

Annual Report

For the year ended 30 June 2023

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General matters

This annual report has been issued by Kiwi Group Capital Limited ("**KGCL**", or the "**Parent**"), which consists of Kiwi Group Capital Limited and its subsidiaries (the "**Group**"), for the year ended 30 June 2023.

During the year ended 30 June 2023, KGCL acquired 100% of the shares of Kiwi Group Holdings Limited ("**KGHL**"). Subsequent to the acquisition, KGHL was amalgamated into KGCL. The transaction was accounted for as a capital reorganisation. Refer to Note 2.2 for further details.

KGCL's subsidiary Kiwibank Limited ("**Kiwibank**") is the Parent entity of the "**Banking Group**" which consists of Kiwibank, all of its wholly owned entities and all other entities consolidated for financial reporting purposes. Certain other subsidiaries of KGCL have been sold during the year ended 30 June 2023, as detailed in Note 24 'Assets and liabilities held for sale'.

Details of incorporation

Kiwi Group Capital Limited is domiciled in New Zealand and was incorporated in New Zealand under the Companies Act 1993 on 23 November 2022.

Registered office and address for service

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

Ultimate holding company

The ultimate holding company of Kiwi Group Capital Limited is the New Zealand Crown, whose address for service is: 1 The Terrace, Wellington Central, Wellington 6011, New Zealand.

Directorate

Non-Executive Director, Chair

David McLean (appointed on 23 November 2022)

Non-Executive Directors

Sir Brian Roche (appointed on 23 November 2022)

Rukumoana Schaafhausen (appointed on 13 April 2023)

Michael (Mike) Pohio (appointed on 13 April 2023)

Communications with directors

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

Auditor

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

Guarantees

As at the date the Board of Directors of KGCL (the "**Board**") approved these consolidated financial statements, 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 New Zealand Crown (the "**Crown Guarantee**").

Covered Bond Guarantee

Certain debt securities ("**Covered Bonds**") issued by Kiwibank 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 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).

Crown Guarantee

The Crown Guarantee is an unsecured guarantee of all the payment obligations (excluding any payment obligations, having expressly provided 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 Crown Guarantee was previously the New Zealand Post ("**NZP**") Guarantee which was assigned to the Crown on 30 November 2022. The terms and conditions under the NZP Guarantee remain the same under this Crown Guarantee.

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.

Statement of Responsibility

The Board and management of Kiwi Group Capital Limited are responsible for:

- the preparation of these financial statements, statement of performance, and the judgements used in them;
- establishing and maintaining a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial reporting; and
- end-of-year performance information provided by KGCL under section 19A of the Public Finance Act 1989.

In the opinion of the Board and management these consolidated financial statements and Statement of Performance fairly reflect the financial position of Kiwi Group Capital Limited and its subsidiaries as at 30 June 2023 and its financial performance and cash flows for the year ended on that date.

For and on behalf of the Board,



David McLean
Director



Sir Brian Roche
Director

Statement of Performance

For the year ended 30 June 2023

As a newly created Schedule 4A Public Finance Act (1989) Company incorporated in November 2022, KGCL had significant establishment matters to focus on in its first months of operation, including the amalgamation of Kiwi Group Holdings Limited ("KGHL") which was successfully completed in March 2023. Key priorities during the establishment phase have been positioning the company to support its subsidiaries (Kiwibank and The New Zealand Home Loan Company Limited) to generate commercial value and create benefits for their customers and complying with significant Schedule 4A company statutory reporting obligations. The Board of KGCL was also focused on establishing itself to operate effectively as the holding company for the Crown's ownership interest in the subsidiary companies.

For the year ended 30 June 2023 KGCL had two classes of reportable outputs funded by an appropriation from the Crown.

1. The Crown provided KGCL with an appropriation of over \$2b, limited to the subscription for the new shares in KGCL that was in turn used to pay the purchase price to acquire KGHL from the previous shareholders. The sale of KGHL to the Crown was successfully completed on 30 November 2022 achieving this output. There was a further issue to the Crown of adjustment shares in KGCL related to this transaction in the amount of \$57m on 10 March 2023 as a final settlement of the Crown's purchase of KGHL. Refer to Note 2.2 'Capital reorganisation' for further information about these transactions.
2. The sum of \$300,000 was provided to KGCL for the purpose of facilitating KGCL's establishment, including providing the company with initial working capital. KGCL was successfully established on 23 November 2022 achieving this output. There is a board in place with executive support via an investment manager. Kiwibank also provides support for certain corporate services.

Consolidated 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	1,396	913
Interest expense	3	(588)	(277)
Net interest income		808	636
Net (losses)/gains on financial instruments	4	(17)	7
Other operating income	5	50	48
Total operating income		841	691
Operating expenses	6	(553)	(495)
Profit before impairment, taxation and finance costs		288	196
Credit impairment losses	9	(37)	(16)
Profit before taxation and finance costs		251	180
Finance costs	19	-	(10)
Profit before taxation		251	170
Income tax expense	7	(73)	(48)
Profit after taxation from continuing operations		178	122
Profit after taxation from discontinued operations	24	237	59
Profit after taxation		415	181
Attributable to:			
Owners of the Parent		406	177
Non-controlling interests		9	4

Information is presented on a continuing basis, unless otherwise stated. Comparatives for 30 June 2022 are presented as the Kiwi Group Holdings Group; refer to Note 2.2. 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		415	181
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)	25	15	(66)
- Cash flow hedge reserve (net of tax)	25	(58)	191
Other comprehensive income for the year		(43)	125
Total comprehensive income for the year		372	306
Attributable to:			
Owners of the Parent		363	302
Non-controlling interests		9	4
Total comprehensive income for the year attributable to owners of the Parent arises from:			
Continuing operations		126	243
Discontinued operations		237	59
Attributable to owners of the Parent		363	302

Comparatives for 30 June 2022 are presented as the Kiwi Group Holdings Group; refer to Note 2.2.

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

Consolidated financial statements

Statement of changes in equity

For the year ended 30 June 2023

Dollars in millions	Note	Ordinary share capital	Redeemable preference share capital	Retained earnings	Fair value reserve	Cash flow hedge reserve	Total equity attributable to owners of the Parent	Non- controlling interests	Total equity
Balance at 30 June 2021		929	247	551	1	19	1,747	42	1,789
Year ended 30 June 2022									
Profit for the year		-	-	177	-	-	177	4	181
Other comprehensive income									
Movement in fair value of investment securities (net of tax)		-	-	-	(66)	-	(66)	-	(66)
Cash flow hedges (net of tax)		-	-	-	-	191	191	-	191
Total other comprehensive income		-	-	-	(66)	191	125	-	125
Total comprehensive income		-	-	177	(66)	191	302	4	306
Transactions with owners									
Transfer to retained earnings on redemption of perpetual capital notes	25	-	-	42	-	-	42	(42)	-
Issue of perpetual preference shares by Kiwibank	25	-	-	-	-	-	-	246	246
Dividends paid on ordinary shares	25	-	-	(71)	-	-	(71)	-	(71)
Dividends paid on redeemable preference shares	25	-	-	(22)	-	-	(22)	-	(22)
Distributions to holders of perpetual capital notes	25	-	-	(3)	-	-	(3)	-	(3)
Distributions to non-controlling interests	25	-	-	-	-	-	-	(4)	(4)
Balance at 30 June 2022		929	247	674	(65)	210	1,995	246	2,241

Comparatives for 30 June 2022 are presented as the Kiwi Group Holdings Group; refer to Note 2.2.

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

Kiwi Group Capital Limited and Subsidiaries

Consolidated financial statements

Statement of changes in equity continued

For the year ended 30 June 2023

Dollars in millions	Note	Ordinary share capital	Redeemable preference share capital	Retained earnings	Fair value reserve	Cash flow hedge reserve	Total equity attributable to owners of the Parent	Non- controlling interests	Total equity
Balance at 30 June 2022		929	247	674	(65)	210	1,995	246	2,241
Year ended 30 June 2023									
Profit for the year		-	-	406	-	-	406	9	415
Other comprehensive income									
Movement in fair value of investment securities (net of tax)		-	-	-	15	-	15	-	15
Cash flow hedges (net of tax)		-	-	-	-	(58)	(58)	-	(58)
Total other comprehensive income		-	-	-	15	(58)	(43)	-	(43)
Total comprehensive income		-	-	406	15	(58)	363	9	372
Transactions with owners									
Dividends paid on ordinary shares	25	-	-	(16)	-	-	(16)	-	(16)
Taxable bonus issue of shares by KGHL	25	537	-	(537)	-	-	-	-	-
Dividends paid on KGHL's redeemable preference shares	25	-	-	(9)	-	-	(9)	-	(9)
Issue of shares by KGCL	25	2,108	-	-	-	-	2,108	-	2,108
Effect of capital reorganisation	25	(1,466)	(247)	(395)	-	-	(2,108)	-	(2,108)
Acquisition of subsidiary with non-controlling interests	25	-	-	-	-	-	-	1	1
Distributions to non-controlling interests	25	-	-	-	-	-	-	(9)	(9)
Balance at 30 June 2023		2,108	-	123	(50)	152	2,333	247	2,580

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

Kiwi Group Capital Limited and Subsidiaries

Consolidated financial statements

Balance sheet

As at 30 June 2023

Dollars in millions	Note	30/06/23	30/06/22
Assets			
Cash and cash equivalents	12	1,027	1,521
Due from other financial institutions	13	129	138
Investment securities	14	2,299	1,431
Derivative financial instruments	15	447	477
Loans and advances	8	29,655	27,648
Assets held for sale	24	-	119
Deferred tax asset	7	45	1
Intangible assets	22	52	54
Premises and equipment		132	142
Other assets		71	65
Total assets		33,857	31,596
Liabilities			
Due to other financial institutions	16	1,768	1,839
Deposits and other borrowings	17	25,499	24,205
Derivative financial instruments	15	243	207
Debt securities issued	18	3,038	2,579
Liabilities held for sale	24	-	22
Other liabilities	23	283	253
Subordinated debt	19	446	250
Total liabilities		31,277	29,355
Equity			
Share capital	25	2,108	1,176
Reserves	25	225	819
Total equity attributable to owners of the Parent		2,333	1,995
Non-controlling interests	25	247	246
Total equity		2,580	2,241
Total liabilities and equity		33,857	31,596

Comparatives for 30 June 2022 are presented as the Kiwi Group Holdings Group; refer to Note 2.2.

The Board of Directors of Kiwi Group Capital Limited authorised these consolidated financial statements for issue on 29 August 2023.



David McLean
Director



Sir Brian Roche
Director

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

Consolidated financial statements

Cash flow statement

For the year ended 30 June 2023

Dollars in millions	Note	Year ended 30/06/23	Year ended 30/06/22
Cash flows from operating activities			
Interest received		1,404	941
Interest paid		(453)	(262)
Fees and other income received		163	185
Direct fee expenses paid		(82)	(82)
Operating expenses paid		(521)	(531)
Taxes paid		(88)	(38)
Net cash flows from operating activities before changes in operating assets and liabilities		423	213
Net changes in operating assets and liabilities			
Investment securities		(867)	205
Loans and advances		(2,059)	(2,484)
Balances due from other financial institutions		9	(112)
Deposits and other borrowings		1,176	1,793
Balances due to other financial institutions		(330)	500
Other liabilities		(1)	(4)
Net cash flows from operating activities		(1,649)	111
Cash flows from investing activities			
Purchase of premises and equipment		(9)	(15)
Purchase of intangible assets	22	(7)	(5)
Net proceeds from sale of Kiwi Wealth Group (net of cash disposed)	24	303	-
Net proceeds from sale of Kiwi Insurance	24	-	44
Net proceeds from sale of Hatch	24	-	36
Net cash flows from investing activities		287	60
Cash flows from financing activities			
Repurchase agreements		259	621
Issue of debt securities	18	1,557	1,491
Redemption of debt securities	18	(1,132)	(1,452)
Payment of principal portion of lease liability	23	(14)	(15)
Issue of subordinated debt net of issuance costs	19	197	-
Issue of perpetual preference shares net of issuance costs	25	-	246
Repayment of subordinated debt	19	-	(150)
Interest paid to related parties		-	(4)
Distributions to holders of perpetual capital notes	25	-	(3)
Dividends paid on ordinary shares	25	(16)	(71)
Distributions paid on redeemable preference shares	25	(9)	(22)
Distributions to non-controlling interests	25	(9)	(4)
Net cash flows from financing activities		833	637
(Decrease)/increase in cash and cash equivalents		(529)	808
Cash and cash equivalents at beginning of the year		1,556	744
Effect of exchange translation adjustments		-	4
Cash and cash equivalents at end of the year	12	1,027	1,556
Less cash and cash equivalents included within Assets held for sale	24	-	(35)
Cash and cash equivalents on the balance sheet	12	1,027	1,521

The cash flow statement includes net cash inflows/(outflows) from operating, investing and financing activities from discontinued operations. Refer to Note 24 'Assets and liabilities for sale' for further information. Certain comparatives have been restated or reclassified; refer to Note 2.1 for further information. Comparatives for the year ended 30 June 2022 are presented as the Kiwi Group Holdings Group; refer to Note 2.2.

