Annual Report and Disclosure Statement

For the year ended 30 June 2024

Number 79

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General information

In this Disclosure Statement, unless the context requires otherwise:

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

Details of incorporation

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

Registered office and address for service

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

Ultimate holding company

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

Voting securities and power to appoint directors

As at 30 June 2024, there are 962 million voting shares in the Bank. KGCL is the registered and beneficial holder of all voting shares in the Bank. KGCL and the Sovereign in right of New Zealand, acting by and through the Minister of Finance and the Minister for State-Owned Enterprises (the Crown) (as the ultimate parent of KGCL) are the only holders of a direct or indirect qualifying interest in the voting shares of the Bank.

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

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

Other material matters

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

Pending proceedings or arbitration

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

For completeness, Kiwibank notes that the Commerce Commission filed proceedings against it on 5 June 2024. The proceedings relate to breaches of the Fair Trading Act 1986. Kiwibank and the Commerce Commission have agreed a summary of facts and are aligned in their views on the appropriate penalty. Kiwibank has recognised a provision for that amount in this Disclosure Statement. The penalty will ultimately be determined by the Auckland District Court.

Priority of creditors' claims

In the event of the liquidation of Kiwibank, claims of secured creditors and those creditors set out in Schedule 7 of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Customer deposits are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank. The priority of creditors is covered in 'Deposits' (Note 17), 'Debt securities issued' (Note 18), and 'Subordinated debt' (Note 19). In addition, all payment obligations of Kiwibank that existed on 28 February 2017, and still outstanding, are guaranteed under the Crown Guarantee but only in relation to and to the extent of those obligations.

General information continued

Directorate

Independent non-executive director, Chair

Jonathan Peter Hartley QSO
Qualifications: BA (Hons), FCA (E&W), FCA (ANZ), FAICD
Primary occupation: Company director
Country of residence: New Zealand
Audit and Risk Committee member: Yes

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

Independent non-executive directors

Kevin Mark Malloy
Qualifications: Dip Advertising & Marketing
Primary occupation: Company director
Country of residence: New Zealand
Audit and Risk Committee member: No

External Directorships: Director of each of KM54 Limited, NZ Cricket Board, Halberg Disability Sport Foundation, Super Rugby Governance Board.

Mary Jane Daly
Qualifications: BCom, MBA, CFInstD
Primary occupation: Company director
Country of residence: New Zealand
Audit and Risk Committee member: Yes (Chair)

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

Ian Cameron Blair
Primary occupation: Managing director
Country of residence: New Zealand
Audit and Risk Committee member: Yes

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

Kate Louise Jorgensen
Qualifications: MTF, CA, BBus, CMInstD
Primary occupation: Company director
Country of residence: New Zealand
Audit and Risk Committee member: Yes

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

Scott John Pickering
Qualifications: Associate Certified Insurance Professional, Certificate of Insurance (Non-Life)
Primary occupation: Company director
Country of residence: New Zealand
Audit and Risk Committee member: No

External Directorships: Director of Engage Consulting Limited, Insurance Australia Group (IAG) Limited, IAG New Zealand Limited and IAG (NZ) Holdings Limited, Bowls New Zealand Aotearoa, Fidelity Life Assurance Company Limited.

Anna Valerie Curzon (appointed 1 September 2023)
Qualifications: PGDipCom (Management), BCom (Marketing)
Primary occupation: Company director
Country of residence: New Zealand
Audit and Risk Committee member: No

External Directorships: Director of each of Atomic.io Limited, Jade Software Corporation Limited.

Jonathan Keith Macdonald (appointed 1 September 2023)
Qualifications: BE (Hons), CMInstD
Primary occupation: Company director
Country of residence: New Zealand
Audit and Risk Committee member: No

External Directorships: Director of each of Sharesies Group Limited, Sharesies Limited, Mitre 10 (New Zealand) Limited, Titan Parent New Zealand Limited, Contact Energy Limited.

Changes in Board of Directors

Anna Valerie Curzon and Jonathan Keith Macdonald were appointed as independent non-executive directors on 1 September 2023. Scott John Pickering is deemed an independent non-executive director with effect from 27 March 2024 (previously non-executive director).

General information continued

Directorate continued

Audit and Risk Committee

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

Executive directors

There are no executive directors of the Bank.

Communications with directors

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

Policy for avoiding and dealing with conflicts of interest

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

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

a) the nature and monetary value of the director's interest if its monetary value is able to be quantified; or

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

Directors' benefits

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

Auditor

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

Climate-related disclosures

In December 2022, the External Reporting Board ('**XRB**') published the Aotearoa New Zealand Climate Standards ('**NZ CS**'). The NZ CS apply to climate reporting entities effective for reporting periods beginning on or after 1 January 2023.

The Bank is a climate reporting entity and has issued its first mandatory group climate statement in compliance with the Financial Markets Conduct Act 2013 ('**FMCA**') and the NZ CS for the year ended 30 June 2024.

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 FMCA and the NZ CS.

The Bank has opted to report its climate statement separately from this Annual Report and Disclosure Statement. Further information on Kiwibank's approach to managing climate risks is available in Kiwibank's climate statement for the year ended 30 June 2024, which is available here: https://www.kiwibank.co.nz/about-us/who-we-are/our-purpose/sustainability/

Credit ratings

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

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

Recent rating actions and changes in credit ratings

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

Moody's

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

Fitch

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

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

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

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

Guarantees

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

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

Covered Bond Guarantee

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

The Covered Bond Guarantee is limited to the payment of interest and 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 amount of the Kiwi Covered Bond Trust pool as at 30 June 2024 was $700m (30 June 2023: $700m).

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

Crown Guarantee

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

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

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

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

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

Rating agency	Current credit rating	Rating outlook
Moody's Investors Service ('**Moody's**')	Aaa	Outlook Stable
Fitch Ratings ('**Fitch**')	AA+	Outlook Stable
S&P Global Ratings ('**S&P**')	AAA	Outlook Stable

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

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

Directors' statement

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

1. As at the date on which the Disclosure Statement is signed:
   i) the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended); and
   ii) the Disclosure Statement is not false or misleading.
2. During the year ended 30 June 2024:
   i) Kiwibank has complied in all material respects with each condition of registration that applied during the period;
   ii) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   iii) Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

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

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

21 August 2024

Historical summary of financial statements

$ millions	**Year ended 30 June 24**	Year ended 30 June 23	Year ended 30 June 22	Year ended 30 June 21	Year ended 30 June 20
Financial performance					
Interest income	**1,983**	1,389	907	834	894
Interest expense	**(1,159)**	(595)	(277)	(306)	(439)
Net gains/(losses) on financial instruments	**3**	(17)	7	8	13
Other operating income	**53**	39	43	41	65
Operating expenses	**(582)**	(534)	(480)	(422)	(408)
Credit impairment (losses)/reversals	**(24)**	(37)	(16)	19	(51)
Profit before tax	**274**	245	184	174	74
Income tax expense	**(72)**	(70)	(53)	(48)	(17)
Profit after tax	**202**	175	131	126	57

$ millions	**As at 30 June 24**	As at 30 June 23	As at 30 June 22	As at 30 June 21	As at 30 June 20
Balance sheet					
Total assets	**36,650**	33,838	31,547	28,229	25,518
Individually impaired assets	**42**	8	2	1	2
Total liabilities	**34,029**	31,527	29,345	26,505	23,948
Total equity	**2,621**	2,311	2,202	1,724	1,570
Other items included in equity:					
Ordinary dividends paid	**-**	(14)	(17)	(6)	(17)
Perpetual capital bond distributions paid	**-**	-	(3)	(6)	(11)
Perpetual preference share distributions paid	**(9)**	(9)	(4)	-	-

The amounts included in this historical summary have been taken from audited financial statements of the Banking Group. Where amounts have been restated in a subsequent period, the restated amounts have been presented.

Financial statements

Income statement

For the year ended 30 June 2024

$ millions	Note	Year ended 30 June 24	Year ended 30 June 23
Interest income	2	**1,983**	1,389
Interest expense	2	**(1,159)**	(595)
Net interest income		**824**	794
Net gains/(losses) on financial instruments	3	**3**	(17)
Other operating income	4	**53**	39
Total operating income		**880**	816
Operating expenses	5	**(582)**	(534)
Profit before credit impairment and tax		**298**	282
Credit impairment losses	8	**(24)**	(37)
Profit before tax		**274**	245
Income tax expense	6	**(72)**	(70)
Profit after tax		**202**	175

Statement of comprehensive income

For the year ended 30 June 2024

$ millions	Note	Year ended 30 June 24	Year ended 30 June 23
Profit after tax		**202**	175
Other comprehensive income, net of tax			
Items that may subsequently be reclassified to profit or loss:			
- Net change in fair value reserve	26	**29**	15
- Net change in cash flow hedge reserve	26	**(137)**	(58)
Other comprehensive income, net of tax		**(108)**	(43)
Total comprehensive income		**94**	132

The statements should be read in conjunction with the notes to these financial statements.

