

Kiwi Capital Funding Limited

Interim Financial Statements

For the six months ended 31 December 2019

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Directory

Details of incorporation

Kiwi Capital Funding Limited (the “Company”) was incorporated in New Zealand under the Companies Act 1993 on 17 March 2014.

Directors

David Smith (Chair)

John Van Woerkom

Registered Office

Level 9

20 Customhouse Quay

Wellington 6011

New Zealand

Trustee

The New Zealand Guardian Trust Company Limited

Level 14, 191 Queen Street

Auckland 1010

New Zealand

Promoter

Kiwibank Limited

Level 9

20 Customhouse Quay

Wellington 6011

New Zealand

Registrar

Link Market Services Limited

Level 7, Zurich House

21 Queen Street

Auckland 1010

New Zealand

Credit rating

The Capital Notes had a credit rating of BB+ from Standard & Poor’s (Australia) Pty Limited (“S&P”). This was lower than Kiwibank Limited’s (“Kiwibank”) issuer credit rating for long term senior unsecured obligations of A (Outlook positive) because the returns on the Capital Notes were derived from the performance of the convertible subordinated bonds issued by Kiwibank (the “Kiwibank Bonds”) held by the Company. The Kiwibank Bonds were subordinated obligations of Kiwibank and could be converted into ordinary shares or written off if a Non-Viability Trigger Event¹ occurred.

The Perpetual Capital Notes have a credit rating of BB- from S&P. This is lower than Kiwibank’s issuer credit rating for long term senior unsecured obligations of A (Outlook positive) because the returns on the Perpetual Capital Notes are derived from the performance of the Kiwibank Perpetual Bonds held by the Company. The Kiwibank Perpetual Bonds are subordinated obligations of Kiwibank having discretionary interest payments and may be converted into ordinary shares or written off if a Non-Viability Trigger Event¹ occurs.

¹ Non-Viability Trigger Event is as defined in Note 6 of the Kiwi Capital Funding Limited June 2019 financial statements

Interim financial statements

Income statement

For the six months ended 31 December 2019

Dollars in thousands	Note	Unaudited	Unaudited	Audited
		Six months ended 31 December 2019	Six months ended 31 December 2018	Year ended 30 June 2019
Distributions received - related party	5	5,438	5,438	10,875
Interest income - related party	5	255	3,309	6,610
Total income		5,693	8,747	17,485
Interest expense		(5,693)	(8,747)	(17,485)
Operating profit before gains and losses		-	-	-
Net gains on financial instruments designated at fair value		-	-	-
Profit before tax		-	-	-
Income tax		-	-	-
Profit after tax		-	-	-

Statement of comprehensive income

For the six months ended 31 December 2019

Dollars in thousands	Unaudited	Unaudited	Audited
	Six months ended 31 December 2019	Six months ended 31 December 2018	Year ended 30 June 2019
Profit after tax attributable to shareholder	-	-	-
Other comprehensive income that may subsequently be reclassified to profit or loss	-	-	-
Total comprehensive income for the period attributable to shareholder	-	-	-

Interim financial statements continued

Statement of changes in equity

For the six months ended 31 December 2019

Dollars in thousands	Ordinary Share Capital	Accumulated Losses	Total Equity
Balance at 1 July 2018	-	-	-
Unaudited six months ended 31 December 2018			
Profit for the period	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Transactions with shareholders			
Issue of share capital	-	-	-
Balance at 31 December 2018 (unaudited)	-	-	-
Audited year ended 30 June 2019			
Profit for the year	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Transactions with shareholders			
Issue of share capital	-	-	-
Balance at 30 June 2019 (audited)	-	-	-
Unaudited six months ended 31 December 2019			
Profit for the period	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Transactions with shareholders			
Issue of share capital	-	-	-
Balance at 31 December 2019 (unaudited)	-	-	-

Interim financial statements continued

Balance sheet

As at 31 December 2019

		Unaudited	Unaudited	Audited
		As at	As at	As at
Dollars in thousands	Note	31 December 2019	31 December 2018	30 June 2019
Assets				
Convertible subordinated bonds	3	-	104,566	103,220
Perpetual capital bonds	3	152,700	156,450	156,750
Total assets		152,700	261,016	259,970
Liabilities				
Capital notes	4	-	104,566	103,220
Perpetual capital notes	4	152,700	156,450	156,750
Total liabilities		152,700	261,016	259,970
Equity				
Share capital		-	-	-
Accumulated losses		-	-	-
Total equity		-	-	-
Total equity and liabilities		152,700	261,016	259,970

The Directors of Kiwi Capital Funding Limited authorised these interim financial statements for issue on 17 February 2020.