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

Consolidated financial statements

Cash flow statement continued

For the year ended 30 June 2023

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Reconciliation of profit after taxation to net cash flows from operating activities		
Profit after taxation	415	181
Non-cash movements and non-operating activities		
Unrealised fair value adjustments	(11)	(5)
Depreciation and amortisation	41	51
Movement in deferred expenditure	30	39
Credit impairment provision	34	18
Movement in interest	114	4
Movement in current and deferred taxation	(18)	13
Other non-cash movements	6	(18)
(Increase)/decrease in operating assets		
Investment securities	(838)	205
Loans and advances	(2,059)	(2,484)
Balances due from other financial institutions	9	(112)
Increase/(decrease) in operating liabilities		
Deposits and borrowings	1,176	1,793
Movement in other liabilities	11	(4)
Balances due to other financial institutions	(330)	500
Investing		
Net proceeds from sale of Kiwi Wealth Group (net of cash disposed)	(303)	-
Disposal of non-operating assets held for sale	74	-
Net proceeds from sale of Kiwi Insurance	-	(44)
Net proceeds from sale of Hatch	-	(36)
Financing		
Finance costs	-	10
Net cash flows from operating activities	(1,649)	111

The cash flow statement includes net cash inflows/(outflows) from operating, investing and financing activities from discontinued operations. Refer to Note 24 'Assets and liabilities for sale' for further information.

Comparatives for the year ended 30 June 2022 are presented as the Kiwi Group Holdings Group; refer to Note 2.2.

Notes to the consolidated financial statements

1. Corporate information

These consolidated financial statements presented are for the **"Group"**, which consists of Kiwi Group Capital Limited (**"KGCL"**) or the **"Parent"**) and its subsidiaries. KGCL is a for-profit entity incorporated and domiciled in New Zealand under the Companies Act 1993. KGCL was incorporated on 23 November 2022.

On 30 November 2022, 100% of the shares of Kiwi Group Holdings Limited (**"KGHL"**) were acquired by KGCL, a new Crown company. Previously KGHL was owned by New Zealand Post Limited (**"NZP"**) (53%), NZSF Tui Investments Limited (**"NZSF"**) (25%) and Accident Compensation Corporation (**"ACC"**) (22%). On 31 March 2023 KGHL was amalgamated into KGCL. This transaction was accounted for as a capital reorganisation; refer to Note 2.2 for further details.

The principal activities of the Group are the provision of retail and banking products and services, through the Kiwibank Banking Group (the **"Banking Group"** as disclosed in the Kiwibank Disclosure Statement), and other financial services to individuals and small-to medium-sized businesses.

KGCL is owned by the New Zealand Crown (the **"Crown"**), whose address for service is: 1 The Terrace, Wellington 6011, New Zealand.

These consolidated financial statements for the year ended 30 June 2023 have been approved for issue by the Board of Directors on 29 August 2023.

2. Basis of preparation and general accounting policies

2.1 Basis of preparation

These consolidated 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, and the Companies Act 1993. These consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are for the year ended 30 June 2023. Comparative amounts for the year ended 30 June 2022 are from the audited consolidated financial statements of the Kiwi Group Holdings Group; refer to Note 2.2.

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 17)

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 21)

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

Notes to the consolidated financial statements

2. Basis of preparation and general accounting policies continued

2.1 Basis of preparation continued

Risk management (Note 28)

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 the Funding for Lending Programme. Derivative cash flows have been restated to remove derivative assets, and internal deals.

2.2 Capital reorganisation

On 30 November 2022, KGCL completed the acquisition of 100% of the ordinary shares of KGHL for \$2.1b, providing KGCL with control of KGHL. Where there is a common control transaction that involved a new entity being established as a parent for a single existing group, and there is no substantive economic change, then the transaction is considered a capital reorganisation. It was therefore determined that this transaction was a capital reorganisation of the existing KGHL Group (KGHL and its subsidiaries) rather than a business combination. The ultimate shareholder, the Crown, has remained the same and has not been impacted by the change in shareholding.

The KGCL Group is effectively a continuation of the KGHL Group. Therefore, the comparatives presented include the financial position and results of the KGHL Group. KGCL accounted for the acquisition using the book value method. Under the book value method, the difference between the consideration paid to previous shareholders and share capital of KGHL acquired is recognised in equity. No adjustments are made to the carrying amounts of assets and liabilities. The net effect of the capital reorganisation of \$395m has been adjusted through retained earnings. Subsequently, on 31 March 2023, KGHL was amalgamated into KGCL.

As the transaction is a capital reorganisation, the acquisition of ordinary shares of KGHL from the previous shareholders and the corresponding issue of KGCL shares to the Crown are considered a non-cash transaction in the KGCL Group financial statements. Therefore, they are not reflected in the cash flow statement. The Crown transferred cash of \$2.1b directly to the previous shareholders of KGHL. KGCL did not receive any cash from this transaction and was unable to control the allocation or timing of the allocation of the proceeds from the KGCL share issue in relation to the acquisition of KGHL.

2.3 Critical accounting judgements, estimates and assumptions

The preparation of these consolidated 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 the Group 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 consolidated financial statements are described in the following notes:

- Note 9 Credit impairment provisions and measurement of expected credit losses
- Note 22 Intangible assets and impairment testing.

2.4 Basis of consolidation

These consolidated financial statements comprise the financial statements of the Parent and its subsidiaries for the year ended 30 June 2023. Subsidiaries are entities that are controlled by the Group. Control is achieved when the 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 Group has power over such entities in which it has an interest, the 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 Group reassesses whether it controls an investee if facts and circumstances indicate that there have been changes to the elements of control.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. On the date of acquisition of a subsidiary, identifiable assets and liabilities acquired are initially measured at fair value.

Notes to the consolidated financial statements

2. Basis of preparation and general accounting policies continued

2.4 Basis of consolidation continued

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets acquired, the difference is recognised directly in the income statement.

Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the date of acquisition, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the acquisition, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed of in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

The interest of non-controlling shareholders is stated at their proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned directly or indirectly by the Group. Losses are attributed to the non-controlling interests even if that results in a deficit balance.

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 Group's accounting policies.

2.5 New accounting standards and interpretations

In the current year, the 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 consolidated financial statements.

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

2.6 Financial instruments

Recognition

The Group initially recognises cash and cash equivalents, 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 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 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 Group has transferred substantially all the risks and rewards of the asset, or the 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 Group transfers its right to receive cash flows from an asset or has entered into a pass-through arrangement. In some cases, the 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 Group has continuing involvement in the asset, the asset continues to be recognised in the balance sheet.

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

Notes to the consolidated financial statements

2. Basis of preparation and general accounting policies continued

2.6 Financial instruments continued

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 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 financial assets.

In addition, on initial recognition, the 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 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.

2.7 Currency

Functional and presentation currency

The Group's consolidated financial statements are presented in New Zealand dollars, which is the Parent'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.

Notes to the consolidated financial statements

2. Basis of preparation and general accounting policies continued

2.8 Cash flow statement

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

- i) Cash and cash equivalents are 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 Reserve Bank of New Zealand ("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 which result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash. Repurchase agreements related to the Term Lending Facility and the Funding for Lending Programme 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 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 Group.

2.9 Finance costs

Finance costs represent the effect of measuring the liability component of a compound financial instrument at amortised cost using the effective interest method.

2.10 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 consolidated financial statements.

Notes to the consolidated financial statements

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 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
Interest income		
Cash and cash equivalents	45	10
Due from other financial institutions	4	1
Loans and advances	1,294	884
Investment securities	53	18
Total interest income	1,396	913
Interest expense		
Deposits and other borrowings	355	200
Debt securities issued	140	52
Subordinated debt	16	7
Due to other financial institutions	74	12
Other interest expense	3	6
Total interest expense	588	277

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.

Notes to the consolidated financial statements

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
Interest income		
Financial assets measured at amortised cost	1,389	879
Financial assets measured at FVOCI	53	18
Financial assets measured at FVTPL and hedging	(46)	15
Total interest income	1,396	913
Interest expense		
Financial liabilities measured at amortised cost	821	261
Financial liabilities measured at FVTPL and hedging	(233)	15
Total interest expense	588	277

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 are set out in Notes 14, 15, 18 and 19.

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Derivatives 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 ¹	58	7
Net foreign exchange gains	7	8
Total net (losses)/gains on financial instruments	(17)	7

¹ The 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 are 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 consolidated financial statements

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 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 Group itself or are provided by another entity (i.e. if the Group controls the provision of the goods or services).

Where the 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 revenue recognition timing

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 allocated using 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:

- *Lending services* – this includes fees related to lending and ancillary services provided by the Banking Group 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 and are charged and recognised as revenue at the point in time when the transaction takes place. New commission received by The New Zealand Home Loan Company ("NZHL") is recognised as revenue on loan settlement for home loans. NZHL receives trailing commission on loans they have settled that were originated by NZHL. The trailing commissions are received over the life of the loan based on the loan book balance outstanding, and are recognised as and when they are receivable. This approach depicts the delivery of the performance obligation and ongoing customer service obligations to the customer.
- *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 Group satisfies each performance obligation based on output methods measuring the value of the services transferred to date.
- *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 and 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.
- *Commission for arranging insurance services* – the Group receives new and trailing commissions from insurance providers on insurance policies they have settled that were originated by the Group. New commission is recognised as revenue on issuance of the insurance policies. Trailing commissions are received over the life of the insurance policy, and are recognised as and when they are receivable, reflecting the value and timing of the fulfilment of the policy renewal service to the customer.

Notes to the consolidated financial statements

5. Other operating income continued

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	Year ended 30/06/22
Major service categories		
Lending services	10	13
Card services	63	62
Transactional account and other services	35	33
Commission for arranging insurance services	18	14
Total revenue from contracts with customers	126	122
Other income	6	3
Gross fee and other income	132	125
Direct fee expenses	(82)	(77)
Total other operating income	50	48

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 ("R&D") 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 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 Group recognises the depreciation expense related to right-of-use assets within operating expenses and interest costs in respect of lease liabilities within interest expense.

Notes to the consolidated financial statements

6. Operating expenses continued

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Salaries and wages	269	232
Other personnel-related costs	51	43
Premises costs	18	15
Information technology and system costs	104	95
Office supplies, postage and phone	9	11
Consultancy and professional fees	23	20
Marketing and customer communications	22	20
Amortisation and depreciation	41	46
Other expenses	16	13
Total operating expenses	553	495

A total of \$65.4m of operating expenses recognised during the year ended 30 June 2023 related to R&D expenditure classified in accordance with NZ IAS 38 (30 June 2022: \$48.2m).

Included within operating expenses are R&D tax incentives 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.

Included within salaries and wages is \$11.1m of expenses paid to defined contribution plans for the year ended 30 June 2023 (30 June 2022: \$10.8m).

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 consolidated financial statements

7. Taxation continued

Income tax expense

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Profit before taxation	251	170
Profit before taxation from discontinued operations	235	61
Tax calculated at a rate of 28%	(136)	(65)
Tax effect of:		
Deductible distributions recognised through equity	-	1
Prior period adjustment	2	1
Income not subject to tax and non-deductible expenses	63	13
Taxation charge as per the income statement	(71)	(50)
Represented by:		
Current income tax	(103)	(64)
Deferred income tax	32	14
Taxation charge as per the income statement	(71)	(50)
Taxation charge attributable to:		
Profit from continuing operations	(73)	(48)
Profit from discontinued operations	2	(2)
Taxation charge as per the income statement	(71)	(50)
The deferred tax charge in the income statement comprises the following temporary differences:		
Credit impairment provision	10	4
Accelerated tax depreciation	21	2
Other provisions and accruals	(2)	2
Deferred tax released on sale of subsidiary	4	2
Other	(1)	4
Total movement in temporary differences	32	14

Notes to the consolidated financial statements

7. Taxation continued

Deferred taxation

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Deferred tax		
Balance at beginning of the year	(3)	16
Prior period adjustment	6	(1)
Prior period adjustment booked through retained earnings	1	-
Movement in temporary differences	22	9
Tax on profits taken to reserves	16	(32)
Tax on perpetual capital notes	-	3
Recognised on acquisition	(1)	-
Deferred tax released on sale of subsidiary	4	2
Balance at end of the year	45	(3)
Deferred tax assets		
Credit impairment provision	31	21
Accelerated tax depreciation	21	-
Other provisions and accruals	16	18
Other	2	2
Total deferred tax assets	70	41
Deferred tax liabilities		
Cash flow hedges	(24)	(40)
Other	(1)	(4)
Total deferred tax liabilities	(25)	(44)
Net deferred taxation	45	(3)
Deferred tax attributable to:		
Continuing operations	45	1
Discontinued operations	-	(4)
Net deferred taxation	45	(3)

Imputation credit account

The amount of imputation credits available to all members of the Group as at 30 June 2023 is \$83.4m (30 June 2022: \$210.3m). This amount includes imputation credits that will arise from the payment of income tax.

The Kiwi Group Capital tax group consists of Kiwi Group Capital Limited, The New Zealand Home Loan Company Limited, NZHL Mortgage Advisory Limited, Kiwibank Limited, Kiwibank RMBS Trust Series 2009-1 and Kiwi Covered Bond Trust.

Notes to the consolidated financial statements

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	Year ended 30/06/23	Year ended 30/06/22
Overdrafts	224	168
Credit cards	346	348
Term loans – housing	24,223	23,124
Other term lending	4,459	3,712
Other lending	504	363
Gross loans and advances	29,756	27,715
Credit impairment provision	(101)	(67)
Total net loans and advances	29,655	27,648
Current	2,887	2,375
Non-current	26,768	25,273

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 at 30 June 2023 were \$65.8m (30 June 2022: \$90.4m).

Notes to the consolidated financial statements

9. Credit impairment losses



Accounting policy

The 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 FVOCI;
- lease receivables; and
- certain loan commitments and financial guarantees.

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 a 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 significant increase in credit risk (i.e. the movement from stage 1 to stage 2) is based on changes in internally assessed customer risk characteristics since origination of the 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 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 consolidated financial statements

9. Credit impairment losses continued



Accounting policy continued

ii) Backstop criterion

The 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 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 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 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 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 Group's procedures for recovery of amounts due.

Notes to the consolidated financial statements

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.