Financial statements continued

Statement of changes in equity

For the year ended 30 June 2024

$ millions	Note	Ordinary shares	Retained earnings	Fair value reserve	Cash flow hedge reserve	Perpetual preference shares	Total equity
As at 1 July 2022		737	1,074	(65)	210	246	2,202
Year ended 30 June 2023							
Profit after tax		-	175	-	-	-	175
Other comprehensive income, net of tax		-	-	15	(58)	-	(43)
Total comprehensive income		-	175	15	(58)	-	132
Transactions with owners:							
Ordinary dividends paid	26	-	(14)	-	-	-	(14)
Perpetual preference share distributions paid	26	-	(9)	-	-	-	(9)
Balance at 30 June 2023		737	1,226	(50)	152	246	2,311
As at 1 July 2023		**737**	**1,226**	**(50)**	**152**	**246**	**2,311**
Year ended 30 June 2024							
Profit after tax		**-**	**202**	**-**	**-**	**-**	**202**
Other comprehensive income, net of tax		**-**	**-**	**29**	**(137)**	**-**	**(108)**
Total comprehensive income		**-**	**202**	**29**	**(137)**	**-**	**94**
Transactions with owners:							
Ordinary shares issued	26	**225**	**-**	**-**	**-**	**-**	**225**
Perpetual preference share distributions paid	26	**-**	**(9)**	**-**	**-**	**-**	**(9)**
Balance at 30 June 2024		**962**	**1,419**	**(21)**	**15**	**246**	**2,621**

The statements should be read in conjunction with the notes to these financial statements.

Financial statements continued

Balance sheet

As at 30 June 2024

$ millions	Note	30 June 24	30 June 23
Assets			
Cash and cash equivalents	13	**1,005**	1,027
Due from other financial institutions	14	**95**	129
Investment securities	15	**2,658**	2,299
Derivative financial instruments	22	**162**	447
Loans and advances	7	**32,445**	29,682
Deferred tax assets	6	**65**	38
Premises and equipment		**127**	129
Intangible assets		**17**	25
Other assets		**76**	62
Total assets		**36,650**	33,838
Total interest and discount-bearing assets		***36,070***	*33,054*
Liabilities			
Due to other financial institutions	16	**1,109**	1,768
Deposits	17	**28,176**	25,756
Derivative financial instruments	22	**196**	243
Debt securities issued	18	**3,798**	3,038
Other liabilities	25	**292**	276
Subordinated debt	19	**458**	446
Total liabilities		**34,029**	31,527
Total interest and discount-bearing liabilities		**29,379**	26,644
Net assets		**2,621**	2,311
Equity			
Ordinary shares	26	**962**	737
Retained earnings		**1,419**	1,226
Reserves	26	**(6)**	102
Perpetual preference shares	26	**246**	246
Total equity		**2,621**	2,311

The Board of Directors of Kiwibank Limited authorised these financial statements for issue on 21 August 2024.

Jonathan Peter Hartley

Mary Jane Daly

The statements should be read in conjunction with the notes to these financial statements.

Financial statements continued

Cash flow statement

For the year ended 30 June 2024

$ millions	Note	Year ended 30 June 24	Year ended 30 June 23
Cash flows from operating activities			
Interest received		**1,980**	1,406
Interest paid		**(1,011)**	(460)
Fee, commission and other income received		**111**	117
Fee and commission expense paid		**(50)**	(77)
Operating expenses paid		**(551)**	(474)
Income tax paid		**(126)**	(83)
Net cash flows from operating activities before changes in operating assets and liabilities		**353**	429
Net changes in operating assets and liabilities			
Due from other financial institutions		**34**	9
Investment securities		**(317)**	(867)
Loans and advances		**(2,611)**	(1,990)
Due to other financial institutions		**(138)**	(330)
Deposits		**2,321**	1,421
Other liabilities		**(1)**	-
Net cash flows from operating activities		**(359)**	**(1,328)**
Cash flows from investing activities			
Purchase of premises and equipment		**(8)**	(8)
Purchase of intangible assets		**(1)**	(3)
Net cash flows from investing activities		**(9)**	**(11)**
Cash flows from financing activities			
Repayment of repurchase agreements		**(521)**	(484)
Proceeds from repurchase agreements		**-**	743
Issue of debt securities	18	**1,842**	1,557
Redemption of debt securities	18	**(1,176)**	(1,132)
Payment of principal portion of lease liabilities	25	**(15)**	(14)
Issue of subordinated debt net of issuance costs	19	**-**	197
Issue of share capital	26	**225**	-
Ordinary dividends paid		**-**	(14)
Perpetual preference distributions paid		**(9)**	(9)
Net cash flows from financing activities		**346**	**844**
Increase/(decrease) in cash and cash equivalents		**(22)**	**(495)**
Cash and cash equivalents at beginning of the year		**1,027**	**1,522**
Effect of exchange rate changes on cash and cash equivalents		**-**	-
Cash and cash equivalents at end of the year	13	**1,005**	**1,027**

The statements should be read in conjunction with the notes to these financial statements.

Financial statements continued

Cash flow statement continued

For the year ended 30 June 2024

$ millions	Year ended 30 June 24	Year ended 30 June 23
Reconciliation of profit after tax to net cash flows from operating activities		
Profit after tax	**202**	175
Non-cash movements and non-operating activities		
Unrealised fair value adjustments	**(3)**	(11)
Amortisation and depreciation	**38**	41
Movement in deferred expenditure	**21**	38
Credit impairment losses	**24**	37
Movement in accrued interest receivable	**(21)**	(21)
Movement in accrued interest payable	**145**	135
Movement in current and deferred tax	**(54)**	(14)
Other non-cash movements	**1**	20
Net movement in operating assets and operating liabilities		
Due from other financial institutions	**34**	9
Investment securities	**(317)**	(838)
Loans and advances	**(2,611)**	(1,990)
Due to other financial institutions	**(138)**	(330)
Deposits	**2,321**	1,421
Other liabilities	**(1)**	-
Net cash flows from operating activities	**(359)**	**(1,328)**

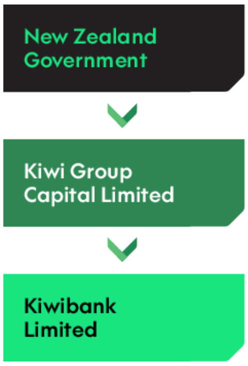
The statements should be read in conjunction with the notes to these financial statements.

Notes to the financial statements

1. About these financial statements

1.1. Reporting Entity

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



Kiwibank operates a full-service nationwide retail bank for personal and business customers. Core product offerings include transactional products and services, savings accounts, credit cards and a range of lending solutions including home loans, commercial loans, asset finance and trade finance.

Kiwibank provides customers access to their banking through digital channels, supported by a nationwide branch network and New Zealand-based contact centre. Kiwibank also offers access to specialists via its branches (including 'Local By Kiwi' service agents), business banking centres, a network of mobile mortgage specialists, and third-party mortgage advisers.

Kiwibank's immediate parent company and ultimate holding company is Kiwi Group Capital Limited ('**KGCL**') whose address for service is Level 9, 20 Customhouse Quay, Wellington 6011, New Zealand. The ultimate shareholder of Kiwibank is the New Zealand Crown (the '**Crown**') whose address for service is: 1 The Terrace, Wellington 6011, New Zealand.

1.2. Basis of preparation

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

Foreign currency transactions are translated into the functional currency at the exchange rate at the date of the transaction. At the reporting date, foreign currency denominated monetary assets and liabilities are translated at the closing exchange rate. Any foreign currency translation gains and losses are recognised in the income statement.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Kiwibank and its subsidiaries for the year ended 30 June 2024. Subsidiaries are entities that are controlled by the Banking Group. Control is achieved when the Banking Group is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee.

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

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

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

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

Measurement base

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

These financial statements are for the year ended 30 June 2024 and have been approved for issue by the Board of Directors on 21 August 2024.

Notes to the financial statements continued

1. About these financial statements continued

1.3. Critical accounting judgements, estimates and assumptions

The preparation of these financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and amounts reported. Estimates and underlying assumptions are reviewed on an ongoing basis and any revisions to accounting estimates are recognised in the year in which the estimate is revised. Actual amounts may differ from those estimates.

The Banking Group considers the measurement of the credit impairment provision on loans and advances to customers as an area that requires significant management judgement and estimation. Refer to 'Risk management' (Note 30) for details of credit risk management and 'Credit impairment losses' (Note 8) for details of key judgements and assumptions.

1.4. Accounting policies

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

Material accounting policies that are relevant to an understanding of the 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.

Change in accounting policy

During the current financial year, the Banking Group revised its accounting treatment of trail commissions payable to mortgage brokers. As at 30 June 2024, the Banking Group recognised a liability of $66m within 'Other liabilities' which represents the present value of the expected future trail commissions payable with a corresponding increase within 'Loans and advances', which represents the capitalised brokerage costs. For the year ended 30 June 2024, the change in accounting policy also resulted in a decrease in net interest income of $26m due to estimated trail commissions to mortgage brokers being included as transaction costs in the calculation of the effective interest rate on loans and advances. In prior periods, trail commissions paid to mortgage brokers was recognised in 'Fee and commission expenses' within 'Other operating income' (2023: $23m).

This change impacts 'Interest income and Interest expense' (Note 2) and 'Other operating income' (Note 4) in the Income statement and 'Loans and advances' (Note 7) and 'Other liabilities' (Note 25) in the Balance sheet. Comparative amounts have not been revised for this change in accounting policy as it does not have a material impact on the financial statements. If the accounting policy had been applied retrospectively to the prior period, 'Loans and advances' and 'Other liabilities' would have increased by $59 million as at 30 June 2023, while 'Interest income' would have decreased by $23 million and 'Other operating Income' would have increased by $23 million for the year ended 30 June 2023.

1.5. New and amended standards and interpretations

In the current year, the Banking Group applied new standards, amendments to standards and interpretations that are effective for its annual reporting period commencing 1 July 2023. Their adoption has not had any material impact on the disclosures or amounts reported in these financial statements. No new standards, amendments to standards or interpretations that are not yet effective have been early adopted by the Banking Group in these financial statements.