David Smith
Chair



John Van Woerkom
Director

Interim financial statements continued

Cash flow statement

For the six months ended 31 December 2019

	Unaudited Six months ended 31 December 2019	Unaudited Six months ended 31 December 2018	Audited Year ended 30 June 2019
Dollars in thousands			
Cash flows from operating activities			
Distribution received	5,438	5,438	10,875
Interest received ¹	3,305	3,305	6,610
Interest paid ¹	(8,743)	(8,743)	(17,485)
Net cash flows from operating activities	-	-	-
Cash flows from investing activities			
Proceeds from redemption of convertible subordinated bonds	100,000	-	-
Net cash flows from investing activities	100,000	-	-
Cash flows from financing activities			
Redemption of capital notes	(100,000)	-	-
Net cash flows from financing activities	(100,000)	-	-
Increase in cash and cash equivalents	-	-	-
Cash and cash equivalents at beginning of the period/year	-	-	-
Cash and cash equivalents at end of the period/year	-	-	-

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

¹ For the December 2018 *cash flows from operating activities*, interest received, and interest paid have been corrected from \$3,309k to \$3,305k and (\$8,743k) to (\$8,747k) respectively.

Notes to the interim financial statements

1. Reporting entity

These interim financial statements are for Kiwi Capital Funding Limited (the “Company”), for the six months ended 31 December 2019 and were approved for issue by the Board of Directors on 17 February 2020.

The Company is incorporated in New Zealand, is wholly owned by Kiwi Group Holdings Limited (“KGHL”). KGHL is owned by New Zealand Post Limited (“NZP”) (53%), NZSF Tui Investments Limited (“NZSF”) (25%) and Accident Compensation Corporation (“ACC”) (22%). The ultimate shareholder of the Company is the New Zealand Crown.

The principal activity of the Company is to issue debt securities to the New Zealand public and utilising the proceeds to subscribe for regulatory capital instruments issued by Kiwibank.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Company is an issuer for the purposes of the Financial Reporting Act 2013.

The interim financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (“NZ GAAP”). They comply with NZ IAS 34 - *Interim Financial Reporting* and IAS 34 - *Interim Financial Reporting*.

These interim financial statements should be read in conjunction with the Company’s audited financial statements for the year ended 30 June 2019, which comply with New Zealand equivalents to International Financial Reporting Standards (“NZ IFRS”), International Financial Reporting Standards (“IFRS”) and other applicable Financial Reporting Standards, as appropriate for a for-profit entity.

Measurement base

These interim financial statements are based on the general principles of historic cost accounting, modified by the application of fair value measurements for financial instruments held at fair value through profit or loss.

2.2 Accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Company’s annual financial statements for the year ended 30 June 2019, except for the adoption of new standards and interpretations effective as of 1 July 2019.

The Company has applied, for the first time, the following new standards and amendments:

- NZ IFRS 16: *Leases*

NZ IFRS 16 introduces a single, on-balance sheet accounting model for lessees and requires a lessee to recognise its right to use underlying leased assets as a right-of-use asset, and an obligation to make lease payments as a lease liability for all operating leases greater than 12 months duration. The asset and liability will initially be measured at the present value of non-cancellable lease payments and payments to be made in optional periods where it is reasonably certain that the option will be exercised.

As the Company is not currently party to any leases, NZ IFRS 16 has had no impact on the Company’s financial statements.

2.3 Functional and presentation currency

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

2.4 Comparative balances

Comparative balances presented are from the audited financial statements for the year ended 30 June 2019 and the unaudited interim financial statements for the six months ended 31 December 2018. Certain comparative amounts have been reclassified to align with the current period’s presentation. In the Cash flow statement, December 2018 comparative disclosures have been corrected as disclosed. In the Related Parties Note 5, December 2018 comparative disclosures have been amended to include director fees.

Notes to the interim financial statements continued

3. Financial assets

	Unaudited As at	Unaudited As at	Audited As at
Dollars in thousands	31 December 2019	31 December 2018	30 June 2019
Convertible subordinated bonds	-	104,566	103,220
Perpetual capital bonds	152,700	156,450	156,750
Total	152,700	261,016	259,970

Convertible subordinated bonds

The convertible subordinated bonds (“Kiwibank Bonds”) were debt securities issued by Kiwibank. The Kiwibank Bonds had a maturity date of 15 July 2024 with a first call date of 15 July 2019. The Kiwibank Bonds were redeemed on the first call date of 15 July 2019. Interest was receivable semi-annually in arrears at an initial rate of 6.61% p.a. The interest rate on the Kiwibank Bonds was the same as the interest rate on the Capital Notes.

