	(12)	(1)	(5,212)
Amounts written off	-	(5)	-	(1)	(6)
<b>Gross carrying amount at end of the period</b>	<b>28,461</b>	<b>1,266</b>	<b>48</b>	<b>8</b>	<b>29,783</b>
Off-balance-sheet credit commitments at start of the period	4,479	70	1	-	4,550
Net transfers between stages	(29)	26	2	1	-
Additions	1,380	33	2	-	1,415
Deletions	(1,801)	(49)	(2)	-	(1,852)
<b>Off-balance-sheet credit commitments at end of the period</b>	<b>4,029</b>	<b>80</b>	<b>3</b>	<b>1</b>	<b>4,113</b>

# Notes to the financial statements continued

## 10. Asset quality continued

### Movement in credit impairment provision – retail unsecured lending

Dollars in millions	Year ended 30/06/22				Total
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	
Total credit impairment provision at start of the period	6	6	-	-	12
Transfers between stages	1	(1)	-	-	-
Net remeasurement of loss allowances	(1)	3	-	-	2
Changes due to additions and deletions	-	(1)	-	-	(1)
Changes due to amounts written off	-	(2)	-	-	(2)
Other changes	(1)	-	-	-	(1)
(Credited)/charged to IS for CP	(2)	-	-	-	(2)
New and increased provisions	-	-	-	-	-
Write-back of provisions no longer required	-	-	-	-	-
Charged/(credited) to IS for IP	-	-	-	-	-
Amounts written off from individually assessed provisions	-	-	-	-	-
<b>Total credit impairment provision</b>	<b>5</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>10</b>
Credit impairment provision on loans and advances	4	4	-	-	8
Credit impairment provision on undrawn commitments	1	1	-	-	2
<b>Total credit impairment provision at end of the period</b>	<b>5</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>10</b>

Impact of changes in gross carrying amount and credit commitments on ECL					
Gross carrying amount at start of the period	296	94	1	-	391
Net transfers between stages	11	(11)	-	-	-
Additions	94	20	-	-	114
Deletions	(113)	(19)	-	-	(132)
Amounts written off	-	(5)	-	-	(5)
<b>Gross carrying amount at end of the period</b>	<b>288</b>	<b>79</b>	<b>1</b>	<b>-</b>	<b>368</b>
Off-balance-sheet credit commitments at start of the period	900	26	-	-	926
Net transfers between stages	(3)	3	-	-	-
Additions	119	6	-	-	125
Deletions	(147)	(15)	-	-	(162)
<b>Off-balance-sheet credit commitments at end of the period</b>	<b>869</b>	<b>20</b>	<b>-</b>	<b>-</b>	<b>889</b>

The decrease of \$2m in credit impairment provisions on retail unsecured lending for the year ended 30 June 2022 reflects:

- decrease in ECL due to a \$60m reduction in gross exposures (-\$1m);
- remeasurement of ECL due to exposures migrating to higher risk grades (+\$2m);
- changes to economic scenarios and model overlays (-\$1m); and
- \$5m of gross balances that were written off from stage 2 (-\$2m).

# Notes to the financial statements continued

## 10. Asset quality continued

### Movement in credit impairment provision – residential mortgage loans

Dollars in millions	Year ended 30/06/22				
	Stage 1	Stage 2	Stage 3		Total
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	
Total credit impairment provision at start of the period	11	7	2	-	20
Transfers between stages	3	(3)	-	-	-
Net remeasurement of loss allowances	(3)	4	1	-	2
Changes due to additions and deletions	2	1	(1)	-	2
Changes due to amounts written off	-	-	-	-	-
Other changes	7	-	-	-	7
Charged/(credited) to IS for CP	6	5	-	-	11
New and increased provisions	-	-	-	-	-
Write-back of provisions no longer required	-	-	-	-	-
Charged/(credited) to IS for IP	-	-	-	-	-
Amounts written off from individually assessed provisions	-	-	-	-	-
<b>Total credit impairment provision</b>	<b>20</b>	<b>9</b>	<b>2</b>	<b>-</b>	<b>31</b>
Credit impairment provision on loans and advances	18	9	2	-	29
Credit impairment provision on undrawn commitments	2	-	-	-	2
<b>Total credit impairment provision at end of the period</b>	<b>20</b>	<b>9</b>	<b>2</b>	<b>-</b>	<b>31</b>

Impact of changes in gross carrying amount and credit commitments on ECL					
Gross carrying amount at start of the period	21,638	827	16	-	22,481
Net transfers between stages	96	(103)	7	-	-
Additions	6,606	122	2	-	6,730
Deletions	(4,736)	(168)	(7)	-	(4,911)
Amounts written off	-	-	-	-	-
<b>Gross carrying amount at end of the period</b>	<b>23,604</b>	<b>678</b>	<b>18</b>	<b>-</b>	<b>24,300</b>
Off-balance-sheet credit commitments at start of the period	2,505	27	-	-	2,532
Net transfers between stages	(14)	13	1	-	-
Additions	1,100	8	-	-	1,108
Deletions	(869)	(19)	(1)	-	(889)
<b>Off-balance-sheet credit commitments at end of the period</b>	<b>2,722</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>2,751</b>

The increase of \$11m in credit impairment provisions on residential mortgage loans for the year ended 30 June 2022 reflects:

- increase in ECL (+\$2m) due to \$2b growth in exposures which was partially offset by improvements in LGDs due to house price growth;
- remeasurement of ECL as a result of exposures migrating to higher risk grades (+\$5m), offset by improvements in stage 1 (-\$3m); and
- changes to the economic scenarios, model changes and model overlays (+\$7m).

### Reconciliation of mortgage-related amounts – off-balance-sheet exposures

Dollars in millions	30/06/22
<b>Gross residential mortgage loans per asset quality</b>	<b>2,751</b>
Adjustment for credit conversion factor	(1,960)
<b>Residential mortgages total off-balance-sheet exposures (Capital Adequacy)</b>	<b>791</b>

# Notes to the financial statements continued

## 10. Asset quality continued

### Movement in credit impairment provision – corporate exposures

Dollars in millions	Year ended 30/06/22				Total
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	
Total credit impairment provision at start of the period	20	8	1	1	30
Transfers between stages	1	(1)	-	-	-
Net remeasurement of loss allowances	(1)	1	-	-	-
Changes due to additions and deletions	3	2	-	-	5
Changes due to amounts written off	-	-	-	-	-
Other changes	-	(1)	-	-	(1)
Charged/(credited) to IS for CP	2	2	-	-	4
New and increased provisions	-	-	-	-	-
Write-back of provisions no longer required	-	-	-	-	-
Charged/(credited) to IS for IP	-	-	-	-	-
Amounts written off from individually assessed provisions	-	-	-	-	-
<b>Total credit impairment provision</b>	<b>23</b>	<b>9</b>	<b>1</b>	<b>1</b>	<b>34</b>
Credit impairment provision on loans and advances	20	8	1	1	30
Credit impairment provision on undrawn commitments	3	1	-	-	4
<b>Total credit impairment provision at end of the period</b>	<b>23</b>	<b>9</b>	<b>1</b>	<b>1</b>	<b>34</b>

Impact of changes in gross carrying amount and credit commitments on ECL					
Gross carrying amount at start of the period	2,362	97	5	1	2,465
Net transfers between stages	(18)	17	-	1	-
Additions	1,395	63	1	-	1,459
Deletions	(729)	(43)	(2)	-	(774)
Amounts written off	-	-	-	-	-
<b>Gross carrying amount at end of the period</b>	<b>3,010</b>	<b>134</b>	<b>4</b>	<b>2</b>	<b>3,150</b>
Off-balance-sheet credit commitments at start of the period	848	15	-	-	863
Net transfers between stages	(13)	13	-	-	-
Additions	613	10	1	-	624
Deletions	(560)	(17)	-	-	(577)
<b>Off-balance-sheet credit commitments at end of the period</b>	<b>888</b>	<b>21</b>	<b>1</b>	<b>-</b>	<b>910</b>

The increase of \$4m in credit impairment provisions on corporate exposures for the year ended 30 June 2022 reflects:

- increase in ECL (+\$5m) due to growth in exposures (+\$732m); and
- changes to economic scenarios and model overlays (-\$1m).

# Notes to the financial statements continued

## 10. Asset quality continued

### Movement in credit impairment provision – total exposures

Dollars in millions	Year ended 30/06/22				Total
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	
Total credit impairment provision at start of the period	37	21	3	1	62
Transfers between stages	5	(5)	-	-	-
Net remeasurement of loss allowances	(5)	8	1	-	4
Changes due to additions and deletions	5	2	(1)	-	6
Changes due to amounts written off	-	(2)	-	-	(2)
Other changes	6	(1)	-	-	5
Charged/(credited) to IS for CP	6	7	-	-	13
New and increased provisions	-	-	-	-	-
Write-back of provisions no longer required	-	-	-	-	-
Charged/(credited) to IS for IP	-	-	-	-	-
Amounts written off from individually assessed provisions	-	-	-	-	-
<b>Total credit impairment provision</b>	<b>48</b>	<b>23</b>	<b>3</b>	<b>1</b>	<b>75</b>
Credit impairment provision on loans and advances	42	21	3	1	67
Credit impairment provision on undrawn commitments	6	2	-	-	8
<b>Total credit impairment provision at end of the period</b>	<b>48</b>	<b>23</b>	<b>3</b>	<b>1</b>	<b>75</b>

Impact of changes in gross carrying amount and credit commitments on ECL					
Gross carrying amount at start of the period	24,296	1,018	22	1	25,337
Net transfers between stages	89	(97)	7	1	-
Additions	8,095	205	3	-	8,303
Deletions	(5,578)	(230)	(9)	-	(5,817)
Amounts written off	-	(5)	-	-	(5)
<b>Gross carrying amount at end of the period</b>	<b>26,902</b>	<b>891</b>	<b>23</b>	<b>2</b>	<b>27,818</b>
Off-balance-sheet credit commitments at start of the period	4,253	68	-	-	4,321
Net transfers between stages	(30)	29	1	-	-
Additions	1,832	24	1	-	1,857
Deletions	(1,576)	(51)	(1)	-	(1,628)
<b>Off-balance-sheet credit commitments at end of the period</b>	<b>4,479</b>	<b>70</b>	<b>1</b>	<b>-</b>	<b>4,550</b>

# Notes to the financial statements continued

## 10. Asset quality continued

### **Credit quality of financial assets neither past due nor impaired**

A large portion of the credit exposures, such as residential and commercial mortgages, are secured. That is, the fair value of associated security is sufficient to ensure that the Banking Group will recover the entire amount owing over the life of the loan facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner.

The credit quality of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the Banking Group's credit scoring systems. At the origination of loans and advances to customers, retail advances are assessed on a combination of debt-servicing ability, demographic characteristics, and loan-to-value ratios ("**LVR**"). Non-retail advances are individually risk-graded against similar characteristics. The behavioural credit characteristics are reviewed periodically for adverse changes during the loan's life. Interest continues to be accrued on all loans. No interest has been foregone.

### **Credit quality of other financial assets**

In addition to assessing impairment for loans and advances, the Banking Group has assessed impairment for cash and cash equivalents, due from other financial institutions, investment securities, and other financial assets. All of these financial assets are considered of high credit quality and are neither past due nor impaired.

Financial assets at FVTPL are not assessed for impairment as their fair value reflects the credit quality of the instrument. Exposures on derivative financial assets are primarily held via a central clearing counterparty ("**CCP**") and collateral is held as set out in Note 23.

The identified impairment loss for all other financial assets, excluding loans and advances, was immaterial.

# Notes to the financial statements continued

## 11. Concentration of credit risk

Dollars in millions	30/06/23			30/06/22		
	On-balance-sheet financial assets	Off-balance-sheet commitments	Maximum exposure to credit risk	On-balance-sheet financial assets	Off-balance-sheet commitments	Maximum exposure to credit risk
<b>New Zealand</b>						
Agriculture	22	3	25	21	3	24
Food and other manufacturing	402	97	499	370	95	465
Electricity, gas and water	36	10	46	23	7	30
Construction	744	239	983	687	329	1,016
Retail and wholesale trade	370	118	488	286	121	407
Transport and storage	278	47	325	367	34	401
Communications	35	8	43	14	10	24
Finance, investment and insurance	1,036	67	1,103	613	88	701
Property and business services	2,807	114	2,921	2,376	250	2,626
Professional, scientific and technical services	107	32	139	103	32	135
Government, local authorities and services	1,871	7	1,878	2,006	1	2,007
Education	21	5	26	17	4	21
Personal and other services	133	26	159	110	27	137
Health and community services	160	18	178	118	26	144
Households	24,484	3,314	27,798	23,155	3,514	26,669
<b>Overseas</b>						
Finance, investment and insurance	1,179	8	1,187	1,120	9	1,129
<b>Total credit exposure</b>	<b>33,685</b>	<b>4,113</b>	<b>37,798</b>	31,386	4,550	35,936
Less credit impairment provision	(101)	(7)	(108)	(67)	(8)	(75)
Other financial assets	45	-	45	41	-	41
<b>Total financial assets</b>	<b>33,629</b>	<b>4,106</b>	<b>37,735</b>	31,360	4,542	35,902

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

# Notes to the financial statements continued

## 11. Concentration of credit risk continued

### Maximum exposure to credit risk

Dollars in millions	30/06/23			30/06/22		
	On-balance-sheet financial assets	Off-balance-sheet commitments	Maximum exposure to credit risk	On-balance-sheet financial assets	Off-balance-sheet commitments	Maximum exposure to credit risk
<b>Credit risk exposure</b>						
Loans and advances	29,783	4,113	33,896	27,818	4,550	32,368
Due from other financial institutions	129	-	129	138	-	138
Derivative financial instruments	447	-	447	477	-	477
Investment securities	2,299	-	2,299	1,431	-	1,431
Cash and cash equivalents	1,027	-	1,027	1,522	-	1,522
Other financial assets	45	-	45	41	-	41
<b>Subtotal</b>	<b>33,730</b>	<b>4,113</b>	<b>37,843</b>	<b>31,427</b>	<b>4,550</b>	<b>35,977</b>
Less credit impairment provision	(101)	(7)	(108)	(67)	(8)	(75)
<b>Total</b>	<b>33,629</b>	<b>4,106</b>	<b>37,735</b>	<b>31,360</b>	<b>4,542</b>	<b>35,902</b>

The table above represents the maximum net credit risk exposure of the Banking Group at 30 June 2023 and 30 June 2022. The exposures set out are based on net carrying amounts as reported in the balance sheet.

The exposure of the Banking Group derived from loans and advances to retail and corporate customers is 90% of the total maximum exposure (30 June 2022: 90%).

### Collateral management

The Banking Group holds financial charges over borrowers' specific assets and is able to enforce the collateral in satisfying the debt in the event borrowers fail to meet contractual obligations. The collateral held for mitigating credit risk for the Banking Group's lending portfolios is outlined below.

Fully secured exposures are those that have security cover greater than or equal to 100%, partially secured exposures are those that have security cover of 40.0% to 99.9% and unsecured exposures are those that have security cover of less than 40.0%.

#### Retail unsecured lending

Retail unsecured lending includes credit cards and overdrafts and is an unsecured portfolio. As at 30 June 2023, 100% of the maximum credit exposure is unsecured (30 June 2022: 100% unsecured).

#### Residential mortgage loans

Residential mortgages are secured by a charge over borrowers' residential property. Additional security can also include a charge over deposits and guarantees from borrowers' related parties. As at 30 June 2023, 99.6% is fully secured and 0.4% is partially secured (30 June 2022: 98.9% fully secured and 1.1% partially secured).

#### Corporate exposures

Corporate lending is typically secured by way of a charge over property; a charge over business assets, other assets or deposits; or guarantees from borrowers' related parties.

As at 30 June 2023, 57.2% is fully secured, 10.4% is partially secured and 32.4% is unsecured (30 June 2022: 59.8% fully secured, 11.5% partially secured and 28.7% unsecured).

#### Collateral on credit-impaired assets

As at 30 June 2023, 47.3% of the Banking Group's impaired gross loans is fully secured, 17.7% is partially secured and 34.9% is unsecured (30 June 2022: 75.6% fully secured, 0.9% partially secured and 23.5% unsecured).

# Notes to the financial statements continued

## 12. Concentration of credit exposures to counterparties

### CREDIT EXPOSURE TO INDIVIDUAL COUNTERPARTIES

Credit exposure concentrations to individual counterparties at the reporting date are disclosed based on actual credit exposures. Peak end-of-day aggregate credit exposures are calculated on the basis of the maximum end-of-day aggregate amount of actual credit exposures over the six-month period (gross of set-offs) divided by the Banking Group's common equity tier 1 capital ("CET1 capital") at the end of the reporting period.

The individual counterparty exposures included in the following table exclude exposures to:

- connected persons;
- the central government or central bank of any country with a long-term credit rating of A- or A3 or above, or its equivalent; and
- any supranational or quasi-sovereign agency with a long-term credit rating of A- or A3 or above, or its equivalent.

	As at 30/06/23	Peak end-of-day for the 6 months ended 30/06/23
<b>Exposures to banks</b>		
Total number of exposures to banks that are greater than 10% of CET1 capital	1	1
With a long-term credit rating of A- or A3 or above, or its equivalent	1	1
– 10% to less than 15% of CET1 capital	1	-
– 15% to less than 20% of CET1 capital	-	1
– 20% to less than 25% of CET1 capital	-	-
– 25% to less than 30% of CET1 capital	-	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
<b>Exposures to non-banks</b>		
Total number of exposures to non-banks that are greater than 10% of CET1 capital	3	3
With a long-term credit rating of A- or A3 or above, or its equivalent	3	3
– 10% to less than 15% of CET1 capital	3	1
– 15% to less than 20% of CET1 capital	-	2
– 20% to less than 25% of CET1 capital	-	-
– 25% to less than 30% of CET1 capital	-	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

### CREDIT EXPOSURE TO CONNECTED PERSONS

The Banking Group's credit exposure to connected persons has been derived in accordance with its conditions of registration and the RBNZ's Connected Exposures Policy (BS8), is net of individually assessed credit impairment provisions and excludes advances to connected persons of a capital nature. Credit exposure concentrations are calculated on the basis of actual gross credit exposures.

The Banking Group does not have credit exposures to connected persons other than non-bank connected persons. Peak end-of-day credit exposures to non-bank connected persons have been calculated on the basis of the maximum end-of-day aggregate amount of actual credit exposures over the full year accounting period (gross of set-offs) divided by the Banking Group's Tier 1 capital at the end of the reporting period. The rating-contingent limit, which is applicable to the Banking Group as at the reporting date, is 60%. There have been no rating-contingent limit changes during the past year. Within the rating-contingent limit there is a sub-limit of 15% of the Banking Group's Tier 1 capital, which applies to non-bank connected persons.

All limits on aggregate credit exposure to all connected persons and non-bank connected persons in the Banking Group's conditions of registration have been complied with at all times over the past year. The limit is 125% of the Banking Group's Tier 1 capital in respect of the gross amount of aggregate credit exposure to connected persons that can be netted off in determining the net exposure.

# Notes to the financial statements continued

## 12. Concentration of credit exposures to counterparties continued

There are no individual impairment credit allowances against credit exposures to non-bank connected persons nor are there any contingent exposures arising from risk lay-off arrangements to connected persons as at 30 June 2023 (30 June 2022: nil).

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Credit exposures to non-bank connected persons at year-end	2	91
Credit exposures to non-bank connected persons at year-end as a percentage of Tier 1 capital	0.1%	4.6%
Peak credit exposures to non-bank connected persons during the year	127	91
Peak credit exposures to non-bank connected persons during the year as a percentage of Tier 1 capital	6.9%	4.6%

## 13. Cash and cash equivalents



### Accounting policy

Cash and cash equivalents are considered to include notes and coins on hand, current accounts with banks, ATMs, overnight bank deposits net of bank overdrafts and inter-bank balances arising from the daily RBNZ settlement process, with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Banking Group in the management of its short-term commitments.

Cash and cash equivalents are measured at amortised cost.

Dollars in millions	30/06/23	30/06/22
Cash in hand	56	65
Cash with central bank	899	1,366
Call and overnight advances to financial institutions	72	91
<b>Total cash and cash equivalents – current</b>	<b>1,027</b>	<b>1,522</b>

## 14. Due from other financial institutions



### Accounting policy

Collateral paid balances are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. Interest, ECL and reversals, and foreign exchange gains and losses are recognised in the income statement.

Certain short-term advances form part of a portfolio measured at fair value through other comprehensive income ("FVOCI"). Gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost: any interest calculated using the effective interest method; ECL and reversals; and foreign exchange gains and losses. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement. All other short-term advances are measured at amortised cost.

Dollars in millions	30/06/23	30/06/22
Short-term advances due from other financial institutions	50	-
Collateral paid	79	138
<b>Total amounts due from other financial institutions – current</b>	<b>129</b>	<b>138</b>

Collateral paid is the collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties.

# Notes to the financial statements continued

## 15. Investment securities



### Accounting policy

Investment securities are debt securities measured at FVOCI. Gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost: any interest calculated using the effective interest method; ECL and reversals; and foreign exchange gains and losses. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement; see net gains on financial instruments (Note 4).

The accounting policy for the calculation of ECL is outlined in Note 9 Credit impairment losses.

Dollars in millions	30/06/23	30/06/22
Government stock and multilateral development banks	1,324	1,210
Treasury bills	19	-
Local authority securities	434	77
Other debt securities	522	144
<b>Total investment securities – current</b>	<b>2,299</b>	<b>1,431</b>

The fair value of investment securities pledged under repurchase agreements is nil for the year ended 30 June 2023 (30 June 2022: \$360m).

## 16. Derivative financial instruments and hedging activities



### Accounting policy

The Banking Group uses derivatives as part of its asset and liability management activities to manage exposures to interest rate and foreign currency, including exposures arising from forecast transactions. These derivatives include swaps, futures, forwards, options and other contingent or exchange-traded contracts in the interest rate and foreign exchange markets.