In May 2024, the New Zealand Accounting Standards Board ('**NZ ASB**') issued a new standard 'NZ IFRS 18, Presentation and Disclosure in Financial Statements' which replaces 'NZ IAS 1, Presentation of Financial Statements' and is effective for reporting periods beginning on or after 1 January 2027. NZ IFRS 18 introduces a defined structure for the Income statement, requiring income and expenses to be categorised into operating, investing, financing, income taxes and discontinued operations. Other requirements include enhanced disclosures for management-defined performance measures and additional guidance on disaggregation/aggregation principles applied to all financial statements and notes. The Banking Group expects to adopt NZ IFRS 18 and relevant consequential changes of other accounting standards in the annual reporting period beginning on 1 July 2027. The Banking Group is currently assessing the impact and will disclose more detailed assessments in the future.

In June 2024, NZ ASB published amendments to NZ IFRS 9 and NZ IFRS 7 which will:

- provide guidance on the classification of financial assets (e.g., 'loans and advances') with environmental, social and corporate governance (ESG) and similar features;
- clarify the date on which a financial asset or financial liability settled through an electronic payment system is derecognised, and provide an accounting policy option to allow an entity to derecognise a financial liability before it delivers cash on the settlement date if specified criteria are met; and
- introduce additional disclosure requirements regarding investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features, for example, features tied to ESG-linked targets.

The amendments are effective for reporting periods beginning on or after 1 January 2026. The Banking Group has yet to assess the impact of the amendments.

Notes to the financial statements continued

1. About these financial statements continued

1.6. Comparative amounts

Comparative amounts are from the audited financial statements for the year ended 30 June 2023. Comparative information has been restated or reclassified, where appropriate, to align with the current period presentation. All restatements and reclassifications have no impact on the previously reported profit after tax, total assets, total liabilities, or total equity.

Loans and advances (Note 7) & Asset quality (Note 9)

Direct transaction costs that are capitalised as part of loans and advances have been disaggregated between loan categories in the current period. Comparative information has been restated accordingly to align with the current period presentation. Within 'Loans and advances' (Note 7), as at 30 June 2023, deferred arrangement fees of $28m relating to corporate exposures has been restated from 'Term loans - housing' to 'Other term lending'. This resulted in an increase in 'Term loans - housing' by $28m with a corresponding decrease in 'Other term lending'. Within 'Asset quality' (Note 9), the opening value of the gross carrying amount of residential mortgage loans derived from the prior year closing as at 30 June 2023 has increased by $28m with a corresponding decrease in corporate exposures.

1.7 Financial instruments

Recognition

Financial assets and financial liabilities, other than regular way transactions, are recognised when the Banking Group becomes a party to the terms of the contract, which is generally on the settlement date (the date payment is made or cash advanced). Purchases and sales of financial assets in regular way transactions are recognised on the trade date (the date on which the Banking Group commits to purchase or sell an asset).

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

Derecognition

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

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

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

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

Classification

Financial assets

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

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

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

Financial assets in this category include 'cash and cash equivalents' (Note 13), 'due from other financial institutions' (Note 14), 'loans and advances' (Note 7), 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' (Note 15) and certain other assets included in 'Due from other financial institutions' (Note 14).

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

All other financial assets are classified as measured at FVTPL.

Notes to the financial statements continued

1. About these financial statements continued

1.7 Financial instruments continued

Financial assets in this category include 'derivative financial instruments' (Note 22) and certain other assets.

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

Financial liabilities

Financial liabilities in 'derivative financial instruments' (Note 22) are classified as measured at FVTPL. All other financial liabilities are classified as measured at amortised cost. Financial liabilities in this category include 'due to other financial institutions' (Note 16), 'deposits' (Note 17), 'debt securities issued' (Note 18), 'subordinated debt' (Note 19), and other financial liabilities.

1.8 Cash flow statement

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

i) Cash and cash equivalents is considered to be cash on hand, current accounts with banks, cash held in ATMs, overnight bank deposits net of bank overdrafts and balances held with RBNZ.

ii) Investing activities are those relating to the acquisition, holding and disposal of premises and equipment, intangible assets and other long-term assets.

iii) Financing activities are those activities that result in changes to the size and composition of the capital structure of the Banking Group. This includes both equity and debt not falling within the definition of cash. Repurchase agreements related to the Funding for Lending Programme ('**FLP**') and the Term Lending Facility ('**TLF**') have been included as financing activities.

iv) Operating activities include all transactions and other events that are not investing or financing activities. The holding of investment securities has been classified as an operating activity for the purposes of the cash flow statement as they are considered a principal revenue-producing activity of the Banking Group.

v) Certain cash flows have been netted to provide more meaningful disclosure, including changes in investment securities, loans and advances, balances due from other financial institutions, deposits, balances due to other financial institutions and other assets and other liabilities. Many of the cash flows are received and disbursed on behalf of customers and reflect the activities of the customers rather than those of the Banking Group.

Notes to the financial statements continued

2. Interest income and interest expense

Accounting policy

Interest income and interest expense recognition

Interest income and interest expense for all interest earning financial assets and interest-bearing financial liabilities at amortised cost or FVOCI, detailed within the table below, are recognised in profit or loss using the effective interest rate method. Interest income and interest expense on financial instruments at FVTPL is recognised on an accrual basis with reference to contractual interest rates. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts over the expected life of the financial instrument. When calculating the effective interest rate for financial instruments, the Banking Group estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit impairment losses.

Fees paid or received between parties that are an integral part of the effective interest rate of a financial instrument, are deferred and amortised to interest income or interest expense over their expected life as an adjustment to the effective interest rate, unless the financial instrument is measured at FVTPL. In those cases, the fees are recognised as revenue or expense when the instrument is initially recognised.

All other fees paid or received are recognised within 'Other operating income' (Note 4) when incurred.

$ millions	Year ended 30 June 24	Year ended 30 June 23
Interest income		
Cash and cash equivalents	**48**	44
Due from other financial institutions	**6**	4
Loans and advances:		
Retail loans[1]	**1,458**	1,016
Business loans	**432**	318
Other	**(68)**	(46)
Investment securities	**107**	53
Total interest income	**1,983**	1,389
Interest expense		
Due to other financial institutions	**75**	74
Deposits:		
Retail deposits	**864**	489
Business deposits	**100**	52
Other	**(130)**	(179)
Debt securities issued	**211**	140
Subordinated debt	**33**	16
Other interest expense	**6**	3
Total interest expense	**1,159**	595

[1]During the current year, the Banking Group revised its accounting treatment of trail commissions payable to mortgage brokers. The change in accounting policy resulted in a decrease in net interest income of $26m due to estimated trail commissions to mortgage brokers being included as transaction costs in the calculation of the effective interest rate on loans and advances (2023: trail commissions paid to mortgage brokers of $23m was reported within 'Other operating income'). Refer to 'Accounting policies' (Note 1.4) for further details.

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

Notes to the financial statements continued

2. Interest income and interest expense continued

Interest income and interest expense by measurement category

$ millions	Year ended 30 June 24	Year ended 30 June 23
Interest income		
Financial assets measured at amortised cost	**1,944**	1,382
Financial assets measured at FVOCI	**107**	53
Financial assets measured at FVTPL	**(68)**	(46)
Total interest income	**1,983**	1,389
Interest expense		
Financial liabilities measured at amortised cost	**1,357**	829
Financial liabilities measured at FVTPL	**(198)**	(234)
Total interest expense	**1,159**	595

3. Net gains/(losses) on financial instruments

Accounting policy

Accounting policies relating to gains/(losses) on financial instruments at fair value are set out in Notes 15, 18, 19 and 22.

$ millions	Year ended 30 June 24	Year ended 30 June 23
Financial instruments held for trading	**(27)**	(51)
Financial instruments at FVTPL	**-**	(2)
Cumulative losses transferred from fair value reserve	**(1)**	(29)
Cumulative gains transferred from cash flow hedge reserve[1]	**45**	79
Net foreign exchange losses	**(14)**	(14)
Total net gains/(losses) on financial instruments	**3**	(17)

Certain comparative information has been restated to align with the current period presentation.

[1] The Banking Group de-designates interest rate swaps in cash flow hedge relationships to manage hedge capacity. Changes in interest rate swap values after de-designation of (-$26m) were recorded in financial instruments held for trading (2023: (-$58m)). The amortisation of the interest rate swap values of $26m recorded in the cash flow hedge reserve before de-designation was recorded in cumulative gains transferred from cash flow hedge reserve (2023: $58m). Interest paid or received under the de-designated interest rate swaps is recorded in interest expense.

Net ineffectiveness on qualifying cash flow hedges was insignificant (2023: insignificant). Net ineffectiveness on qualifying fair value hedges was insignificant (2023: insignificant).

Notes to the financial statements continued

4. Other operating income

Accounting policy

Fee and commission income recognition

Fee and commission income is recognised as services are performed and the related performance obligations are fulfilled. The transaction price for contracts with customers, including any estimated variable consideration, is allocated to each distinct performance obligation within each contract. The allocation of the transaction price to a performance obligation is based on the exact terms of the contract or, in the absence of exact terms, an appropriate method is used to estimate the price such as an adjusted market assessment approach, expected cost plus a margin approach, the residual approach, or a combination of these methods. The nature and timing of the satisfaction of performance obligations in contracts with customers for each type of service are outlined further below.

The Banking Group receives fee and commission income from third parties when acting as agent by arranging a third party to provide goods or services to a banking customer. In such cases, the Banking Group does not control the provision of the goods or services and recognises the net revenue received within fee and commission income (i.e., the gross amount received from the customer less amounts paid to the third-party provider).

Fee and commission expenses

Fee and commissions expenses are those that are not considered to form an integral part of the effective interest rate of a financial instrument. These include incremental costs that vary directly with the provision of goods or services to customers. Incremental costs are those that would not have been incurred if a specific good or service had not been provided to a specific customer.