Perpetual capital bonds

The Perpetual Capital bonds (“Kiwibank Perpetual Bonds”) are debt securities issued by Kiwibank. The Kiwibank Perpetual Bonds have no maturity date with a first call date of 27 May 2020 and interest is receivable, at the absolute discretion of Kiwibank, quarterly in arrears at an initial rate of 7.25% p.a., subject to the condition that Kiwibank and its Banking Group would be solvent after the payment is made. The interest rate on the Kiwibank Perpetual Bonds is the same as the interest rate on the Perpetual Capital Notes.

There have been no changes to the terms and conditions of the Company’s financial assets from that disclosed in Note 6 of the Company’s audited financial statements for the year ended 30 June 2019.

4. Financial liabilities

	Unaudited As at	Unaudited As at	Audited As at
Dollars in thousands	31 December 2019	31 December 2018	30 June 2019
Capital notes	-	104,566	103,220
Perpetual capital notes	152,700	156,450	156,750
Total	152,700	261,016	259,970

Capital Notes

Capital Notes were unsecured, subordinated, cumulative, loss absorbing debt securities issued by the Company.

The Company had used the proceeds from the issue of the Capital Notes to invest in Kiwibank Bonds. The Company’s ability to make payments on Capital Notes was entirely dependent on the Company receiving payments from Kiwibank on its investment in the Kiwibank Bonds. The Capital Notes and Kiwibank Bonds were not guaranteed by any person, and none of Kiwibank, KGHL, NZP nor any other person guarantees the obligations of the Company.

Perpetual Capital Notes

Perpetual Capital Notes are perpetual, non-cumulative, unsecured, subordinated, loss absorbing debt securities issued by the Company. Perpetual Capital Notes have no fixed maturity date and will remain on issue indefinitely unless repaid. The Company has used the proceeds from the issue of the Perpetual Capital Notes to invest in Kiwibank Perpetual Bonds. The Perpetual Capital Notes and Kiwibank Perpetual Bonds are not guaranteed by any person, and none of Kiwibank, KGHL, NZP nor any other person guarantees the obligations of the Company.

There have been no changes to the terms and conditions of the Company’s financial liabilities from that disclosed in Note 7 of the Company’s audited financial statements for the year ended 30 June 2019.

Notes to the interim financial statements continued

5. Related parties

The Company and Kiwibank have entered into an Administration Agreement under which Kiwibank has agreed to pay, on behalf of the Company, all costs incurred by the Company in relation to its entry into and performance of its obligations with the exception of amounts payable by the Company to holders of the Capital Notes and the Perpetual Capital Notes.

KCFL is a member of a consolidated tax group including Kiwibank Limited. During the period ended 31 December 2019, accrued tax losses, with a tax effect of \$0.4m, were transferred to and recognised by Kiwibank Limited (period ended 31 December 2018: \$1.4m; period ended 30 June 2019: \$3.6m).

The following tables summarise balances with related parties at the reporting date, transactions with related parties during the period and amounts paid by related parties on behalf of the Company.

Related party balances	Unaudited As at	Unaudited As at	Audited As at
Dollars in thousands	31 December 2019	31 December 2018	30 June 2019
Related party receivable - Kiwibank			
Convertible subordinated bonds	-	104,566	103,220
Perpetual capital bonds	152,700	156,450	156,750
Total related party receivable	152,700	261,016	259,970

Related Party transactions	Unaudited Six months ended	Unaudited Six months ended	Audited Year ended
Dollars in thousands	31 December 2019	31 December 2018	30 June 2019
Revenue from related parties - Kiwibank			
Distribution income	5,438	5,438	10,875
Interest income	255	3,309	6,610
Total revenue from Kiwibank	5,693	8,747	17,485

Amounts paid by Kiwibank on behalf of the Company

Audit fees - financial statements	-	-	25
Audit fees - other services	-	-	5
Director fees	13	13	25
Trustee fees	9	12	18
Registry fees	23	30	58
Other expenses	30	30	34
Total	75	85	165

Tax effect of tax losses surrendered to Kiwibank	412	1,421	3,576
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Notes to the interim financial statements continued

6. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of the Company. The Company operates in only one operating segment, being the issuance of debt securities to the New Zealand public.

7. Capital commitments and contingent liabilities

The Company had no capital commitments or contingent liabilities at the reporting date.

8. Events subsequent to the reporting date

No material events occurred subsequent to the reporting date that require recognition or additional disclosure in these financial statements.