Fair values are obtained using recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are presented as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognising the resulting fair value gain or loss depends on the nature of the item being hedged. The Banking Group designates certain derivatives as either:

- (1) hedges of the fair value of recognised assets or liabilities or firm commitments (a "**fair value hedge**"); or,
- (2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (a "**cash flow hedge**").

Hedge accounting is used for derivatives designated in this way, provided that certain criteria are met.

The Banking Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Banking Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

As permitted by NZ IFRS 9, the Banking Group has elected to continue to apply the hedge accounting requirements of NZ IAS 39.

#### *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

# Notes to the financial statements continued

## 16. Derivative financial instruments and hedging activities continued



### Accounting policy continued

#### Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### Derivatives held for trading

Certain derivative instruments do not qualify for hedge accounting. These include derivatives transacted as part of the trading activity of the Banking Group, as well as derivatives transacted as economic hedges but not qualifying for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

The Banking Group uses the following derivative instruments for both hedging and non-hedging purposes:

- Currency forwards represent commitments to purchase domestic and foreign currency, including undelivered spot transactions.
- Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.
- Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (e.g. 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. The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, the Banking Group assesses counterparties using the same techniques as for its lending activities.
- Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Banking Group and a customer over the counter. The Banking Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.
- The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised in the balance sheet 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 the Banking Group'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 and the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair value of derivative instruments is set out on the following page.

# Notes to the financial statements continued

## 16. Derivative financial instruments and hedging activities continued

Dollars in millions	30/06/23			30/06/22		
	Notional principal amount	Fair values		Notional principal amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
<b>Derivatives held for trading</b>						
Foreign exchange derivatives	1,365	18	(12)	1,067	26	(20)
Interest rate derivatives	10,545	51	(43)	12,971	39	(34)
<b>Total derivatives held for trading</b>	<b>11,910</b>	<b>69</b>	<b>(55)</b>	<b>14,038</b>	<b>65</b>	<b>(54)</b>
<b>Derivatives held for hedging</b>						
<b>Designated as cash flow hedges</b>						
Interest rate derivatives	18,125	315	(103)	15,347	367	(83)
Exchange rate derivatives	1,356	63	(23)	1,368	45	(18)
<b>Total derivatives designated as cash flow hedges</b>	<b>19,481</b>	<b>378</b>	<b>(126)</b>	<b>16,715</b>	<b>412</b>	<b>(101)</b>
<b>Designated as fair value hedges</b>						
Interest rate derivatives	1,233	-	(62)	600	-	(52)
<b>Total derivatives designated as fair value hedges</b>	<b>1,233</b>	<b>-</b>	<b>(62)</b>	<b>600</b>	<b>-</b>	<b>(52)</b>
<b>Total derivatives held for hedging</b>	<b>20,714</b>	<b>378</b>	<b>(188)</b>	<b>17,315</b>	<b>412</b>	<b>(153)</b>
<b>Total derivative financial instruments</b>	<b>32,624</b>	<b>447</b>	<b>(243)</b>	<b>31,353</b>	<b>477</b>	<b>(207)</b>
<b>Current</b>		<b>249</b>	<b>(32)</b>		72	(38)
<b>Non-current</b>		<b>198</b>	<b>(211)</b>		405	(169)

### DERIVATIVES HELD FOR HEDGING

#### Interest rate derivatives

The Banking Group's approach to managing market risk, including interest rate risk, is discussed in Note 30. The Banking Group hedges benchmark interest rate risk. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

Before hedge accounting is applied by the Banking Group, the Banking Group determines whether an economic relationship between the hedged item and the hedging instrument exists based on an evaluation of the qualitative characteristics of these items and the hedged risk that is supported by quantitative analysis. The Banking Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Banking Group evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks.

The Banking Group establishes a hedge ratio by aligning the par amount of the exposure to be hedged and the notional amount of the interest rate swap designated as a hedging instrument. The hedge relationship is reviewed on a monthly basis and the hedging instruments and hedged items are de-designated and re-designated, if necessary, based on the effectiveness test results and changes in the hedged exposure.

# Notes to the financial statements continued

## 16. Derivative financial instruments and hedging activities continued

Hedge accounting strategies:

- Micro fair value hedge accounting is applied to receive fixed interest rate swaps designated as hedges of interest rate risk arising from fixed-rate subordinated debt and medium-term notes.
- Micro fair value hedge accounting is applied to pay fixed interest rate swaps designated as hedges of interest rate risk arising from fixed-rate investment securities.
- In fair value hedging, the designated hedging relationships result in fair value gains and losses on the hedged item and derivative being recorded through the income statement as incurred. When a fair value hedging relationship is de-designated, the fair value adjustments to the balance sheet's carrying value are amortised to the income statement over the remaining period to the maturity date of the de-designated hedge.
- Portfolio (macro) cash flow hedge accounting is applied to interest rate swaps designated as hedges of the Banking Group's portfolios of floating-rate assets and liabilities. The effective portion of the fair value gains and losses on the hedging instrument is initially recognised directly in other comprehensive income ("OCI") within equity (cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in 'Net (losses)/gains on financial instruments' in the income statement.
- When a cash flow hedging instrument expires, is sold, terminated, or when a hedge no longer meets the criteria for cash flow hedge accounting, any cumulative gain or loss that has been recognised in OCI at that time remains in OCI and is recognised when the hedged forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the income statement.

For all hedge strategies, ineffectiveness arises from the following sources:

- differences in timing of cash flows of hedged items and hedging instruments;
- different interest rate curves applied to discount the hedged items and hedging instruments; and
- the effect of changes in counterparties' credit risk on the fair values of hedging instruments.

### Interest and foreign exchange derivatives

The Banking Group's approach to managing market risk, including interest rate and foreign exchange risk, is discussed in Note 30.

The interest and foreign currency risk arising from the Bank's foreign currency debt issues is hedged using cross-currency swaps. The foreign currency legs of the cross-currency swaps match the critical terms of the hedged debt issues, creating economic hedge relationships that meet hedge accounting criteria.

These are designated as either cash flow or both fair value and cash flow hedges (split designation) to manage the different components of foreign currency and interest rate risk:

- fair value hedge relationship where cross-currency swaps are used to manage the interest rate and foreign currency risk in relation to foreign-currency-denominated borrowing with fixed interest rates;
- cash flow hedge relationship where foreign exchange forwards are used to manage highly probable vendor payments; and
- cash flow hedge relationship where cross-currency swaps are used to manage the variability in cash flows arising from interest rate movements on floating interest rate payments and foreign exchange movements on payment of principal and interest.

Ineffectiveness arises from the following sources:

- differences in timing of cash flows of hedged items and hedging instruments;
- different interest rate curves applied to discount the hedged items and hedging instruments; and
- the effect of changes in counterparties' credit risk on the fair values of hedging instruments.

Similar to the hedge relationships under interest rate risk, the ineffective portion of the gain or loss on the hedging instrument is recognised immediately in 'Net (losses)/gains on financial instruments' in the income statement.

# Notes to the financial statements continued

## 16. Derivative financial instruments and hedging activities continued

The following table shows the maturity and interest rate risk profiles of the interest rate swaps, cross-currency swaps, and foreign exchange forwards as hedging instruments in continuing fair value and cash flow hedge relationships.

Dollars in millions	30/06/23				Total
	Up to 3 months	3 to 12 months	Between 1 and 5 years	More than 5 years	
<b>Interest rate risk</b>					
<b>Cash flow hedge relationships</b>					
Interest rate swaps: <i>Pay fixed</i>					
Nominal amounts	1,550	6,100	7,303	-	14,953
Average interest rate	1.50%	2.14%	3.68%	-	
Interest rate swaps: <i>Receive fixed</i>					
Nominal amounts	332	948	1,867	25	3,172
Average interest rate	3.38%	3.92%	3.00%	4.68%	
<b>Fair value hedge relationships</b>					
Interest rate swaps: <i>Receive fixed</i>					
Nominal amounts	-	-	1,233	-	1,233
Average interest rate	-	-	2.87%	-	
<b>Total interest rate risk nominal amounts</b>	<b>1,882</b>	<b>7,048</b>	<b>10,403</b>	<b>25</b>	<b>19,358</b>
<b>Foreign exchange risk</b>					
<b>Cash flow hedge relationships</b>					
FX Forward (USD: NZD)					
Nominal amounts	1	4	4	-	9
Average USD–NZD exchange rate	0.65	0.64	0.62	-	
FX Forward (GBP: NZD)					
Nominal amounts	-	2	1	-	3
Average GBP–NZD exchange rate	-	0.50	0.49	-	
FX Forward (AUD: NZD)					
Nominal amounts	1	4	4	-	9
Average AUD–NZD exchange rate	0.91	0.91	0.91	-	
<b>Total foreign exchange risk nominal amounts</b>	<b>2</b>	<b>10</b>	<b>9</b>	<b>-</b>	<b>21</b>
<b>Interest rate and foreign exchange risk</b>					
<b>Cash flow hedge relationships</b>					
Cross-currency swaps (AUD: NZD)					
Nominal amounts	-	-	544	-	544
Average AUD–NZD exchange rate	-	-	0.92	-	
Average interest rate	-	-	float	-	
<b>Fair value and cash flow hedge relationships</b>					
Cross-currency swaps (HKD: NZD)					
Nominal amounts	-	-	231	123	354
Average HKD–NZD exchange rate	-	-	5.58	5.36	
Average interest rate	-	-	1.30%	1.91%	
Cross-currency swaps (CHF: NZD)					
Nominal amounts	-	274	-	-	274
Average CHF–NZD exchange rate	-	0.69	-	-	
Average interest rate	-	0.26%	-	-	
Cross-currency swaps (AUD: NZD)					
Nominal amounts	-	-	163	-	163
Average AUD–NZD exchange rate	-	-	0.89	-	
Average interest rate	-	-	4.25%	-	
<b>Total interest rate and foreign exchange risk nominal amounts</b>	<b>-</b>	<b>274</b>	<b>938</b>	<b>123</b>	<b>1,335</b>
<b>Total nominal amounts</b>	<b>1,884</b>	<b>7,332</b>	<b>11,350</b>	<b>148</b>	<b>20,714</b>

# Notes to the financial statements continued

## 16. Derivative financial instruments and hedging activities continued

Dollars in millions	30/06/22				Total
	Up to 3 months	3 to 12 months	Between 1 and 5 years	More than 5 years	
<b>Interest rate risk</b>					
<b>Cash flow hedge relationships</b>					
Interest rate swaps: <i>Pay fixed</i>					
Nominal amounts	-	2,717	10,670	-	13,387
Average interest rate	-	1.75%	1.62%	-	
Interest rate swaps: <i>Receive fixed</i>					
Nominal amounts	188	247	1,525	-	1,960
Average interest rate	2.70%	2.30%	1.95%	-	
<b>Fair value hedge relationships</b>					
Interest rate swaps: <i>Receive fixed</i>					
Nominal amounts	-	-	600	-	600
Average interest rate	-	-	1.14%	-	
<b>Total interest rate risk nominal amounts</b>	188	2,964	12,795	-	15,947
<b>Foreign exchange risk</b>					
<b>Cash flow hedge relationships</b>					
FX Forward (USD: NZD)					
Nominal amounts	-	5	3	-	8
Average USD–NZD exchange rate	-	0.65	0.64	-	
FX Forward (GBP: NZD)					
Nominal amounts	-	1	2	-	3
Average GBP–NZD exchange rate	-	0.51	0.50	-	
FX Forward (AUD: NZD)					
Nominal amounts	1	2	3	-	6
Average AUD–NZD exchange rate	0.91	0.91	0.90	-	
<b>Total foreign exchange risk nominal amounts</b>	1	8	8	-	17
<b>Interest rate and foreign exchange risk</b>					
<b>Cash flow hedge relationships</b>					
Cross-currency swaps (AUD: NZD)					
Nominal amounts	-	-	554	-	554
Average AUD–NZD exchange rate	-	-	0.92	-	
Average interest rate	-	-	float	-	
Fair value and cash flow hedge relationships					
Cross-currency swaps (HKD: NZD)					
Nominal amounts	-	-	225	120	345
Average HKD–NZD exchange rate	-	-	5.58	5.36	
Average interest rate	-	-	1.30%	1.91%	
Cross-currency swaps (CHF: NZD)					
Nominal amounts	-	-	253	-	253
Average CHF–NZD exchange rate	-	-	0.69	-	
Average interest rate	-	-	0.26%	-	
Cross-currency swaps (AUD: NZD)					
Nominal amounts	33	-	-	166	199
Average AUD–NZD exchange rate	0.78	-	-	0.89	
Average interest rate	5.52%	-	-	4.25%	
<b>Total interest rate and foreign exchange risk nominal amounts</b>	33	-	1,032	286	1,351
<b>Total nominal amounts</b>	222	2,972	13,835	286	17,315

# Notes to the financial statements continued

## 16. Derivative financial instruments and hedging activities continued

The following table sets out the accumulated fair value adjustments arising from the corresponding fair value hedge relationships and the outcome of the changes in fair value of the hedge item as well as the hedging instruments used as the basis for recognising effectiveness.

Dollars in millions	30/06/23		Year ended 30/06/23
	Carrying value	Accumulated amount of fair value hedge adjustments	Gains/(losses) on fair value attributable to hedged risk used for recognising hedge ineffectiveness
<b>Interest rate risk</b>			
Subordinated debt	(374)	26	3
Debt securities issued	(801)	32	3
<b>Total</b>	<b>(1,175)</b>	<b>58</b>	<b>6</b>
Interest rate swaps	(62)	(59)	(6)
<b>Interest rate risk and foreign currency risk</b>			
Debt securities issued	(742)	48	4
Cross-currency swaps	40	(48)	(4)
<b>Total ineffectiveness of financial instruments in fair value hedge relationship</b>			<b>-</b>

Dollars in millions	30/06/22		Year ended 30/06/22
	Carrying value	Accumulated amount of fair value hedge adjustments	Gains/(losses) on fair value attributable to hedged risk used for recognising hedge ineffectiveness
<b>Interest rate risk</b>			
Subordinated debt	(177)	23	16
Debt securities issued	(370)	29	30
<b>Total</b>	<b>(547)</b>	<b>52</b>	<b>46</b>
Interest rate swaps	(52)	(52)	(46)
<b>Interest rate risk and foreign currency risk</b>			
Debt securities issued	(753)	44	63
Cross-currency swaps	27	(44)	(62)
<b>Total ineffectiveness of financial instruments in fair value hedge relationship</b>			<b>1</b>

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses is \$nil (30 June 2022: \$nil).

# Notes to the financial statements continued

## 16. Derivative financial instruments and hedging activities continued

The table below sets out the notional and carrying amounts of the derivatives the Banking Group uses as hedging instruments in continuing cash flow hedge relationships and the changes in fair values used for measuring hedge ineffectiveness, showing separately the effective and ineffective portions:

Dollars in millions		Foreign currency risk	Interest rate risk	Interest and foreign currency risk	Total
		Foreign exchange contracts	Interest rate swaps	Cross-currency swaps	
<b>As at 30/06/23</b>					
Notional amount		21	18,125	1,335	19,481
<b>Carrying amount:</b>					
Assets		-	315	63	378
Liabilities		-	(103)	(23)	(126)
<b>Changes in fair value of hedging instruments used for measuring hedge ineffectiveness:</b>					
Hedged item		-	(162)	(41)	(203)
Hedging instrument		-	162	41	203
<b>Year ended 30/06/23 Recognised in / reclassified to:</b>					
Effective portion	OCI <sup>1</sup>	-	162	(20)	142
Hedge ineffectiveness	Net (losses)/gains on FI <sup>2</sup>	-	-	-	-
Reclassified into income statement as:					
	Interest income/(expense)	-	184	(20)	164
	Net (losses)/gains on FI <sup>2</sup>	-	58	21	79

<sup>1</sup> Other comprehensive income

<sup>2</sup> Net (losses)/gains on financial instruments

Dollars in millions		Foreign currency risk	Interest rate risk	Interest and foreign currency risk	Total
		Foreign exchange contracts	Interest rate swaps	Cross-currency swaps	
<b>As at 30/06/22</b>					
Notional amount		17	15,347	1,351	16,715
<b>Carrying amount:</b>					
Assets		-	367	45	412
Liabilities		-	(83)	(18)	(101)
<b>Changes in fair value of hedging instruments used for measuring hedge ineffectiveness:</b>					
Hedged item		-	(262)	(75)	(337)
Hedging instrument		-	262	75	337
<b>Year ended 30/06/22 Recognised in / reclassified to:</b>					
Effective portion	OCI <sup>1</sup>	-	273	(13)	260
Hedge ineffectiveness	Net (losses)/gains on FI <sup>2</sup>	-	-	-	-
Reclassified into income statement as:					
	Interest (expense)/income	-	-	(12)	(12)
	Net (losses)/gains on FI <sup>2</sup>	-	-	76	76

<sup>1</sup> Other comprehensive income

<sup>2</sup> Net (losses)/gains on financial instruments

# Notes to the financial statements continued

## 16. Derivative financial instruments and hedging activities continued

As at 30 June 2023, there were \$1.7b of outstanding swaps that had been de-designated from cash flow hedge relationships to manage hedge capacity (30 June 2022: \$2b). The forecast transactions for these de-designated swaps are still expected to occur. Therefore, the cumulative gain or loss recognised directly in the cash flow hedge reserve while the hedge instrument was designated remains in equity until the forecast transaction occurs.

During the year ended 30 June 2023, \$58m (30 June 2022: \$7m) was reclassified from the cash flow hedge reserve to net (losses)/gains on financial instruments in the income statement. This is the amortisation of the fair value of de-designated swaps at the time of revoking the hedge designation. The amortisation is offset by subsequent fair value movements in those de-designated swaps \$58m (30 June 2022: \$6m).

At 30 June 2023, cumulative gain or loss on de-designated swaps remaining in the cash flow hedge reserve amounted to \$3m (30 June 2022: \$4m).

## 17. Due to other financial institutions



### Accounting policy

Amounts due to other financial institutions are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest method. Amortisation and foreign exchange gains and losses are recognised in the income statement, as is any gain or loss when the liability is derecognised.

#### Repurchase agreements

Under repurchase agreements, collateral in the form of securities is advanced to a third party and the Banking Group receives cash in exchange. The counterparty has an obligation to return the collateral at the maturity of the contract. The Banking Group has determined that it retains substantially all the risks and rewards of the securities advanced and therefore they are not derecognised 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 income statement over the term of the repurchase agreement.

Dollars in millions	30/06/23	30/06/22
Cash collateral received	224	269
Unsettled transactions	15	-
Transaction balances with other financial institutions	13	8
Repurchase agreements	1,516	1,562
<b>Total amounts due to other financial institutions</b>	<b>1,768</b>	<b>1,839</b>
<b>Current</b>	<b>845</b>	<b>731</b>
<b>Non-current</b>	<b>923</b>	<b>1,108</b>

#### Funding for Lending Programme

In November 2020, the RBNZ announced a Funding for Lending Programme ("FLP") as one of the tools to 'maintain low and stable inflation and support full employment'. The FLP allows the Bank to borrow directly from the RBNZ at the floating Official Cash Rate ("OCR"), refixed on the date that a revised OCR comes into effect, for a term of three years and was effective to 6 December 2022.

A total of \$1,716m of residentially mortgage-backed security ("RMBS") has been pledged as approved eligible collateral. As at 30 June 2023, \$1,385m had been drawn down (30 June 2022: \$1,100m).

#### Term Lending Facility

In May 2020, the RBNZ established a Term Lending Facility ("TLF") to support the functioning of the Business Finance Guarantee Scheme ("BFGS"), with financing under the TLF tied to the utilisation of the BFGS. Under the TLF, each eligible counterparty in the BFGS can draw down an amount equivalent to the outstanding BFGS amount for that participant. Kiwibank's drawings under the TLF have a term of five years fixed at the then OCR of 0.25%, subject to annual renewal. The BFGS ended on 30 June 2021 and the TLF ended on 28 July 2021.

A total of \$81m of RMBS has been pledged as approved eligible collateral. As at 30 June 2023, \$68m had been drawn down (30 June 2022: \$94m).

# Notes to the financial statements continued

## 18. Deposits and other borrowings



### Accounting policy

Deposits and other borrowings are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Amortisation and foreign exchange gains and losses are recognised in the income statement, as is any gain or loss when the liability is derecognised.

Dollars in millions	30/06/23	30/06/22
Demand deposits non-interest bearing	4,336	5,028
Demand deposits bearing interest	6,803	6,281
Term deposits	14,617	12,907
<b>Total deposits from customers</b>	<b>25,756</b>	<b>24,216</b>
<b>Current</b>	<b>25,267</b>	<b>23,834</b>
<b>Non-current</b>	<b>489</b>	<b>382</b>

Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information.

In the event of the liquidation of Kiwibank, deposit holders will rank equally with all other creditors but ahead of subordinated debt holders, shareholders and holders of perpetual preference shares. In addition, all payment obligations of Kiwibank that existed on 28 February 2017, excluding any payment obligations where the terms expressly provide that they do not have the benefit of the guarantee, are guaranteed under the Crown Guarantee but only in relation to and to the extent of those obligations.

The Kiwibank PIE Unit Trust (the "**PIE Unit Trust**"), established in May 2008, operates three funds: the PIE Term Deposit Fund, the Notice Saver Fund and PIE Online Call Fund. Kiwibank Investment Management Limited is the issuer and manager (the "**Manager**"), Public Trust is the Supervisor and Kiwibank is the promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank; however, the Trust is invested exclusively in term and call deposits with Kiwibank. As at 30 June 2023, \$6,235m of the Trust's funds were invested in Kiwibank products or securities (30 June 2022: \$5,215m). Kiwibank guarantees the payment obligations of the Manager and any amounts owing to Unit holders under the Trust Deed in respect of their units. Kiwibank agrees to pay to Unit holders any shortfall between the amount they may receive on redeeming their units or in the winding up of the Trust and the balance of their unit accounts.

## 19. Debt securities issued



### Accounting policy

Debt securities issued are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Amortisation and foreign exchange gains and losses are recognised in the income statement, as is any gain or loss when the liability is derecognised. See Note 16 for the accounting policy for derivative financial instruments including the accounting for fair value hedge adjustments.