	Year ended 30/06/23	Year ended 30/06/22
Dollars in millions		
Charged to the income statement for collectively assessed provisions	(29)	(13)
Charged to the income statement for individually assessed provisions	(5)	-
Amounts written off directly to the income statement	(5)	(5)
Recovery of amounts previously written off	2	2
Total credit impairment losses per income statement	(37)	(16)

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

	30/06/23	30/06/22
Dollars in millions		
Individually assessed provisions	5	1
Collectively assessed provisions		
Modelled ECL on loans	72	51
ECL allowance on undrawn facilities	7	8
Judgemental modelled overlays – interest repricing	7	5
Other judgemental overlays	17	10
Total collectively assessed provisions	103	74
Total credit impairment provisions	108	75

Notes to the consolidated financial statements

9. Credit impairment losses continued

Changes in model overlays

Judgemental model overlays – interest repricing

The Group 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. The Group monitors impacted customers and has seen a slow increase in requests for assistance; however, this has been supported by a strong labour market. The 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 Group's lending portfolios. The Group holds a number of 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 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 and a continued decline in house prices impacting loan-to-value ratios, applied as at 30 June 2023.

Changes in ECL model assumptions and inputs

The modelled provision for ECL is an estimate of forward-looking losses based on the Group's view of four different economic scenarios. The Group'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 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 Group's four macroeconomic scenarios have been updated during the year ended 30 June 2023 as follows:

- **Central scenario:** this is the 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 are 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 variables and weighting used at 30 June 2023 compared to 30 June 2022 are presented below.

Notes to the consolidated financial statements

9. Credit impairment losses continued

Changes in scenario variables - increase/(decrease)

As at 30 June 2023		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%

As at 30 June 2022		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%

Notes to the consolidated financial statements

9. Credit impairment losses continued

Scenario weightings

The weightings applied to the scenarios are outlined below.

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

Sensitivity of ECL to key judgements and assumptions

The assumptions which underlay 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 effect 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 scenario ECL	160	52	106	31

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

Notes to the consolidated financial statements

10. Asset quality

Summary of lending

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Neither past due nor impaired	29,591	27,598
Past due but not impaired	157	115
Impaired	8	2
Gross loans and advances	29,756	27,715
Credit impairment provision	(101)	(67)
Net loans and advances	29,655	27,648

Loans and advances past due but not impaired

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Past due less than 30 days	82	70
Past due 30 – 59 days	32	21
Past due 60 – 89 days	15	7
Past due 90 days or greater	28	17
Total loans and advances past due but not impaired	157	115

Movement in credit impairment provision and gross carrying amounts

The following pages include tables summarising the movement in credit impairment provision and are presented on the following basis:

- Additions are amounts from new commitments and 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.

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

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

Notes to the consolidated financial statements

10. Asset quality continued

Movement in credit impairment provision

Dollars in millions	Year ended 30/06/23				Total
	Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3 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)
Total credit impairment provision	56	33	14	5	108
Credit impairment provision on loans and advances	51	32	13	5	101
Credit impairment provision on undrawn commitments	5	1	1	-	7
Total credit impairment provision at end of the period	56	33	14	5	108

Impact of changes in gross carrying amount and credit commitments on ECL					
Gross carrying amount at start of the period	26,799	891	23	2	27,715
Net transfers between stages	(385)	355	26	4	-
Additions	6,968	198	11	4	7,181
Deletions	(4,948)	(173)	(12)	(1)	(5,134)
Amounts written off	-	(5)	-	(1)	(6)
Gross carrying amount at end of the period	28,434	1,266	48	8	29,756
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)
Off-balance-sheet credit commitments at end of the period	4,029	80	3	1	4,113

The increase of \$33m in credit impairment provisions on total exposures for the year ended 30 June 2023 reflects:

- remeasurement and changes in ECL due to exposures migrating to higher risk grades (+\$21m);
- changes to the economic scenarios, model changes and model overlays (+\$6m);
- increase in ECL due to net growth in exposures (\$+3m);
- \$5m of gross balances that were written off from stage 2 (-\$2m); and
- an increase in individually assessed provisions (+\$5m).

Notes to the consolidated financial statements

10. Asset quality continued

Movement in credit impairment provision

Dollars in millions	Year ended 30/06/22				Total
	Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3		
			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
(Credited)/charged 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	-	-	-	-	-
Total credit impairment provision	48	23	3	1	75
Credit impairment provision on loans and advances	42	21	3	1	67
Credit impairment provision on undrawn commitments	6	2	-	-	8
Total credit impairment provision at end of the period	48	23	3	1	75

Impact of changes in gross carrying amount and credit commitments on ECL					
Gross carrying amount at start of the period	24,193	1,018	22	1	25,234
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)
Gross carrying amount at end of the period	26,799	891	23	2	27,715
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)
Off-balance-sheet credit commitments at end of the period	4,479	70	1	-	4,550

The increase of \$13m in credit impairment provisions on total exposures for the year ended 30 June 2022 reflects:

- increase in ECL due to net growth in exposures and migration to higher risk grades (+\$10m);
- changes to economic scenarios, and movement in management overlays (+\$5m); and
- \$5m of gross balances that were written off from stage 2 (-\$2m).

Notes to the consolidated financial statements

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, is secured; that is, the fair value of associated security is sufficient to ensure that the Group will recover the entire amount owing over the life of the 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 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 ("LVR") ratios. 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 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 21.

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

11. Concentration of credit risk

Maximum exposure to credit risk

Dollars in millions	30/06/23			30/06/22		
	On-balance-sheet financial assets	Off-balance-sheet commitment	Maximum exposure to credit risk	On-balance-sheet financial assets	Off-balance-sheet commitment	Maximum exposure to credit risk
Credit risk exposure						
Loans and advances	29,756	4,113	33,869	27,715	4,550	32,265
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	1,521	-	1,521
Other financial assets	52	-	52	56	-	56
Subtotal	33,710	4,113	37,823	31,338	4,550	35,888
Less credit impairment provision	(101)	(7)	(108)	(67)	(8)	(75)
Total	33,609	4,106	37,715	31,271	4,542	35,813

The table above represents the maximum net credit risk exposure of the 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 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 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 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%.

Notes to the consolidated financial statements

11. Concentration of credit risk continued

30/06/23				
Dollars in millions	Maximum exposure to credit risk	Fully secured	Partially secured	Unsecured
Collateral management for loans and advances				
Retail unsecured lending	1,230	0.0%	0.0%	100.0%
Residential mortgage loans	27,881	99.6%	0.4%	0.0%
Corporate exposures	4,758	57.2%	10.4%	32.4%
Total	33,869			

30/06/22				
Dollars in millions	Maximum exposure to credit risk	Fully secured	Partially secured	Unsecured
Collateral management for loans and advances				
Retail unsecured lending	1,257	0.0%	0.0%	100.0%
Residential mortgage loans	27,024	98.9%	1.1%	0.0%
Corporate exposures	3,984	59.8%	11.5%	28.7%
Total	32,265			

Retail unsecured lending

Retail unsecured lending includes credit cards and overdrafts, and is an unsecured portfolio.

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.

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.

Collateral on credit-impaired assets

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

Notes to the consolidated financial statements

12. 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 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	90
Total cash and cash equivalents in the balance sheet – current	1,027	1,521
Cash and cash equivalents included within Assets held for sale ¹	-	35
Total cash and cash equivalents in the cash flow statement – current	1,027	1,556

¹ Refer to Note 24 'Assets and liabilities held for sale'.

13. 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
Total amounts due from other financial institutions – current	129	138

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

14. 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 (losses)/gains on financial instruments' (Note 4).

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

Notes to the consolidated financial statements

14. Investment securities continued

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
Total investment securities – current	2,299	1,431

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

15. Derivative financial instruments and hedging activities



Accounting policy

The Group uses derivatives as part of its asset and liability management activities to manage exposures to interest rates 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 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 certain criteria are met.

The 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 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 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.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are 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 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.

Notes to the consolidated financial statements

15. Derivative financial instruments and hedging activities continued

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

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.
- Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.
- Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (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 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 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 Group and a customer over the counter. The 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 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, 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 below.

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

Notes to the consolidated financial statements

15. Derivative financial instruments and hedging activities continued

Derivatives held for hedging

Interest rate derivatives

The Group's approach to managing market risk, including interest rate risk, is discussed in Note 28. The 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 Group, the 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 Group considers whether the critical terms of the hedged item and hedging instrument closely align when assessing the presence of an economic relationship. The Group evaluates whether the fair value of the hedged item and the hedging instrument respond similarly to similar risks. The 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.

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 any potential change in the fair value of 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 Group's portfolio 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 Group's approach to managing market risk, including interest rate and foreign exchange risk, is discussed in Note 28. The interest and foreign currency risk arising from the Group'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 the 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.

Notes to the consolidated financial statements

15. Derivative financial instruments and hedging activities continued

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.

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.

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

Notes to the consolidated financial statements

15. Derivative financial instruments and hedging activities continued

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

Notes to the consolidated financial statements

15. 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 ineffectiveness
Interest rate risk			
Subordinated debt	(374)	26	3
Debt securities issued	(801)	32	3
Total	(1,175)	58	6
Interest rate swaps	(62)	(59)	(6)
Interest rate risk and foreign currency risk			
Debt securities issued	(742)	48	4
Cross-currency swaps	40	(48)	(4)
Total ineffectiveness of financial instruments in fair value hedge relationship			-

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 ineffectiveness
Interest rate risk			
Subordinated debt	(177)	23	16
Debt securities issued	(370)	29	30
Total	(547)	52	46
Interest rate swaps	(52)	(52)	(46)
Interest rate risk and foreign currency risk			
Debt securities issued	(753)	44	63
Cross-currency swaps	27	(44)	(62)
Total ineffectiveness of financial instruments in fair value hedge relationship			1

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 consolidated financial statements

15. Derivative financial instruments and hedging activities continued

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

¹ Other comprehensive income

² Net (losses)/gains on financial instruments

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

¹ Other comprehensive income

² Net (losses)/gains on financial instruments

Notes to the consolidated financial statements

15. 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).

16. Due to other financial institutions



Accounting policy

Amounts due to other financial institutions are initially measured at fair value less 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 Group receives cash in exchange. The counterparty has an obligation to return the collateral at the maturity of the contract. The 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
Total amounts due to other financial institutions	1,768	1,839
Current	845	731
Non-current	923	1,108

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 Kiwibank 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 to 6 December 2022.

A total of \$1,716m of residentially mortgage-backed security ("RMBS") has been pledged as approved eligible collateral (30 June 2022: \$1,343m). As at 30 June 2023, \$1,385m has 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 consolidated financial statements

17. Deposits and other borrowings



Accounting policy

Deposits and other borrowings are initially measured at fair value less 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	5,027
Demand deposits bearing interest	6,562	6,271
Term deposits	14,601	12,907
Total deposits and other borrowings	25,499	24,205
Current	25,010	23,823
Non-current	489	382

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

All deposits held are liabilities of Kiwibank. In the event of the liquidation of Kiwibank, deposit holders will rank equally with all other creditors of Kiwibank but ahead of holders of subordinated debt and perpetual preference shares issued by Kiwibank, and the shareholders. 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.

A subsidiary of the Group acts as the manager for the Kiwibank PIE Unit Trust. These funds are invested in term and call deposits with Kiwibank and are recorded as liabilities on the Group's balance sheet. Kiwibank guarantees the payment obligations of the manager and any amounts owing to Unit holders under the Trust Deed in respect of their Units. The Kiwibank PIE Unit Trust is discussed in more detail in Note 27 'Securitisation and funds under management'.

18. Debt securities issued



Accounting policy

Debt securities issued are initially measured at fair value less 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 15 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
Short-term debt		
Certificates of deposit	467	413
Long-term debt		
Medium-term notes	2,107	1,686
Covered bonds	544	553
Fair value hedge adjustment	(80)	(73)
Total debt securities issued	3,038	2,579
Current	741	675
Non-current	2,297	1,904

Notes to the consolidated financial statements

18. 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)
Total cash movements	425	39
Effect of changes in foreign exchange rates	17	80
Fair value and other movements	17	(84)
Closing balance	3,038	2,579

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

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

All debt securities issued are liabilities of Kiwibank. In the event of the liquidation of Kiwibank, holders of these debt securities, with the exception of covered bonds, will rank equally with all other creditors of Kiwibank but ahead of holders of subordinated debt and perpetual preference shares issued by Kiwibank, and the shareholders.

The guarantee arrangements and other details relating to covered bonds are disclosed in Note 27.

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 (year ended 30 June 2022: no defaults).

19. Subordinated debt



Accounting policy

Subordinated debt issues are initially measured at fair value less incremental direct transaction costs, and subsequently measured at their 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 15 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)
Total subordinated debt	446	250
Current	-	-
Non-current	446	250

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

The 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).

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. ¹	11 December 2025	11 December 2030
Subordinated notes	12 May 2023	200	6.40% p.a. ²	12 May 2028	12 May 2033

¹ Interest is paid quarterly in arrears.

² Interest is paid quarterly in arrears.

Notes to the consolidated financial statements

19. Subordinated debt continued

Subordinated notes

Issued December 2020

The subordinated notes were issued by Kiwibank on 11 December 2020. The subordinated notes are subordinate to all other general liabilities and are denominated in New Zealand dollars. Interest on the subordinated notes is paid quarterly in arrears at an initial rate of 2.36% per annum, subject to the condition that Kiwibank and the Banking Group remain solvent after each payment. 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. The subordinated notes are not guaranteed by any member of the Group, the Crown or by any other person.

Issued May 2023

The subordinated notes were issued by Kiwibank on 12 May 2023. The subordinated notes are subordinate to all other general liabilities and are denominated in New Zealand dollars. Interest on the subordinated notes is paid quarterly in arrears at an initial rate of 6.40% per annum, subject to the condition that Kiwibank and the Banking Group remain solvent after each payment. 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. The subordinated notes are not guaranteed by any member of the Group, the Crown or by any other person.