The nature and timing of the satisfaction of performance obligations in contracts with customers is outlined below:

Transactional account and other services

This includes services provided to customers and covers transactional accounts and other related services. Fees are generally charged monthly or are transaction-based fees charged at the point of the transaction. Revenue is recognised when the transaction takes place or at the time it is charged for monthly fees.

Card services

This includes credit card and debit card services offered to customers along with related long-term contracts with card schemes. Account or set-up fees are generally charged up front at the point the card is issued with a regular renewal period. The period covered by the fee is generally six to twelve months. These types of revenue are recognised on a straight-line basis over the period covered by the fee. Certain transaction-based fees are charged and recognised as income at the point in time when the transaction takes place. For longer-term contracts, revenue is recognised over time, consistent with when the Banking Group satisfies each performance obligation based on output methods measuring the value of the services transferred to date.

Lending services

This includes fees related to lending and ancillary services to customers where the revenue is not treated as part of the effective interest rate. Fees are generally transaction-based fees charged at the point of the transaction. Revenue is recognised when the transaction takes place.

The table below further disaggregates revenue from contracts with customers by major service categories and product provided.

	Year ended 30 June 24			Year ended 30 June 23		
$ millions	**Retail**	**Business**	**Total**	Retail	Business	Total
Transactional account and other services	**30**	**6**	**36**	34	6	40
Card services	**58**	**2**	**60**	61	2	63
Lending services	**1**	**7**	**8**	2	5	7
Fee and commission income	**89**	**15**	**104**	97	13	110
Fee and commission expense	**(50)**	**(1)**	**(51)**	(73)	(4)	(77)
Net fee and commission income	**39**	**14**	**53**	24	9	33
Other income	**-**	**-**	**-**	6	-	6
Total other operating income	**39**	**14**	**53**	30	9	39

Certain comparative information has been reclassified to align with the current period presentation.

For the year ended 30 June 2024, trail commissions to mortgage brokers are no longer recognised within 'Other operating income' and are recognised as part of the effective interest rate in 'Net interest income' (2023: trail commissions paid to mortgage brokers of $23m was recognised within 'Other operating income'). Refer to 'Accounting policies' (Note 1.4) and 'Interest income and interest expense' (Note 2) for further details.

Notes to the financial statements continued

5. Operating expenses

Accounting policy

Operating expense recognition

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

Research and development costs

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

If costs do not meet the definition of an intangible asset, they are expensed as research and development in the period within which they are incurred.

Research and development tax incentives ('**RDTI**') are recognised as a receivable and a credit to expenses when the relevant supplementary return is submitted to the Inland Revenue and there is considered reasonable assurance that conditions of the RDTI have been met and the grant will be received.

Employee benefits

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

Leases

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

$ millions	Year ended 30 June 24	Year ended 30 June 23
Salaries and wages	**304**	263
Other personnel related costs	**45**	48
Information technology and system costs	**115**	102
Premises costs	**18**	18
Amortisation and depreciation	**38**	41
Other expenses	**62**	62
Total operating expenses	**582**	534

Certain comparative information has been reclassified to align with the current period presentation.

A total of $63m of operating expenses recognised during the year ended 30 June 2024 related to research and development expenditure classified in accordance with NZ IAS 38 (2023: $65m).

For the year ended 30 June 2024, a credit for a RDTI of $4m was recognised in relation to eligible expenditure incurred in the year ended 30 June 2023. (2023: credits for RDTI of $2m and $4m were recognised that related to eligible expenditure for the years ended 30 June 2021 and 30 June 2022 respectively).

Included within salaries and wages is $12m of expenses paid to defined contribution plans for the year ended 30 June 2024 (2023: $10m).

Notes to the financial statements continued

6. Income tax

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 in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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 tax 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 tax asset 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 legally enforceable right to offset, and the Banking Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Imputation credit account

The Banking Group is a member of the 'Kiwibank Consolidated Tax Group' which includes Kiwi Group Capital Limited and its subsidiaries for tax purposes. The imputation credit account is not held at the Banking Group level.

Income tax expense

$ millions	**Year ended 30 June 24**	Year ended 30 June 23
Profit before tax	**274**	245
Tax calculated at a rate of 28%	**(77)**	(69)
Tax effect of:		
Income not subject to tax and non-deductible expenses	**1**	(3)
Prior period adjustment	**4**	2
Income tax expense as per the income statement	**(72)**	(70)
Represented by:		
Current tax	**(80)**	(98)
Deferred tax	**8**	28
Income tax expense as per the income statement	**(72)**	(70)
The deferred tax benefit/(expense) comprises the following movement in temporary differences:		
Accelerated tax depreciation	**2**	19
Credit impairment provision	**6**	9
Total movement in temporary differences	**8**	28

Notes to the financial statements continued

6. Income tax continued

Deferred tax

$ millions	30 June 24	30 June 23
Deferred tax		
Balance at the beginning of the year	**38**	(6)
Prior period adjustment	**(3)**	6
Credited to profit or loss	**11**	22
Credited to other comprehensive income	**19**	16
Balance at the end of the year	**65**	38
Deferred income tax assets		
Accelerated tax depreciation	**23**	21
Other provisions and accruals[1]	**8**	8
Lease liabilities	**25**	25
Credit impairment provisions	**36**	30
Total deferred income tax assets	**92**	84
Deferred income tax liabilities		
Right-of-use assets	**(22)**	(22)
Cash flow hedges	**(5)**	(24)
Total deferred income tax liabilities	**(27)**	(46)
Net deferred tax assets	**65**	38

[1]'Lease liabilities' and 'right -of-use assets' previously included in 'other provisions and accruals' in the table above have been disclosed separately. Comparative information has been reclassified to align with the current period presentation.

At 30 June 2024, the Banking Group had a current tax asset of $12m, which is included in 'Other assets' on the balance sheet (30 June 2023: a current tax liability of $57m was included in 'Other liabilities').

Notes to the financial statements continued

7. Loans and advances

Accounting policy

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

$ millions	30 June 24	30 June 23
Overdrafts	**267**	226
Credit cards	**337**	346
Term loans – housing[1]	**26,737**	24,276
Other term lending	**4,542**	4,431
Other lending	**683**	504
Gross loans and advances	**32,566**	29,783
Credit impairment provision	**(121)**	(101)
Net loans and advances	**32,445**	29,682
Residual contractual maturity:		
Current	**2,893**	2,892
Non-current	**29,552**	26,790

[1]During the current year, the Banking Group revised its accounting treatment of trail commissions payable to mortgage brokers. As a result, a liability was recognised within 'Other liabilities' equal to the present value of the expected trail commissions payable, with a corresponding increase in capitalised brokerage costs within 'Term loans – housing'. This balance as at 30 June 2024 was $66m. Refer to 'Accounting policies' (Note 1.4) for further details.

Comparative information has been restated. Refer to 'Comparative amounts' (Note 1.6) for further details.

Reconciliation of mortgage related amounts – On-balance sheet exposures

$ millions	30 June 24
Term loans – housing[1] per 'Loans and advances' (Note 7)	**26,737**
Other term lending (residentially secured)	**1,279**
Residential mortgage loans per 'Asset quality' (Note 9)	**28,016**
Credit impairment provision	**(43)**
Deferred arrangement fees	**(214)**
Total on-balance sheet residential mortgage loans (see 'Capital adequacy and regulatory liquidity ratios')	**27,759**

[1]Term loans – housing includes loans secured over residential property for owner-occupier and investment purposes.

Notes to the financial statements continued

8. Credit impairment losses

Accounting policy

The Banking Group recognises a credit impairment provision for expected credit losses ('**ECL**') on the following financial instruments:

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

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

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

Presentation of credit impairment provision for ECL in the balance sheet

Credit impairment provision for ECL is presented in the balance sheet as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the asset;
- where a financial instrument includes an undrawn component, the Banking Group presents the undrawn credit impairment provision in 'Other liabilities' to the extent that it exceeds any 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.

Measurement of ECL

A three-stage approach is applied to measuring ECL based on credit migration between the stages. Movement between stages can be impacted by a significant increase in credit risk ('**SICR**') or where assets are considered credit impaired as follows:

Stage 1	Stage 2	Stage 3
Performing (initial recognition)	**Credit quality deteriorated** (assets with SICR since initial recognition)	**Credit impaired** (assets considered credit impaired due to one or more events)
12-month ECL (collectively assessed)	Lifetime ECL (collectively assessed)	Lifetime ECL (individually or collectively assessed)

ECL are probability-weighted and determined by evaluating a range of possible outcomes, considering 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):

Probability of default ('PD'):	the probability that a counterparty will default.
Loss-given default ('LGD'):	the loss that is expected to arise in the event of default.
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, including 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.

8. Credit impairment losses continued

Accounting policy continued

*Significant increase in credit risk ('**SICR**')*

Loans are moved from stage 1 to stage 2 if they experience a SICR event or are 30 days past due arrears. The Banking Group uses 30 days past due arrears as a backstop criteria for moving loans from stage 1 to stage 2.

The determination of a SICR event is based on changes in internally assessed customer credit risk characteristics since origination of the loan facility. Those changes include arrears on loan facilities (at or less than the 30-day backstop), material movements in customer credit ratings or behavioural scores, or other information the Banking Group becomes aware of which indicates that there has been a significant increase in credit risk since origination. 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. When SICR conditions are no longer applicable, they move back to stage 1, with no probationary period applied.

Credit-impaired financial assets

At each reporting date, the Banking Group assesses whether financial assets carried at amortised cost and debt instruments measured at FVOCI are credit impaired. A financial asset is 'credit impaired' when it is overdue for 90 days or more (i.e., in default), or when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

When the ECL is greater than the modelled collectively assessed provision, the exposure is individually assessed and a specific provision is raised. The specific provision is calculated as the difference between contracted cash flows and the estimated realisable value of the security.