Dollars in millions	30/06/23	30/06/22
<b>Short-term debt</b>		
Certificates of deposit	467	413
<b>Long-term debt</b>		
Medium-term notes	2,107	1,686
Covered bonds	544	553
Fair value hedge adjustment	(80)	(73)
<b>Total debt securities issued</b>	<b>3,038</b>	<b>2,579</b>
<b>Current</b>	<b>741</b>	<b>675</b>
<b>Non-current</b>	<b>2,297</b>	<b>1,904</b>

# Notes to the financial statements continued

## 19. Debt securities issued continued

### Reconciliation of movement in liability arising from financing activities

Dollars in millions	30/06/23	30/06/22
Opening balance	2,579	2,544
Issuances	1,557	1,491
Repayments	(1,132)	(1,452)
<b>Total cash movements</b>	<b>425</b>	<b>39</b>
Effect of changes in foreign exchange rates	17	80
Fair value and other movements	17	(84)
<b>Closing balance</b>	<b>3,038</b>	<b>2,579</b>

The Banking Group has not redeemed any covered bonds during the year ended 30 June 2023 (30 June 2022: nil). The Banking Group has not issued any covered bonds during the year ended 30 June 2023 (30 June 2022: nil).

On 31 March 2022 the Banking Group established a USD10b Euro Medium Term Note programme ("EMTN"). As at 30 June 2023, the Banking Group had not issued any notes under this programme.

In the event of the liquidation of Kiwibank, holders of these debt securities, except for covered bonds, will rank equally with all other creditors but ahead of subordinated debt holders, shareholders and holders of perpetual preference shares.

The guarantee arrangements and other details relating to covered bonds are disclosed in Note 24.

Kiwibank has not had any defaults of principal, interest or other breaches with respect to debt securities issued during the year ended 30 June 2023 (30 June 2022: no defaults).

## 20. Subordinated debt



### Accounting policy

Subordinated debt issues are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest method. Amortisation is recognised in the income statement, as is any gain or loss when the liability is derecognised. See Note 16 for the accounting policy for derivative financial instruments including the accounting for fair value hedge adjustments.

Dollars in millions	30/06/23	30/06/22
Subordinated notes	472	272
Fair value hedge adjustments	(26)	(22)
<b>Total subordinated debt</b>	<b>446</b>	<b>250</b>
<b>Current</b>	<b>-</b>	<b>-</b>
<b>Non-current</b>	<b>446</b>	<b>250</b>

The Banking Group issued \$200m of subordinated notes during the year ended 30 June 2023 (30 June 2022: nil).

The subordinated debt instruments on issue are subordinate to all other general liabilities of the Banking Group but ranked ahead of shareholders and holders of perpetual preference shares and are denominated in New Zealand dollars.

The Banking Group has not had any defaults of principal, interest or other breaches with respect to these liabilities during the year ended 30 June 2023 (year ended 30 June 2022: nil).

As at 30 June 2023, \$470m of subordinated debt qualified as Tier 2 capital for Capital Adequacy calculation purposes (30 June 2022: \$272m). The contractual terms of subordinated debt instruments on issue expressly stipulate that they do not have the benefit of the Crown Guarantee.

# Notes to the financial statements continued

## 20. Subordinated debt continued

The key terms and conditions of the subordinated debt instruments on issue are as follows:

Instrument	Issue date	Amount (\$m)	Coupon rate	Next reset date	Maturity date
Subordinated notes	11 December 2020	275	2.36% p.a. <sup>1</sup>	11 December 2025	11 December 2030
Subordinated notes	12 May 2023	200	6.40% p.a. <sup>2</sup>	12 May 2028	12 May 2033

<sup>1</sup> Interest is paid quarterly in arrears.

<sup>2</sup> Interest is paid quarterly in arrears.

### Reconciliation of movement in liability arising from financing activities

Dollars in millions	30/06/23	30/06/22		Total
	Subordinated notes	Subordinated notes	Perpetual capital bond	
Opening balance	250	265	150	415
Issuances	200	-	-	-
Issuance costs	(3)	-	-	-
Repayments	-	-	(150)	(150)
Interest paid	(6)	(6)	-	(6)
<b>Total cash movements</b>	<b>191</b>	<b>(6)</b>	<b>(150)</b>	<b>(156)</b>
Interest accrued	8	6	-	6
Fair value and other movements	(3)	(15)	-	(15)
<b>Closing balance</b>	<b>446</b>	<b>250</b>	<b>-</b>	<b>250</b>

# Notes to the financial statements continued

## 21. Concentration of funding

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

Dollars in millions	30/06/23	30/06/22
<b>New Zealand</b>		
Agriculture	32	41
Food and other manufacturing	149	168
Electricity, gas and water	23	19
Construction	388	376
Retail and wholesale trade	277	173
Transport and storage	171	218
Communications	6	23
Finance, investment and insurance	5,569	5,133
Property and business services	354	392
Professional, scientific and technical services	352	346
Government, local authorities and services	614	524
Education	214	201
Personal and other services	317	225
Health and community services	433	407
Households	20,420	18,889
<b>Overseas</b>		
Finance, investment and insurance	1,559	1,588
Households	373	301
Other	-	67
<b>Total funding</b>	<b>31,251</b>	<b>29,091</b>
Other financial liabilities	127	132
<b>Total financial liabilities</b>	<b>31,378</b>	<b>29,223</b>

# Notes to the financial statements continued

## 22. Financial instruments



### Accounting policy

The Banking Group measures certain financial instruments at fair value at each reporting date. In addition, the fair values of certain financial instruments which are measured at amortised cost are disclosed.

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

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their own economic best interest.

The Banking Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The valuation methodologies are described further within this note.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Banking Group determines whether any transfers between levels in the hierarchy have occurred by reassessing categorisation at the end of each reporting period.

### a) Measurement basis of financial assets and liabilities

The accounting policies describe how different classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following tables analyse the carrying amounts of the financial assets and liabilities by category and by balance sheet heading.

Dollars in millions	30/06/23			Total
	Amortised cost	FVOCI	FVTPL <sup>1</sup>	
Cash and cash equivalents	1,027	-	-	1,027
Due from other financial institutions	79	50	-	129
Investment securities	-	2,299	-	2,299
Loans and advances	29,682	-	-	29,682
Derivative financial instruments	-	-	447	447
Other financial assets	45	-	-	45
<b>Total financial assets</b>	<b>30,833</b>	<b>2,349</b>	<b>447</b>	<b>33,629</b>
Due to other financial institutions	1,768	-	-	1,768
Deposits and other borrowings	25,756	-	-	25,756
Derivative financial instruments	-	-	243	243
Debt securities issued	3,038	-	-	3,038
Subordinated debt	446	-	-	446
Other financial liabilities	127	-	-	127
<b>Total financial liabilities</b>	<b>31,135</b>	<b>-</b>	<b>243</b>	<b>31,378</b>

<sup>1</sup> FVTPL includes derivatives held for trading; refer to Note 16.

# Notes to the financial statements continued

## 22. Financial instruments continued

Dollars in millions	30/06/22			Total
	Amortised cost	FVOCI	FVTPL	
Cash and cash equivalents	1,522	-	-	1,522
Due from other financial institutions	138	-	-	138
Investment securities	-	1,431	-	1,431
Loans and advances	27,751	-	-	27,751
Derivative financial instruments	-	-	477	477
Other financial assets	39	-	2	41
<b>Total financial assets</b>	<b>29,450</b>	<b>1,431</b>	<b>479</b>	<b>31,360</b>
Due to other financial institutions	1,839	-	-	1,839
Deposits and other borrowings	24,216	-	-	24,216
Derivative financial instruments	-	-	207	207
Debt securities issued	2,579	-	-	2,579
Subordinated debt	250	-	-	250
Other financial liabilities	132	-	-	132
<b>Total financial liabilities</b>	<b>29,016</b>	<b>-</b>	<b>207</b>	<b>29,223</b>

### b) Fair values of financial assets and liabilities

The following tables summarise the carrying values of financial assets and liabilities presented in the Banking Group's balance sheet. 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.

Dollars in millions	30/06/23		30/06/22	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
<b>Financial assets</b>				
Investment securities	<b>2,299</b>	<b>2,299</b>	1,431	1,431
Loans and advances	<b>29,682</b>	<b>29,286</b>	27,751	27,349
Derivative financial instruments	<b>447</b>	<b>447</b>	477	477
<b>Financial liabilities</b>				
Deposits and other borrowings	<b>25,756</b>	<b>25,741</b>	24,216	24,193
Derivative financial instruments	<b>243</b>	<b>243</b>	207	207
Debt securities issued	<b>3,038</b>	<b>3,027</b>	2,579	2,561
Subordinated debt	<b>446</b>	<b>447</b>	250	247

The carrying values of the following financial instruments are a reasonable approximation of fair value because, for example, they are short term in nature or reprice to current market rates frequently: cash and cash equivalents, due from other financial institutions, other financial assets, due to other financial institutions and other financial liabilities. No fair value disclosures are required for lease liabilities; therefore, they are excluded from the table above.

# Notes to the financial statements continued

## 22. Financial instruments continued

### c) Fair value measurement

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, e.g. 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 instrument's valuation is not based on observable market data.

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 (30 June 2022: no transfers). There were also no transfers into/out of level 3 during the year (30 June 2022: no transfers).

### d) Financial assets and liabilities carried at fair value

#### Valuation methodology

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

#### *Due from other financial institutions*

Estimates of fair value for short-term advances are determined using market-accepted valuation models, including discounted cash flow models with inputs that include an interest rate yield curve developed from quoted rates.

#### *Investment securities*

Estimates of fair value for investment securities are based on quoted market prices (mid-price) 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.

#### *Derivative financial instruments*

Where the Banking Group'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:

- 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; and
- foreign exchange derivatives that do not contain options which are priced using rates available from publicly quoted sources.

Dollars in millions	30/06/23				30/06/22			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value</b>								
Derivative financial assets	-	447	-	447	-	477	-	477
Investment securities	316	1,983	-	2,299	439	992	-	1,431
Due from other financial institutions	-	50	-	50	-	-	-	-
Other financial assets	-	-	-	-	-	-	2	2
<b>Financial liabilities at fair value</b>								
Derivative financial liabilities	-	243	-	243	-	207	-	207

### e) Financial assets and liabilities carried at amortised cost

#### Valuation methodology

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

# Notes to the financial statements continued

## 22. Financial instruments continued

### Loans and advances

The Banking Group 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 the Banking Group 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 and retail loans is estimated by discounting anticipated cash flows at a rate which reflects the effects of interest rate changes, adjusted for changes in credit risk.

### Impaired and past due loans and advances

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

### Deposits by customers

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

### Debt securities issued and subordinated debt

The fair values of these instruments are calculated based on quoted mid-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.

Dollars in millions	30/06/23				30/06/22			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets at amortised cost</b>								
Loans and advances	-	-	29,286	29,286	-	-	27,349	27,349
<b>Financial liabilities at amortised cost</b>								
Deposits and other borrowings	-	-	25,741	25,741	-	-	24,193	24,193
Debt securities issued	-	3,027	-	3,027	-	2,561	-	2,561
Subordinated debt	-	447	-	447	-	247	-	247

# Notes to the financial statements continued

## 23. Offsetting financial assets and liabilities



### Accounting policy

The Banking Group enters into contractual arrangements with counterparties to manage the credit risks associated primarily with over-the-counter derivatives, repurchase and reverse repurchase transactions. The Banking Group also has agreements with some of its institutional counterparties to settle certain derivatives via a central clearing counterparty ("CCP"). These netting agreements and similar arrangements enable counterparties to offset liabilities against assets if an event of default or other predetermined event occurs and may require the posting of collateral; however, these generally do not result in net settlement in the ordinary course of business. Consequently, the Banking Group does not offset its financial assets and liabilities in the balance sheet even if these amounts are subject to enforceable netting arrangements.

The Banking Group has an agreement to settle New Zealand dollar interest rate swaps and overnight indexed swaps via a CCP. The Banking Group continues to recognise these derivatives on a gross basis.

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

The financial instruments included in the following table are subject to offsetting, enforceable master netting arrangements or are cleared through a CCP.

		30/06/23					
Dollars in millions	Note	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet		
					Financial instruments	Cash collateral received	Net amount
Derivative financial assets	16	447	-	447	(210)	(223)	14
<b>Total</b>		<b>447</b>	<b>-</b>	<b>447</b>	<b>(210)</b>	<b>(223)</b>	<b>14</b>

Dollars in millions	Note	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet		
					Financial instruments	Cash collateral pledged	Net amount
Derivative financial liabilities	16	243	-	243	(210)	(20)	13
Repurchase agreements <sup>1</sup>		1,516	-	1,516	(1,516)	-	-
<b>Total</b>		<b>1,759</b>	<b>-</b>	<b>1,759</b>	<b>(1,726)</b>	<b>(20)</b>	<b>13</b>

<sup>1</sup> \$1,797m of residentially mortgage-backed securities have been pledged as collateral under a collateralised borrowing arrangement (repurchase agreements). Refer to Note 17 for further details.

# Notes to the financial statements continued

## 23. Offsetting financial assets and liabilities continued

		30/06/22					
Dollars in millions	Note	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
					Financial instruments	Cash collateral received	
Derivative financial assets	16	477	-	477	(174)	(256)	47
<b>Total</b>		477	-	477	(174)	(256)	47

		30/06/22					
Dollars in millions	Note	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the balance sheet	Net amounts of financial liabilities presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
					Financial instruments	Cash collateral pledged	
Derivative financial liabilities	16	207	-	207	(174)	(20)	13
Repurchase agreements <sup>1</sup>		1,562	-	1,562	(1,562)	-	-
<b>Total</b>		1,769	-	1,769	(1,736)	(20)	13

<sup>1</sup> \$360m of investments securities and \$1,455m of residentially mortgage-backed securities have been pledged as collateral under a collateralised borrowing arrangement (repurchase agreements). Refer to Note 15 and Note 17 for further details.

Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information.

## 24. Transfer of financial assets

The following financial assets have been transferred but have not been derecognised.

### Kiwibank RMBS Trust Series 2009-1 (the "RMBS Trust")

The RBNZ's collateral criteria includes the use of a pool of individual residentially secured mortgages (loans and advances) that are aggregated together to form a residential mortgage-backed security ("RMBS"). An RMBS can be transferred to a separate Trust allowing the Banking Group to enter into a repurchase agreement on these loans with the RBNZ. The Banking Group can borrow from the RBNZ using the RMBS as collateral until repurchased at a later date, in order to manage its liquidity requirements.

On 26 June 2009, the Banking Group established an in-house RMBS facility in order to issue securities that meet the RBNZ criteria.

The carrying value of the RMBS pool at 30 June 2023 is \$4,250m (30 June 2022: \$4,250m). These securities are ring-fenced to ensure they are not used as collateral outside of agreements established with the RMBS Trust.

### Kiwi Covered Bond Trust (the "Covered Bond Trust")

The Covered Bond Trust was established to hold Kiwibank housing loans and to provide guarantees to certain debt securities issued by the Banking Group. Substantially all of the assets of the Covered Bond Trust comprise housing loans originated by Kiwibank which are security for the guarantee of issuances of covered bonds by the Banking Group, provided by Kiwi Covered Bond Trustee Limited as Trustee of the Covered Bond Trust. The assets of the Covered Bond Trust are not available to creditors of Kiwibank, although the Banking Group (or its liquidator or statutory manager) may have a claim against the residual assets of the Covered Bond Trust (if any) after all prior ranking creditors of the Covered Bond Trust have been satisfied.

The carrying value of the Covered Bond Trust pool at 30 June 2023 is \$700m (30 June 2022: \$700m). These securities are ring-fenced to ensure they are not used as collateral outside of agreements established with the Covered Bond Trust.

The assets and liabilities associated with the RMBS Trust and Covered Bond Trust do not qualify for derecognition as the Banking Group retains a continuing involvement and retains substantially all the risks and rewards of ownership of the transferred assets (funding, liquidity and credit risk remains with the Banking Group).

# Notes to the financial statements continued

## 24. Transfer of financial assets continued

### Repurchase agreements

The Banking Group enters into sale and repurchase agreements with the wider market in order to manage liquidity. Under the repurchase agreements, collateral in the form of securities is advanced to a third party and the Banking Group 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 Banking Group but has an obligation to return the collateral at the maturity of the contract. The Banking Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them (funding, liquidity and credit risk remains with the Banking Group). In addition, it recognises a financial liability for cash received which is included in 'Due to other financial institutions'.

As at 30 June 2023, the Banking Group has recognised liabilities for an outstanding repurchase agreement of \$1,516m (30 June 2022: \$1,562m).

#### *Funding for Lending Programme ("FLP") and Term Lending Facility ("TLF")*

The Banking Group has entered into an agreement with the RBNZ to draw down funds under the FLP and the TLF. RMBS-backed securities have been pledged as approved eligible collateral. Refer to Note 17 'Due to other financial institutions' for details of the agreements.

### Transferred financial assets that are derecognised in their entirety but where the Banking Group has a continuing involvement

As at 30 June 2023, the Banking Group has not derecognised any financial assets where they have a continuing involvement (30 June 2022: \$nil).

## 25. Other liabilities



### Accounting policy

Other liabilities are initially measured at fair value and subsequently at amortised cost using the effective interest method. Amortisation and foreign exchange gains and losses are recognised in the income statement as is any gain or loss when the liability is derecognised.

#### *Provisions*

The Banking Group recognises provisions where there is a present obligation arising from a past event, an outflow of economic resources is probable, and the amount of the provision can be measured reliably. Provisions involve judgements regarding the outcome of future events including estimating the expenditure required to satisfy obligations. The appropriateness of the underlying assumptions is reviewed on a regular basis and adjustments are made to provisions to reflect the most likely outcome.

#### *Contract liabilities*

Where the transaction price for a contract with a customer is received before the Banking Group has satisfied the related performance obligations, a contract liability is recognised. Unsatisfied performance obligations relate to Card services.

#### *Lease liabilities*

At the commencement date of the lease, the Banking Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, and any amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Banking Group and payments of penalties for terminating the lease, if the lease term reflects the Banking Group exercising the option to terminate. The Banking Group's leases primarily relate to property leases for corporate offices and retail branch sites that are either direct leases or subleases.

# Notes to the financial statements continued

## 25. Other liabilities continued

Dollars in millions	30/06/23	30/06/22
Trade and other payables	30	31
Employee entitlements	41	36
Current tax liability	57	43
Contract liabilities	8	6
ECL allowance on undrawn facilities	7	8
Provisions	21	17
Lease liabilities	88	96
Other liabilities	24	11
<b>Total other liabilities</b>	<b>276</b>	<b>248</b>
<b>Current</b>	<b>198</b>	<b>163</b>
<b>Non-current</b>	<b>78</b>	<b>85</b>

In the event of liquidation, the creditors reported within 'Other liabilities' rank in priority to subordinated debt holders, shareholders and holders of perpetual preference shares and will rank equally with deposit holders and other unsecured creditors.

### Movement in provisions

Dollars in millions	30/06/23			30/06/22		
	Customer remediation	Other	Total	Customer remediation	Other	Total
Balance at beginning of the year	8	9	17	8	8	16
New and increased provisions made during the year	5	11	16	3	4	7
Provisions used during the year	(5)	(4)	(9)	(2)	(3)	(5)
Unused amounts reversed during the year	(1)	(2)	(3)	(1)	-	(1)
<b>Balance at end of the year</b>	<b>7</b>	<b>14</b>	<b>21</b>	<b>8</b>	<b>9</b>	<b>17</b>

#### Customer remediation

Customer remediation provision includes provisions recognised in respect of regulatory and customer remediations for expected refunds or payments to customers and other counterparties where the Banking Group has completed an assessment and reliably estimated the likely loss.

#### Other provisions

Other provisions comprise various other provisions including make good, long-term incentive and restructuring provisions.

### Lease liabilities

Dollars in millions	30/06/23			30/06/22		
	Property	Other	Total	Property	Other	Total
Balance at beginning of the year	91	5	96	113	6	119
Additions/(disposals)	5	1	6	(9)	-	(9)
Accretion of interest	2	-	2	2	1	3
Payments	(14)	(2)	(16)	(15)	(2)	(17)
<b>Balance at end of the year</b>	<b>84</b>	<b>4</b>	<b>88</b>	<b>91</b>	<b>5</b>	<b>96</b>

# Notes to the financial statements continued

## 26. Equity



### Accounting policy

#### Share capital

##### i) Ordinary shares

Ordinary shares are recognised at the amount paid up per ordinary share, net of directly attributable issue costs.

Dividends distributed in respect of ordinary shares are recognised as a liability in the financial statements in the reporting period in which the dividend distribution is approved.

##### ii) Perpetual preference shares

Perpetual preference shares are recognised at the amount paid up per share, net of directly attributable issue costs.

Discretionary distributions made in respect of perpetual preference shares are recognised as deductions from equity when paid.

#### Other reserves

##### i) Fair value reserve

The fair value reserve includes changes in the fair value of investment securities, net of tax. When the asset is derecognised these changes in fair value are transferred to the income statement. If an investment security asset held at FVOCI is impaired, the associated impairment charge is recognised in the income statement.

##### ii) Cash flow hedge reserve

The cash flow hedge reserve includes the fair value gains or losses associated with the effective portion of designated cash flow hedging instruments.

### ORDINARY SHARES

The total authorised number of ordinary shares in Kiwibank at the reporting date was 737 million (30 June 2022: 737 million). All issued ordinary shares are fully paid. All ordinary shares have equal voting rights and share equally in dividends and surpluses on winding up. Ordinary shares do not have a par value. The whole of the issued ordinary share capital is owned by KGCL, which is incorporated in New Zealand (30 June 2022: The whole of the issued ordinary share capital is owned by KGHL, which is incorporated in New Zealand).