Reconciliation of movement in liability arising from financing activities

	30/06/23	30/06/22		
Dollars in millions	Subordinated notes	Subordinated notes	Perpetual capital bond	Total
Opening balance	250	265	140	405
Issuances	200	-	-	-
Issuance costs	(3)	-	-	-
Repayments	-	-	(150)	(150)
Interest paid	(6)	(6)	-	(6)
Total cash movements	191	(6)	(150)	(156)
Effect of changes in foreign exchange rates	-	-	-	-
Interest accrued	8	6	-	6
Fair value and other movements ¹	(3)	(15)	10	(5)
Closing balance	446	250	-	250

¹ 'Fair value and other movements' relating to the perpetual capital bond for the year ended 30 June 2022 includes \$10m of finance costs: \$4m amortised during the period and \$6m recognised on early repayment of the notes.

Notes to the consolidated financial statements

20. Financial instruments



Accounting policy

The 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 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 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 consolidated 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 consolidated financial statements at fair value on a recurring basis, the Group determines whether any transfers between levels in the hierarchy has 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			
	Amortised cost	FVOCI	FVTPL ¹	Total
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	29,655	-	-	29,655
Derivative financial instruments	-	-	447	447
Other financial assets	52	-	-	52
Total financial assets	30,813	2,349	447	33,609
Due to other financial institutions	1,768	-	-	1,768
Deposits and other borrowings	25,499	-	-	25,499
Derivative financial instruments	-	-	243	243
Debt securities issued	3,038	-	-	3,038
Subordinated debt	446	-	-	446
Other financial liabilities	134	-	-	134
Total financial liabilities	30,885	-	243	31,128

¹ FVTPL includes derivatives held for trading; refer to Note 15.

Notes to the consolidated financial statements

20. Financial instruments continued

Dollars in millions	30/06/22			Total
	Amortised cost	FVOCI	FVTPL ¹	
Cash and cash equivalents	1,521	-	-	1,521
Due from other financial institutions	138	-	-	138
Investment securities	-	1,431	-	1,431
Loans and advances	27,648	-	-	27,648
Derivative financial instruments	-	-	477	477
Other financial assets	54	-	2	56
Total financial assets	29,361	1,431	479	31,271
Due to other financial institutions	1,839	-	-	1,839
Deposits and other borrowings	24,205	-	-	24,205
Derivative financial instruments	-	-	207	207
Debt securities issued	2,579	-	-	2,579
Subordinated debt	250	-	-	250
Other financial liabilities	137	-	-	137
Total financial liabilities	29,010	-	207	29,217

¹ FVTPL includes derivatives held for trading; refer to Note 15.

b) Fair values of financial assets and liabilities

The following table summarises the carrying values of financial assets and liabilities presented on the Group's balance sheet. The fair values presented in the table 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
Financial assets				
Investment securities	2,299	2,299	1,431	1,431
Loans and advances	29,655	29,259	27,648	27,246
Derivative financial instruments	447	447	477	477
Financial liabilities				
Deposits and other borrowings	25,499	25,484	24,205	24,183
Derivative financial instruments	243	243	207	207
Debt securities issued	3,038	3,027	2,579	2,561
Subordinated debt	446	447	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 consolidated financial statements

20. 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 (year ended 30 June 2022: no transfers). There were also no transfers into/out of level 3 during the year (year ended 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 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
Financial assets at fair value								
Due from other financial institutions	-	50	-	50	-	-	-	-
Derivative financial assets	-	447	-	447	-	477	-	477
Investment securities	316	1,983	-	2,299	439	992	-	1,431
Other financial assets	-	-	-	-	-	-	2	2
Financial liabilities at fair value								
Derivative financial liabilities	-	243	-	243	-	207	-	207

Notes to the consolidated financial statements

20. Financial instruments continued

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.

Loans and advances

The 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 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
Financial assets at amortised cost								
Loans and advances	-	-	29,272	29,272	-	-	27,246	27,246
Financial liabilities at amortised cost								
Deposits and other borrowings	-	-	25,484	25,484	-	-	24,183	24,183
Debt securities issued	-	3,027	-	3,027	-	2,561	-	2,561
Subordinated debt	-	447	-	447	-	247	-	247

Notes to the consolidated financial statements

21. Offsetting financial assets and liabilities



Accounting policy

The 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 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, they generally do not result in net settlement in the ordinary course of business. Consequently, the Group does not offset its financial assets and liabilities in the balance sheet even if these amounts are subject to enforceable netting arrangements.

The Group has an arrangement to settle New Zealand dollar interest rate swaps and overnight indexed swaps via a CCP. The 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 Group's financial position. This includes the effect or potential effect of rights of set-off associated with the 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 following financial instruments are subject to offsetting, enforceable master netting arrangements or are cleared through a CCP.

		30/06/23					
Dollars in millions	Note	Gross amounts	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
					Financial instruments	Cash collateral	
Derivative financial assets	15	447	-	447	(210)	(223)	14
Total		447	-	447	(210)	(223)	14
Derivative financial liabilities	15	243	-	243	(210)	(20)	13
Repurchase agreements ¹		1,516	-	1,516	(1,516)	-	-
Total		1,759	-	1,759	(1,726)	(20)	13

¹ \$1,797m of RMBS have been pledged as collateral under a collateralised borrowing arrangement (repurchase agreements). Refer to Note 16 for further details.

		30/06/22					
Dollars in millions	Note	Gross amounts	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Related amounts not set off in the balance sheet		Net amount
					Financial instruments	Cash collateral	
Derivative financial assets	15	477	-	477	(174)	(256)	47
Total		477	-	477	(174)	(256)	47
Derivative financial liabilities	15	207	-	207	(174)	(20)	13
Repurchase agreements ¹	16	1,562	-	1,562	(1,562)	-	-
Total		1,769	-	1,769	(1,736)	(20)	13

¹ \$360m of investment securities and \$1,455m of RMBS have been pledged as collateral under a collateralised borrowing arrangement (repurchase agreements). Refer to Note 14 and Note 16 for further details.

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

Notes to the consolidated financial statements

22. Intangible assets



Accounting policy

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the fair value of the purchase consideration over the fair value of the Group's share of the assets acquired and the liabilities (and contingent liabilities) assumed on the date of the acquisition.

Computer software

Internally developed software assets expected to generate net economic benefits beyond 12 months are recognised as intangible assets. The cost of software assets primarily includes the cost of all direct labour on the project, and an appropriate proportion of variable and fixed overheads. Software intangible assets are amortised over their estimated useful lives (primarily three to ten years).

Testing for impairment

The Group tests intangibles for impairment:

- at least annually for indefinite life intangibles, intangibles not yet available for use and goodwill; and
- where there is an indication that the asset may be impaired (which is assessed at least each reporting date); or
- where there is an indication that previously recognised impairment (on assets other than goodwill) may have changed.

Assets are impaired if their recoverable amount is less than their carrying amount. An impairment loss is recognised in profit or loss for the difference. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU")).

Intangible assets that are not yet available for use are assessed for impairment on at least an annual basis and whenever events or changes in circumstances indicate that the carrying amount of intangible assets may exceed their recoverable amount. Any impairment loss is recognised in the income statement as an operating expense. The expected useful life of intangible assets, including software assets, is reviewed on an annual basis.



Impairment testing of non-financial assets

The Group's non-financial assets, including intangible assets, are assessed for indicators of impairment on at least an annual basis and whenever events or changes in circumstances indicate that the carrying amount of the assets may exceed their recoverable amount. In addition, intangible assets that are not yet available for use are tested annually for impairment irrespective of whether there is any indication of impairment. Where the asset's carrying amount is determined to be greater than the recoverable amount, the carrying amount is written down and an impairment loss is recognised in the income statement. Impairment testing involves a significant amount of estimation. This involves assessing the recoverable amount of the assets by calculating the higher of the value in use or fair value less costs of disposal.

The recoverable amount calculated under the value-in-use method includes cash flow projections that necessarily take into account changes in the market in which a business operates including the level of growth, competitive activity and the impacts of regulatory change. Determining both the cash flows and the risk-adjusted discount rate appropriate to the operating unit requires the exercise of judgement. The estimation of cash flows is sensitive to the periods for which detailed forecasts are available and to assumptions regarding long-term sustainable cash flows.

The recoverable amount calculated under the fair value less cost of disposal method involves estimating the price a willing buyer would be prepared to pay to a willing seller less direct costs. The fair value less cost of disposal is estimated using a variety of methods including discounted cash flows, earnings multiples and net tangible asset multiples. In addition to estimating cash flows, the risk-adjusted discount rate, and future maintainable earnings, this approach uses observable market inputs for trading multiples of similar entities. All of these inputs require judgement and have an impact on the estimated fair value less cost of disposal.

The assessment of impairment requires judgement to be applied and consideration of a number of factors including but not limited to: changes in business strategy, technology, regulations, and customer preferences or requirements.

Impairment of goodwill

Testing goodwill for impairment involves a significant amount of estimation. This includes the identification of independent cash-generating units ("CGU") and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition.

Notes to the consolidated financial statements

22. Intangible assets continued

Total intangible assets

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Goodwill	20	18
Link Financial Group intangible assets ¹	2	-
Computer software ²	30	32
Computer software work in progress ³	-	4
Total intangible assets	52	54

¹ 'Link Financial Group intangible assets' consists of brands and acquired customer relationships.

² \$29m of 'Computer software' is internally generated (30 June 2022: \$32m).

³ 'Computer software work in progress' had additions of \$1m and transfers to 'Computer software' of \$5m for the year ended 30 June 2023 (30 June 2022: additions of \$5m; transfers to 'Computer software' of \$11m).

Goodwill

Goodwill is allocated to operations according to the business units as follows:

Dollars in millions	30/06/23	30/06/22
The New Zealand Home Loan Company Limited	18	18
Link Financial Group	2	-
Total net book value of goodwill	20	18

Link Financial Group ("LFG")

During the year ended 30 June 2023, the Group acquired 75.5% of Link Financial Group 2022 Limited, 75.5% of Link Advisory Services Limited and 60.5% of Advice Link (NZ) Limited, together referred to as the LFG acquisition. The business was acquired in stages, with the first transaction occurring on 30 November 2022. The transaction was completed on 17 April 2023.

The acquisition of Advice Link (NZ) Limited for \$1m was a transaction outside the scope of NZ IFRS 3 Business Combinations, as Advice Link (NZ) Limited only held intellectual property relating to CRM software.

The remaining transactions were business combinations. For the business combinations, the fair value of net assets acquired amounted to \$2m and the total consideration amounted to \$4m (including the non-controlling interest portion of \$1m). The excess of consideration and fair value of net assets acquired resulted in goodwill of \$2m. The intangible assets acquired included customer relationships and brands amounting to \$2m.

The acquisition is expected to increase the Group's market share in the mortgage and insurance broking and aggregation industry and complements the Group's existing franchise network. LFG is considered as a separate CGU. During the year ended 30 June 2023, an impairment test has been completed, and there are no indications of impairment. A reasonably possible change in the assumptions used such as the CGU's profitability or discount rate would not result in a material impact to the financial performance or position of KGCL.

Notes to the consolidated financial statements

22. Intangible assets continued

Annual impairment testing

The New Zealand Home Loan Company Limited ("NZHL")

The NZHL CGU includes only NZHL and this CGU provides agency services for mortgage lending through NZHL. The recoverable amount of NZHL is based on fair value less costs of disposal ("FVLCD") calculations. The methodologies used by the Group contain unobservable inputs, and are considered level 3 in the fair value hierarchy. Judgement is required in determining whether key assumptions used in projections are reasonable.

Management has completed a valuation of NZHL with the key inputs and results detailed in the table below.

Key inputs and results		30/06/23	30/06/22
Forecast period and projections	Agreed-upon period incorporating financial forecast including revenue cash flow assumptions from a Board-approved plan.	5 years	5 years
Terminal growth rate	Represents the Group's view of long-term growth of the CGU. This rate is consistent with forecast CPI growth and population growth.	3.0%	3.0%
Discount rate	Incorporates market-observable inputs where possible including relevant comparable market risk premiums and risk-free rates.	13.7%	13.4%
Result		CGU carrying amount did not exceed the recoverable amount.	CGU carrying amount did not exceed the recoverable amount.
Conclusion		No impairment of non-financial assets is recognised.	No impairment of non-financial assets is recognised.

The table below summarises the effect of a reasonably possible change in the key assumptions for the NZHL CGU. The impact reflects the change in the calculated recoverable amount and impairment of goodwill.

Dollars in millions	30/06/23		30/06/22	
	Change in recoverable amount	Impairment	Change in recoverable amount	Impairment
Discount rate [+0.5%]	(2)	-	(2)	-
Terminal growth rate [-0.5%]	(1)	-	(2)	-
Gross profit cash flows [-10% per annum]	(13)	-	(12)	-

Notes to the consolidated financial statements

23. Other liabilities



Accounting policy

Other liabilities are initially measured at fair value less 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.

Provisions

The 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 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 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 Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. The Group's leases primarily relate to property leases for corporate offices and retail branch sites that are either direct leases or subleases.

Dollars in millions	30/06/23	30/06/22
Trade and other payables	33	37
Contract liabilities	8	6
Current tax liability	58	42
Employee entitlements	41	36
ECL allowance on undrawn facilities	7	8
Provisions	21	17
Lease liabilities	91	96
Other liabilities	24	11
Total other liabilities	283	253
Current	202	166
Non-current	81	87

In the event of liquidation, these creditors rank in priority to subordinated debt holders, shareholders and holders of Kiwibank's 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)
Balance at end of the year	7	14	21	8	9	17

Notes to the consolidated financial statements

23. Other liabilities continued

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 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	117	8	125
Additions/(disposals)	8	1	9	(9)	-	(9)
Accretion of interest	2	-	2	3	1	4
Payments	(14)	(2)	(16)	(15)	(4)	(19)
Moved to liabilities held for sale	-	-	-	(5)	-	(5)
Balance at end of the year	87	4	91	91	5	96

24. Assets and liabilities held for sale



Accounting policy

Assets and liabilities held for sale

Assets and liabilities are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use, and the sale is considered highly probable. Assets and liabilities are measured at the lower of the carrying amount and fair value less cost to sell, except for assets such as deferred tax assets, financial assets and contractual rights under insurance contracts which are governed by NZ IAS 12, NZ IFRS 9 and NZ IFRS 4.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Assets and liabilities classified as held for sale are presented separately from other assets and liabilities in the balance sheet.