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

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

A loan that has been renegotiated due to a temporary deterioration in the borrower's condition is usually transitioned to stage 2 (e.g., due to hardship). These renegotiated loans would not be considered credit impaired unless there is evidence that deterioration may be for an extended period so that a detrimental impact has occurred on the estimated future cash flows for that loan. When SICR conditions are no longer applicable or the financial asset is no longer credit-impaired, they move back to earlier stage designations, with no probationary period applied.

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.

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 partially. This is generally the case when the Banking Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. Recoveries of amounts previously written off are included in 'Credit impairment losses' in the income statement. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Banking Group's procedures for recovery of amounts due.

Notes to the financial statements continued

8. Credit impairment losses continued

Critical accounting estimates and judgements

Loan portfolios are assessed for impairment monthly. In determining whether an impairment loss should be recognised 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 associated to 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 estimating 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 several 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 stages, particularly when moving to and from stage 1 and stage 2;
- the macroeconomic inputs used within each of the economic scenarios;
- the weightings given to each economic scenario; and
- any model overlays required to adjust modelled outcomes due to potential loss events from emerging risks where those risk parameters have 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 June 24			
$ millions	**Retail unsecured lending**	**Residential mortgage loans**	**Corporate exposures**	**Total**
Credited/(charged) to the income statement for collectively assessed provision	**-**	**1**	**(11)**	**(10)**
Charged to the income statement for individually assessed provision	**-**	**(4)**	**(8)**	**(12)**
Written off directly to the income statement	**(4)**	**-**	**-**	**(4)**
Recovery of amounts previously written off	**2**	**-**	**-**	**2**
Total credit impairment losses per income statement	**(2)**	**(3)**	**(19)**	**(24)**

	Year ended 30 June 23			
$ millions	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Credited/(charged) to the income statement for collectively assessed provision	1	(11)	(19)	(29)
Charged to the income statement for individually assessed provision	(1)	(1)	(3)	(5)
Written off directly to the income statement	(5)	-	-	(5)
Recovery of amounts previously written off	2	-	-	2
Total credit impairment losses per income statement	(3)	(12)	(22)	(37)

Notes to the financial statements continued

8. Credit impairment losses continued

Analysis of total credit impairment provision

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 provision includes credit impairment provision on loans and advances, and undrawn commitments.

$ millions	Year ended 30 June 24			
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Individually assessed provision	**1**	**4**	**20**	**25**
Collectively assessed provision				
Modelled ECL on loans and advances	**7**	**30**	**44**	**81**
Modelled ECL on undrawn commitments	**1**	**2**	**5**	**8**
Judgemental modelled overlays – interest repricing	**-**	**7**	**-**	**7**
Other judgemental overlays	**1**	**2**	**5**	**8**
Total collectively assessed provision	**9**	**41**	**54**	**104**
Total credit impairment provision	**10**	**45**	**74**	**129**

$ millions	Year ended 30 June 23			
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Individually assessed provision	1	1	3	5
Collectively assessed provision				
Modelled ECL on loans and advances	5	24	43	72
Modelled ECL on undrawn commitments	2	1	4	7
Judgemental modelled overlays – interest repricing	-	7	-	7
Other judgemental overlays	2	10	5	17
Total collectively assessed provision	9	42	52	103
Total credit impairment provision	10	43	55	108

Notes to the financial statements continued

8. Credit impairment losses continued

Changes in model overlays

Judgemental model overlays – interest repricing

Kiwibank has retained the overlay that covers the risk that some home loan borrowers may be unable to maintain loan payments as their loans reprice onto 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 months. Kiwibank monitors impacted customers and has seen evidence of modest credit deterioration to date. A resilient labour market has largely supported higher home loan interest rates; however, unemployment is forecast to rise, creating further uncertainties. This overlay is expected to be released by June 2025, as customers either transition to credit provision stage 2 (significant increase in credit risk) or reprice onto new interest rates.

Other judgemental overlays

Model overlays are required in circumstances where it is judged that the existing inputs, assumptions and model techniques do not capture all the risk factors relevant to the Banking Group's lending portfolios. The Banking Group continues to hold overlays reflecting credit risks that are not yet incorporated into ECL models due to limited loss histories, or model limitations and emerging risks the Banking Group is currently unable to model. These are expected to be maintained until the current limitations can be incorporated into future ECL models. Overlays are reviewed every six months and there have been no significant changes to the approaches used in determining the overlays applied at 30 June 2024, compared to 30 June 2023. Management have considered and concluded that no overlay is required for climate risk or adverse weather events for 30 June 2024. Refer to 'Risk management' (Note 30) for more information on climate change risks.

Changes in ECL model assumptions and inputs

The modelled provision for ECL is an estimate of forward-looking losses based on the Banking Group's view of four different economic scenarios. Kiwibank's assumptions around the macroeconomic factors used within each scenario and the weighting applied to each scenario are key judgements applied to the ECL models. The Banking Group has adjusted the macroeconomic variables used in the ECL model based on current economic forecasts.

The Banking Group's four macroeconomic scenarios have been updated for the year ended 30 June 2024 as follows:

- **Central scenario**: this is the Banking Group's base case scenario which assumes a continuation of recent macroeconomic trends. The domestic economy continues to record below trend growth, with the RBNZ maintaining restrictive policy settings. Inflation is expected to fall within the target range of 1-3% by September 2024 and the cash rate to remain at 5.5% until November 2024. Thereafter, rate cuts are expected to commence. Unemployment increases and peaks at 5.2% in September 2025, but remains relatively low compared to previous recessions. The expected changes to monetary and tax policies should bolster demand and lead to house price increases into 2025 at a growth rate of 3-4% per annum.
- **Upside and downside scenarios**: these scenarios reflect relatively more or less favourable macroeconomic conditions compared to the central scenario, leading to lower or higher expected credit losses.
- **Severe stress scenario**: this scenario is based on the severe economic stress test scenario that was 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.

8. Credit impairment losses continued

The changes in the scenario variables and weightings used as at 30 June 2024 and 30 June 2023 are presented below.

Changes in scenario variables – increase/(decrease)

As at 30 June 24		Forecast financial year		
Scenario	**Macroeconomic assumption**	**2025**	**2026**	**2027**
Central	GDP (annual % change)	**2.2%**	**2.9%**	**2.5%**
	Unemployment rate	**5.1%**	**4.9%**	**4.5%**
	House price index (annual % change)	**5.4%**	**3.0%**	**3.5%**
	Consumer price index (annual % change)	**2.3%**	**2.1%**	**2.0%**
	90-day bank bill rate	**4.5%**	**3.1%**	**2.7%**
Upside	GDP (annual % change)	**3.4%**	**4.5%**	**4.1%**
	Unemployment rate	**4.4%**	**4.0%**	**3.8%**
	House price index (annual % change)	**10.4%**	**8.7%**	**9.4%**
	Consumer price index (annual % change)	**4.2%**	**3.7%**	**3.4%**
	90-day bank bill rate	**5.8%**	**4.7%**	**3.7%**
Downside	GDP (annual % change)	**(1.7%)**	**1.4%**	**1.3%**
	Unemployment rate	**8.2%**	**7.5%**	**6.4%**
	House price index (annual % change)	**(2.5%)**	**(2.0%)**	**0.6%**
	Consumer price index (annual % change)	**1.3%**	**1.1%**	**1.2%**
	90-day bank bill rate	**3.3%**	**1.2%**	**1.2%**
Severe stress	GDP (annual % change)	**(3.0%)**	**(2.0%)**	**(0.0%)**
	Unemployment rate	**6.8%**	**9.3%**	**10.6%**
	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	**7.4%**	**9.4%**	**9.8%**

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

Notes to the financial statements continued

8. Credit impairment losses continued

Scenario weightings

The weightings assigned to each scenario have been reassessed and adjusted to reflect the potential upside due to strong migration and monetary policy loosening in late 2024 or early 2025 and are outlined below.

	30 June 24	30 June 23
Central	**50%**	45%
Upside	**15%**	10%
Downside	**25%**	35%
Severe stress	**10%**	10%

Sensitivity of ECL to key judgements and assumptions

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

The following table outlines the sensitivity of the credit impairment provision to the key factors used to determine ECL as at 30 June 2024 and 30 June 2023. This sensitivity includes giving each economic scenario a 100% weighting and adjusting some model overlays to reflect those scenario conditions while holding all other modelling factors constant.

	Year ended 30 June 24		Year ended 30 June 23	
$ millions	**Total ECL**	**Impact**	Total ECL	Impact
Sensitivity to SICR assessment				
If 1% of stage 1 exposure transitions to stage 2	**136**	**7**	114	6
If 1% of stage 2 exposure transitions to stage 1	**129**	**-**	108	-
Sensitivity to scenario weighting				
Reported probability weighted ECL	**129**	**-**	108	-
100% upside scenario ECL	**103**	**(26)**	70	(38)
100% central scenario ECL	**119**	**(10)**	93	(15)
100% downside scenario ECL	**149**	**20**	126	18
100% severe stress ECL	**178**	**49**	160	52

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

Notes to the financial statements continued

9. Asset quality

Summary of lending

$ millions	Year ended 30 June 24 Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Neither past due nor impaired	**353**	**27,848**	**4,023**	**32,224**
Past due but not individually impaired	**19**	**160**	**121**	**300**
Individually impaired	**1**	**8**	**33**	**42**
Gross loans and advances	**373**	**28,016**	**4,177**	**32,566**
Credit impairment provision	**(9)**	**(43)**	**(69)**	**(121)**
Net loans and advances	**364**	**27,973**	**4,108**	**32,445**

$ millions	Year ended 30 June 23 Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Neither past due nor impaired	356	25,313	3,949	29,618
Past due but not individually impaired	13	94	50	157
Individually impaired	1	1	6	8
Gross loans and advances	370	25,408	4,005	29,783
Credit impairment provision	(8)	(42)	(51)	(101)
Net loans and advances	362	25,366	3,954	29,682

Loans and advances past due but not individually impaired

$ millions	Year ended 30 June 24 Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Past due less than 30 days	**15**	**87**	**60**	**162**
Past due 30 – 59 days	**2**	**22**	**15**	**39**
Past due 60 – 89 days	**1**	**16**	**3**	**20**
Past due 90 days or greater	**1**	**35**	**43**	**79**
Total loans and advances past due but not individually impaired	**19**	**160**	**121**	**300**

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

Notes to the financial statements continued

9. Asset quality continued

Other asset quality information

$ millions	Year ended 30 June 24			
	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Undrawn lending commitments to counterparties with individually impaired assets	-	-	11	11
Other assets under administration	-	1	4	5

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

Movement in credit impairment provision and gross carrying amounts

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

The movement tables are presented on the following basis:

- Additions are amounts from new commitments and facilities drawn during the period.
- Deletions are amounts repaid or closed and commitments utilised or closed during the period.
- Transfers between stages shows the net impact of the transfers between Stage 1, Stage 2 and Stage 3, prior to remeasurement.
- 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 include changes in future economic forecast assumptions and other model or overlay changes.