Dollars in millions	30/06/23	30/06/22
Balance at beginning of the year (2023: 737m shares; 2022: 737m shares)	737	737
Issued in year (2023: nil shares; 2022: nil shares)	-	-
<b>Balance at end of the year (2023: 737m shares; 2022: 737m shares)</b>	<b>737</b>	<b>737</b>

### PERPETUAL PREFERENCE SHARES

In November 2021, Kiwibank issued 250 million perpetual preference shares ("PPS"). The PPS were recognised at \$246m (\$250m less transaction costs of \$4m). The purpose of this issuance was to help Kiwibank meet RBNZ Banking Prudential Requirements, as the PPS qualify as Additional Tier 1 capital for Capital Adequacy calculation purposes.

The total authorised number of PPS in Kiwibank at the reporting date was 250 million (30 June 2022: 250 million). All issued PPS are fully paid and do not carry any voting rights. The PPS are classified as equity instruments as there is no contractual obligation for Kiwibank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis.

Distributions on the PPS are payable quarterly at the discretion of the directors of Kiwibank and are non-cumulative. If the directors elect not to pay a distribution on the PPS, specific restrictions apply. These are covered below under 'Discretionary distributions'. Should Kiwibank elect to pay a distribution, the distribution is payable at 4.93% per annum. The distribution rate will be reset at five-yearly intervals.

Dollars in millions	30/06/23	30/06/22
Balance at beginning of the year (2023: 250m shares; 2022: nil shares)	246	-
Issued in year (2023: nil shares; 2022: 250m shares)	-	246
<b>Balance at end of the year (2023: 250m shares; 2022: 250m shares)</b>	<b>246</b>	<b>246</b>

# Notes to the financial statements continued

## 26. Equity continued

### RESERVES

Dollars in millions	30/06/23	30/06/22
Balance at beginning of the year	1,219	987
Net profit for the year	175	131
Dividends paid on ordinary shares	(14)	(17)
Distributions to the holder of the perpetual capital bond	-	(3)
Distributions to holders of perpetual preference shares	(9)	(4)
Net movement in cash flow hedge reserve	(58)	191
Net movement in fair value reserve	15	(66)
<b>Balance at end of the year</b>	<b>1,328</b>	<b>1,219</b>

### CASH FLOW HEDGE RESERVE

The cash flow hedge reserve comprises the effective portion of the cumulative change in the fair value of foreign exchange and interest rate derivative contracts related to hedged forecasted transactions that have not yet occurred.

Dollars in millions	30/06/23	30/06/22
Balance at beginning of the year	210	19
Gross changes in fair value	142	260
Tax on changes in fair value	(40)	(73)
Cumulative (gain)/loss transferred to the income statement	(222)	5
Tax effect of items transferred to income statement	62	(1)
<b>Balance at end of the year</b>	<b>152</b>	<b>210</b>

### FAIR VALUE RESERVE

The fair value reserve includes the cumulative net change in the fair value of investment securities until the investment is derecognised or impaired.

Dollars in millions	30/06/23	30/06/22
Balance at beginning of the year	(65)	1
Gross changes in fair value	(8)	(90)
Tax on changes in fair value	2	25
Cumulative loss/(gain) transferred to the income statement	29	(2)
Tax effect of items transferred to income statement	(8)	1
<b>Balance at end of the year</b>	<b>(50)</b>	<b>(65)</b>

# Notes to the financial statements continued

## 26. Equity continued

### Capital

The Banking Group's regulatory capital is analysed in two tiers:

- Tier 1 capital, which comprises Common Equity Tier 1 capital and Additional Tier 1 capital; and
- Tier 2 capital, which includes subordinated notes.

As at 30 June 2023, Common Equity and Additional Tier 1 capital comprises ordinary shares, retained earnings, fair value reserve and PPS less deductions for intangible assets and deferred tax assets (30 June 2022: comprised ordinary shares, retained earnings, fair value reserve and PPS less deductions for intangible assets and deferred tax assets).

The Banking Group maintains a capital base to cover risks inherent in the business and meet the capital adequacy requirements of the RBNZ. The adequacy of the Banking Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision as adopted by the RBNZ in supervising the Banking Group. Further details can be found in the Capital Adequacy section of this Disclosure Statement.

### Capital management

The primary objectives of the Banking Group's capital management are to ensure that the Banking Group complies with internal and external imposed capital requirements and maintains strong credit ratings in order to support its business.

A series of increases in the internal capital limits began from 1 July 2022 in response to the confirmation of increased prudential requirements and the RBNZ's Capital Buffer Response Framework. No other material changes have been made to the objectives, policies and processes from the previous year; however, they are under regular review by the Board.

#### RBNZ Capital Review

The RBNZ's bank capital adequacy requirements are set out in the RBNZ's Banking Prudential Requirements documents. The new capital adequacy requirements are being implemented in stages over a seven-year transition period from 1 October 2021. The key changes to the regulatory capital requirements for the Banking Group over the seven-year period are:

- increase in the Common Equity Tier 1 capital ratio required from 4.5% to 11.5%;
- increase in Tier 1 capital ratio required from 6% to 14%; and
- increase in the Total capital ratio required from 8% to 16%.

Kiwibank expects to meet the regulatory capital requirements through a combination of growth in retained earnings and the issuance of qualifying capital instruments or ordinary shares over the transition period.

### Dividends

Dollars in millions	30/06/23	30/06/22
Declared and paid during the year on ordinary shares:		
1.86 cents per share (2022: 2.26 cents per share)	(14)	(17)
<b>Total dividends paid</b>	<b>(14)</b>	<b>(17)</b>

#### Discretionary distributions

If for any reason a distribution on the PPS has not been paid in full on a Distribution Payment Date, Kiwibank must not:

- make any distributions or payments on or issue any bonus securities in respect of its ordinary shares; or
- make any distributions or payments on or issue any bonus securities in respect of any other preference shares or other securities that rank equally with the PPS.

These restrictions will apply until:

- Kiwibank pays distributions on the PPS in full on two subsequent consecutive Distribution Payment Dates; or
- there are no longer any PPS outstanding.

# Notes to the financial statements continued

## 27. Related entities



### Accounting policy

The Banking Group sponsors the formation of special purpose vehicles ("SPV") in the ordinary course of business, primarily to provide funding. SPVs are typically set up for a single, pre-defined purpose, have a limited life and generally are not operating entities nor do they have employees. The most common form of SPV structure involves the acquisition of financial assets by the SPV that are funded by the issuance of securities to external investors (securitisation). Repayment of the issued securities is determined by the performance of the financial assets acquired by the SPV.

An SPV is consolidated and reported as part of the Banking Group if it is controlled by the Bank. The definition of control is outlined in Note 2.3.

The Banking Group consists of Kiwibank and all of its controlled entities. At the reporting date, Kiwibank had the following controlled entities:

Name of entity	Principal activity	Interest held by Kiwibank Limited	
		30/06/23	30/06/22
Kiwibank Investment Management Limited	Provision of investment management services	100%	100%
Kiwi Asset Finance Limited	Asset finance company	n/a <sup>1</sup>	100%
Kiwibank PIE Unit Trust ("PIE Unit Trust") <sup>2</sup>	Managed portfolio investment entity	-	-
Kiwibank RMBS Trust Series 2009-1 <sup>2</sup>	Securitisation finance entity	-	-
Kiwi Covered Bond Trust <sup>2</sup>	Securitisation finance entity	-	-

<sup>1</sup> Kiwi Asset Finance Limited amalgamated with Kiwibank Limited on 30 June 2023.

<sup>2</sup> The Banking Group consolidates the following SPVs: PIE Unit Trust, the Kiwibank RMBS Trust Series 2009-1 and the Kiwi Covered Bond Trust on the basis that Kiwibank controls these entities.

All Banking Group entities have a reporting date of 30 June and are incorporated and/or domiciled in New Zealand.

### Transactions with NZ Post (NZN), the NZP Group, Accident Compensation Corporation (ACC), NZ Superannuation Fund (NZSF) and Guardians of New Zealand Superannuation

On 30 November 2022, NZP, the NZP Group (NZP and its subsidiaries), ACC, NZSF and Guardians of New Zealand Superannuation ceased to be shareholders of KGHL, the Bank's parent entity. Transactions with NZP, the NZP Group, ACC, NZSF and Guardians of New Zealand Superannuation have been included until the ownership change occurred in November.

All transactions with NZP, the NZP Group, ACC, NZSF and Guardians of New Zealand Superannuation were conducted within the Banking Group's approved policies.

### Transactions with KGCL and other subsidiaries of KGCL

On 31 March 2023, KGHL was amalgamated into KGCL. Following this transaction, all related party balances have been transferred to KGCL.

"Other subsidiaries of KGCL" comprises KGCL subsidiaries excluding Kiwibank. The other subsidiary of KGCL that have had transactions with the Banking Group is The New Zealand Home Loan Company Limited ("NZHL"). Transactions with Kiwi Wealth Management Limited and its subsidiaries are also included in "Other subsidiaries of KGCL" until its sale to Fisher Funds Management Limited ("Fisher Funds") effective 30 November 2022.

All transactions with KGCL and other subsidiaries of KGCL were conducted within the Banking Group's approved policies. Refer to Note 26 for details of dividends paid to shareholders.

Transactions conducted with related entities, including KGCL, and other subsidiaries of KGCL include:

- Certain shared service activities have been provided by the Banking Group to KGCL and NZHL. The fee paid for these services is based on activity and a mutually agreed fee.
- Kiwibank is a member of, and benefits from recognition of tax losses from members of, the Kiwi Group Capital Limited Consolidated Tax Group (see Note 7).
- The Crown has entered into a Business Finance Guarantee Scheme with Kiwibank where the Crown has undertaken to indemnify the shortfall on defaulted support loans. The Crown's liability is limited to an amount equal to 80% of the shortfall of each loan. As at 30 June 2023, \$65.8m of support loans have been drawn down (30 June 2022: \$90.4m).

# Notes to the financial statements continued

## 27. Related entities continued

### Transactions with KGCL and other subsidiaries of KGCL continued

- KGHL had a loan agreement with Kiwibank, allowing KGHL to draw down \$75.5m provided that the Banking Group does not exceed credit exposure to connected persons of 15% of Tier 1 capital, as required in Kiwibank's banking conditions of registration. The loan was on no more favourable terms than corresponding exposures to non-connected persons. The loan was repaid on 16 December 2022 (30 June 2022: \$75.5m).
- There is a revolving credit agreement between the Banking Group and NZHL, the balance of which was \$2m at 30 June 2023 (30 June 2022: \$nil).
- During the year, NZHL received commissions from the Banking Group totalling \$26.4m (year ended 30 June 2022: \$26.0m). This includes trail commission of \$19.1m recognised within 'Other operating income' and upfront commission of \$7.4m recognised as deferred acquisition costs on loans and advances.

The table below shows balances outstanding at the reporting date with related entities. No individually assessed credit impairment provision has been recognised for loans issued to or receivables due from related parties. All outstanding balances, other than debt securities, are unsecured.

Dollars in millions	30/06/23	30/06/22
<b>Outstanding balances</b>		
<b>Deposits and other borrowings</b>		
NZP Superannuation Plan	-	5
KGCL	256	6
The New Zealand Home Loan Group	-	4
Kiwi Wealth Group including funds managed	-	70
<b>Total due to related parties included in deposits</b>	<b>256</b>	<b>85</b>
<b>Debt securities</b>		
Funds managed by Kiwi Wealth Group	-	9
<b>Total due to related parties included in debt securities</b>	<b>-</b>	<b>9</b>
<b>Other liabilities</b>		
The New Zealand Home Loan Group	1	-
<b>Total due to related parties included in other liabilities</b>	<b>1</b>	<b>-</b>
<b>Total outstanding balances due to related parties</b>	<b>257</b>	<b>94</b>
<b>Receivables</b>		
<b>Loans and advances</b>		
KGCL and KGHL	-	76
Joint ventures of NZSF	-	15
The New Zealand Home Loan Group	2	-
<b>Total due from related parties included in loans and advances</b>	<b>2</b>	<b>91</b>
<b>Total receivable from related parties</b>	<b>2</b>	<b>91</b>

# Notes to the financial statements continued

## 27. Related entities continued

The table below shows material transactions with related entities.

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
<b>Interest income</b>		
Interest received or due from KGCL and KGHL	2	3
Interest received or due from joint ventures of NZSF	-	1
<b>Total interest income received or due from related parties</b>	<b>2</b>	<b>4</b>
<b>Interest expense</b>		
Interest paid or due to KGCL	(8)	-
Interest paid or due to Guardians of NZ Superannuation	-	(1)
Interest paid or due to other subsidiaries of KGHL	-	(1)
<b>Total interest expense paid or due to related parties</b>	<b>(8)</b>	<b>(2)</b>
<b>Other operating income</b>		
Other income received or due from KGCL and subsidiaries	1	3
<b>Total other operating income paid or due from related parties</b>	<b>1</b>	<b>3</b>
<b>Operating expenses</b>		
Operating expenses paid or due to NZP	(1)	(5)
Operating expenses recovered or due from other subsidiaries of KGHL	-	2
Operating expenses paid or due to joint ventures of NZSF	(7)	(17)
<b>Total operating expenses paid or due to related parties</b>	<b>(8)</b>	<b>(20)</b>
<b>Other transactions</b>		
Other reimbursements received or due from other subsidiaries of KGHL	-	3
Commissions paid to other subsidiaries of KGCL	(26)	(26)
Purchases of premises and equipment assets from joint ventures of NZSF	-	(2)
Other distributions paid to other subsidiaries of KGHL	-	(3)

### Transactions with key management personnel

Loans made to and deposits held by key management personnel (including personally related parties) are made in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees. Loans are on terms of repayment that range between fixed and variable, all of which have been made in accordance with the Banking Group's lending policies. No individually assessed credit impairment provision has been recognised for loans made to key management personnel (30 June 2022: \$nil).

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. This includes the Board and members of the Executive Committee ("EXCO").

The table below shows the amount of benefits paid or payable to key management personnel within the Banking Group for services rendered.

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Salaries and short-term employee benefits	8	7
Long-term benefits	10	1
Termination benefits	-	1
<b>Total key management personnel compensation</b>	<b>18</b>	<b>9</b>

# Notes to the financial statements continued

## 27. Related entities continued

### Transactions with key management personnel continued

The table below shows the amount of loans to and deposits from key management personnel within the Banking Group.

Dollars in millions	30/06/23	30/06/22
Loans to key management personnel	2	2
Deposits from key management personnel	5	1

### Long-term benefits

During the year ended 30 June 2021, the Bank entered into a cash-based long-term incentive scheme ("LTI") with EXCO. The LTI covers the period from 1 July 2020 to 30 June 2025, and vests in three tranches. At each vesting date certain conditions are required to be met including financial and performance targets for the Banking Group. The key assumptions in measuring the LTI are attrition of eligible staff, which is assumed to be nil, and the probability of meeting the targets. As at 30 June 2023, the estimated liability of the LTI amounted to \$6m and is included within 'Other liabilities' in the balance sheet (30 June 2022: \$2m).

During the year ended 30 June 2022, the Bank entered into a further cash-based incentive scheme with senior management and key employees, which includes the EXCO, where retention of these individuals is critical.

For key management personnel, this scheme extends to 31 January 2024, with the majority of awards vested on 30 June 2023, and one award vesting on 31 January 2024. At each vesting date, the key condition is that each participant remains in employment with the Bank. If this condition is not met, amounts previously paid under the scheme are required to be reimbursed to the Banking Group. As such, attrition is a key assumption, which is assumed to be nil. During the year ended 30 June 2023, \$5.6m was recognised in the income statement in relation to this scheme (30 June 2022: \$0.5m). As at 30 June 2023, no material prepaid amounts were included in the balance sheet in relation to these awards (as at 30 June 2022: \$2.6m was prepaid and included in 'Other assets').

## 28. Fiduciary activities, securitisation and funds under management

### Insurance business

The Banking Group does not conduct any insurance business.

#### Marketing and distribution

The Banking Group markets and distributes life insurance, business and other personal insurance products provided by or arranged through a number of insurance partners. The Banking Group's insurance partners are:

- The Hollard Insurance Company Pty Limited provides house, contents and car insurance which is administered by Ando Insurance Group on their behalf;
- Tower Insurance Limited for travel insurance;
- nib nz insurance limited (formerly Kiwi Insurance Limited) for life insurance; and
- business insurance is administered by Aon New Zealand and underwritten by AIG.

### Securitised assets

The Banking Group has an in-house RMBS facility and covered bond programme, which are discussed further in Note 24.

### Funds management

A subsidiary of Kiwibank acts as the manager for the Kiwibank PIE Unit Trust (see Note 27). These funds are invested in products of Kiwibank and are recorded as liabilities in the balance sheet (see Note 18). At 30 June 2023, \$6,235m of funds under management was invested in Kiwibank's own products or securities (30 June 2022: \$5,215m).

The Banking Group has a strategic partnership with Fisher Funds to refer Kiwibank customers to Kiwi Wealth KiwiSaver, managed funds provided by Kiwi Wealth Limited and private portfolio services provided by Kiwi Wealth Investments Limited Partnership, members of the Fisher Funds group.

### Provision of financial services

Financial services provided by Kiwibank to entities which are involved in trust, custodial, funds management and other fiduciary activities are at fair value, except that Kiwibank does not charge Kiwibank Investment Management Limited, the manager of the Kiwibank PIE Unit Trust, any bank fees. Further, the Kiwibank PIE Unit Trust bank account used for tax payments does not earn interest.

The Banking Group has not provided any funding to entities which conduct the following activities during the years ended 30 June 2023 and 30 June 2022:

- trust, custodial, funds management or other fiduciary activities established, marketed and/or sponsored by a member of the Banking Group; and
- marketing and distribution of insurance products.

# Notes to the financial statements continued

## 28. Fiduciary activities, securitisation and funds under management continued

### Risk management

With regard to the activities identified above, the Banking Group has in place policies and procedures to ensure that those activities are conducted in an appropriate manner. Should adverse conditions arise, it is considered that these policies and procedures will minimise the possibility that these conditions will adversely impact the Banking Group. The policies and procedures include comprehensive and prominent disclosure of information regarding products, and formal and regular review of operations and policies by management.

### 29. Segment analysis

The Banking Group operates and reports as a single segment business consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). Judgement has been applied in determining the CODM. The CODM, who is responsible for allocating resources and assessing performance of the Banking Group, has been identified as the Kiwibank Executive Committee ("EXCO"), which consists of the chief executive and his direct reports, and the Kiwibank Board. Management information in relation to net interest margin, and growth metrics relevant to the operation of the Bank's home lending, business lending, and deposit products is reviewed by the EXCO and Board regularly. The Banking Group operates a centralised shared infrastructure for operations and support functions. Capital is calculated and allocated at an entity level. As a result, performance is assessed, resources allocated, and other strategic and financial management decisions are determined by the EXCO and Board on the basis of assessing the Banking Group's business as a whole.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Banking Group's total revenue (2022: nil). Revenue from external customers is reported within net interest income (see Note 3), net (losses)/gains on financial instruments (see Note 4), and other operating income (see Note 5).

### 30. Risk management

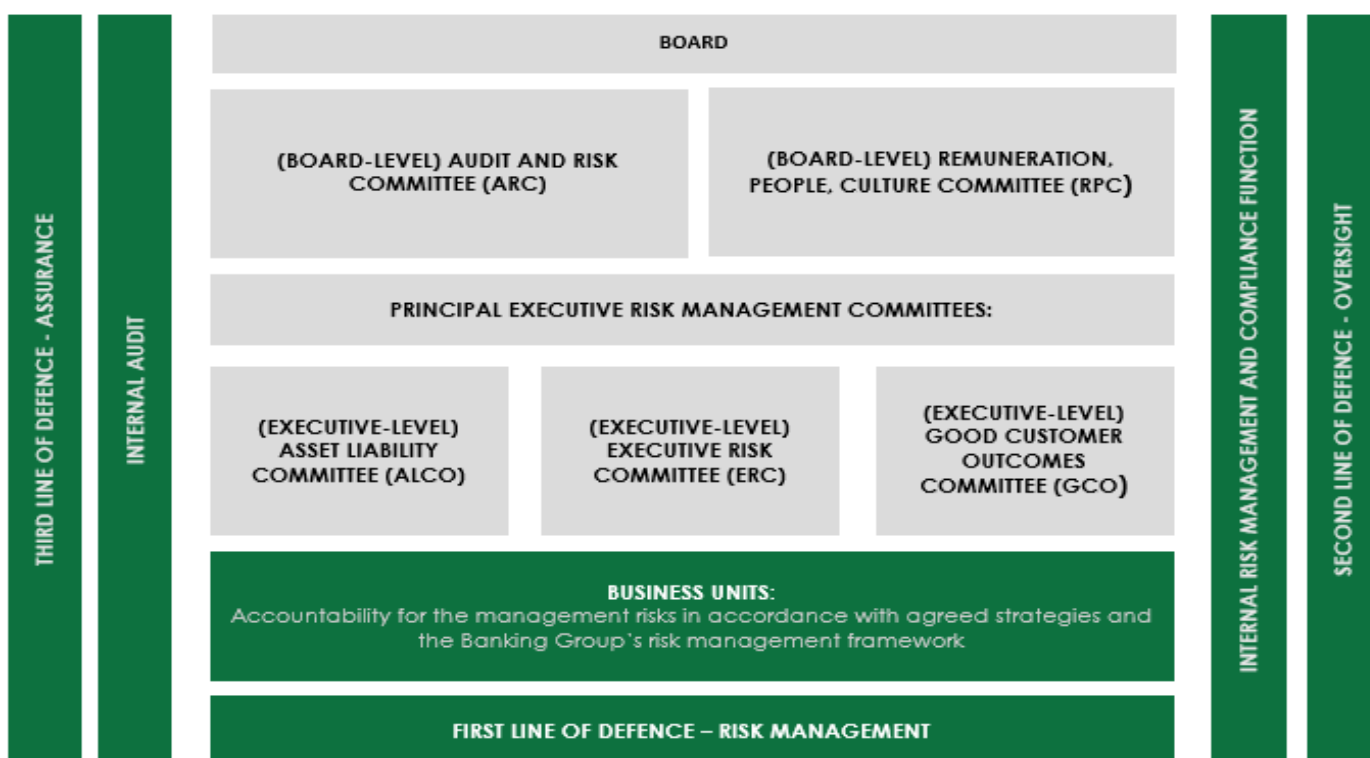
The Banking Group's exposure to risk arises primarily from its business activities as a financial intermediary and financial markets participant. The Banking Group recognises the importance of effective risk management to its customers and to its business success. Risk management enables the Banking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

The Banking Group's risks are identified, managed, mitigated and monitored using a risk management framework that embeds risk accountability and responsibility throughout the organisation. This is the foundation for the delivery of effective risk control.