Discontinued operations

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

Funds under management

Subsidiaries of Kiwi Wealth Group act as managers for a number of investment funds. The assets and liabilities of these funds are not included in the consolidated financial statements when the Group does not have control of the funds. Fees earned in respect of these activities are recognised as the performance obligation is met (which is over the service period) and are only recognised when it is probable that the revenue will be received.

Recognition of impairment losses and reversals

If a non-current asset is part of a discontinued operation, the recoverable amount is the asset's fair value less costs to sell, and any impairment loss is recognised in 'Profit after taxation from discontinued operations'. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units ("CGU's")).

A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Non-current assets are not depreciated or amortised when classified as held for sale or included as part of a disposal group that is classified as held for sale.

Notes to the consolidated financial statements

24. Assets and liabilities held for sale continued

Kiwi Wealth Group

On 30 March 2022 the Board approved the release of an Information Memorandum to the market regarding the sale of Kiwi Wealth Group (Kiwi Wealth Management Limited and its subsidiaries). The business was subsequently purchased by Fisher Funds Management Limited ("Fisher Funds"). Under the deal Fisher Funds purchased 100% of the shares in Kiwi Wealth Management Limited. On 30 November 2022 the transaction was completed, and Kiwi Wealth was derecognised from the Group.

Analysis of profit after taxation from discontinued operations

Dollars in millions	30/06/23		30/06/22		
	Kiwi Wealth Group	Total	Kiwi Insurance	Kiwi Wealth Group	Total
Total operating income	29	29	9	111	120
Total operating expenses	(27)	(27)	(6)	(70)	(76)
Gain on sale of discontinued operation	233	233	17	-	17
Profit before taxation	235	235	20	41	61
Income tax expense	2	2	1	(3)	(2)
Profit after taxation from discontinued operations	237	237	21	38	59
Attributable to owners of the Parent	237	237	21	38	59
Attributable to non-controlling interests	-	-	-	-	-

Cash flows provided by discontinued operations

Dollars in millions	30/06/23		30/06/22		
	Kiwi Wealth Group	Total	Kiwi Insurance	Kiwi Wealth Group	Total
Net cash (used in)/provided by:					
- Operating activities	(5)	(5)	3	14	17
- Investing activities	303	303	43	32	75
- Financing activities	-	-	-	(1)	(1)
Net cash inflows from discontinued operations	298	298	46	45	91

Notes to the consolidated financial statements

24. Assets and liabilities held for sale continued

Assets and liabilities held for sale

Dollars in millions	30/06/23	30/06/22
	Kiwi Wealth Group	Kiwi Wealth Group
Cash and cash equivalents	-	35
Intangible assets – goodwill	-	44
Intangible assets – acquired customer relationships	-	10
Intangible assets – computer software	-	14
Premises and equipment	-	9
Other assets	-	7
Total assets held for sale	-	119
Deferred tax	-	4
Other liabilities – lease liabilities	-	5
Other liabilities	-	13
Total liabilities held for sale	-	22

Sale of Kiwi Wealth Group

Dollars in millions	30/11/22
Total consideration received	324
Cost of disposal	(6)
Net consideration received	318
Carrying amount of net assets sold	(85)
Gain on sale	233
Carrying amounts of assets and liabilities at the date of sale	
Cash and cash equivalents	15
Premises and equipment	8
Intangible assets – goodwill	44
Intangible assets – acquired customer relationships	10
Intangible assets – computer software	12
Other assets	10
Total assets	99
Other liabilities	14
Total liabilities	14
Net assets	85

Notes to the consolidated financial statements

25. 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.

ii) Redeemable preference shares

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

iii) Distributions

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

Non-controlling interests

i) Perpetual preference shares

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

ii) Discretionary distributions

Discretionary distributions made in respect of perpetual preference shares are recognised as a liability in the consolidated financial statements in the reporting period in which the distribution is approved and are recognised as deductions from equity.

iii) Link Financial Group

Equity attributable to the non-controlling shareholders of Link Financial Group.

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 the Parent at the reporting date was 2,107.9 million (30 June 2022: 911.2 million (relates to KGHL)). 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. Of the issued ordinary share capital, 50% is owned by the Minister of Finance and 50% is owned by the Minister for State-Owned Enterprises.

Redeemable preference shares

The total authorised number of redeemable preference shares in the Parent at the reporting date was nil (30 June 2022: 247 million). On 30 November 2022 all redeemable preference shares were eliminated on consolidation when KGCL acquired KGHL.

Notes to the consolidated financial statements

25. Equity continued

Dollars in millions	30/06/23	30/06/22
Ordinary shares		
Balance at beginning of the year (2023: 911.2m shares; 2022: 911.2m shares)	929	929
Taxable bonus issue of shares by KGHL (2023: 374.3m shares; 2022: nil shares)	537	-
Issue of shares by KGCL (2023: 2,107.9m shares; 2022: nil shares)	2,108	-
Effect of capital reorganisation	(1,466)	-
Ordinary share capital at end of the year (2023: 2,107.9m shares; 2022: 911.2m shares)	2,108	929
Redeemable preference shares		
Balance at beginning of the year (2023: 247m shares; 2022: 247m shares)	247	247
Effect of capital reorganisation	(247)	-
Redeemable preference share capital at end of the year (2023: nil shares; 2022: 247m shares)	-	247
Balance at end of the year	2,108	1,176

On 31 October 2022, KGHL completed a taxable bonus share issue of \$537.4m to previous shareholders NZP, NZSF and ACC.

On 30 November 2022, KGHL was purchased by KGCL. KGCL issued shares of \$2,108m to its shareholders, the Minister of Finance and Minister for State-Owned Enterprises. A total of 300,000 ordinary shares were issued at \$1 for cash consideration for the purposes of KGCL's working capital requirements. The remaining shares were issued in relation to the capital reorganisation transaction; refer to Note 2.2. Subsequently, on 31 March 2023, KGHL was amalgamated into KGCL.

On 30 November 2022, the redeemable preference shares were eliminated on consolidation. Subsequently, on 31 March 2023, the redeemable preference shares were cancelled on amalgamation of KGHL into KGCL.

Reserves

Dollars in millions	30/06/23	30/06/22
Balance at beginning of the year	819	571
Profit for the year attributable to owners of the Parent	406	177
Distributions to holders of perpetual capital notes	-	(3)
Transfer to retained earnings on redemption of perpetual capital notes	-	42
Dividends paid on ordinary shares	(16)	(71)
Taxable bonus issue of shares by KGHL	(537)	-
Dividends paid on KGHL's redeemable preference shares	(9)	(22)
Effect of capital reorganisation	(395)	-
Net movement in fair value reserve	15	(66)
Net movement in cash flow hedge reserve	(58)	191
Balance at end of the year	225	819

Cash flow hedging reserve

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 the income statement	62	(1)
Balance at end of the year	152	210

Notes to the consolidated financial statements

25. Equity continued

Fair value reserve

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 the income statement	(8)	1
Balance at end of the year	(50)	(65)

Non-controlling interests

Dollars in millions	30/06/23	30/06/22
Balance at beginning of the year	246	42
Transfer to retained earnings on redemption of perpetual capital notes	-	(42)
Issue of perpetual preference shares by Kiwibank	-	246
Acquisition of subsidiary with non-controlling interests	1	-
Net profit attributed to non-controlling interests	9	4
Distributions to holders of perpetual preference shares	(9)	(4)
Balance at end of the year	247	246

Non-controlling interests at the end of the year include 250m perpetual preference shares ("PPS") issued by Kiwibank, net of directly attributable issue costs, and \$1m relating to non-controlling interests of Link Financial Group.

The PPS were issued in November 2021 for the purpose of meeting RBNZ's Banking Prudential Requirements as the PPS qualify as Additional Tier 1 capital for the Banking Group for Capital Adequacy calculation purposes.

The total authorised number of PPS in Kiwibank at the reporting date was 250m (30 June 2022: 250m). All issued PPS are fully paid and do not carry any voting rights. The PPS are classified as equity instruments within the Banking Group 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 are payable quarterly at the discretion of the directors of Kiwibank and are non-cumulative. Kiwibank must not resolve to pay any dividend to KGCL or make any other distribution on its ordinary shares until the next preference distribution payment date if the directors elect not to pay a distribution on the PPS. Should Kiwibank elect to pay a distribution, the distribution is payable at 4.93% per annum (the distribution rate will be reset on five-yearly intervals).

Capital management

The primary objective of the Group's capital management policy is to ensure that it continues as a going concern and to maintain optimal returns to shareholders. The Parent does not have any externally imposed capital requirements.

The Banking Group is subject to capital requirements imposed by the RBNZ. The primary objective of the Banking Group's capital management policy is to ensure that the Banking Group complies with externally imposed capital requirements and maintains strong credit ratings in order to support its business. The Banking Group manages its capital structure and makes adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, Kiwibank may adjust the amount of dividend payment to its shareholder, return capital to its shareholder or issue capital securities.

A series of increases in the Banking Group's 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 of Kiwibank.

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%.

Notes to the consolidated financial statements

25. Equity continued

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 and distributions

Dollars in millions	30/06/23	30/06/22
Declared and paid on ordinary shares during the year:		
1.76 cents per share (2022: 7.79 cents per share)	16	71
Total dividends paid on ordinary shares	16	71
Declared and paid on KGHL's redeemable preference shares during the year:		
3.75 cents per share (2022: 9.00 cents per share)	9	22
Total dividends paid on redeemable preference shares	9	22

26. Related entities

The consolidated financial statements of the Group, in addition to the Parent, include the following controlled entities:

Name of entity	Principal activity	Equity interest	
		30/06/23	30/06/22
Kiwi Group Holdings Limited ¹	Parent entity	-	-
Kiwibank Limited	Registered bank	100%	100%
Kiwi Wealth Management Limited ²	Parent entity of wealth management group	-	100%
The New Zealand Home Loan Company Limited	Provision of mortgage and insurance services	100%	100%
NZHL Holdings Limited ³	Provision of mortgage and insurance services	100%	-
NZHL Mortgage Advisory Limited ³	Provision of mortgage and insurance services	100%	-
Advice Link (NZ) Limited ⁴	Provision of customer relationship management software platform	60.5%	-
Link Advisory Services Limited ⁴	Provision of insurance services	75.5%	-
Link Financial Group 2022 Limited ⁴	Provision of mortgage and insurance aggregation services	75.5%	-
Insurance Link General Limited ⁴	Provision of insurance services	38.5%	-
Kiwibank Investment Management Limited	Provision of investment management services	100%	100%
Kiwi Wealth Investments General Partner Limited ²	General Partner of wealth management services	-	100%
Kiwi Wealth Investments Limited Partnership ²	Limited Partner of wealth management services	-	100%
Kiwi Investment Management Limited ²	Provider of wealth management services	-	100%
Kiwi Wealth Limited ²	Provider of wealth management services	-	100%
Portfolio Custodial Nominees Limited ²	Provision of custodial services to customers in respect of assets that are beneficially owned by those customers	-	100%
Kiwi Asset Finance Limited ("KAFL")	Asset finance company	n/a ⁵	100%
Kiwi Capital Funding Limited	Issuer of debt instruments	n/a ⁶	100%
Kiwibank PIE Unit Trust ⁷ ("PIE Unit Trust")	Managed portfolio investment entity	-	-
Kiwibank RMBS Trust Series 2009-1 ⁷	Securitisation finance entity	-	-
Kiwi Covered Bond Trust ⁷	Securitisation finance entity	-	-

¹ Kiwi Group Holdings Limited was acquired by KGCL on 30 November 2022 and amalgamated with KGCL on 31 March 2023.

² These entities are part of the Kiwi Wealth Group. The Group sold its interest in the Kiwi Wealth Group on 30 November 2022.

³ These entities are part of The New Zealand Home Loan Group. NZHL Holdings Limited was incorporated on 3 November 2022. NZHL Mortgage Advisory was incorporated on 24 March 2023.

⁴ These entities are part of the Link Financial Group. Advice Link (NZ) Limited was acquired on 30 November 2022. Link Financial Group 2022 Limited, Link Advisory Services Limited and Insurance Link General Limited were acquired on 17 April 2023.

⁵ Kiwi Asset Finance Limited amalgamated with Kiwibank Limited on 30 June 2023.

⁶ Kiwi Capital Funding Limited amalgamated with Kiwi Group Holdings Limited on 30 September 2022.

⁷ The Group consolidates the PIE Unit Trust, the Kiwibank RMBS Trust Series 2009-1, and the Kiwi Covered Bond Trust on the basis that it is deemed to control these entities.

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

Notes to the consolidated financial statements

26. Related entities continued

Transactions with related entities

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

The Group sold its interest in the Kiwi Wealth Group on 30 November 2022. Transactions with funds which were managed by Kiwi Wealth Group have been included until the sale of Kiwi Wealth Group occurred.

All transactions with the NZP Group, ACC, NZSF, Guardians of New Zealand Superannuation and funds managed by Kiwi Wealth Group were conducted within the Group's approved policies. Refer to Note 25 for details of dividends paid to shareholders.

The Group also undertakes transactions with the Crown, State-Owned Enterprises and government departments that have not been included as related party transactions.