Definitions

'**Individually 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 individually impaired asset.

'**Other assets under administration**' means any credit exposure which is not an individually impaired asset or a 90 day past due asset, but is to a counterparty who is in receivership, liquidation, bankruptcy, statutory management, a no asset procedure, voluntary administration, or any other form of administration in New Zealand, or in in any other equivalent form of voluntary or involuntary administration in an overseas jurisdiction.

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

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

Notes to the financial statements continued

9. Asset quality continued

Movement in credit impairment provision – retail unsecured lending

	Year ended 30 June 24				
	Stage 1	Stage 2	Stage 3		
$ millions	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Opening balance at 1 July 23	6	3	-	1	10
Transfers between stages	**1**	**(1)**	**-**	**-**	**-**
Net remeasurement of loss allowances	**(1)**	**2**	**1**	**-**	**2**
Additions and deletions	**-**	**-**	**-**	**-**	**-**
Amounts written off	**-**	**(1)**	**-**	**-**	**(1)**
Other changes	**(1)**	**-**	**-**	**-**	**(1)**
Total (credited)/charged to IS for CP	**(2)**	**1**	**1**	**-**	**-**
New and increased provision	**-**	**-**	**-**	**-**	**-**
Write-back of provision no longer required	**-**	**-**	**-**	**-**	**-**
Total charged/(credited) to IS for IP	**-**	**-**	**-**	**-**	**-**
Written off from individually assessed provision	**-**	**-**	**-**	**-**	**-**
Total credit impairment provision	**5**	**3**	**1**	**1**	**10**
Provision on loans and advances	**4**	**3**	**1**	**1**	**9**
Provision on undrawn commitments	**1**	**-**	**-**	**-**	**1**
Total credit impairment provision	**5**	**3**	**1**	**1**	**10**
Impact of changes in gross carrying amount and credit commitments on ECL					
Opening balance at 1 July 23	288	81	-	1	370
Net transfers between stages	**1**	**(3)**	**1**	**1**	**-**
Additions	**112**	**22**	**-**	**-**	**134**
Deletions	**(110)**	**(16)**	**-**	**(1)**	**(127)**
Amounts written off	**-**	**(4)**	**-**	**-**	**(4)**
Gross carrying amount	**291**	**80**	**1**	**1**	**373**
Off-balance sheet credit commitments at 1 July 23	839	21	-	-	860
Net transfers between stages	**(9)**	**9**	**-**	**-**	**-**
Additions	**125**	**9**	**-**	**-**	**134**
Deletions	**(129)**	**(14)**	**-**	**-**	**(143)**
Off-balance sheet credit commitments	**826**	**25**	**-**	**-**	**851**

The unchanged credit impairment provision of $10m on retail unsecured lending for the year ended 30 June 2024 reflects:

- remeasurement of ECL due to exposures migrating to higher risk grades (+$2m);
- changes to management overlays (-$1m); and
- $4m of gross balances that were written off from stage 2 (-$1m).

Notes to the financial statements continued

9. Asset quality continued

Movement in credit impairment provision – residential mortgage loans

	Year ended 30 June 24				
	Stage 1	Stage 2	Stage 3		
$ millions	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Opening balance at 1 July 23	23	15	4	1	43
Transfers between stages	**8**	**(8)**	**-**	**-**	**-**
Net remeasurement of loss allowances	**(6)**	**9**	**3**	**-**	**6**
Additions and deletions	**1**	**-**	**-**	**-**	**1**
Amounts written off	**-**	**-**	**-**	**-**	**-**
Other changes	**(8)**	**-**	**-**	**-**	**(8)**
Total (credited)/charged to IS for CP	**(13)**	**9**	**3**	**-**	**(1)**
New and increased provision	**-**	**-**	**-**	**4**	**4**
Write-back of provision no longer required	**-**	**-**	**-**	**-**	**-**
Total charged/(credited) to IS for IP	**-**	**-**	**-**	**4**	**4**
Written off from individually assessed provision	**-**	**-**	**-**	**(1)**	**(1)**
Total credit impairment provision	**18**	**16**	**7**	**4**	**45**
Provision on loans and advances	**16**	**16**	**7**	**4**	**43**
Provision on undrawn commitments	**2**	**-**	**-**	**-**	**2**
Total credit impairment provision	**18**	**16**	**7**	**4**	**45**
Impact of changes in gross carrying amount and credit commitments on ECL					
Opening balance at 1 July 23	24,489	920	26	1	25,436
Net transfers between stages	**(142)**	**109**	**26**	**7**	**-**
Additions	**6,994**	**108**	**11**	**1**	**7,114**
Deletions	**(4,351)**	**(170)**	**(12)**	**-**	**(4,533)**
Amounts written off	**-**	**-**	**-**	**(1)**	**(1)**
Gross carrying amount	**26,990**	**967**	**51**	**8**	**28,016**
Off-balance sheet credit commitments at 1 July 23	2,469	29		-	2,498
Net transfers between stages	**(13)**	**13**	**-**	**-**	**-**
Additions	**920**	**10**	**-**	**-**	**930**
Deletions	**(732)**	**(17)**	**-**	**-**	**(749)**
Off-balance sheet credit commitments	**2,644**	**35**	**-**	**-**	**2,679**

Certain comparative information has been restated, refer to 'Comparative amounts' (Note 1.6) for further information.

The increase of $2m in the credit impairment provision on residential mortgage loans for the year ended 30 June 2024 reflects:

- remeasurement of ECL due to asset growth, model changes and exposures migrating to higher risk grades (+$7m);
- changes to judgemental overlays (-$8m); and
- an increase in individually assessed provisions (+$4m), partly offset by balances that were written off (-$1m).

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

$ millions	30 June 24
Gross residential mortgages per 'Asset quality' (Note 9)	**2,679**
Adjustment for off-balance sheet credit conversion factor	**(1,893)**
Residential mortgages total off-balance sheet exposures (per 'Capital adequacy and regulatory liquidity ratios')	**786**

Notes to the financial statements continued

9. Asset quality continued

Movement in credit impairment provision – corporate exposures

	Year ended 30 June 24				
	Stage 1	Stage 2	Stage 3		
$ millions	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Opening balance at 1 July 23	27	15	10	3	55
Transfers between stages	**(1)**	**(5)**	**(3)**	**9**	**-**
Net remeasurement of loss allowances	**(1)**	**6**	**2**	**-**	**7**
Additions and deletions	**3**	**-**	**3**	**-**	**6**
Amounts written off	**-**	**-**	**-**	**-**	**-**
Other changes	**(1)**	**(1)**	**-**	**-**	**(2)**
Total (credited)/charged to IS for CP	**1**	**5**	**5**	**-**	**11**
New and increased provision	**-**	**-**	**-**	**12**	**12**
Write-back of provision no longer required	**-**	**-**	**-**	**(4)**	**(4)**
Total charged/(credited) to IS for IP	**-**	**-**	**-**	**8**	**8**
Written off from individually assessed provision	**-**	**-**	**-**	**-**	**-**
Total credit impairment provision	**27**	**15**	**12**	**20**	**74**
Provision on loans and advances	**24**	**14**	**12**	**19**	**69**
Provision on undrawn commitments	**3**	**1**	**-**	**1**	**5**
Total credit impairment provision	**27**	**15**	**12**	**20**	**74**
Impact of changes in gross carrying amount and credit commitments on ECL					
Opening balance at 1 July 23	3,684	265	22	6	3,977
Net transfers between stages	**(292)**	**241**	**4**	**47**	**-**
Additions	**1,536**	**87**	**46**	**3**	**1,672**
Deletions	**(1,281)**	**(156)**	**(12)**	**(23)**	**(1,472)**
Amounts written off	**-**	**-**	**-**	**-**	**-**
Gross carrying amount	**3,647**	**437**	**60**	**33**	**4,177**
Off-balance sheet credit commitments at 1 July 23	721	30	3	1	755
Net transfers between stages	**(10)**	**1**	**(1)**	**10**	**-**
Additions	**549**	**11**	**-**	**2**	**562**
Deletions	**(354)**	**(14)**	**(1)**	**(2)**	**(371)**
Off-balance sheet credit commitments	**906**	**28**	**1**	**11**	**946**

The increase of $19m in credit impairment provision on corporate exposures for the year ended 30 June 2024 reflects:

- remeasurement of ECL due to asset growth and exposures migrating to higher risk grades (+$13m);
- changes to the macroeconomic scenarios and weightings and management overlays (-$2m); and
- an increase in individually assessed provisions (+$12m), partly offset by balances that were written off (-$4m).