#### Organisational perspective

The Banking Group supports the risk management framework with an organisational governance framework that is characterised by three lines of defence, which separate risk management, oversight and assurance.

Governance is maintained through delegation of authority from the Board down to employees. Executives are supported by an Executive and Management Committee structure which is designed to ensure open challenge and enable effective decision-making.



# Notes to the financial statements continued

## 30. Risk management continued

The Board has the primary responsibility for effective risk management by:

- establishing and overseeing the Banking Group's Enterprise Risk Management Framework ("**ERMF**") including the material risk classes and the associated risk appetite and key policies for each of the risk classes;
- monitoring the aggregate risk exposures and emerging risks and setting behaviour expectations; and
- ensuring the Executive Management team sets and maintains mechanisms to identify, measure and control exposures and risks along with complying with regulation and law.

The Board has delegated authority, which includes frequent and detailed monitoring of the financial and non-financial metrics to the Audit and Risk Committee ("**ARC**") with internal governance via the executive management committees. The ARC reports regularly to the Board on its activities and is responsible for:

- reviewing and recommending to the Board, approval of the Banking Group's frameworks and key policies for managing business, credit, market and operational risk and maintaining an effective ERMF;
- monitoring the management of the Banking Group's key risks, performance, exposures against limits, and capital adequacy levels;
- monitoring anticipated changes in the economic and business environment and other factors relevant to the Banking Group's risk profile;
- setting and monitoring risk appetite and assessing the overall risk profile of the Banking Group within material risk types;
- reviewing internal audit activities and significant audit issues; and
- reviewing financial and disclosure statements.

The Banking Group has an independent risk management function, as a second line of defence, headed by the Chief Risk Officer ("**CRO**") who:

- is responsible for overseeing the risk profile and the risk management framework;
- can effectively challenge activities and decisions that materially affect the Banking Group's risk profile; and
- has an independent reporting line to the ARC to enable the appropriate escalation of concerns, issues or risks.

The Risk Management function comprises the following teams which operate alongside the Banking Group's business units:

- (Retail and Business) Credit risk;
- Market risk;
- Compliance, operational risk and reporting;
- Security, Safety and Continuity;
- Anti-Money Laundering ("**AML**"); and
- Portfolio Management.

These teams are responsible for an independent appraisal of the business units' risk positions and their overall control environments. Where applicable, they identify and quantify risks e.g. credit, market, liquidity, operational and compliance risks, and work as subject matter experts with the business units to implement appropriate policies, procedures and controls to manage/mitigate risks.

The Banking Group, through its training, management standards and procedures, aims to maintain a disciplined and robust control environment in which all employees understand their roles and obligations.

No formal reviews of the Banking Group's risk management system were undertaken by external parties during the year ended 30 June 2023.

### Internal audit

The Banking Group has an independent internal audit function, which appraises the adequacy and effectiveness of the internal control environment, and reports results to management and the ARC. The internal audit function reports functionally to the Chair of the ARC and administratively to the Chief Financial Officer.

In planning audit activities, internal audit adopts a risk-based approach that directs and concentrates resources to those areas of greatest significance, strategic concern, and risk to the business. This encompasses reviews of major credit, market, technology, programmes, projects, and operating risks within the Banking Group.

Significant findings are reported quarterly to the ARC. The audit plan is approved by the ARC. All issues and recommendations reported to management are tracked and monitored internally to ensure completion and agreed actions are undertaken where appropriate.

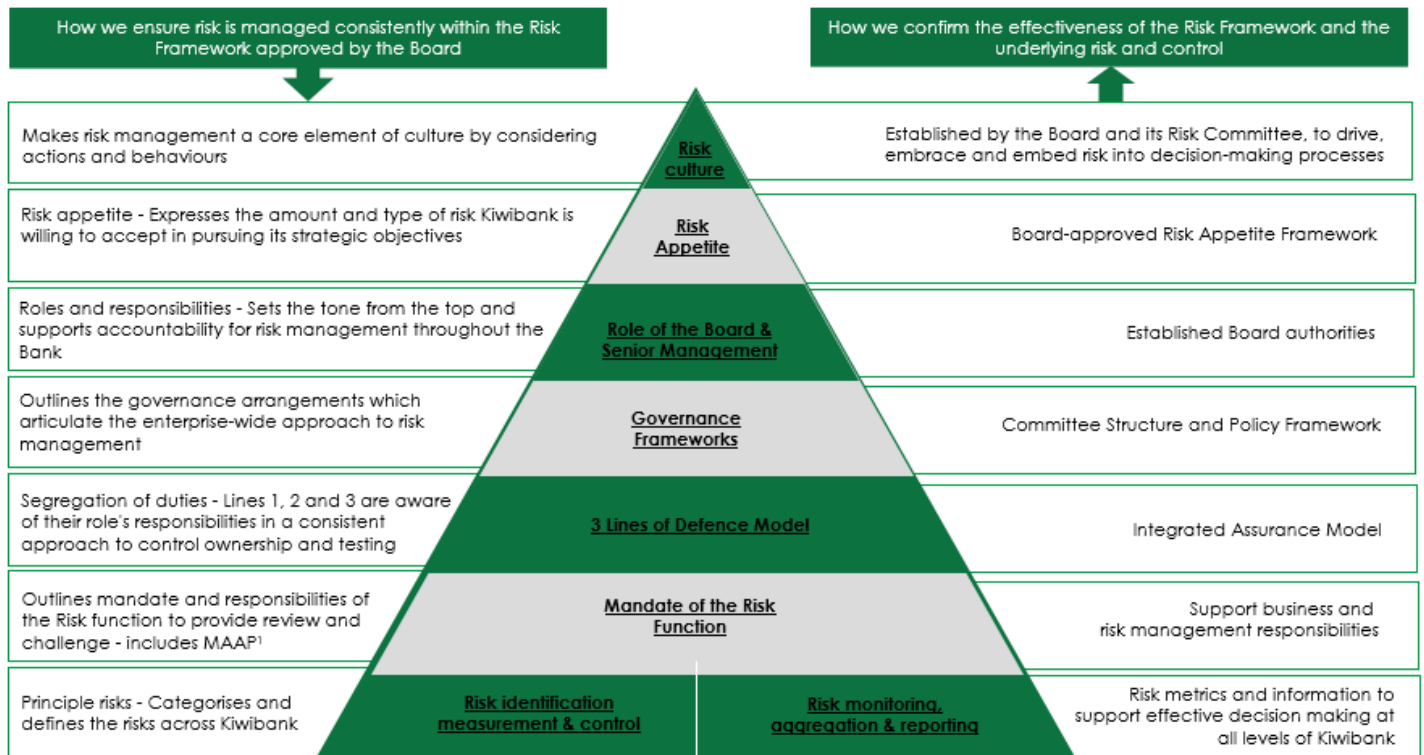
# Notes to the financial statements continued

## 30. Risk management continued

### Enterprise Risk Management Framework ("ERMF")

The Banking Group regards the management of risk to be a fundamental management activity performed at all levels of the business and the ERMF is designed to achieve this. The ERMF is built around a sound risk culture and sets out the minimum standards for risk management across all risk types embedded within a range of frameworks and policy statements.

The diagram below explains the structure and high-level components of the Banking Group's ERMF:



<sup>1</sup> Management Assurance Attestation Programme

The key requirements of the risk management framework are the:

- Risk appetite statements

The Board is responsible for approving the Banking Group's Risk Appetite Framework ("RAF") annually. The RAF is a key element of the ERMF, as it expresses the amount and type of risk (qualitative risk appetite statements and quantitative metrics) the Banking Group is willing to accept in pursuing its strategic objectives.

Board-level tolerances are formally cascaded into more detailed executive and management business appetite metrics and limits to support decision-making.

- Governance frameworks

The Banking Group uses risk management governance frameworks for all domains within the ERMF, supported by detailed policies and standards.

- Three lines of defence model

The 'three lines of defence' governance approach to risk management is standard practice within the financial services sector. It ensures a clear delineation of responsibilities between control over day-to-day operations, risk monitoring/oversight and independent assurance activities. This risk management approach ensures holistic end-to-end management of risk, where all employees play an active role in identifying and managing risk and operating within the Banking Group's risk profile.

The 1 <sup>st</sup> Line of Defence (Operational Management/Business Units)	The 2 <sup>nd</sup> Line of Defence (Risk Management And Compliance Functions)	The 3 <sup>rd</sup> Line of Defence (Internal Audit)
Consists of the business area whose role is to identify risk then take action to manage and treat the risk in line with appetite. As the business understands its day to day activities they are best placed to effectively manage their risks.	Sets standards through establishing policies, procedures and providing risk oversight specialists (e.g., compliance functions, legal and enterprise risk management). The 2 <sup>nd</sup> line will provide support and challenge to the first line risk management activities and report direct to the Board.	Provides independent assurance to the Board. Internal Audit adds value and improves Kiwibank's operations by helping to evaluate and improve the effectiveness of risk management, control and governance processes.

# Notes to the financial statements continued

## 30. Risk management continued

- Monitoring and oversight of risk limits

Regular monitoring and comprehensive reporting to all levels of management and the Board ensures appetite limits are maintained and subject to stress analysis at a risk-type and portfolio level as appropriate. Stress testing is a risk management tool that the Banking Group uses to support an understanding of the vulnerabilities within the business model. The Banking Group undertakes an annual programme of stress-testing activity as part of the Internal Capital Adequacy Assessment Programme ("ICAAP"), which informs the planning process and the calibration of risk appetite.

### Specific areas of risk management

The primary risk classes arising from the activities of the Banking Group are:

- Credit Risk – the risk of financial loss where a customer or counterparty fails to meet any financial or contractual obligation.
- Market Risk – the potential for losses arising from adverse changes in market factors, such as interest rates, foreign exchange rates, and credit spreads.
- Liquidity Risk – the risk that the Banking Group cannot meet its financial and transactional cash-flow obligations as they fall due and the risk of loss of access to funding channels.
- Capital Risk – the risk that the Banking Group has insufficient capital to allow strategic initiatives to be undertaken or that capital is inefficiently deployed.
- Operational Risk – 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.
- Business Risk – macro or micro environmental events that could impede or prevent the Banking Group achieving its stated business goals or strategies, including missed opportunities and potential losses/damage arising from poor strategic business decisions. This risk includes material changes in the global and domestic economic environment impacting credit and liquidity flows.

Operational Risk, Conduct Risk and Regulatory Compliance are applicable across all risk domains.

Within the context of the risk classes above, the Banking Group continually identifies, assesses and monitors emerging risks through the ERMF. These are new or evolving risks where the impact is uncertain and the probability, timescale and/or materiality may be difficult to accurately assess. Emerging risks can cover risks such as technology, reputation and sustainability risks and operational resilience (including cybercrime). The Banking Group reviews these risks on a periodic basis.

### 1. Credit Risk

#### *Credit risk overview, management and control responsibilities*

The Banking Group'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 management of credit risk.

The credit risk management framework ensures a consistent approach is applied across the Banking Group to measure, monitor and manage the credit risk appetite set by the Board. The Board requires sound lending growth for appropriate returns and is assisted and advised by the ARC in discharging its duty to oversee risk. The ARC:

- sets the credit risk appetite, credit risk framework, credit strategies, credit approval authorities' framework and material credit policies;
- ensures that the Banking Group has in place and maintains credit policies and portfolio standards consistent with responsible lending standards designed to achieve portfolio outcomes consistent with the Banking Group's risk/return expectations and regulatory obligations; and
- approves credit transactions beyond the discretion of executive management.

Day-to-day management of credit risk is performed and reported by the Banking Group's Risk Management functions, with monitoring by the Credit Risk Committee and oversight by the Banking Group's Executive Risk Committee.

#### *Key elements of the credit risk management framework*

- **Credit risk management** – The Banking Group pursues this objective in a structured manner, managing credit risk through application of sector-specific credit underwriting standards including scorecards, a robust control environment, monitoring of the portfolios, review of all major credit risks and risk concentrations, and through a tiered structure of delegated lending authorities designed to control the multiple facets of credit risk management.

An independent credit management function staffed by credit risk specialists exists to: monitor and manage the Banking Group's internal ratings models; provide independent credit decisions; support front-line lending staff in the application of sound credit practices; provide centralised remedial management of troublesome and impaired accounts; and undertake portfolio monitoring and loan asset quality analysis and reporting.

The output from these models supports the Banking Group's day-to-day credit risk management decisions including origination, pricing, approval levels, regulatory capital adequacy, internal capital allocation and credit provisioning.

The integrity and effectiveness of the Banking Group's credit risk management practices, asset quality and compliance with policy are supported by independent assessments by the Quality Assurance and Internal Audit functions.

# Notes to the financial statements continued

## 30. Risk management continued

- **Portfolio structure, measurement and monitoring** – The Banking Group's credit portfolio is divided into two asset classes: retail and corporate. The retail asset class is comprised of housing loan, credit card and personal lending facilities and small-to-medium-enterprise business lending. This asset class is managed on a delinquency band approach and on a behavioural basis.

The corporate asset class consists of lending to middle market and corporate businesses. Each exposure is assigned an internal risk rating that is based on an in-depth assessment of the risk of default to provide a consistent framework for reporting and analysis.

These exposures are required to be reviewed on an annual basis. The overall composition and quality of the credit portfolios is monitored taking into account the potential changes in economic conditions. Refer to Note 9 Credit impairment losses for the detailed accounting policy.

- **Credit approval standards and collateral** – The Banking Group 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, the Banking Group relies on the assessed integrity and character of the customer or counterparty and their capacity to honour their financial obligations for repayment.

Longer-term consumer lending is generally secured against real estate, while short-term revolving consumer credit (overdraft and credit cards) is generally unsecured. The Banking Group requires adequate and sustainable debt servicing capacity and may also require security cover within loan-to-security ratios as set out in the Banking Group'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 Banking Group 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.

The Banking Group uses the comprehensive method to measure the mitigating effects of collateral.

- **Credit risk mitigation** – The Banking Group'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. This policy requires a maximum limit be set in respect of credit risk associated with the counterparty based on their credit rating, the types of instruments issued and the maturity profile. The Banking Group also has legal arrangements with its major institutional counterparties to allow netting of off-balance-sheet exposures, along with collateral management arrangements. The Banking Group also utilises central clearing counterparties to mitigate risk arising on derivatives.
- **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. The Banking Group maintains a collectively assessed credit impairment provision using forward-looking forecasts of potential future cash flows and current risk factors. The Banking Group also recognises an individually assessed impairment provision for impairment against specific credit exposures when there is objective evidence that it will not be able to collect all amounts due.

The Banking Group's accounting policies regarding impairment and allowances for expected credit losses are covered in Note 9.

- **Operations control environment** – Operationally, credit risk is controlled through a combination of approvals, limits, monitoring and review procedures which are carried out on a regular basis. Functions are segregated so that no one person is able to control all significant stages of the credit process, thereby reducing the chance of error or defalcation escaping detection. Preparation of formal lending documentation only occurs after an independent officer in the operations area has verified that the credit facility has been properly approved and the facility documentation matches the terms of the credit approval.

# Notes to the financial statements continued

## 30. Risk management continued

### Credit quality of loans and advances and undrawn credit commitments

The table below shows significant exposures to credit risk to which the ECL model is applied for recognised and unrecognised financial assets at amortised cost based on the following risk grades:

- 0 – 3: Strong;
- 4 – 5: Good;
- 6 – 7: Satisfactory;
- 8 – 9: Weak; and
- 10 – 12: Credit impaired.

Dollars in millions	30/06/23				Total
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	
Credit exposure by risk grade					
Risk bands:					
0 – 3	20,595	-	-	-	20,595
4 – 5	7,863	-	-	-	7,863
6 – 7	3,997	1,137	-	-	5,134
8 – 9	35	209	-	-	244
10 – 12	-	-	51	9	60
<b>Total credit exposure by risk grade</b>	<b>32,490</b>	<b>1,346</b>	<b>51</b>	<b>9</b>	<b>33,896</b>

Dollars in millions	30/06/22				Total
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	
Credit exposure by risk grade					
Risk bands:					
0 – 3	19,863	-	-	-	19,863
4 – 5	7,732	-	-	-	7,732
6 – 7	3,773	869	-	-	4,642
8 – 9	13	92	-	-	105
10 – 12	-	-	24	2	26
<b>Total credit exposure by risk grade</b>	<b>31,381</b>	<b>961</b>	<b>24</b>	<b>2</b>	<b>32,368</b>

### Credit quality of investment securities

All investment securities held by the Banking Group are investment grade, primarily AAA rated, and considered low risk.

# Notes to the financial statements continued

## 30. Risk management continued

### Impacts of climate change on credit risk

Kiwibank recognises that climate change will have a significant impact on New Zealand's environment and economy. The physical and transition risks created by climate change will affect a number of the Banking Group's risk domains, as the Bank's risk management policies and practices adapt to these emerging impacts. The Banking Group is progressing analysis of the impacts of climate risk, and flooding in particular, on the Banking Group's credit risk.

Specific climate-related credit risks for the Banking Group are primarily due to lending to customers who could be impacted by climate change through physical risks (including climate- or weather-related events) and transition risks (including customers impacted by the process of adjustment to a low-carbon economy). Credit risk may arise as a result of climate change from:

- extreme weather and climate change-related events (such as rising sea levels, storm surges, flooding, fires and droughts) affecting the value of property provided as security and causing losses through damage to property and customer defaults;
- the effect of new laws and regulations designed to mitigate climate change;
- assets becoming obsolete or stranded if businesses do not adapt to changing market preferences or new technologies in time; and
- the costs of transitioning to a renewable and low-carbon economy.

Refer to section 6 Business Risk *Climate change management* for more detail on the work underway by the Banking Group to monitor, assess and manage this risk.

### 2. Market Risk

Market risk arises from the Bank's balance sheet management and trading activities, exposure to movements in interest rates and foreign exchange rates, and from any mismatch in maturity and repricing dates between assets and liabilities.

The ARC approves Market Risk Policies, and delegates management oversight of the market risk framework to the Bank's Asset and Liability Committee ("**ALCO**"). The Market Risk Policies establish market risk limits for non-traded and traded market risk which Treasury and Financial Markets must comply with. The Market Risk team independently reports and monitors market risk against limits daily.

Market risk is primarily measured and controlled using Value at Risk ("**VaR**") and sensitivity analysis.

To manage exposure to market risk, the Banking Group 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.

#### Traded Market Risk

The Banking Group's financial markets are predominantly exposed to interest rate risk and currency risk from sales of financial markets products to customers and are managed within traded market risk limits. Traded market risk is primarily measured and controlled using VaR and sensitivity analysis.

Trading VaR is calculated using historical simulation of market valuations using 260 business days of historical interest rate and currency movements, at a 99% confidence level and a 1-day holding period.

Trading VaR is hedged within risk limits and is not material.

#### Non-Traded Market Risk

The Banking Group's balance sheet is predominantly exposed to interest rate risk from asset and liability repricing mismatches from providing banking products and services to customers, and the Banking Group's funding and liquidity management. Currency risk is hedged within risk limits and is not material. Interest rate risk is measured and controlled using interest rate sensitivity analysis and position limits, within non-traded market risk limits.

#### Interest rate risk management

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. Interest rate risk is managed by the Treasury business unit within approved limits.

The Banking Group reduces interest rate risk by seeking to match the repricing of assets and liabilities. A portion of customer deposits and lending is at variable rates, which are periodically adjusted to reflect market movements. Where natural hedging still leaves an interest rate mismatch, the residual risks are hedged within predefined limits through the use of interest rate swaps and other derivative financial instruments.

# Notes to the financial statements continued

## 30. Risk management continued

### Interest rate sensitivity

The table below summarises the sensitivity to changes in interest rates in the banking book. The Basis Point Sensitivity ("BPS") calculates the absolute net impact of a reasonably possible movement in interest rates.

Dollars in millions	30/06/23	30/06/22
Banking Book Basis Point Sensitivity (+/- 100 bps)	16	13

### Interest rate repricing schedule

The following tables, prescribed by the Order, present a breakdown of the Banking Group's assets, liabilities and off-balance-sheet instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Banking Group does not manage its interest rate risk on the basis of the information below.