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

Dollars in millions	30/06/23	30/06/22
Outstanding balances		
Deposits and other borrowings		
NZP Superannuation Plan	-	5
Funds managed by Kiwi Wealth Group	-	68
Total due to related parties included in deposits and other borrowings	-	73
Debt securities issued		
Funds managed by Kiwi Wealth Group	-	9
Total due to related parties included in debt securities issued	-	9
Total outstanding balances due to related parties	-	82
Receivables		
Loans and advances		
Joint ventures of NZSF	-	15
Total due from related parties included in loans and advances	-	15
Total receivable from related parties	-	15

The table below shows material transactions with related entities.

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Interest income		
Interest received or due from joint ventures of NZSF	-	1
Total interest income received or due from related parties	-	1
Interest expense		
Interest paid or due to Guardians of NZ Superannuation	-	(1)
Total interest expense paid or due to related parties	-	(1)
Operating expenses		
Operating expenses paid or due to NZP	(1)	(5)
Operating expenses paid or due to joint ventures of NZSF	(8)	(17)
Total operating expenses paid or due to related parties	(9)	(22)
Other transactions		
Purchase of premises and equipment assets from joint ventures of NZSF	-	(2)

Notes to the consolidated financial statements

26. Related entities continued

Transactions with key management personnel

All transactions with 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 or customers. Loans are on terms of repayment that range between fixed and variable, all of which have been made in accordance with the 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 members of the Parent and Kiwibank, and members of the senior executive team of the Parent and Kiwibank.

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

Dollars in millions	Year ended 30/06/23	Year ended 30/06/22
Salaries and short-term benefits paid to key management personnel	9	8
Long-term benefits paid to key management personnel	10	1
Termination benefits paid to key management personnel	-	1
Total key management personnel compensation	19	10

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

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

The Group sold its interest in Kiwi Wealth Group effective 30 November 2022. As at 30 June 2022, funds under management for key management personnel managed by Kiwi Wealth Group were \$3m.

Long-term benefits

During the year ended 30 June 2021, Kiwibank entered into a cash-based long-term incentive scheme ("LTI") with its Executive Committee. 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, Kiwibank entered into a further cash-based incentive scheme with senior management and key employees, which includes its Executive Committee, 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 Kiwibank. If this condition is not met, amounts previously paid under the scheme are required to be reimbursed to Kiwibank. 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').

Notes to the consolidated financial statements

27. Securitisation and funds under management

Securitised 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 include 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 Group to enter into a repurchase agreement on these loans with the RBNZ. The 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 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 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 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 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 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 Group).

Repurchase agreements

The Group enters into sale and repurchase agreements with the wider market in order to manage short-term liquidity. Under the repurchase agreements, collateral in the form of securities is advanced to a third party and the Group receives cash in exchange. The counterparty has an obligation to return the collateral at the maturity of the contract. The 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 within the 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 Group has recognised liabilities for outstanding repurchase agreements of \$1,516m (30 June 2022: \$1,562m).

Funding for Lending Programme and Term Lending Facility

Kiwibank has entered into an agreement with the RBNZ to draw down funds under the Funding for Lending Programme and Term Lending Facility. RMBS-backed securities have been pledged as approved eligible collateral. Refer to Note 16 'Due to other financial institutions' for details of the agreements.

Funds management

A subsidiary of the Group acts as the manager for the Kiwibank PIE Unit Trust (the "PIE Unit Trust"). The Trust was established in May 2008 and 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 (refer to Note 17). At 30 June 2023, a total of \$6,235m of funds under management were invested in Kiwibank's own products or securities (30 June 2022: \$5,215m).

Subsidiaries of the Kiwi Wealth Group act as the manager for a number of unit trusts and investment funds, including the Kiwi Wealth KiwiSaver Scheme. The Group sold its interest in the Kiwi Wealth Group on 30 November 2022.

Notes to the consolidated financial statements

28. Risk management

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

The Group 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.

1. Credit risk

Credit risk overview, management and control responsibilities

The Group's credit risks arise from lending to customers and from inter-bank, Treasury, international and capital market activities, all of which are carried out by the Banking Group. The Banking Group has clearly defined credit policies and frameworks for the approval and management of credit risk.

The credit risk management framework ensures a consistent approach is applied across the Banking Group when the credit risk appetite set by the Board is measured, monitored and managed. The Board requires sound lending growth for appropriate returns, and is assisted by Kiwibank's Audit and Risk Committee ("**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 credit management policies and practices;
- 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 Credit Management function, with monitoring by the Banking Group's Credit Risk Committee and oversight by the Banking Group's Executive Risk Committee.

Key elements of the credit risk management framework are:

- **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 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 consolidated financial statements

28. Risk management continued

- **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 International Swaps and Derivatives Association ("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 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 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 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.

Credit quality of loans and advances and undrawn credit commitments

The following tables show 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.

Notes to the consolidated financial statements

28. Risk management continued

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	20,568	-	-	-	20,568
4 – 5	7,863	-	-	-	7,863
6 – 7	3,997	1,137	-	-	5,134
8 – 9	35	209	-	-	244
10 – 12	-	-	51	9	60
Total credit exposure by risk grade	32,463	1,346	51	9	33,869

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	19,760	-	-	-	19,760
4 – 5	7,732	-	-	-	7,732
6 – 7	3,773	869	-	-	4,642
8 – 9	13	92	-	-	105
10 – 12	-	-	24	2	26
Total credit exposure by risk grade	31,278	961	24	2	32,265

Credit quality of investment securities

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

Impacts of climate change on credit risk

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

Specific climate-related risks for the Group are primarily due to lending to customers who could be impacted by climate change through physical risks (including climate- and 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 *Climate change management* on page 74 for more details on the work underway by the Group to monitor, assess and manage this risk.

Notes to the consolidated financial statements

28. Risk management continued

2. Market risk

Market risk arises from the Banking Group'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 Banking Group's Audit and Risk Committee ("**ARC**") approves Market Risk Policies, and delegates management oversight of the market risk framework to the Banking Group'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 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 Group reduces interest rate risk by seeking to match the repricing of assets and liabilities. A substantial portion of customer deposits and lending is at variable rates, which are periodically adjusted to reflect market movements. Where natural hedging still leaves an interest rate mismatch, the residual risks are hedged within predefined limits through the use of interest rate swaps and other derivative financial instruments.

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

Notes to the consolidated financial statements

28. Risk management continued

Currency risk management

Currency risk results from the mismatch of foreign currency assets and liabilities. These mismatches arise within the Banking Group 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 the Kiwibank Board's 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 Group does not carry any material net foreign currency exposure.

Equity risk

Equity risk results from repricing equity investments. The 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 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 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 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 for the Banking Group is measured by and managed in accordance with the policies and processes defined in the Banking Group's Board-approved Liquidity Framework and Liquidity Policy. The 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.

Kiwibank's Treasury business unit has day-to-day responsibility for liquidity management and monitoring the 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 Group monitors this risk daily, primarily by forecasting future cash requirements, both under normal conditions and during crisis situations. The 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 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 Group to a robust position within risk tolerance in the event of a liquidity crisis.

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

Notes to the consolidated financial statements

28. Risk management continued

Liquidity risk management process

The 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 Group's funding plan, which includes the development of sustainable wholesale funding capacity; and
- stress-testing the 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 Group holds a diversified portfolio of high-quality liquid securities to support its liquidity risk management. The size of the 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.

As at 30 June 2023, Kiwibank also held unencumbered internal residential mortgage-backed securities which would entitle the Group to enter into repurchase transactions. Residential mortgage-backed securities disclosed below are available to be utilised for liquidity purposes; refer to Note 27 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 percent. 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
Total	5,542	5,148

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

Notes to the consolidated financial statements

28. Risk management continued

Maturity analysis of financial liabilities

The following tables present the Group's cash flows for financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in each table are the contractual undiscounted cash flows and include principal and future interest cash flows, therefore may not agree with the carrying values reported in the balance sheet. The 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	Up to 3 months	3 to 12 months	Between 1 and 5 years	More than 5 years	Gross nominal inflow/outflow	Carrying amount
Non-derivative cash flows								
Financial liabilities								
Due to other financial institutions	(13)	(269)	-	(582)	(999)	-	(1,863)	(1,768)
Deposits and other borrowings	(10,815)	(1,699)	(5,870)	(6,856)	(558)	-	(25,798)	(25,499)
Debt securities issued	-	(15)	(203)	(630)	(2,489)	(129)	(3,466)	(3,038)
Other financial liabilities ¹	-	(45)	(3)	(12)	(45)	(42)	(147)	(134)
Subordinated debt	-	-	(5)	(14)	(536)	-	(555)	(446)
Total	(10,828)	(2,028)	(6,081)	(8,094)	(4,627)	(171)	(31,829)	(30,885)
Derivative cash flows								
Net settled	-	(28)	(34)	(59)	(94)	(4)	(219)	
Gross settled – inflows	-	80	111	333	897	129	1,550	
Gross settled – outflows	-	(86)	(115)	(350)	(921)	(112)	(1,584)	
Total	-	(34)	(38)	(76)	(118)	13	(253)	
Off-balance-sheet cash flows								
Letters of credit and performance-related contingencies	(79)	-	-	-	-	-	(79)	
Loan commitments	(4,034)	-	-	-	-	-	(4,034)	
Total	(4,113)	-	-	-	-	-	(4,113)	

¹ 'Up to 3 months' to 'More than 5 years' for 'Other financial liabilities' relates to lease liabilities. All other financial liabilities are on demand.

Notes to the consolidated financial statements

28. Risk management continued

Maturity analysis of financial liabilities continued

	30/06/22							
Dollars in millions	On demand	Up to 1 month	Up to 3 months	3 to 12 months	Between 1 and 5 years	More than 5 years	Gross nominal inflow/outflow	Carrying amount
Non-derivative cash flows								
Financial Liabilities								
Due to other financial institutions	-	(672)	-	(59)	(1,193)	-	(1,924)	(1,839)
Deposits and other borrowings	(11,327)	(1,312)	(5,463)	(5,808)	(409)	-	(24,319)	(24,205)
Debt securities issued	-	(122)	(283)	(325)	(1,859)	(301)	(2,890)	(2,579)
Other financial liabilities ¹	-	(45)	(3)	(11)	(46)	(47)	(152)	(137)
Subordinated debt	-	-	(2)	(5)	(291)	-	(298)	(250)
Total	(11,327)	(2,151)	(5,751)	(6,208)	(3,798)	(348)	(29,583)	(29,010)
Derivative cash flows								
Net settled	-	(4)	(6)	(48)	(118)	(5)	(181)	
Gross settled – inflows	-	181	145	181	72	301	880	
Gross settled – outflows	-	(186)	(156)	(190)	(97)	(291)	(920)	
Total	-	(9)	(17)	(57)	(143)	5	(221)	-
Off-balance-sheet cash flows								
Letters of credit and performance-related contingencies	(83)	-	-	-	-	-	-	
Loan commitments	(4,467)	-	-	-	-	-	-	
Total	(4,550)	-	-	-	-	-	-	

¹ 'Up to 3 months' to 'More than 5 years' for 'Other financial liabilities' relates to lease liabilities. All other financial liabilities are on demand.

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

4. Capital risk

Capital risk is the risk that the Group has insufficient capital or a sub-optimal quality of 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 Group's capital management strategy seeks to ensure the Group is adequately capitalised while recognising capital is often an expensive form of funding or insurance. The 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. 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). Kiwibank's Board of Directors has ultimate responsibility for capital adequacy of the Banking Group and approves capital policy and minimum internal capital levels and limits.

Refer to Note 25 'Equity' for a detailed analysis of the Banking Group's capital management.

Notes to the consolidated financial statements

28. Risk management continued

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 processes 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 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 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 management within the Group is based on the following core elements:

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

Climate change management

The 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. Climate change risks are primarily managed at the Banking Group level.

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:** Kiwibank's ARC has responsibility for the oversight of all risk domains, which includes managing climate risk, as delegated by Kiwibank's 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 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.

Notes to the consolidated financial statements

29. Auditor's remuneration

Dollars in thousands	Year ended 30/06/23	Year ended 30/06/22
Auditor's remuneration		
Audit and review engagements ¹	2,507	2,254
Other services:		
Audit of the financial statements of off-balance-sheet funds and schemes managed by subsidiaries of the Group	-	494
Controls assurance services – custody	-	155
Other assurance services ²	10	70
Other services ³	64	212
Total auditor's remuneration	2,581	3,185

¹ '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.

² 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; limited assurance over solvency for Kiwibank and the Banking Group; reasonable assurance over registry compliance in respect of funds and schemes managed by Kiwi Wealth Group; and audit of the completion net assets statement in relation to the sale of Kiwi Insurance).

³ Other services comprise agreed-upon procedures over debt programmes and agreed-upon procedures over KGHL's statement of cash, liquid assets, and due to related parties (2022: agreed-upon procedures for a debt programme; agreed-upon procedures relating to a comfort letter for the establishment of a debt programme; preliminary work on an assurance engagement on Business Finance Guarantee Scheme reporting for Kiwibank; agreed-upon procedures on internal controls for Kiwi Wealth Group; agreed-upon procedures on net tangible assets for Kiwi Wealth Group; and reporting to the Supervisor and Trustee for funds and schemes managed by Kiwi Wealth Group and Kiwi Capital Funding Limited).

30. Capital expenditure commitments

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

31. Contingent liabilities and loan 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 Group is subject to regulatory oversight and also 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 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 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 Group is obliged to make payments to a third party if a customer fails to fulfil its obligations under a contract.

Notes to the consolidated financial statements

31. Contingent liabilities and loan commitments continued

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
Total undrawn credit commitments	4,113	4,550

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

32. Events subsequent to the reporting date

Kiwibank

On 2 August 2023, Kiwibank's 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 consolidated financial statements.

Statutory disclosures

Disclosures – Companies Act 1993

The following disclosures are for Kiwi Group Capital Limited and its subsidiaries ("KGC Group") for the year ended 30 June 2023.