Notes to the financial statements continued

9. Asset quality continued

Movement in credit impairment provision – total exposures

	Year ended 30 June 24				
	Stage 1	Stage 2	Stage 3		
$ millions	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Opening balance at 1 July 23	56	33	14	5	108
Transfers between stages	**8**	**(14)**	**(3)**	**9**	**-**
Net remeasurement of loss allowances	**(8)**	**17**	**6**	**-**	**15**
Additions and deletions	**4**	**-**	**3**	**-**	**7**
Amounts written off	**-**	**(1)**	**-**	**-**	**(1)**
Other changes	**(10)**	**(1)**	**-**	**-**	**(11)**
Total (credited)/charged to IS for CP	**(14)**	**15**	**9**	**-**	**10**
New and increased provision	**-**	**-**	**-**	**16**	**16**
Write-back of provision no longer required	**-**	**-**	**-**	**(4)**	**(4)**
Total charged/(credited) to IS for IP	**-**	**-**	**-**	**12**	**12**
Written off from individually assessed provision	**-**	**-**	**-**	**(1)**	**(1)**
Total credit impairment provision	**50**	**34**	**20**	**25**	**129**
Provision on loans and advances	**44**	**33**	**20**	**24**	**121**
Provision on undrawn commitments	**6**	**1**	**-**	**1**	**8**
Total credit impairment provision	**50**	**34**	**20**	**25**	**129**
Impact of changes in gross carrying amount and credit commitments on ECL					
Opening balance at 1 July 23	28,461	1,266	48	8	29,783
Net transfers between stages	**(433)**	**347**	**31**	**55**	**-**
Additions	**8,642**	**217**	**57**	**4**	**8,920**
Deletions	**(5,742)**	**(342)**	**(24)**	**(24)**	**(6,132)**
Amounts written off	**-**	**(4)**	**-**	**(1)**	**(5)**
Gross carrying amount	**30,928**	**1,484**	**112**	**42**	**32,566**
Off-balance sheet credit commitments at 1 July 23	4,029	80	3	1	4,113
Net transfers between stages	**(32)**	**23**	**(1)**	**10**	**-**
Additions	**1,594**	**30**	**-**	**2**	**1,626**
Deletions	**(1,215)**	**(45)**	**(1)**	**(2)**	**(1,263)**
Off-balance sheet credit commitments	**4,376**	**88**	**1**	**11**	**4,476**

Notes to the financial statements continued

9. Asset quality continued

Movement in credit impairment provision – retail unsecured lending

	Year ended 30 June 23				
	Stage 1	Stage 2	Stage 3		
$ millions	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Opening balance at 1 July 22	5	5	-	-	10
Transfers between stages	1	(1)	-	-	-
Net remeasurement of loss allowances	(1)	2	-	-	1
Additions and deletions	-	(1)	-	-	(1)
Amounts written off	-	(2)	-	-	(2)
Other changes	1	-	-	-	1
Total (credited)/charged to IS for CP	-	(1)	-	-	(1)
New and increased provision	-	-	-	1	1
Write-back of provision no longer required	-	-	-	-	-
Total charged/(credited) to IS for IP	-	-	-	1	1
Written off from individually assessed provision	-	-	-	-	-
Total credit impairment provision	6	3	-	1	10
Provision on loans and advances	4	3	-	1	8
Provision on undrawn commitments	2	-	-	-	2
Total credit impairment provision	6	3	-	1	10
Impact of changes in gross carrying amount and credit commitments on ECL					
Opening balance at 1 July 22	288	79	1	-	368
Net transfers between stages	-	-	-	-	-
Additions	97	21	-	1	119
Deletions	(97)	(14)	(1)	-	(112)
Amounts written off	-	(5)	-	-	(5)
Gross carrying amount	288	81	-	1	370
Off-balance sheet credit commitments at 1 July 22	869	20	-	-	889
Net transfers between stages	(9)	9	-	-	-
Additions	118	7	-	-	125
Deletions	(139)	(15)	-	-	(154)
Off-balance sheet credit commitments	839	21	-	-	860

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

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

Notes to the financial statements continued

9. Asset quality continued

Movement in credit impairment provision – residential mortgage loans

	Year ended 30 June 23				
	Stage 1	Stage 2	Stage 3		
$ millions	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Opening balance at 1 July 22	20	9	2	-	31
Transfers between stages	2	(2)	-	-	-
Net remeasurement of loss allowances	(4)	7	2	-	5
Additions and deletions	(1)	1	-	-	-
Amounts written off	-	-	-	-	-
Other changes	6	-	-	-	6
Total (credited)/charged to IS for CP	1	8	2	-	11
New and increased provision	-	-	-	1	1
Write-back of provision no longer required	-	-	-	-	-
Total charged/(credited) to IS for IP	-	-	-	1	1
Written off from individually assessed provision	-	-	-	-	-
Total credit impairment provision	23	15	4	1	43
Provision on loans and advances	22	15	4	1	42
Provision on undrawn commitments	1	-	-	-	1
Total credit impairment provision	23	15	4	1	43
Impact of changes in gross carrying amount and credit commitments on ECL					
Opening balance at 1 July 22	23,627	678	18	-	24,323
Net transfers between stages	(281)	265	15	1	-
Additions	5,086	107	2	-	5,195
Deletions	(3,943)	(130)	(9)	-	(4,082)
Amounts written off	-	-	-	-	-
Gross carrying amount	24,489	920	26	1	25,436
Off-balance sheet credit commitments at 1 July 22	2,722	29	-	-	2,751
Net transfers between stages	(15)	15	-	-	-
Additions	791	8	-	-	799
Deletions	(1,029)	(23)	-	-	(1,052)
Off-balance sheet credit commitments	2,469	29	-	-	2,498

Certain comparatives have been restated, refer to 'Comparative amounts' (Note 1.6) for further information.

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

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

9. Asset quality continued

Movement in credit impairment provision – corporate exposures

	Year ended 30 June 23				
	Stage 1	Stage 2	Stage 3		
$ millions	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Opening balance at 1 July 22	23	9	1	1	34
Transfers between stages	-	(1)	1	-	-
Net remeasurement of loss allowances	(1)	3	5	-	7
Additions and deletions	6	5	3	-	14
Amounts written off	-	-	-	-	-
Other changes	(1)	(1)	-	-	(2)
Total (credited)/charged to IS for CP	4	7	8	-	19
New and increased provision	-	-	-	3	3
Write-back of provision no longer required	-	-	-	-	-
Total charged/(credited) to IS for IP	-	-	-	3	3
Written off from individually assessed provision	-	-	-	(1)	(1)
Total credit impairment provision	27	15	10	3	55
Provision on loans and advances	25	14	9	3	51
Provision on undrawn commitments	2	1	1	-	4
Total credit impairment provision	27	15	10	3	55
Impact of changes in gross carrying amount and credit commitments on ECL					
Opening balance at 1 July 22	2,987	134	4	2	3,127
Net transfers between stages	(104)	90	11	3	-
Additions	1,787	70	9	3	1,869
Deletions	(986)	(29)	(2)	(1)	(1,018)
Amounts written off	-	-	-	(1)	(1)
Gross carrying amount	3,684	265	22	6	3,977
Off-balance sheet credit commitments at 1 July 22	888	21	1	-	910
Net transfers between stages	(5)	2	2	1	-
Additions	471	18	2	-	491
Deletions	(633)	(11)	(2)	-	(646)
Off-balance sheet credit commitments	721	30	3	1	755

Certain comparatives have been restated, refer to 'Comparative amounts' (Note 1.6) for further information.

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

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

Notes to the financial statements continued

9. Asset quality continued

Movement in credit impairment provision – total exposures

	Year ended 30 June 23				
	Stage 1	Stage 2	Stage 3		
$ millions	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Opening balance at 1 July 22	48	23	3	1	75
Transfers between stages	3	(4)	1	-	-
Net remeasurement of loss allowances	(6)	12	7	-	13
Additions and deletions	5	5	3	-	13
Amounts written off	-	(2)	-	-	(2)
Other changes	6	(1)	-	-	5
Total (credited)/charged to IS for CP	5	14	10	-	29
New and increased provision	-	-	-	5	5
Write-back of provision no longer required	-	-	-	-	-
Total charged/(credited) to IS for IP	-	-	-	5	5
Written off from individually assessed provision	-	-	-	(1)	(1)
Total credit impairment provision	56	33	14	5	108
Provision on loans and advances	51	32	13	5	101
Provision on undrawn commitments	5	1	1	-	7
Total credit impairment provision	56	33	14	5	108
Impact of changes in gross carrying amount and credit commitments on ECL					
Opening balance at 1 July 22	26,902	891	23	2	27,818
Net transfers between stages	(385)	355	26	4	-
Additions	6,970	198	11	4	7,183
Deletions	(5,026)	(173)	(12)	(1)	(5,212)
Amounts written off	-	(5)	-	(1)	(6)
Gross carrying amount	28,461	1,266	48	8	29,783
Off-balance sheet credit commitments at 1 July 22	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	4,029	80	3	1	4,113

Notes to the financial statements continued

10. Credit quality

The Banking Group's credit portfolio is divided into two asset categories to measure credit risk: retail and corporate.

Retail

This consists of housing loans, credit cards and personal lending facilities and business lending up to $1 million. These portfolios are managed on a group basis using statistical predictive characteristics, forward looking information, and account conduct (i.e., days past due) to measure credit quality and are assigned an account credit rating (ACR), PD and LGD.

Corporate

This consists of lending to businesses and includes bank and government exposures. Each exposure is assigned an internal customer credit rating ('**CCR**') that is based on an assessment of the probability of default. Credit rated exposures are reviewed at least annually and the CCR reassessed.