Dollars in millions	30/06/23						
	Total	Non-interest bearing	Up to 3 months	3 to 6 months	6 months to 1 year	Between 1 and 2 years	Over 2 years
<b>Financial assets</b>							
Cash and cash equivalents	1,027	56	971	-	-	-	-
Due from other financial institutions	129	-	79	50	-	-	-
Investment securities	2,299	-	357	385	128	321	1,108
Derivative financial instruments	447	447	-	-	-	-	-
Loans and advances	29,682	27	9,412	4,490	6,606	6,468	2,679
Other financial assets	45	45	-	-	-	-	-
<b>Total financial assets</b>	<b>33,629</b>	<b>575</b>	<b>10,819</b>	<b>4,925</b>	<b>6,734</b>	<b>6,789</b>	<b>3,787</b>
<b>Financial liabilities</b>							
Due to other financial institutions	(1,768)	(28)	(1,703)	(6)	(31)	-	-
Deposits and other borrowings	(25,756)	(4,336)	(14,362)	(3,342)	(3,233)	(207)	(276)
Derivative financial instruments	(243)	(243)	-	-	-	-	-
Debt securities issued	(3,038)	-	(742)	(494)	(48)	(391)	(1,363)
Other financial liabilities	(127)	(127)	-	-	-	-	-
Subordinated debt	(446)	-	-	-	-	-	(446)
<b>Total financial liabilities</b>	<b>(31,378)</b>	<b>(4,734)</b>	<b>(16,807)</b>	<b>(3,842)</b>	<b>(3,312)</b>	<b>(598)</b>	<b>(2,085)</b>
<b>On-balance-sheet gap</b>	<b>2,251</b>	<b>(4,159)</b>	<b>(5,988)</b>	<b>1,083</b>	<b>3,422</b>	<b>6,191</b>	<b>1,702</b>
<b>Net derivative notional principals</b>	<b>104</b>	<b>-</b>	<b>7,826</b>	<b>(880)</b>	<b>(3,239)</b>	<b>(4,435)</b>	<b>832</b>
<b>Net effective interest rate gap</b>	<b>2,355</b>	<b>(4,159)</b>	<b>1,838</b>	<b>203</b>	<b>183</b>	<b>1,756</b>	<b>2,534</b>

# Notes to the financial statements continued

## 30. Risk management continued

### Interest rate repricing schedule continued

Dollars in millions	30/06/22						
	Total	Non-interest bearing	Up to 3 months	3 to 6 months	6 months to 1 year	Between 1 and 2 years	Over 2 years
<b>Financial assets</b>							
Cash and cash equivalents	1,522	65	1,457	-	-	-	-
Due from other financial institutions	138	-	138	-	-	-	-
Investment securities	1,431	-	38	-	85	418	890
Derivative financial instruments	477	477	-	-	-	-	-
Loans and advances	27,751	43	7,406	2,191	5,018	8,533	4,560
Other financial assets	41	41	-	-	-	-	-
<b>Total financial assets</b>	<b>31,360</b>	<b>626</b>	<b>9,039</b>	<b>2,191</b>	<b>5,103</b>	<b>8,951</b>	<b>5,450</b>
<b>Financial liabilities</b>							
Due to other financial institutions	(1,839)	(8)	(1,772)	(12)	(47)	-	-
Deposits and other borrowings	(24,216)	(5,028)	(13,115)	(3,422)	(2,272)	(213)	(166)
Derivative financial instruments	(207)	(207)	-	-	-	-	-
Debt securities issued	(2,579)	-	(1,054)	(140)	(34)	(251)	(1,100)
Other financial liabilities	(132)	(132)	-	-	-	-	-
Subordinated debt	(250)	-	-	-	-	-	(250)
<b>Total financial liabilities</b>	<b>(29,223)</b>	<b>(5,375)</b>	<b>(15,941)</b>	<b>(3,574)</b>	<b>(2,353)</b>	<b>(464)</b>	<b>(1,516)</b>
<b>On-balance-sheet gap</b>	<b>2,137</b>	<b>(4,749)</b>	<b>(6,902)</b>	<b>(1,383)</b>	<b>2,750</b>	<b>8,487</b>	<b>3,934</b>
<b>Net derivative notional principals</b>	<b>83</b>	<b>-</b>	<b>8,762</b>	<b>374</b>	<b>(1,277)</b>	<b>(7,221)</b>	<b>(555)</b>
<b>Net effective interest rate gap</b>	<b>2,220</b>	<b>(4,749)</b>	<b>1,860</b>	<b>(1,009)</b>	<b>1,473</b>	<b>1,266</b>	<b>3,379</b>

Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information.

# Notes to the financial statements continued

## 30. Risk management continued

### Currency risk management

Currency risk results from the mismatch of foreign currency assets and liabilities. These mismatches arise from the purchase and sale of foreign currency, foreign currency cash accounts, future expenditures, and from debt securities, deposit and lending activity in foreign currencies. The Banking Group has a policy of hedging foreign currency borrowing into New Zealand dollars within Board approved risk limits using derivatives, such as forwards, swaps, and options. Residual currency risks are monitored daily in terms of open positions in each currency.

The Banking Group does not carry any material net foreign currency exposure.

### Equity Risk

Equity risk results from repricing equity investments. The Banking Group does not undertake equity trading and there are no material exposures to equity instruments.

### 3. Liquidity Risk

#### *Liquidity and funding risk overview, management and control responsibilities*

Liquidity risk is the risk that the Banking Group will not have sufficient funds available to meet its financial and transactional cash flow obligations. Funding risk contributes to overall liquidity risk but is concerned with the Banking Group's capacity to fund increases in assets while meeting its payment obligations, including repaying depositors and managing maturing wholesale debt. There is the risk of over-reliance on a funding source or not having the appropriate amount, tenor and composition of funding and liquidity.

Management of liquidity risk is designed to ensure that the Banking 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.

Funding and liquidity is measured by and managed in accordance with the policies and processes defined in the Board-approved Liquidity Framework and Liquidity Policy. The Banking Group's Liquidity Framework and Liquidity Policy set out the Banking Group's funding and liquidity risk appetite; roles and responsibilities of key people managing funding and liquidity risk within the Banking Group; risk reporting and control processes; and limits and targets used to manage the Banking Group's balance sheet.

The Treasury business unit has day-to-day responsibility for liquidity management and monitoring the Banking Group's funding base ensuring that this base is prudently maintained and adequately diversified under oversight of the ALCO.

#### *Measuring and monitoring liquidity and funding risk*

The Banking Group monitors this risk daily, primarily by forecasting future cash requirements, both under normal conditions and during crisis situations. The Banking Group manages this by: 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 seeking a stable funding base.

The Banking Group maintains a Contingency Funding Plan ("CFP") which defines an approach for responding to liquidity-threatening events. The CFP establishes policies, responsibilities and plans which are designed to return the Banking Group to a robust position within risk tolerance in the event of a liquidity crisis.

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

# Notes to the financial statements continued

## 30. Risk management continued

### Liquidity risk management process

The Banking Group's liquidity management responsibilities include:

- Day-to-day liquidity requirements. The RBNZ's liquidity ratios are calculated and monitored daily to ensure that the Group:
  - is compliant with part 13 of the conditions of registration and the RBNZ's "Liquidity Policy" (BS13);
  - maintains a prudent level of cash and highly liquid assets ("**primary liquid assets**") and marketable assets of limited credit risk ("**secondary liquid assets**") to meet both expected and projected outflows under severe funding stress from the wholesale and retail balance sheet over a one-week and one-month period; and
  - maintains a diversified stable funding base.
- Securing an appropriately matched profile of future cash flows from maturing assets and liabilities;
- Implementing the Banking Group's funding plan, which includes the development of sustainable wholesale funding capacity; and
- Stress-testing the Banking Group's funding and liquidity position with a range of adverse events covering:
  - a Kiwibank name crisis;
  - an international credit crisis; and
  - a Kiwibank name event, combined with domestic funding stress.

### Liquid assets portfolio

The Banking Group holds a diversified portfolio of high-quality liquid securities to support its liquidity risk management. The size of the Banking Group's liquidity portfolio is based on the amount required to meet its Liquidity Policy and includes items both classified as cash and cash equivalents and those classified as operating assets in the cash flow statement.

The Bank also holds unencumbered internal residential mortgage-backed securities which would entitle the Banking Group to enter into repurchase transactions. Residential mortgage-backed securities disclosed below are available to be utilised for liquidity purposes; refer to Note 24 for more detail.

Liquid assets are subject to a 'haircut' in line with RBNZ's BS13: Liquidity Policy. A haircut refers to the reduction in the current market value of the qualifying liquid assets. The haircut can range from 1% to 25%. Amounts below are not adjusted for any haircut.

	30/06/23	30/06/22
Cash, balances with central bank, and certain foreign currency deposits	975	1,454
Certificates of deposit	349	4
Government bonds and Treasury bills	335	76
Local body stock and bonds	434	77
Supranational bonds	809	652
Other bonds	357	260
Residential mortgage-backed securities	2,283	2,625
<b>Total</b>	<b>5,542</b>	<b>5,148</b>

Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information.

# Notes to the financial statements continued

## 30. Risk management continued

### Maturity analysis of financial liabilities

The following tables present the Banking Group's cash flows for financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows and include principal and future interest cash flows, therefore may not agree to the carrying values reported in the balance sheet. The Banking Group does not manage liquidity risk on the basis of the information provided below.

30/06/23								
Dollars in millions	On demand	Up to 1 month	1 to 3 months	3 to 12 months	Between 1 and 5 years	More than 5 years	Gross nominal inflow/outflow	Carrying amount
<b>Non-derivative cash flows</b>								
<b>Financial liabilities</b>								
Due to other financial institutions	(13)	(269)	-	(582)	(999)	-	(1,863)	(1,768)
Deposits and other borrowings	(11,057)	(1,699)	(5,885)	(6,856)	(558)	-	(26,055)	(25,756)
Debt securities issued	-	(15)	(203)	(630)	(2,489)	(129)	(3,466)	(3,038)
Other financial liabilities <sup>1</sup>	-	(41)	(3)	(12)	(44)	(40)	(140)	(127)
Subordinated debt	-	-	(5)	(14)	(536)	-	(555)	(446)
<b>Total</b>	<b>(11,070)</b>	<b>(2,024)</b>	<b>(6,096)</b>	<b>(8,094)</b>	<b>(4,626)</b>	<b>(169)</b>	<b>(32,079)</b>	<b>(31,135)</b>
<b>Derivative cash flows</b>								
Net settled	-	(28)	(34)	(59)	(94)	(4)	(219)	
Gross settled – Inflow	-	80	111	333	897	129	1,550	
Gross settled – Outflow	-	(86)	(115)	(350)	(921)	(112)	(1,584)	
<b>Total</b>	<b>-</b>	<b>(34)</b>	<b>(38)</b>	<b>(76)</b>	<b>(118)</b>	<b>13</b>	<b>(253)</b>	
<b>Off-balance-sheet cash flows</b>								
Letters of credit and performance-related contingencies	(79)	-	-	-	-	-	(79)	
Loan commitments	(4,034)	-	-	-	-	-	(4,034)	
<b>Total</b>	<b>(4,113)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,113)</b>	

<sup>1</sup> 'Up to 1 month' to 'More than 5 years' for 'Other financial liabilities' relates to lease liabilities. All other financial liabilities are 'Up to 1 month'.

# Notes to the financial statements continued

## 30. Risk management continued

30/06/22								
Dollars in millions	On demand	Up to 1 month	1 to 3 months	3 to 12 months	Between 1 and 5 years	More than 5 years	Gross nominal inflow/outflow	Carrying amount
<b>Non-derivative cash flows</b>								
<b>Financial liabilities</b>								
Due to other financial institutions	-	(672)	-	(59)	(1,193)	-	(1,924)	(1,839)
Deposits and other borrowings	(11,338)	(1,312)	(5,463)	(5,808)	(409)	-	(24,330)	(24,216)
Debt securities issued	-	(122)	(283)	(325)	(1,859)	(301)	(2,890)	(2,579)
Other financial liabilities <sup>1</sup>	-	(39)	(3)	(11)	(46)	(47)	(146)	(132)
Subordinated debt	-	-	(2)	(5)	(291)	-	(298)	(250)
<b>Total</b>	<b>(11,338)</b>	<b>(2,145)</b>	<b>(5,751)</b>	<b>(6,208)</b>	<b>(3,798)</b>	<b>(348)</b>	<b>(29,588)</b>	<b>(29,016)</b>
<b>Derivative cash flows</b>								
Net settled	-	(4)	(6)	(48)	(118)	(5)	(181)	
Gross settled – Inflow	-	181	145	181	72	301	880	
Gross settled – Outflow	-	(186)	(156)	(190)	(97)	(291)	(920)	
<b>Total</b>	<b>-</b>	<b>(9)</b>	<b>(17)</b>	<b>(57)</b>	<b>(143)</b>	<b>5</b>	<b>(221)</b>	
<b>Off-balance-sheet cash flows</b>								
Letters of credit and performance-related contingencies	(83)	-	-	-	-	-	(83)	
Loan commitments	(4,467)	-	-	-	-	-	(4,467)	
<b>Total</b>	<b>(4,550)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,550)</b>	

<sup>1</sup> 'Up to 1 month' to 'More than 5 years' for 'Other financial liabilities' relates to lease liabilities. All other financial liabilities are 'Up to 1 month'.

Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information.

# Notes to the financial statements continued

## 30. Risk management continued

### 4. Capital Risk

Capital risk is the risk that the Banking Group has insufficient capital to allow strategic initiatives to be undertaken or that capital is inefficiently deployed. It is also the risk of loss arising from the Banking Group's failure to maintain the level of capital required by prudential regulators and other key stakeholders such as shareholders, debt investors, depositors, and rating agencies.

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

The Banking Group 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). The Banking Group's Internal Capital Adequacy Assessment Programme ("ICAAP") deals primarily with assessing its 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 have ultimate responsibility for capital adequacy and approve capital policy and minimum internal capital levels and limits. Refer to Note 26 Equity, and Capital Adequacy and Regulatory Liquidity Ratios for detailed analysis of the Banking Group's capital management.

### 5. Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events or criminal activity. This definition includes legal risk but excludes strategic and reputational risk. This includes the heightened risk to process and systems during transformational change to those processes and systems. Operational risk is mitigated by implementing and monitoring the necessary processes, systems and training regimes that maintain an effective control environment.

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

Technology risk, a subset of operational risk, is the risk that the Banking Group's information technology systems and infrastructure could be disrupted as a result of technical failure, human error, cyber attacks or other criminal activity.

Operational risk is inherent in the Banking Group's activities. Inadequate practices to identify and assess operational risk can lead to non-compliance, sanctions, fines/penalties and losses due to errors, compensation and internal/external fraud. Failure of processes/systems or human error can result in poor customer service, experience and/or outcomes of reputational damage.

Operational risk covers a broad spectrum of activities and is aligned to Basel-defined categories.

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

- Operational risk management relies on the support and participation of all Banking Group employees. Senior management is accountable to the Board for maintaining an effective control environment that is commensurate with the Banking Group's risk appetite and business objectives.
- Operational Risk and Compliance teams own and manage the operational risk and compliance framework and provide guidance, assurance and review, and challenge any bank-wide risk reporting to relevant governance committees.
- Business units are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility.

### 6. Business Risk

Business risk is a strategic risk. There are numerous external and internal uncertainties that may derail the business strategies or goals of the Banking Group.

It is only through sound business strategies and skilful execution of these business strategies that the Banking Group'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.

The Banking Group has three core business risk management strategies aimed at supporting its business strategies. Specifically:

- establishment and maintenance of an internal organisational environment in which business and strategic risk can meaningfully be managed;
- establishment and maintenance of structures, measurement basis and risk management processes for evaluation and management of business and strategic risks; and
- building capability within the Banking Group to enable both the pursuit of opportunities and mitigation of vulnerabilities.

# Notes to the financial statements continued

## 30. Risk management continued

### Climate change management

The Banking Group recognises climate change will have a significant impact on New Zealand's environment and economy. The key risks are financial and non-financial, derived from both physical risks (climate- and weather-related events) and transition risks resulting from the process of adjustment towards a low-carbon economy. The focus on these risks by key stakeholders including businesses, clients, shareholders, governments, and regulators is increasing, aligned with the evolving societal, regulatory and political landscape.

The sections below summarise Kiwibank's current approach to managing climate change risks, across the four Task Force on Climate-related Financial Disclosures ("TCFD") thematic areas:

- **Governance:** The ARC has responsibility for the oversight of all risk domains, which includes managing climate risk, as delegated by the Board. An internal sustainability working group is developing the Banking Group's strategic response to climate risk in line with the recommendations of the TCFD.
- **Strategy:** The Banking Group's strategy to address climate change includes work on how to disclose and manage the impacts associated with climate change on the Banking Group's business, including how to reduce the Banking Group's carbon emissions. Climate scenario analysis has been undertaken and informs wider strategy.
- **Risk Management:** The Banking Group continues to develop its climate change risk management framework to ensure Kiwibank's activities appropriately consider climate-related risks and opportunities. Climate change extends across multiple risk domains e.g. credit, market, operational, capital and business.
- **Metrics and Targets:** The Banking Group has current metrics and targets related to its carbon emissions created through its operations, but excluding financed emissions. The Banking Group is also progressing analysis of the exposure to climate risk, and flooding in particular, and will incorporate the identified risks into risk management policies as the analysis is completed.

The TCFD is the framework that the New Zealand Government used for the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill that was passed in October 2021. As a result, the External Reporting Board ("XRB") has a mandate to issue climate standards as part of a climate-related disclosures framework and guidance on environmental, social and governance (ESG) matters. The XRB issued its first climate standard in December 2022, applicable for accounting periods beginning on or after 1 January 2023.

The Banking Group is continuing to develop its modelling and assessment capabilities to quantify climate change impacts, including building a greater understanding of risks and impacts through climate scenario analysis.

The TCFD requires an organisation to review internal processes and operations/activities against climate-related risks. The Banking Group is using a mix of internal analysis and the procurement of technical information from specialised third parties in order to identify, understand and ultimately disclose in accordance with the TCFD and the XRB climate standards.

Refer to Kiwibank's sustainability report for more climate-related disclosures which can be accessed on the Kiwibank website.

## 31. Auditor's remuneration

Dollars in thousands	Year ended 30/06/23	Year ended 30/06/22
<b>Auditor's remuneration</b>		
Audit and review engagements <sup>1</sup>	1,785	1,572
Other services:		
Other assurance services <sup>2</sup>	10	27
Other services <sup>3</sup>	39	192
<b>Total auditor's remuneration</b>	<b>1,834</b>	<b>1,791</b>

<sup>1</sup> 'Audit and review engagements' comprise audit and review of financial statements, and limited assurance engagements over capital adequacy and regulatory liquidity requirements included in Disclosure Statements.

<sup>2</sup> 'Other assurance services' comprise reasonable assurance over registry compliance and limited assurance over compliance with certain matters in the Trust Deed in respect of a controlled entity within the Banking Group (2022: reasonable assurance over registry compliance and limited assurance over compliance with certain matters in the Trust Deed in respect of a controlled entity within the Banking Group, and limited assurance over solvency for Kiwibank and the Banking Group).

<sup>3</sup> 'Other services' comprise agreed-upon procedures over debt programmes (2022: agreed-upon procedures for a debt programme, agreed-upon procedures relating to the provision of a comfort letter for the establishment of a debt programme, and preliminary work on an assurance engagement on Business Finance Guarantee Scheme reporting).

# Notes to the financial statements continued

## 32. Capital expenditure commitments

Capital expenditure commitments contracted for as at 30 June 2023, but not provided for in these financial statements, total \$4.0m (30 June 2022: \$6.1m). All capital expenditure commitments are due to be settled within the next 12 months.

## 33. Contingent liabilities and credit commitments



### Accounting policy

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefits is not probable or cannot be reliably measured. Contingent liabilities are not recognised in the balance sheet but are disclosed unless the likelihood of payment is remote.

#### *Compliance, regulation and remediation*

The Banking Group is subject to regulatory oversight and regularly assesses compliance with product terms and conditions and relevant legislation to identify any potential remediation claims in relation to the provision of services to customers. A contingent liability may exist, in respect of actual or potential claims, where the law is uncertain, or the potential liability cannot accurately be determined. All potential remediation claims are assessed on a case-by-case basis. Where the Banking Group has carried out an assessment of likely loss, and, where it can be reliably estimated, an appropriate provision is recognised. Any material claim that has not yet met the conditions to be recognised is disclosed as a contingent liability.

#### *Loan commitments*

The Banking Group enters into lending arrangements with customers with loan commitments which are only recognised in the balance sheet as loans and advances when cash is advanced. Letters of credit and performance-related contingencies include transactions where the Banking Group is obliged to make payments to a third party if a customer fails to fulfil its obligations under a contract.

Undrawn credit commitments as at the reporting date are as follows:

Dollars in millions	30/06/23	30/06/22
Letters of credit and performance-related contingencies	79	83
Loan commitments	4,034	4,467
<b>Total undrawn credit commitments</b>	<b>4,113</b>	<b>4,550</b>

There are no pending legal proceedings or arbitration concerning Kiwibank or any member of the Banking Group that may have a material adverse effect on Kiwibank or the Banking Group.

## 34. Events subsequent to the reporting date

On 31 July 2023, Kiwi Group Capital Limited subscribed to an additional \$225m of ordinary shares in Kiwibank at NZD1 each.

On 2 August 2023, the Board declared a perpetual preference share dividend of \$2.2m.

There were no other material events that occurred subsequent to the reporting date which require recognition or additional disclosure in these financial statements.

# Capital adequacy and regulatory liquidity ratios

## Unaudited

Kiwibank Limited ("Kiwibank" or the "Bank") is subject to the capital adequacy requirements for registered banks as specified by the Reserve Bank of New Zealand ("RBNZ"). Following an internationally agreed framework (commonly known as Basel III) developed by the Basel Committee on Banking Supervision, the RBNZ has set minimum acceptable regulatory capital requirements and provided methods for estimating or measuring the risks incurred by the Bank.

In accordance with its conditions of registration, Kiwibank applies the Standardised Approach under RBNZ's Banking Prudential Requirements ("BPR") for estimating adequate prudential capital and calculating regulatory capital requirements.

Regulatory capital adequacy ratios are calculated by expressing capital as a percentage of risk-weighted exposures. As a condition of registration, the Banking Group must comply with the following minimum capital requirements set by the RBNZ:

- Total capital ratio must not be less than 8.0% of risk-weighted exposures.
- Tier 1 capital ratio must not be less than 6.0% of risk-weighted exposures.
- The Common Equity Tier 1 capital ratio is not less than 4.5%.
- Capital of the Banking Group must not be less than NZD30m.

## Regulatory capital

The Basel III standards for bank capital distinguish between Tier 1 and Tier 2 capital. Tier 1 capital is permanently and freely available to absorb losses without the bank being obliged to cease trading, while Tier 2 capital generally only absorbs losses in a winding up. Within Tier 1 capital, Common Equity Tier 1 capital ("CET 1") has greater loss-absorbing capability than the other Tier 1 instruments referred to as Additional Tier 1 capital ("AT 1").