Donations

During the year, KGC Group made donations of \$381,369. No donations were made to political parties.

Remuneration bands

Section 211(1)(g) of the Companies Act 1993, as well as section 152(1)(c) of the Crown Entities Act 2004, requires disclosure of the number of employees or former employees of the Company whose remuneration and other benefits received by them during the year, in their capacity as employees, was equal to or exceeded \$100,000 per annum and to state the number of employees or former employees in brackets of \$10,000.

Remuneration includes base salary, incentive payments and other benefits, termination payments, and superannuation payments made to employees and former employees between 1 July 2022 and 30 June 2023 for KGC Group. Termination payments (i.e. redundancy compensation) to former employees are included where relevant. The information below relates to companies within the KGC Group as at 30 June 2023.

Band	KGC Group Total in band for year ended 30/06/23
\$100,000 – \$109,999	121
\$110,000 – \$119,999	102
\$120,000 – \$129,999	114
\$130,000 – \$139,999	92
\$140,000 – \$149,999	97
\$150,000 – \$159,999	73
\$160,000 – \$169,999	65
\$170,000 – \$179,999	45
\$180,000 – \$189,999	44
\$190,000 – \$199,999	28
\$200,000 – \$209,999	15
\$210,000 – \$219,999	24
\$220,000 – \$229,999	9
\$230,000 – \$239,999	14
\$240,000 – \$249,999	6
\$250,000 – \$259,999	7
\$260,000 – \$269,999	8
\$270,000 – \$279,999	7
\$280,000 – \$289,999	4
\$290,000 – \$299,999	4
\$300,000 – \$309,999	7
\$310,000 – \$319,999	3
\$320,000 – \$329,999	5
\$330,000 – \$339,999	1
\$340,000 – \$349,999	2
\$350,000 – \$359,999	4
\$360,000 – \$369,999	1
\$370,000 – \$379,999	4
\$380,000 – \$389,999	6
\$410,000 – \$419,999	3
\$420,000 – \$429,999	2

Statutory disclosures

Remuneration bands continued

Band	KGC Group Total in band for year ended 30/06/23
\$430,000 – \$439,999	2
\$460,000 – \$469,999	1
\$480,000 – \$489,999	1
\$510,000 – \$519,999	2
\$530,000 – \$539,999	1
\$790,000 – \$799,999	1
\$850,000 – \$859,999	1
\$870,000 – \$879,999	1
\$880,000 – \$889,999	1
\$1,000,000 – \$1,009,999	1
\$1,040,000 – \$1,049,999	1
\$1,170,000 – \$1,179,999	1
\$1,220,000 – \$1,229,999	1
\$1,290,000 – \$1,299,999	1
\$2,540,000 – \$2,549,999	1

Directors' fees and benefits

The total fees paid to members of the Kiwi Group Holdings Board during the period ended 31 March 2023 were \$312,583*.

Dame Paula Rebstock (Chair) (retired upon amalgamation with KGCL on 31 March 2023)	\$147,083
Jacqueline (Jackie) Lloyd (retired upon amalgamation with KGCL on 31 March 2023)	\$56,000
Norbert Bojarski (resigned as director effective 30 November 2022)	\$25,750**
William (Will) Goodwin (retired upon amalgamation with KGCL on 31 March 2023)	\$58,000***
Richie Smith (resigned as director effective 30 November 2022)	\$25,750

* These fees exclude GST (if any) and relate to the Kiwi Group Holdings Board only (including fees for Board committees).

** Fees paid to New Zealand Post

*** Fees paid to Guardians of New Zealand Superannuation

The total fees paid to members of the Kiwi Group Capital Board during the year ended 30 June 2023 were \$141,146****.

David McLean (Chair) (appointed as Chair on 22 November 2022)	\$76,042
Sir Brian Roche (appointed as director on 22 November 2022)	\$38,012
Rukumoana Schaafhausen (appointed as director on 13 April 2023)	\$13,542
Michael (Mike) Pohio (appointed as director on 13 April 2023)	\$13,542

**** These fees exclude GST (if any) and relate to the Kiwi Group Capital Board only (including fees for Board committees).

Statutory disclosures

Directors of Kiwi Group Capital subsidiaries

Director	Subsidiary	Total fees and benefits paid during year ended 30/06/23 (NZD)
Paul Barnes	NZHL Mortgage Advisory Limited (from March 2023)	-
	NZHL Holdings Limited (from November 2022)	-
	Link Advisory Services Limited (from November 2022)	-
	Link Financial Group 2022 Limited (from November 2022)	-
	Advice Link (NZ) Limited (from November 2022)	-
	Insurance Link General Limited (from April 2023)	-
Gregg Behrens	Kiwibank Limited (until June 2023)	\$100,000
Ian Blair	Kiwibank Limited	\$110,000*
		* Incl. fees paid as member of the Audit and Risk Committee
Norbert Bojarski	Kiwi Capital Funding Limited (until September 2022)	-
Josua Bronkhorst	Link Advisory Services Limited (from December 2022)	-
	Link Financial Group 2022 Limited (from November 2022)	-
	Advice Link (NZ) Limited	-
	Insurance Link General Limited	-
Monique Cairns	The New Zealand Home Loan Company Limited (Deputy Chair)	\$68,161
Carol Campbell	Kiwibank Limited (until June 2023)	\$110,000*
		* Incl. fees paid as member of the Audit and Risk Committee
Kirsty Campbell	The New Zealand Home Loan Company Limited	\$60,950
Paul Chambers	Kiwibank Investment Management Limited (Chair)	-
Mary Jane Daly	Kiwibank Limited	\$131,600*
		* Incl. fees paid as Chair of the Audit and Risk Committee and continuing education allowance
Matthew Gilbert	Advice Link (NZ) Limited	-
Kip Hanna	NZHL Mortgage Advisory Limited (from March 2023)	-
	NZHL Holdings Limited (from November 2022)	-
	Link Advisory Services Limited (Chair) (from November 2022)	-
	Link Financial Group 2022 Limited (Chair) (from November 2022)	-
	Advice Link (NZ) Limited (Chair) (from November 2022)	-
	Insurance Link General Limited (Chair) (from April 2023)	-
Jonathan (Jon) Hartley QSO	Kiwibank Limited (Chair)	\$244,339*
		* Incl. fees paid as member of the Audit and Risk Committee
Mike Hendriksen	Kiwi Asset Finance Limited (Chair) (until June 2023)	-
Kate Jorgensen	Kiwibank Limited (from June 2023)	\$8,333*
		* Incl. fees paid as member of the Audit and Risk Committee
Kevin Malloy	Kiwibank Limited	\$115,000*
		* Incl. fees paid as Chair of the Remuneration, People and Culture Committee

Statutory disclosures

Directors of Kiwi Group Capital's subsidiaries continued

Director	Subsidiary	Total fees and benefits paid during year ended 30/06/23 (NZD)
Doris Murphy	NZHL Holdings Limited (from December 2022)	-
	Link Advisory Services Limited (from December 2022)	-
	Link Financial Group 2022 Limited (from December 2022)	-
	Advice Link (NZ) Limited (from November 2022)	-
	Insurance Link General Limited (from April 2023)	-
Scott Pickering	Kiwibank Limited	\$100,000
David Smith	Kiwi Capital Funding Limited (Chair) (until September 2022)	\$6,250
Elliot Smith	Kiwibank Investments Management Limited	-
Robert (Rob) Smith	The New Zealand Home Loan Company Limited	\$60,946
John Sproat	Kiwibank Limited (until November 2022)	\$41,667
Richard Westlake	The New Zealand Home Loan Company Limited (Chair)	\$98,000

Statutory disclosures

Disclosure of interests by directors

No specific disclosures were given by directors pursuant to section 140(1) of the Companies Act 1993. The following are particulars of general disclosures of interest made by directors holding office as at 30 June 2023, pursuant to section 140(2) of the Companies Act 1993. Any changes to entries disclosed during the year to 30 June 2023 are noted in brackets for the purpose of section 211(1)(e) of the Companies Act 1993.

Director	Interest
David McLean (Chair) (from incorporation on 23 November 2022)	Director, Bibi McLean Trustee Limited Director, FM Trustees 248 Limited Chair, KiwiRail Holdings Limited
Sir Brian Roche (from incorporation on 23 November 2022)	Chair, Antarctica NZ Limited Chair, Tait Limited and Tait International Limited Chair, Waka Kotahi (ceased January 2023) Director, Kettle Advisory Services Limited Director, Timberlands Limited Director, Pouakai New Zealand Limited Director, Whangahaumarū GP Limited Director, Marist Holdings (Greenmeadows) Limited Director, Winery Concert Holdings Limited Director, Ngāpuhi Investment Fund Limited Chair, Hugh Green Group GP Limited Chair, Hugh Green Limited Chair, Hugh Green Commercial Limited Chair, Park Green Residential Limited Director, Weiti Green Limited Director, Redhills Green Limited Chair, Kilmacrennan Farm Limited Director, Centre for Climate Action Joint Venture Limited (from January 2023) Director, City Rail Link (until April 2023) Chair, Cyclone Gabrielle Recovery Taskforce (from March 2023) Consultant/Advisor, Department of Internal Affairs (Three Waters Reform) Coach, PwC
Michael (Mike) Pohio (appointed 13 April 2023)	Chair, Ngāi Tahu Holdings Corporation Chair, Rotoiti 15 Investments General Partner Limited Chair, Mana Ahuriri Management Limited Director, Argosy Property Limited Director, Te Atiawa Iwi Holdings Management Limited Director, Te Atiawa (Taranaki) Holdings Limited Settlor, trustee and beneficiary, Pohio Family Trust Director and Shareholder, 3PO Whanau Trust Limited Director, 4PO Limited
Rukumoana Schaafhausen (appointed 13 April 2023)	Member, Department of Internal Affairs – Strategic Advisory Committee Member, Ministry of Housing and Urban Development – Strategic Advisory Committee Director, Te Rau o te Korimako Limited Director, Alvarium Investments (NZ) Limited Director, AINZ Holdings Limited Director, Contact Energy Limited Shareholder and Director, Kaitiaki Guardian Services Limited Trustee, Waikato Endowed Colleges Trust Trustee, The Tindall Foundation Trustee, The Prince's Trust New Zealand Director, AgResearch Limited Director, Miro Trading GP Limited Director, Miro-Tupu Ake Limited Director, Hautupua GP Limited Director, Te Whata a Tamihana Limited Director, Te Waharoa Investments (GP) Limited

Statutory disclosures

Disclosure of interests by directors continued

Director	Interest
Rukumoana Schaafhausen (continued)	Shareholder and Director, Schaafhausen Inc Limited
Dame Paula Rebstock (KGHL) (Chair) (retired upon amalgamation into Kiwi Group Capital Limited on 31 March 2023)	Chair, New Zealand Defence Force Governance Board Chair, Auckland District Health Board Finance Risk and Assurance Committee and Director/Shareholder, On Being Bold Chair, Ngāti Whātua Ōrākei Whai Maia Deputy Chair and Director, Vector Limited Director, SeaLink Travel Group New Zealand Limited Director, SeaLink New Zealand Limited Director, SeaLink Pine Harbour Limited Director, Freightlink Limited Senior Consultant, Strategas Chair, National Hauora Coalition Limited (PHO) Chair, Asia Pacific Health Group Director, NZ Healthcare Investments Limited Director, AIA New Zealand Limited Director, Auckland One Rail Limited Director, NZX (from February 2023)
Norbert Bojarski (KGHL) (resigned effective 30 November 2022)	Chief Finance Officer, Flitway Group Limited Director and Shareholder, Business Flow Limited Director and Shareholder, Eximion Limited
Will Goodwin (KGHL) (retired upon amalgamation into Kiwi Group Capital Limited on 31 March 2023)	Employee, Guardians of New Zealand Superannuation Director, NZSF Timber Investments (No. 4) Limited Director, NZSF Frontier Investments, Inc Director, NZ INFRA Limited Director, NZSF Infrastructure Limited Director, INFINZ (Institute of Finance Professionals NZ Inc) Director, NZSF Healthcare Investments Limited Director, NZSF Hotel Holdings Limited (until August 2022) Director, NZSF Land Holdings Limited Director, NZSF Hobsonville Investments Limited Director, NZSF Land Development Limited Director, Hobsonville Development GP Limited Director, New Ground Living (Hobsonville Point) Limited Director, NZSF Beachlands Limited (until December 2022) Director, NZSF Renewables NZ Limited Director, Timberlands Limited (from October 2022) Director, Timberlands Investments Limited (from March 2023) Director, KT1 Co Limited (from October 2022) Director, KT2 Co Limited (from October 2022) Director, Kaingaroa Timberlands Limited (from October 2022) Director, Kaingaroa Investments Limited (from October 2022) Director, KT3 Co Limited (from December 2022)
Jackie Lloyd (KGHL) (retired upon amalgamation into Kiwi Group Capital Limited on 31 March 2023)	Trustee, The Lion Foundation and Chair of Wellington Regional Grants Committee Director, AgResearch Director and Chair, Naylor Love Enterprises Limited (appointed to Chair in November 2022) Director, Naylor Love Limited Director, Naylor Love Properties Limited Director, Naylor Love Construction Limited National Council Member and Vice President, Institute of Directors in New Zealand (Inc) Board Member, Museum of New Zealand Te Papa Tongarewa Director, New Zealand Cricket (until November 2022)

Statutory disclosures

Disclosure of interests by directors continued

Director	Interest
Jackie Lloyd (KGHL)	Director, CentrePort Limited (from November 2022)
(continued)	Director, CentrePort Properties Limited (from November 2022)
Richie Smith (KGHL)	Director, New Zealand Post Limited
(resigned effective 30 November 2022)	Director, New Zealand Post Trustees Limited
	Director, Rimutai Karitane Limited
	Director, Taramea Fragrance Limited
	Director, Supply Chain Solutions (NZ) (2021) Limited
	Director, Hilton Haulage GP Limited
	Director, Polyfabrics Australasia NZ GP 2018 Limited
	Director, Empak NZ 2019 GP Limited
	Director, Donaghys Crop Packing NZ GP 2017 Limited
	Director, Plasback NZ 2019 GP Limited
	Director, Ministry of Merino Limited
	Director and Shareholder, Lands and Survey Holdings Limited
	Director and shareholder, Lands and Survey Limited
	Director and Shareholder, Lands and Survey Auckland Limited
	Director and Shareholder, Lands and Survey Whangārei Limited
	Director and Shareholder, Lands and Survey Group Limited
	Director and Shareholder, Lands and Survey Engineering Limited
	Director and Shareholder, Lake Tekapo Village Motel Limited
	Director, Ligno Process Systems Limited
	Director and Shareholder, Maniototo Holdings Limited
	Director, Puketeraki Limited
	Director and Shareholder, Richie Smith Limited
	Director and Shareholder, Walk On Limited
	Director and Shareholder, Woolaid Limited
	Director, The Boundary Keepers Limited
	Director, Fliway Group Limited
	Director, Fliway Holdings Limited
	Director, Fliway International Limited
	Director, Fliway Logistics Limited
	Director, Fliway Transport Limited

Statutory disclosures

Subsidiary directors' disclosures

Director	Interest
Paul Barnes (appointed 3 November 2022)	-
Gregg Behrens (retired 30 June 2023)	Chair, Kiwi Wealth Group of Companies (until November 2022) Independent Trustee, AQR Funds
Ian Blair	Director and Shareholder, Sapience Limited Director, WSP New Zealand Director and Shareholder, Blair Family Corporate Trustee Limited
Josua Bronkhorst (from acquisition of Advice Link (NZ) Limited 30 November 2022)	Director and Shareholder, IL 2023 Limited Director and Shareholder, ML 2023 Limited
Monique Cairns	Committee Officer, The Northern Club Executive Director and Shareholder, Caribou Consulting Limited Director, Manukau Institute of Technology Limited (until October 2022) Director, Unitec New Zealand Limited (until October 2022) Trustee, NZ Portrait Gallery Director, Harmoney Corp Limited (from August 2022)
Carol Campbell (retired 30 June 2023)	Director, New Zealand Post Limited Director and Shareholder, Hick Bros Holdings Limited Director, AlphaXRT Limited Director, Kingfish Limited Director, Marlin Global Limited Director, Barramundi Limited Director and Shareholder, Nica Trustees KA Limited Director, MH2 Trustees Limited Director, Farrimond Trustees Limited Director, Moore Nominees Limited Director, Hick Bros Earthmoving Limited Director, Hick Earthmoving Contractors Limited Director, Hick Bros Earthmoving Contractors Limited Director, Hick Bros Civil Construction Limited Director, Hick Bros Heavy Haulage Limited Director, Alilou Trustees Limited. Director and Shareholder, Tbag Trustees (Glanfield) Limited (until November 2022) Director, Asset Plus Limited (formerly NPT Limited) Director, Sonoma Limited Director, Meridian Properties Limited Director, Hick Bros Infrastructure Limited Director, Cloudbreak Trustees Limited Director, Asset Plus Investment Limited (formerly Eastgate Shopping Centre Limited) Director, Seahorse Trust Company Limited Director, NZME Limited Director, T&G Global Limited Director, Cordbank Limited Director, Nica Consulting Limited Director, Bankside Chambers Limited Director, T&G Insurance Limited Director, Chubb Insurance New Zealand Limited Director, Woodford Properties 2018 Limited Director, Merinous Management Company Limited (formerly Watersport World 2018 Limited) Director, Lakes Marina Projects Limited Director, Hutton Wilson Nominees Limited Director, Montclare Limited (from April 2023)

Statutory disclosures

Subsidiary directors' disclosures continued

Director	Interest
Carol Campbell (continued)	Director, Captain Cook Nominees Limited (from March 2023) Trustee, New Zealand Post Trustees Limited (from May 2023) Director, Sugar Lake Limited (from June 2023)
Kirsty Campbell	Advisory Board Member, Allied Medical Limited Director and Shareholder, Clarity Advisory Limited Independent Director, Enviro-Mark Solutions Limited Chair of Advisory Board, Polymer Group Limited Sole Director and Shareholder, Ptarmigan Consulting Limited Member of Board and Member of Investment Committee, Public Trust Independent Director and Chair of Compliance Committees, Salt Funds Management Limited and Salt Investment Funds Limited Panel Member, NZ Markets Disciplinary Tribunal Advisory Board Member, Guardian Angel Security Limited Advisory Board Member, ArcAngels Incorporated Society Independent Director, Ando Insurance Group Chair and Independent Director, Mitchell Vranjes Consulting Engineers Limited (from November 2022) Director and Shareholder, Black Grouse Investments Limited (from October 2022) Director and Guardian, New Plymouth PIF Guardians Limited (until July 2022)
Paul Chambers	-
Mary Jane Daly	Director, Kiwi Property Group Limited Trustee, The M J Daly Family Trust Trustee, The M F Daly Family Trust Trustee, The W Marshall Trust Trustee, The Declan Marshall Trust Trustee, The Natalia Mander Trust Chair, AIG Insurance New Zealand Limited (from July 2022) Director and Chair, Fonterra Shareholders Fund Management Company Limited (appointed as Chair in November 2022) Member, Risk and Advisory Committee – Ministry of Business, Innovation and Employment (MBIE) (from November 2022)
Jonathan (Jon) Hartley QSO (Chair)	Trustee, Hartley Family Trust Chair, Timberlands Limited Advisor, Wellington Diocesan Board of Trustees Director, Ngāi Tahu Holdings Corporation Limited
Mike Hendriksen	Director and Shareholder, Huhane Limited Trustee, Graeme Dingle Foundation
Matthew Gilbert (from acquisition of Advice Link (NZ) Limited 30 November 2022)	Director and Shareholder, Financial Platforms Limited Director and Shareholder, Tukaha Nelson Limited Director and Shareholder, Software Artisans Limited Shareholder, Top Rail Limited Trustee, Matt and Kelly Gilbert Family Trust
Kip Hanna (appointed 3 November 2022)	-
Kate Jorgensen (appointed 1 June 2023)	Director, Asteron Life Limited Director, Vero Liability Insurance Limited Director, Vero Insurance New Zealand Limited Director, Chorus Limited and Chorus New Zealand Limited
Kevin Malloy	Director, Deputy Chair of Board and Chair of TVNZ's HR and Remuneration Committee, Television New Zealand Limited (until June 2023) Vice Chair, Halberg Disability Sport Foundation Director, KM54 Limited Director, NZ Cricket Board Board Member, Super Rugby Governance Board

Statutory disclosures

Subsidiary directors' disclosures continued

Director	Interest
Doris Murphy (appointed 30 November 2022)	-
Scott Pickering	Director, Engage Consulting Limited Director, Insurance Australia Group (IAG) External Advisor, Bain International Inc Strategic Advisor, Board of the Wairarapa Building Society (WBS) (concluded October 2022, reappointed December 2022 – February 2023) Advisor, HealthNow Limited Advisory Board, Tampi Pty Limited (from May 2023)
David Smith	Director, NPV Advisory Limited Director, Logan Leith Trustee Limited Director, Catalist Markets Limited Member, Manawatu Investment Group (MIG) Investment Committee Senior Advisor, Tanarra Credit Partners Shareholder, Jarden Group Limited
Elliot Smith	Director, Hessey Investment Limited
Robert (Rob) Smith	Director, Bizadvisor Limited Director, Te Aria Properties Akl Limited Director, Glover Road Properties Limited Director, Upton Street Developments Limited Director, Warren Street Developments Limited Director, Peak Properties Wanaka Limited
John Sproat (resigned 30 November 2022)	Director, New Zealand Post Limited Director and Shareholder, Rakau Properties Limited Director and Shareholder, Rakau Properties (No. 2) Limited Director and Shareholder, Kai Waho Limited Chair and Member, Investment Committee of Opepe Farm Trust, Taupō Committee Member, Tupu Angitu Limited Board Member, Hawke's Bay Rugby Union
Richard Westlake (Chair)	Founder and Managing Director, Westlake Governance Limited Director and Shareholder, Westlake Consulting Limited President and Committee Member, Kāpiti Districts Aero Club Inc Chair, Hospice New Zealand

Other disclosures made in the Interests Register

Use of company information	In accordance with section 145(3) of the Companies Act 1993, and with effect from 31 October 2016, representative directors on the Boards of Kiwi Group Capital Limited and its subsidiaries (including Kiwibank Limited and its subsidiaries) have been authorised to disclose Company Information to the Kiwi Group Capital Limited Shareholders in accordance with their respective company constitutions, and subject to conditions set out in the Board resolutions. Every other director of Kiwibank Limited and Kiwi Group Capital Limited subsidiaries (including Kiwibank's subsidiaries) are authorised to pass all information that comes into their possession as directors, to the Kiwi Group Capital Limited Shareholders in accordance with their respective constitutions, subject to conditions set out in the Board resolutions.
Kiwibank only – Directors' Continuing Professional Development ("CPD")	On 20 September 2017, the Board approved a spend equivalent to 4.5% of each director's annual remuneration towards ongoing director education/development.

Statutory disclosures

Directors and employees' indemnity and insurance

Kiwi Group Capital Limited has insured the directors and officers of Kiwi Group Capital Limited and its subsidiaries against costs or liabilities of the type referred to in section 162(5) of the Companies Act 1993. Kiwi Group Capital Limited has also agreed to indemnify directors of Kiwi Group Capital Limited and its subsidiaries and Kiwi Group Capital Limited and subsidiary appointed directors of associate companies against any costs or liabilities of the type referred to in section 162(4) of the Companies Act 1993 that are incurred in any proceedings of the type referred to in section 162(3) of the Companies Act 1993.



Independent auditor's report

To the readers of Kiwi Group Capital Limited's consolidated financial statements and performance information for the year ended 30 June 2023

The Auditor-General is the auditor of Kiwi Group Capital Limited and its controlled entities (collectively referred to as the "Group"). The Auditor-General has appointed me, Jonathan Freeman, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the consolidated financial statements and the performance information, including the performance information for appropriations, of the Group on his behalf.

Opinion

We have audited:

- the consolidated financial statements of the Group on pages 5 to 76, that comprise the balance sheet as at 30 June 2023, the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date and the notes to the consolidated financial statements that include accounting policies and other explanatory information; and
- the performance information which reports against the Group's statement of performance expectations and appropriations for the year ended 30 June 2023 on page 4.

In our opinion:

- the consolidated financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2023; and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards ("IFRS"); and
- the Group's performance information for the year ended 30 June 2023:
 - presents fairly, in all material respects, for each class of reportable outputs:
 - its standards of delivery performance achieved as compared with forecasts included in the statement of performance expectations for the financial year.
 - presents fairly, in all material respects, for the appropriations:
 - what has been achieved with the appropriations; and
 - the actual amounts incurred as compared with the amounts appropriated or forecast to be incurred; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 29 August 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the consolidated financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out 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) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the *Responsibilities of the auditor for the audit of the consolidated financial statements and the performance information* section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the consolidated financial statements and the performance information

The Board of Directors is responsible on behalf of the Group for preparing consolidated financial statements and performance information that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare consolidated financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

The Board of Director's responsibilities arise from the Companies Act 1993, Public Finance Act 1989 and the Crown Entities Act 2004.

Responsibilities of the auditor for the audit of the consolidated financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the performance 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these consolidated financial statements and performance information.

We did not evaluate the security and controls over the electronic publication of the consolidated financial statements and the performance 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. Also:

- We identify and assess the risks of material misstatement of the consolidated financial statements and the performance 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.

- We 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 Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the performance information which reports against the Group's statement of performance expectations and appropriations.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of 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 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 consolidated financial statements 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 Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements and the performance information, including the disclosures, and whether the consolidated financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the consolidated financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of 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.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 3 and page 77 to 87, but does not include the consolidated financial statements and the performance information, and our auditor's report thereon.

Our opinion on the consolidated financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the consolidated financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, 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.



Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In addition to the audit, we have carried out engagements in the following areas:

- limited assurance over capital adequacy and regulatory liquidity requirements included in Disclosure Statements of Kiwibank Limited ("Kiwibank");
- half year review of the interim financial statements and supplementary information of Kiwibank;
- reasonable assurance over registry compliance and limited assurance over compliance with certain matters in the trust deed in respect of a controlled entity of Kiwibank;
- agreed-upon procedures over the statement of cash and liquid assets and due to related parties of Kiwi Group Holdings Limited as at 30 June 2022; and
- agreed-upon procedures over debt programmes in respect of controlled entities of Kiwibank.

In addition to the above, we performed the following services during the year which related to engagements entered into and accrued for in the prior period:

- audit of the completion net assets statement as at 30 April 2022 in relation to the sale of Kiwi Insurance Limited;
- agreed-upon procedures on internal controls, agreed-upon procedures on net tangible assets and custody controls assurance services for the Kiwi Wealth Group for the year ended 30 June 2022; and
- audit of the financial statements of off-balance sheet funds and schemes, reasonable assurance over registry compliance and reporting to the Supervisor and Trustee in respect of funds and schemes managed by the Kiwi Wealth Group for the year ended 31 March 2022.

These services are compatible with those independence requirements. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. The provision of these other services and these relationships has not impaired our independence as auditor of the Group.

We have no other relationships with, or interests in, the Group.

A handwritten signature in black ink, appearing to read "Jonathan Freeman".

Jonathan Freeman
On behalf of the Auditor-General

29 August 2023
Wellington, New Zealand

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers".

PricewaterhouseCoopers