Capital ratios are used to define minimum capital requirements for each of: Common Equity Tier 1 capital, Tier 1 capital (CET 1 plus AT 1), and Total capital (Tier 1 plus Tier 2), as a percentage of risk-weighted assets. There are increasing constraints on capital distributions where a bank's Prudential Capital Buffer Ratio falls below the Buffer Trigger Ratio. The following table shows the current capital ratio requirements and conservation buffers (as a percentage of risk-weighted assets).

## Regulatory capital ratios

	Regulatory minima	The Banking Group	
		30/06/23	30/06/22
<b>Capital adequacy ratios</b>			
Common Equity Tier 1 capital ratio	<b>4.5%</b>	<b>10.3%</b>	10.5%
Tier 1 capital ratio	<b>6.0%</b>	<b>11.7%</b>	12.0%
Total capital ratio	<b>8.0%</b>	<b>14.3%</b>	13.6%
Prudential Capital Buffer Ratio		<b>5.7%</b>	5.6%
Buffer Trigger Ratio		<b>2.5%</b>	2.5%

The Kiwibank Limited solo capital ratios are the same as those disclosed above for the Banking Group.

## Ordinary shares

The ordinary shares issued by the Bank, which are fully paid, are included within CET 1 capital. The material terms and conditions of the ordinary shares are:

- each share contains a single right to vote;
- there are no redemption, conversion or capital repayment options/facilities;
- there is no predetermined dividend rate;
- there is no maturity date;
- there are no options to be granted pursuant to any agreement; and
- each share ranks equally to dividends and any surpluses on winding up.

# Capital adequacy and regulatory liquidity ratios continued

## Perpetual preference shares

The perpetual preference shares ("PPS"), issued by the Bank on 2 November 2021, which are fully paid, are included within AT 1 capital. The material terms and conditions of the PPS are:

- a) the PPS have no voting rights;
- b) distributions are payable quarterly in arrears, subject to the absolute discretion of Kiwibank. The distribution rate was initially fixed for a period of five years at the swap rate on the rate set date, being 2 November 2021, plus a margin. The distribution rate will be reset at five-yearly intervals;
- c) if for any reason a distribution is not paid in full on a distribution payment date, Kiwibank must not make any distributions or payments on or issue any bonus securities in respect of its ordinary shares or any other preference shares or other securities that rank equally with the PPS;
- d) distributions are non-cumulative;
- e) the PPS do not have a maturity date; however, Kiwibank may elect to make early repayment on 2 November 2026 or any optional redemption date thereafter (optional redemption dates occur at five-yearly intervals) or if a tax or regulatory event has occurred (as described in the Deed Poll);
- f) the PPS rank equally with other preference shares and ahead of ordinary shares, dividends and any surpluses on winding up; and
- g) the PPS are not guaranteed by any member of the Banking Group, Kiwibank's parent company, the Crown or by any other person.

## Subordinated notes

### Issuance December 2020

The subordinated notes, issued by the Bank on 11 December 2020, which are fully paid, are included within Tier 2 capital. The subordinated notes are subordinate to all other general liabilities of the Banking Group and are denominated in New Zealand dollars. The material terms and conditions of the subordinated notes are:

- a) the subordinated notes constitute direct, unsecured subordinated debt obligations of Kiwibank;
- b) the subordinated notes pay interest quarterly in arrears at an initial rate of 2.36% p.a., subject to the condition that Kiwibank and the Banking Group is solvent after each payment;
- c) unpaid interest accumulates;
- d) the subordinated notes have no voting rights;
- e) the subordinated notes have a maturity date of 11 December 2030; however, Kiwibank may elect to make early repayment on 11 December 2025 or any quarterly interest payment date thereafter;
- f) the subordinated notes rank equally with other subordinated notes and ahead of PPS, ordinary shares, dividends and any surpluses on winding up; and
- g) the subordinated notes are not guaranteed by any member of the Banking Group, Kiwibank's parent company, the Crown or by any other person.

### Issuance May 2023

The subordinated notes, issued by the Bank on 12 May 2023, which are fully paid, are included within Tier 2 capital. The subordinated notes are subordinate to all other general liabilities of the Banking Group and are denominated in New Zealand dollars. The material terms and conditions of the subordinated notes are:

- a) the subordinated notes constitute direct, unsecured subordinated debt obligations of Kiwibank;
- b) the subordinated notes pay interest quarterly in arrears at an initial rate of 6.40% p.a., subject to the condition that Kiwibank and the Banking Group is solvent after each payment;
- c) unpaid interest accumulates;
- d) the subordinated notes have no voting rights;
- e) the subordinated notes have a maturity date of 12 May 2033; however, Kiwibank may elect to make early repayment on 12 May 2028 or any quarterly interest payment date thereafter;
- f) the subordinated notes rank equally with other subordinated notes and ahead of PPS, ordinary shares, dividends and any surpluses on winding up; and
- g) the subordinated notes are not guaranteed by any member of the Banking Group, Kiwibank's parent company, the Crown or by any other person.

# Capital adequacy and regulatory liquidity ratios continued

## Risk-weighted exposures

Risk-weighted exposures are derived by assigning risk-weight percentages to certain material risk categories of exposures. These exposures are measured or estimated from: selected balance sheet assets; off-balance-sheet exposures and market-related contracts; and business unit net income.

The Bank's current Prudential capital requirements based on assessments of its material risk classes (commonly referred to as "Pillar I" risk classes under Basel III) can be summarised as follows:

- Credit risk – The vulnerability of the Banking Group's lending and investment portfolios to systemic counterparty default. The risk-based capital allocation is computed in accordance with RBNZ BPR130, BPR131, BPR132 and BPR160.
- Market risk – The vulnerability of earnings to movements in interest rates, equity prices and currency volatility. The risk-based capital allocation is computed in accordance with RBNZ BPR140.
- Operational risk – The risk of loss, resulting from inadequate or failed internal processes (including legal risks), people and systems and from external events. The risk-based capital allocation is computed in accordance with RBNZ BPR150.

Kiwibank's Board is ultimately responsible for capital adequacy and approves capital plans and establishes minimum internal capital levels and limits. These are higher than the regulatory minima.

The capital adequacy tables on the following pages summarise the composition of regulatory capital and capital adequacy ratios for the year ended 30 June 2023. Throughout the period, Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

## Regulatory capital

The following table shows the qualifying capital for the Banking Group.

<b>The Banking Group</b>	
<b>30/06/23</b>	
Dollars in millions	
<b>Common Equity Tier 1 capital</b>	
Issued and fully paid-up share capital	737
Retained earnings (net of appropriations)	1,226
Accumulated other comprehensive income and other disclosed reserves <sup>1, 2</sup>	102
<b>Less deductions from Common Equity Tier 1 capital</b>	
Intangible assets	(25)
Cash flow hedge reserve	(152)
Deferred tax assets	(38)
<b>Total Common Equity Tier 1 capital</b>	<b>1,850</b>
<b>Additional Tier 1 capital</b>	
Perpetual preference shares <sup>3</sup>	246
<b>Total Additional Tier 1 capital</b>	<b>246</b>
<b>Total Tier 1 capital</b>	<b>2,096</b>
<b>Tier 2 capital</b>	
Subordinated notes <sup>4</sup>	470
<b>Total Tier 2 capital</b>	<b>470</b>
<b>Total capital</b>	<b>2,566</b>

<sup>1</sup> Includes fair value reserve of \$(50)m. The fair value reserve includes the cumulative net change in the fair value of investment securities until the investment is derecognised or impaired.

<sup>2</sup> Includes cash flow hedge reserve of \$152m. The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of foreign exchange and interest rate derivative contracts related to hedged forecasted transactions that have not yet occurred. The cash flow hedge reserve is not eligible for inclusion in capital under BPR110 B1.8.

<sup>3</sup> Perpetual preference shares issued by Kiwibank Limited are classified as equity of the Banking Group for financial reporting purposes.

<sup>4</sup> Subordinated notes are classified as debt of the Banking Group for financial reporting purposes.

# Capital adequacy and regulatory liquidity ratios continued

## On-balance-sheet credit risk exposures

Dollars in millions	The Banking Group			
	30/06/23			
	Total exposure after credit risk mitigation	Average risk weight	Risk-weighted exposure	Minimum Pillar I capital requirement
<b>On-balance-sheet exposures</b>				
Cash and gold bullion	56	0%	-	-
Sovereigns and central banks	1,241	0%	-	-
Multilateral development banks and other international organisations	737	0%	-	-
Public-sector entities	138	20%	28	2
	-	100%	-	-
Banks	379	20%	76	6
	251	50%	126	10
Corporate	657	20%	131	10
	7	50%	4	-
	3,878	100%	3,878	310
<b>Residential mortgages not past due</b>				
Non-property investment residential mortgage loans				
<= 80% loan-to-value ratio ("LVR")	14,754	35%	5,164	413
80 <= 90% LVR	1,006	50%	503	40
90 <= 100% LVR	44	75%	33	3
> 100% LVR	39	100%	39	3
Non-property investment residential mortgage loans – 'First Home' loans and lenders mortgage insured loans				
<= 80% LVR	253	35%	89	7
80 <= 90% LVR	274	35%	96	8
90 <= 100% LVR	119	50%	60	5
> 100% LVR	1	100%	1	-
Property investment residential mortgage loans				
<= 80% LVR	8,597	40%	3,439	275
80 <= 90% LVR	84	70%	59	5
90 <= 100% LVR	57	90%	51	4
> 100% LVR	17	100%	17	1
Property investment residential mortgage loans – lenders mortgage insured loans				
<= 80% LVR	13	40%	5	-
80 <= 90% LVR	-	50%	-	-
Impaired assets	3	100%	3	-
Past due residential mortgages > 90 days	19	100%	19	2
	-	35%	-	-
Other past due assets	5	100%	5	-
Non-risk-weighted assets	511	0%	-	-
All other equity holdings	-	400%	1	-
Other assets	639	100%	639	51
<b>Total on-balance-sheet exposures</b>	<b>33,779</b>		<b>14,466</b>	<b>1,155</b>

# Capital adequacy and regulatory liquidity ratios continued

## Off-balance-sheet exposures and counterparty credit risk exposures

The Banking Group						
30/06/23						
Dollars in millions	Total exposure or principal amount	Average credit conversion factor	Credit equivalent amount	Average risk weight	Risk-weighted exposure	Minimum Pillar I capital requirement
Direct credit substitute	54	100%	54	99%	53	4
Performance-related contingency	23	50%	12	100%	12	1
Other commitments where original maturity is greater than one year	1,215	50%	608	60%	365	29
Other commitments where original maturity is less than or equal to one year	1,609	20%	322	38%	122	10
Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice	1,204	0%	-	0%	-	-
<b>Market-related contracts:<sup>1</sup></b>						
a) Foreign exchange contracts	1,337	n/a	76	52%	40	3
b) Interest rate contracts	379	n/a	52	6%	3	-
c) CVA		n/a			24	2
d) Other – CCP initial margin	59	n/a		2%	1	-
<b>Total off-balance sheet exposures</b>	<b>5,880</b>		<b>1,124</b>		<b>620</b>	<b>49</b>

<sup>1</sup> The credit equivalent amount for counterparty credit risk exposures was calculated using the current exposure method, and is a net exposure amount i.e. after credit risk mitigation.

Total exposure amounts in the table above are disclosed net of credit impairment provisions.

## Residential mortgages by loan-to-value ratio ("LVR")

The Banking Group			
30/06/23			
Dollars in millions	On-balance-sheet	Off-balance-sheet	Total
LVR 0% – 80%	23,639	680	24,319
LVR 80% – 90%	1,364	25	1,389
LVR 90% +	277	26	303
<b>Total</b>	<b>25,280</b>	<b>731</b>	<b>26,011</b>

The LVR classification above is calculated in compliance with the Order. The off-balance-sheet amounts disclosed in the table above are credit-equivalent amounts disclosed net of the relevant credit conversion factor.

At 30 June 2023, of the loans with an LVR greater than 80%, \$393m (30 June 2022: \$228m) relate to loans with mortgage insurance or 'First Home' loans, whose credit risk is mitigated by the New Zealand Crown (via underwriting by Housing New Zealand Corporation).

## Credit risk mitigation

The Banking Group		
30/06/23		
Dollars in millions	Total value of on- and off-balance-sheet exposures covered by eligible collateral (after 'haircutting')	Total value of on- and off-balance-sheet exposures covered by guarantees or credit derivatives
<b>Exposure class</b>		
Bank	30,882	-
	<b>30,882</b>	<b>-</b>

The Banking Group uses the comprehensive method to measure the mitigating effects of collateral.

# Capital adequacy and regulatory liquidity ratios continued

## Operational risk

Dollars in millions	The Banking Group	
	30/06/23	
	Implied risk-weighted exposure	Total operational risk capital requirement
Operational risk	1,980	158

## Market risk

Dollars in millions	30/06/23			
	Implied risk-weighted exposure		Aggregate capital charge	
	End of period	Peak end-of-day	End of period	Peak end-of-day
Interest rate risk	764	764	61	61
Foreign currency risk	72	72	6	6
Equity risk	-	-	-	-

The aggregate market risk exposure above is derived in accordance with RBNZ BPR140.

The peak end-of-day aggregate capital charge is the maximum over the year at the close of each business day for each market risk category.

## Total capital requirements

Dollars in millions	The Banking Group		
	30/06/23		
	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk-weighted exposure	Total capital requirement
Total credit risk plus equity	39,659	15,086	1,204
Operational risk	n/a	1,980	158
Market risk	n/a	836	67
<b>Total Pillar I risk</b>	<b>n/a</b>	<b>17,902</b>	<b>1,429</b>

## Other material risks (Pillar II)

The Basel III capital adequacy regime intends to ensure that banks have adequate capital to support all material risks inherent in their business activities. Consequently, banks are required to maintain an internal capital adequacy assessment process ("ICAAP") for assessing overall capital adequacy in relation to their risk profile. Kiwibank's ICAAP methodology requires it to hold capital against 'Other material risks' (Pillar II risks), including project execution, climate change and cyber risks.

For these other material risks, the Bank has made an internal capital allocation of \$50m (30 June 2022: \$45m).

## Regulatory liquidity ratios

The Banking Group calculates regulatory liquidity ratios in accordance with the RBNZ's BS13: Liquidity Policy. Ratios are calculated daily and the quarterly averages of each daily ratio are disclosed below.

	3 months ended 30/06/23	3 months ended 31/03/23
Average one-week mismatch ratio	10.1%	10.5%
Average one-month mismatch ratio	10.4%	10.9%
Average core funding ratio	90.5%	91.6%

# Conditions of registration

Under section 74 of the Banking (Prudential Supervision) Act 1989, Kiwibank Limited is subject to the following conditions of registration set by the Reserve Bank of New Zealand ("RBNZ"), which were applicable as at 30 June 2023:

## Conditions of registration for Kiwibank Limited

### These conditions apply on and after 1 June 2023.

The registration of Kiwibank Limited (the "Bank") as a registered bank is subject to the following conditions.

#### 1. That:

- a) the Total capital ratio of the Banking Group is not less than 8%;
- b) the Tier 1 capital ratio of the Banking Group is not less than 6%;
- c) the Common Equity Tier 1 capital ratio of the Banking Group is not less than 4.5%; and
- d) the Total capital of the Banking Group is not less than \$30m.

For the purposes of this condition of registration:

- "Total capital ratio", "Tier 1 capital ratio", and "Common Equity Tier 1 capital ratio" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;
- "Total capital" has the same meaning as in BPR110: Capital Definitions.

#### 1A. That:

- a) the Bank has an internal capital adequacy assessment process ("ICAAP") that accords with the requirements set out in Part D of BPR100: Capital Adequacy;
- b) under its ICAAP, the Bank identifies and measures its "other material risks" defined in Part D of BPR100: Capital Adequacy; and
- c) the Bank determines an internal capital allocation for each identified and measured "other material risk".

#### 1B. That, if the Prudential Capital Buffer ("PCB") ratio of the Banking Group is 2.5% or less, the Bank must:

- a) according to the following table, limit the aggregate distributions of the Bank's earnings, other than discretionary payments payable to holders of Additional Tier 1 capital instruments, to the percentage limit on distributions that corresponds to the Banking Group's buffer ratio; and

The Banking Group's PCB ratio	Percentage limit on distributions of the Bank's earnings	Capital Buffer Response Framework stage
0% – 0.5%	0%	Stage 3
>0.5% – 1%	30%	Stage 2
>1% – 2%	60%	Stage 1
>2% – 2.5%	100%	None

- b) comply with the Capital Buffer Response Framework requirements as set out in Part D of BPR120: Capital Adequacy Process Requirements.

For the purposes of this condition of registration:

- "Prudential Capital Buffer Ratio", "distributions", and "earnings" have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;
- an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

#### 1BA. That the Bank must not make any distribution on a transitional AT 1 capital instrument on or after the date on which on any conversion or write-off provision in the terms and conditions of the instrument is triggered due to either a loss absorption trigger event or a non-viability trigger event.

For the purposes of this condition of registration, "transitional AT 1 capital instrument" has the meaning given in section A2.3 of BPR110: Capital Definitions and "loss absorption trigger event" and "non-viability trigger event" have the meanings given in sub-section C2.2(3) of BPR120: Capital Adequacy Process Requirements.

# Conditions of registration continued

1C. That:

- a) the Bank must not include the amount of an Additional Tier 1 capital instrument or Tier 2 capital instrument issued on or after 1 July 2021 in the calculation of its capital ratios unless it has completed the notification requirements in Part B of BPR120: Capital Adequacy Process Requirements in respect of the instrument; and
- b) the Bank meets the requirements of Part C of BPR120: Capital Adequacy Process Requirements in respect of regulatory capital instruments.

For the purposes of this condition of registration:

- an Additional Tier 1 capital instrument is an instrument that meets the requirements of subsection B2.2(2)(a) or (c) of BPR110: Capital Definitions;
- a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:

- a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and
- b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

In determining the total amount of the Banking Group's insurance business:

- a) all amounts must relate to on-balance-sheet items only, and must comply with generally accepted accounting practice; and
- b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration:

- "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance;
- "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating of the Bank <sup>1</sup>	Connected exposure limit (% of the Banking Group's Tier 1 capital)
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

<sup>1</sup> This table uses the rating scales of Standard & Poor's, Moody's and Fitch.

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-Bank connected persons shall not exceed 15% of the Banking Group's Tier 1 capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the RBNZ's document entitled "Connected Exposure Policy" (BS8) dated October 2021.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

# Conditions of registration continued

6. That the Bank complies with the following corporate governance requirements:
- the board of the Bank must have at least five directors;
  - the majority of the board members must be non-executive directors;
  - at least half of the board members must be independent directors;
  - an alternate director:
    - for a non-executive director must be non-executive; and
    - for an independent director must be independent;
  - at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;
  - the chairperson of the board of the Bank must be independent; and
  - the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the RBNZ's document entitled "Corporate Governance" (BS14) dated July 2014.

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer is made in respect of the Bank, unless:
- the RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee; and
  - the RBNZ has advised that it has no objection to that appointment.
8. That a person must not be appointed as chairperson of the board of the Bank, unless:
- the RBNZ has been supplied with a copy of the curriculum vitae of the proposed appointee; and
  - the RBNZ has advised that it has no objection to that appointment.

9. That the Bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
- the mandate of the committee must include ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;
  - the committee must have at least three members;
  - every member of the committee must be a non-executive director of the Bank;
  - the majority of the members of the committee must be independent; and
  - the chairperson of the committee must be independent and must not be the chairperson of the Bank.

For the purposes of this condition of registration, "non-executive" and "independent" have the same meaning as in the RBNZ's document entitled "Corporate Governance" (BS14) dated July 2014.

10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried out by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:
- that the Bank's clearing and settlement obligations due on a day can be met on that day;
  - that the Bank's financial risk positions on a day can be identified on that day;
  - that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
  - that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

This condition ceases to apply in respect of an existing outsourcing arrangement on the earlier of either 1 October 2023 or when the existing outsourcing arrangement becomes compliant with condition 21, from which point in time condition 21 will apply to that outsourcing arrangement.

For the purposes of this condition of registration:

- the term "legal and practical ability to control and execute" is explained in the RBNZ's document entitled "Outsourcing Policy" (BS11) dated January 2006; and
- the term "existing outsourcing arrangement" is defined in the RBNZ's document entitled "BS11: Outsourcing Policy for Registered Banks" dated September 2022.

12. That:
- the business and affairs of the Bank are managed by, or under the direction or supervision of, the board of the Bank;
  - the employment contract of the chief executive officer of the Bank or person in an equivalent position (together "CEO") is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the board of the Bank; and
  - all staff employed by the Bank shall have their remuneration determined by (or under the delegated authority of) the board or the CEO of the Bank and be accountable (directly or indirectly) to the CEO of the Bank.

# Conditions of registration continued

13. That the Banking Group complies with the following quantitative requirements for liquidity risk management:

- a) the one-week mismatch ratio of the Banking Group is not less than 0% at the end of each business day;
- b) the one-month mismatch ratio of the Banking Group is not less than 0% at the end of each business day; and
- c) the one-year core funding ratio of the Banking Group is not less than 75% at the end of each business day.

For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the RBNZ's documents entitled "Liquidity Policy" (BS13) dated July 2022 and "Liquidity Policy Annex: Liquid Assets" (BS13A) dated July 2022.

14. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:

- a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;
- b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;
- c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and
- d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

15. That no more than 10% of total assets may be beneficially owned by an SPV.

For the purposes of this condition:

- "total assets" means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets;
- "SPV" means a person
  - a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;
  - b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and
  - c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond; and
- "covered bond" means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by an SPV, and investors retain an unsecured claim on the issuer.

16. That:

- a) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:
  - i) the Bank has notified the RBNZ in writing of the intended acquisition or business combination and at least 10 working days have passed; and
  - ii) at the time of notifying the RBNZ of the intended acquisition or business combination, the Bank provided the RBNZ with the information required under the RBNZ's Banking Supervision Handbook document entitled "Significant Acquisitions Policy" (BS15) dated December 2011; and
- b) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold, unless:
  - i) the Bank has notified the RBNZ in writing of the intended acquisition or business combination;
  - ii) at the time of notifying the RBNZ of the intended acquisition or business combination, the Bank provided the RBNZ with the information required under the RBNZ's Banking Supervision Handbook document entitled "Significant Acquisitions Policy" (BS15) dated December 2011; and
  - iii) the RBNZ has given the Bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, "qualifying acquisition or business combination", "notification threshold" and "non-objection threshold" have the same meaning as in the RBNZ's Banking Supervision Handbook document entitled "Significant Acquisitions Policy" (BS15) dated December 2011.

17. That the Bank is pre-positioned for Open Bank Resolution and in accordance with a direction from the RBNZ, the Bank can:

- a) close promptly at any time of the day and on any day of the week and that effective upon the appointment of the statutory manager:
  - i) all liabilities are frozen in full; and
  - ii) no further access by customers and counterparties to their accounts (deposits, liabilities or other obligations) is possible;
- b) apply a *de minimis* to relevant customer accounts;
- c) apply a partial freeze to the customer liability account balances;
- d) reopen by no later than 9am the next business day following the appointment of a statutory manager and provide customers access to their unfrozen funds;
- e) maintain a full freeze on liabilities not pre-positioned for Open Bank Resolution; and
- f) reinstate customers' access to some or all of their residual frozen funds.

For the purposes of this condition of registration, "de minimis", "partial freeze", "customer liability account" and "frozen and unfrozen funds" have the same meaning as in the RBNZ's document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

# Conditions of registration continued

18. That the Bank has an Implementation Plan that:

- a) is up to date; and
- b) demonstrates that the Bank's pre-positioning for Open Bank Resolution meets the requirements set out in the RBNZ's document entitled "Open Bank Resolution Pre-positioning Requirements Policy" (BS17) dated June 2022.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the RBNZ document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

19. That the Bank has a compendium of liabilities that:

- a) at the product-class level, lists all liabilities, indicating which are:
  - i) pre-positioned for Open Bank Resolution; and
  - ii) not pre-positioned for Open Bank Resolution;
- b) is agreed by the RBNZ; and
- c) if the RBNZ's agreement is conditional, meets the RBNZ's conditions.

For the purposes of this condition of registration, "compendium of liabilities" and "pre-positioned and non-pre-positioned liabilities" have the same meaning as in the RBNZ's document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

20. That, on an annual basis, the Bank tests all the component parts of its Open Bank Resolution solution that demonstrates the Bank's repositioning for Open Bank Resolution as specified in the Bank's Implementation Plan.

For the purposes of this condition of registration, "Implementation Plan" has the same meaning as in the RBNZ's document entitled "Open Bank Resolution (OBR) Pre-positioning Requirements Policy" (BS17) dated June 2022.

21. That the Bank must comply with the RBNZ's document entitled "Outsourcing Policy" (BS11) dated September 2022.

22. That, for a loan-to-valuation measurement period ending on or after 31 August 2023, the total of the Bank's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with loan-to-valuation ratio of more than 65% must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

23. That, for a loan-to-valuation period ending on or before 31 August 2023, the total of the Bank's qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans with loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans arising in the loan-to-valuation measurement period.

24. That the Bank must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration:

- "Banking Group" means Kiwibank Limited (as a reporting entity) and all other entities included in the Group as defined in section 6(1) of the Financial Markets Conduct Act 2013 for the purposes of Part 7 of that Act; and
- "generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

In these conditions of registration, the version dates of the RBNZ Banking Prudential Requirement ("BPR") documents that are referred to in the capital adequacy conditions 1 to 1D, or are referred to in turn by those documents or by Banking Supervision Handbook ("BS") documents, are:

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2021
BPR120: Capital adequacy process requirements	1 July 2021
BPR130: Credit risk RWAs overview	1 July 2021
BPR131: Standardised credit risk RWAs	1 October 2021
BPR132: Credit risk mitigation	1 October 2021
BPR133: IRB credit risk RWAs	1 October 2021
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 July 2021

# Conditions of registration continued

In conditions of registration 22 to 24:

- “loan-to-valuation ratio”, “non-property-investment residential mortgage loan”, “property-investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, “qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans”; and “residential mortgage loan” have the same meaning as in the RBNZ document entitled “Framework for Restrictions on High-LVR Residential Mortgage Lending” (BS19) dated October 2021; and
- “loan-to-valuation measurement period” means a period of three calendar months ending on the last day of the third calendar month.

## Non-compliance with conditions of registration

As disclosed in the Banking Group's Disclosure Statement for 30 June 2022, the RBNZ determined that a number of immaterial individual breaches in calculating liquidity ratios did in aggregate constitute a material breach of Condition of Registration 13.

The Banking Group has completed its programme of remediation and the RBNZ has closed the material breach as at 30 June 2023.

## Changes to conditions of registration

The RBNZ issued a revision to the conditions of registration effective for Kiwibank Limited on and after 1 July 2022, 5 September 2022, and 1 June 2023.

In the conditions effective on or after 1 July 2022:

- the dividend restriction implemented in response to COVID-19 was removed; and
- references to BS13: Liquidity Policy and BS13A: Liquidity Policy Annex: Liquid Assets were amended to refer to the updated policies dated July 2022.

In the conditions effective on or after 5 September 2022 references to the BS11: Outsourcing Policy for Registered Banks were amended to refer to the updated policy dated September 2022.

In the conditions effective on or after 1 June 2023 were made to loan-to-valuation ratios (“LVR”) as follows:

- from 10% limit for loans with LVR above 80% for owner occupiers, to 15% limit for loans with LVR above 80% for owner occupiers; and
- from 5% limit for loans with LVR above 60% for investors, to 5% limit for loans with LVR above 65% for investors.



## Independent auditor's report

To the shareholder of Kiwibank Limited

**This report is for the Banking Group, comprising Kiwibank Limited (the "Bank") and its controlled entities as at 30 June 2023 or from time to time during the financial year.**

The Auditor-General is the auditor of the Bank and the Banking Group. The Auditor-General has appointed me, Jonathan Freeman, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and supplementary information included in the Disclosure Statement of the Banking Group, on his behalf.

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### Our opinion

In our opinion, the accompanying:

- consolidated financial statements (excluding the information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order")), of the Banking Group, present fairly, in all material respects, the financial position of the Banking Group as at 30 June 2023, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS"); and
- information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order (the "Supplementary Information"), in all material respects:
  - presents fairly the matters to which it relates; and
  - is disclosed in accordance with those schedules.

### What we have audited

- The Banking Group's consolidated financial statements (the "Financial Statements") required by clause 24 of the Order, comprising:
  - the balance sheet as at 30 June 2023;
  - the income statement for the year then ended;
  - the statement of comprehensive income for the year then ended;
  - the statement of changes in equity for the year then ended;
  - the cash flow statement for the year then ended; and
  - the notes to the Financial Statements (excluding the information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 within notes 8, 10, 11, 12, 28, 30), which includes significant accounting policies and other explanatory information.
- The Supplementary Information included within the balance sheet and notes 8, 10, 11, 12, 28 and 30 of the Financial Statements for the year ended 30 June 2023 of the Banking Group.

We have not audited the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order within the *Capital adequacy and regulatory liquidity ratios* section on pages 90 to 95 of the Disclosure Statement and our opinion does not extend to this information. We issue a separate limited assurance report on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order.



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### **Basis for opinion**

We conducted our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) (ISAs (NZ)) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Statements and the Supplementary Information* section of our report.

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

### **Independence**

We are independent of the Banking Group in accordance with the Auditor-General's Auditing Standards, which incorporate Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)* issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition to the audit of the Financial Statements and the Supplementary Information, our firm carries out other services for the Banking Group in the areas of:

- limited assurance over capital adequacy and regulatory liquidity requirements for half year and year end;
- half year review of the interim financial statements and supplementary information of the Banking Group;
- reasonable assurance over registry compliance and limited assurance over compliance with certain matters in the trust deed in respect of a controlled entity within the Banking Group; and
- agreed-upon procedures over debt programmes.

In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and these relationships have not impaired our independence as auditor of the Banking Group.

We have no other relationships with, or interests in, the Banking Group.

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### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements and the Supplementary Information of the current year. These matters were addressed in the context of our audit of the Financial Statements and the Supplementary Information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Description of the key audit matters	How our audit addressed the key audit matters
<p><b>Credit impairment provision on loans and advances and credit commitments</b></p> <p>As disclosed in Note 9 of the Financial Statements, the Banking Group has recognised a credit impairment provision as at 30 June 2023 of \$108 million (30 June 2022: \$75 million) which includes both collectively assessed and individually assessed provisions.</p> <p>The Banking Group recognises credit impairment provisions for expected credit losses (ECL) which are probability weighted and determined by evaluating a range of possible outcomes, taking into account the time value of money, past events, current conditions and forecast of future economic conditions.</p> <p>The ECL models to determine the collectively assessed credit impairment provision involve significant judgement to determine macroeconomic scenarios (MES), scenario weighting, forward looking adjustments, the assessment of significant increases in credit risk (SICR), and in identifying and calculating adjustments to model outputs (overlays). There is also a significant volume of data used in the models, which is sourced from multiple information technology (IT) systems.</p> <p>For loans and advances and credit commitments that meet specific risk-based criteria, the credit impairment provision is individually assessed by the Banking Group.</p> <p>We considered the credit impairment provision as a key audit matter due to the subjective judgements and assumptions made by the Banking Group in determining the timing of recognition, the level of provision for ECL, and the nature and extent of audit effort needed.</p>	<p>We obtained an understanding of the controls implemented by management over the credit impairment provision.</p> <p>Our audit procedures also included testing the design and operating effectiveness of selected controls relating to the Banking Group’s ECL estimation process, which included controls over the data, models, assumptions and governance used in determining the provision for ECL on loans and credit commitments, as well as IT general controls related to in-scope IT systems.</p> <p>In addition to controls testing, we, along with our actuarial experts, performed the following audit procedures, amongst others:</p> <ul style="list-style-type: none"> <li>evaluated the appropriateness of the models and the reasonableness of significant assumptions applied within the models, and assessed these against the requirements of NZ IFRS 9;</li> <li>assessed the Banking Group’s judgements, including the reasonableness of forward-looking information incorporated into the ECL models, by comparing the forecasts, assumptions and probability weightings applied in determining the MES against current market conditions and other available evidence;</li> <li>challenged and assessed the appropriateness of post-model overlays identified by the Banking Group against internal and external supporting information and performed sensitivity analysis;</li> <li>on a sample basis, assessed the accuracy of post-model overlay adjustments by considering various factors including data quality and other relevant risks;</li> <li>tested the accuracy of a sample of CDEs used in the ECL models by agreeing them to relevant source documentation or through recalculation where relevant;</li> </ul>

Description of the key audit matters	How our audit addressed the key audit matters
<p>The key judgements and assumptions in determining the credit impairment provision include:</p> <ul style="list-style-type: none"> <li>• modelling inputs for probability of default (PD), exposure at default (EAD), and loss given default (LGD);</li> <li>• the criteria under which exposures move between NZ IFRS 9 stages, particularly when moving between fully performing (stage 1) and demonstrating a significant increase in credit risk (stage 2);</li> <li>• the macroeconomic inputs used within each of the economic scenarios (central, upside, downside, severe stress);</li> <li>• the weightings given to each economic scenario; and</li> <li>• post-model overlays required to provide for potential loss events that could occur, as well as those which have occurred but for which the impacts have not yet been incorporated into the ECL models.</li> </ul> <p>The nature and extent of audit effort involved the use of professionals with specialised skills and knowledge, testing of the critical data elements (CDEs) used in the models, and testing of the IT general controls for the relevant IT systems used in determining the credit impairment provision on loans and advances and credit commitments.</p> <p>Refer to Note 9 in the Financial Statements which explains the critical accounting estimates and judgements in determining the credit impairment provision on loans and advances and credit commitments.</p>	<ul style="list-style-type: none"> <li>• for a sample of corporate loans and advances and credit commitments identified as not impaired, obtained and examined the borrower’s latest financial information provided to the Banking Group, to assess the reasonableness of the credit risk grade rating that had been assigned to the borrower, a CDE which involves significant management judgement;</li> <li>• performed a risk assessment over the movement of individually assessed credit impaired loans and advances and credit commitments and considered the reasonableness of these movements;</li> <li>• recalculated the ECL model results for a sample of loans and advances and credit commitments;</li> <li>• performed a peer bank comparison and considered whether, with the inclusion of overlays, the overall collectively assessed credit impairment provision sits within a range of acceptable outcomes;</li> <li>• inspected the review and approval by the Executive Risk Committee and the Audit and Risk Committee of MES, scenario weighting, and post-model overlays, and assessed the reasonableness of the decisions made;</li> <li>• considered the results of management’s model monitoring; and</li> <li>• considered the impacts of events occurring subsequent to balance date on the credit impairment provision on loans and advances and credit commitments.</li> </ul> <p>We also assessed the appropriateness of the Banking Group’s disclosures in the Financial Statements against the requirements of NZ IFRS and IFRS.</p> <p>We considered the results of the procedures above satisfactory in forming our opinion on the Financial Statements as a whole.</p>



Description of the key audit matters	How our audit addressed the key audit matters
<p><b>Operation of Information Technology (IT) systems and controls</b></p> <p>The Banking Group’s operations and financial reporting processes are heavily reliant on IT systems, including automated processes and controls for the capture, storage and extraction of significant volumes of transactions.</p> <p>In considering the complexity of the Banking Group’s processes and the design of the internal control environment, there are certain areas of the audit where we seek to place reliance on automated controls and calculations, and certain system enforced access controls. The effective operation of these areas is dependent on the Banking Group’s IT General Control (ITGC) environment. This includes:</p> <ul style="list-style-type: none"><li>• user access controls which are important because they help ensure that staff have appropriate access to IT systems and that access is monitored; and</li><li>• change management internal controls which are important because they help ensure that changes to applications and data are appropriately processed and authorised.</li></ul> <p>IT systems and controls affect the financial recording and reporting of transactions, and our audit approach could differ significantly depending on the effective design and operation of the Banking Group’s IT general controls.</p> <p>For this reason we have determined this to be a key audit matter.</p>	<p>For material financial statement transactions and balances, our procedures included gaining an understanding of the business processes, key controls and IT systems used to generate and support those transactions and balances, and the associated IT application controls and IT dependent manual controls.</p> <p>Where relevant to our planned audit approach we, along with our IT specialists, assessed the design and tested the operating effectiveness of the key controls that support the continued integrity of the in-scope IT systems that are relevant to financial reporting. This included assessing:</p> <ul style="list-style-type: none"><li>• user access: how users are on-boarded, reviewed and removed on a timely basis from critical IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed across each in-scope IT application and supporting infrastructure; and</li><li>• change management: how changes are initiated, documented, approved, tested, and authorised prior to migration into the production environment of critical IT applications. We also assessed the appropriateness of users with access to make changes to in-scope IT applications across the Banking Group.</li></ul> <p>We also carried out tests, on a sample basis, of IT application controls and IT dependent manual controls that were key to our audit testing strategy, in order to assess the accuracy of relevant calculations performed by IT applications, automated controls, and the operation of certain system enforced access controls.</p> <p>A number of IT control deficiencies exist that impacted our audit approach. Where we identified deficiencies in the design or operating effectiveness of matters relating to in-scope IT systems and controls, we performed additional or alternative audit procedures and communicated the deficiencies to management and those charged with governance.</p>

## Our audit approach

### Overview



The overall Banking Group materiality is \$12 million, which represents approximately 5% of the profit before taxation for the year ended 30 June 2023.

We chose profit before taxation because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark.

A full scope audit was performed for the financially significant entity within the Banking Group, being the parent entity, Kiwibank Limited. Specified audit procedures and analytical review procedures were performed on the remaining entities.

As reported above, we have two key audit matters, being:

- Credit impairment provision on loans and advances and credit commitments; and
- Operation of Information Technology (IT) systems and controls

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements and the Supplementary Information. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the Financial Statements and the Supplementary Information, as a whole, as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the Financial Statements and the Supplementary Information, as a whole.

### How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Financial Statements and the Supplementary Information, as a whole, taking into account the structure of the Banking Group, the financial reporting processes and controls, and the industry in which the Banking Group operates.

The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).



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### **Other information**

The Directors of the Bank (the “Directors”) are responsible for the other information. The other information comprises the information included in the Disclosure Statement presented in accordance with Schedule 2 of the Order on pages 1 to 7 and 96 to 101, and the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order within the *Capital adequacy and regulatory liquidity ratios* section on pages 90 to 95, but does not include the Financial Statements, the Supplementary Information and our auditor’s report thereon.

Our opinion on the Financial Statements and the Supplementary Information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon. We issue a separate limited assurance report on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order.

In connection with our audit of the Financial Statements and the Supplementary Information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements and the Supplementary Information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### **Responsibilities of the Directors for the Disclosure Statement**

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 24 of the Order, NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements and the Supplementary Information that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Disclosure Statement which includes:

- all of the information prescribed in Schedule 2 of the Order; and
- the information prescribed in Schedules 4, 7, 9, 13, 14, 15 and 17 of the Order.

In preparing the Financial Statements, the Directors are responsible for assessing the Banking Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Banking Group or to cease operations, or have no realistic alternative but to do so.

The Directors’ responsibilities also arise from the Companies Act 1993 and the Financial Markets Conduct Act 2013.

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### **Auditor’s responsibilities for the audit of the Financial Statements and the Supplementary Information**

Our objectives are to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General’s Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.



As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the Financial Statements and the Supplementary Information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Banking Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banking Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements and the Supplementary Information, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Banking Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements and the Supplementary Information, including the disclosures, and whether the Financial Statements and the Supplementary Information represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Banking Group to express an opinion on the Financial Statements and the Supplementary Information. We are responsible for the direction, supervision and performance of the Banking Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the Financial Statements and the Supplementary Information of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

A handwritten signature in black ink, appearing to read 'Jonathan Freeman', written in a cursive style.

Jonathan Freeman  
On behalf of the Auditor-General

Wellington, New Zealand  
23 August 2023

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers



## Independent assurance report

To the shareholder of Kiwibank Limited

**This report is for the Banking Group, comprising Kiwibank Limited (the “Bank”) and its controlled entities as at 30 June 2023 or from time to time during the financial year.**

The Auditor-General is the auditor of the Bank and the Banking Group. The Auditor-General has appointed me, Jonathan Freeman, using the staff and resources of PricewaterhouseCoopers, to carry out a limited assurance engagement in respect of the information relating to capital adequacy and regulatory liquidity requirements included in the Disclosure Statement of the Banking Group, on his behalf.

## Limited assurance report on compliance with the information required on capital adequacy and regulatory liquidity requirements

### Our conclusion

We have undertaken a limited assurance engagement on Kiwibank Limited (the “Bank”)’s compliance, in all material respects, with clause 21 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”) which requires information prescribed in Schedule 9 of the Order relating to capital adequacy and regulatory liquidity requirements to be disclosed in its full year Disclosure Statement for the year ended 30 June 2023 (the “Disclosure Statement”).

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Bank’s information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order and disclosed in the *Capital adequacy and regulatory liquidity ratios* section on pages 90 to 95 of the Disclosure Statement, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

### Basis for conclusion

We have conducted our engagement in accordance with Standard on Assurance Engagements 3100 (Revised) *Compliance Engagements* (“SAE 3100 (Revised)”) issued by the New Zealand Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### Directors’ responsibilities

The Directors are responsible on behalf of the Bank for compliance with the Order, including clause 21 of the Order which requires information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 9 of the Order to be included in the Disclosure Statement, for the identification of risks that may threaten compliance with that clause, controls that would mitigate those risks and monitoring ongoing compliance.

### Our independence and quality management

We have complied with the Auditor-General’s:

- independence and other ethical requirements, which incorporate the requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board. PES 1 is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour; and



- quality management requirements, which incorporate the requirements of Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (PES 3). PES 3 requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Banking Group. In addition to the audit of the annual financial statements and supplementary information and this limited assurance engagement, our firm carries out other services for the Banking Group in the areas of:

- limited assurance over capital adequacy and regulatory liquidity requirements for half year;
- half year review of the interim financial statements and supplementary information of the Banking Group;
- reasonable assurance over registry compliance and limited assurance over compliance with certain matters in the trust deed in respect of a controlled entity within the Banking Group; and
- agreed-upon procedures over debt programmes.

In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and these relationships have not impaired our independence.

We have no other relationships with, or interests in, the Banking Group.

#### **Assurance practitioner's responsibilities**

Our responsibility is to express a limited assurance conclusion on whether the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with clause 21 of the Order in respect of the information relating to capital adequacy and regulatory liquidity requirements is likely to arise.

Given the circumstances of the engagement we:

- obtained an understanding of the process, models, data and internal controls implemented over the preparation of the information relating to capital adequacy and regulatory liquidity requirements;
- obtained an understanding of the Bank's compliance framework and internal control environment to ensure the information relating to capital adequacy and regulatory liquidity requirements is in compliance with the Reserve Bank of New Zealand (the "RBNZ")'s prudential requirements for banks;
- obtained an understanding and assessed the impact of any matters of non-compliance with the RBNZ's prudential requirements for banks that relate to capital adequacy and regulatory liquidity requirements and inspected relevant correspondence with the RBNZ;



- performed analytical and other procedures on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order, and considered its consistency with the annual financial statements; and
- agreed the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order to information extracted from the Bank's models, accounting records or other supporting documentation.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion on compliance with the compliance requirements.

**Inherent limitations**

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance with the compliance requirements may occur and not be detected.

A limited assurance engagement on the Bank's information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 9 of the Order to be included in the Disclosure Statement in compliance with clause 21 of the Order does not provide assurance on whether compliance will continue in the future.

**Use of report**

This report has been prepared for use by the Bank's shareholder for the purpose of establishing that these compliance requirements have been met.

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Bank and the Bank's shareholder, or for any purpose other than that for which it was prepared.

A handwritten signature in black ink, appearing to read 'Jonathan Freeman'.

Jonathan Freeman  
On behalf of the Auditor-General

Wellington, New Zealand  
23 August 2023

A handwritten signature in black ink, appearing to be a stylized signature of a PwC representative.

PricewaterhouseCoopers