Credit quality of loans and advances and undrawn credit commitments

The credit quality of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the Banking Group's credit risk grades. 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-valuation ratios ('**LVR**'). Corporate loans and advances are individually risk-graded against similar characteristics and assigned an internal CCR. 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.

A large portion of credit exposures for loans and advances, such as residential and commercial mortgages, are secured. That is, the fair value of associated security is sufficient to ensure that the Banking Group will recover the entire amount owing over the life of the loan facility and there is reasonable assurance that collection efforts will result in payment of the amounts due in a timely manner. Refer to 'Concentration of credit risk' (Note 11) for more details of the collateral management.

Credit quality risk grades

Risk grade	ACR/CCR	Retail rating classification	Corporate rating classification	Equivalent S&P global ratings
Strong	0 – 4	Retail facilities portfolio-managed with good account conduct over an extended period.	Corporate lending individually assessed as being of low credit risk.	AAA to BBB
Satisfactory	5 – 7	Retail facilities portfolio-managed with acceptable conduct over time. Potentially vulnerable to adverse economic conditions.	Sound management and financial performance over the medium-to-long term. Potentially vulnerable to adverse economic conditions.	BBB- to B+
Weak	8 – 9	Retail facilities operating outside of agreed arrangements.	Increased risk due to management or financial instability. Customer is on the watchlist or is outside agreed arrangements.	B to CCC/C
Credit impaired	10 - 12	Defaulted, 90 days past due, or impaired with individually assessed credit impairment provision.	Defaulted, 90 days past due, or individually assessed credit impairment provision.	D

CCRs are used in estimates of ECL. Refer to 'Credit impairment losses' (Note 8) for further details on accounting policy.

Notes to the financial statements continued

10. Credit quality continued

The table below shows the Banking Group's total credit exposure by risk grade.

$ millions	30 June 24				
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Strong	**28,924**	**-**	**-**	**-**	**28,924**
Satisfactory	**6,366**	**1,348**	**-**	**-**	**7,714**
Weak	**14**	**224**	**-**	**-**	**238**
Credit impaired	**-**	**-**	**113**	**53**	**166**
Total credit exposure by risk grade	**35,304**	**1,572**	**113**	**53**	**37,042**

$ millions	30 June 23				
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Strong	26,544	-	-	-	26,544
Satisfactory	5,911	1,137	-	-	7,048
Weak	35	209	-	-	244
Credit impaired	-	-	51	9	60
Total credit exposure by risk grade	32,490	1,346	51	9	33,896

Certain comparative information has been reclassified to align with the current period presentation.

Credit quality of investment securities

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

Credit quality of other financial assets

In addition to loans and advances and investment securities, the Banking Group has assessed credit quality and impairment for cash and cash equivalents, due from other financial institutions, and other financial assets. All material other financial assets are considered 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 'Offsetting financial assets and financial liabilities' (Note 23).

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

Notes to the financial statements continued

11. Concentration of credit risk

$ millions	30 June 24 On-balance sheet financial assets	30 June 24 Off-balance sheet financial assets	30 June 24 Maximum exposure to credit risk	30 June 23 On-balance sheet financial assets	30 June 23 Off-balance sheet financial assets	30 June 23 Maximum exposure to credit risk
New Zealand						
Agriculture	**29**	**3**	**32**	22	3	25
Food and other manufacturing	**491**	**123**	**614**	402	97	499
Electricity, gas and water	**52**	**14**	**66**	36	10	46
Construction	**669**	**333**	**1,002**	744	239	983
Retail and wholesale trade	**420**	**128**	**548**	370	118	488
Transport and storage	**303**	**65**	**368**	278	47	325
Communications	**21**	**6**	**27**	35	8	43
Finance, investment and insurance	**669**	**71**	**740**	1,046	67	1,113
Property and business services	**2,991**	**173**	**3,164**	2,807	114	2,921
Professional, scientific and technical services	**140**	**76**	**216**	107	32	139
Government, local authorities and services	**2,287**	**3**	**2,290**	1,871	7	1,878
Education	**24**	**6**	**30**	21	5	26
Personal and other services	**123**	**37**	**160**	133	26	159
Health and community services	**220**	**23**	**243**	160	18	178
Households	**26,962**	**3,407**	**30,369**	24,484	3,314	27,798
Overseas						
Finance, investment & insurance	**1,123**	**8**	**1,131**	1,214	8	1,222
Total credit exposure	**36,524**	**4,476**	**41,000**	33,730	4,113	37,843
Less credit impairment provision	**(121)**	**(8)**	**(129)**	(101)	(7)	(108)
Total financial assets	**36,403**	**4,468**	**40,871**	33,629	4,106	37,735

Certain comparative information has been reclassified to align with the current period presentation.

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

Notes to the financial statements continued

11. Concentration of credit risk continued

Maximum exposure to credit risk

The table below represents the maximum net credit risk exposure of the Banking Group as at 30 June 2024 and 30 June 2023. The exposures set out are based on net carrying amounts as reported in the balance sheet.

	30 June 24			30 June 23		
$ millions	**On-balance sheet financial assets**	**Off-balance sheet financial assets**	**Maximum exposure to credit risk**	On-balance sheet financial assets	Off-balance sheet financial assets	Maximum exposure to credit risk
Credit risk exposure						
Cash and cash equivalents	**1,005**	**-**	**1,005**	1,027	-	1,027
Due from other financial institutions	**95**	**-**	**95**	129	-	129
Investment securities	**2,658**	**-**	**2,658**	2,299	-	2,299
Derivative financial instruments	**162**	**-**	**162**	447	-	447
Loans and advances	**32,566**	**4,476**	**37,042**	29,783	4,113	33,896
Other financial assets	**38**	**-**	**38**	45	-	45
Subtotal	**36,524**	**4,476**	**41,000**	33,730	4,113	37,843
Less credit impairment provision	**(121)**	**(8)**	**(129)**	(101)	(7)	(108)
Total	**36,403**	**4,468**	**40,871**	33,629	4,106	37,735

The exposure of the Banking Group derived from loans and advances to retail and corporate customers is 91% of the total maximum exposure (30 June 2023: 90%).

Collateral management

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

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

Retail unsecured lending

Retail unsecured lending includes credit cards and overdrafts and is an unsecured portfolio. As at 30 June 2024, 100% of the maximum credit exposure is unsecured (30 June 2023: 100% unsecured).

Residential mortgage loans

Residential mortgages are secured by a charge over borrowers' residential property. Additional security can also include a charge over deposits and guarantees from borrowers' related parties. As at 30 June 2024, 99.4% is fully secured and 0.6% is partially secured (30 June 2023: 99.6% fully secured and 0.4% partially secured).

Corporate exposures

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

As at 30 June 2024, 54.1% is fully secured, 11.0% is partially secured and 34.9% is unsecured (30 June 2023: 57.2% fully secured, 10.4% partially secured and 32.4% unsecured).

Collateral on credit impaired assets

As at 30 June 2024, 56.4% of the Banking Group's impaired gross loans is fully secured, 34.4% is partially secured and 9.2% is unsecured (30 June 2023: 47.3% fully secured, 17.7% partially secured and 34.9% unsecured).

Notes to the financial statements continued

12. Concentration of credit exposures to counterparties

Credit exposure to individual counterparties

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

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

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

For the six months ended	Period end 30 June 24	Peak 30 June 24
Exposures to banks		
Total number of exposures to banks that equals or exceeds 10% of CET1 capital	-	1
With a long-term credit rating of A- or A3 or above, or its equivalent	-	1
– 10% to less than 15% of CET1 capital	-	1
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-
Exposures to non-banks		
Total number of exposures to non-banks that equals or exceeds 10% of CET1 capital	1	2
With a long-term credit rating of A- or A3 or above, or its equivalent	1	2
– 10% to less than 15% of CET1 capital	1	1
– 15% to less than 20% of CET1 capital	-	1
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	-	-

Credit exposure to connected persons

The Banking Group's credit exposure to connected persons has been derived in accordance with its conditions of registration and the RBNZ's 'Connected Exposures Policy' (BS8). Credit exposures are disclosed on the basis of actual credit exposures measured net of individual credit impairment provisions and exclude advances to connected persons of a capital nature.

The Banking Group does not have any credit exposures to connected persons other than non-bank connected persons.

Peak end-of-day aggregate credit exposures to non-bank connected persons have been calculated based on the maximum end-of-day aggregate amount of actual credit exposures over the full year accounting period divided by the Banking Group's Tier 1 capital at the end of the reporting period.

The rating-contingent limit that applied to the Banking Group as at 30 June 2024 was 60%. There have been no rating-contingent limit changes during the year. Within the rating-contingent limit there is a sub-limit of 15% of the Banking Group's Tier 1 capital, which applies to the aggregate credit exposure to non-bank connected persons.

Aggregate credit exposure to connected persons has been calculated on a gross basis rather than a bilateral net basis. As at 30 June 2024, the Banking Group has no contingent exposures to connected persons arising from unfunded contingent credit protection arrangements provided by any connected persons in respect of credit exposures to counterparties (excluding counterparties that are connected persons).

As at 30 June 2024, the Banking Group's credit exposures to connected persons were not credit impaired.

	Non-bank connected persons	
	$ millions	% of Tier 1 capital
As at 30 June 2024		
Aggregate credit exposure	9	0.4%
Peak end-of-day over the year ended 30 June 2024		
Aggregate credit exposure	9	0.4%

Notes to the financial statements continued

13. Cash and cash equivalents

Accounting policy

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

Cash and cash equivalents are measured at amortised cost and considered current assets.

$ millions	30 June 24	30 June 23
Cash in hand	**5**	56
Cash with central bank	**923**	899
Call and overnight advances to financial institutions	**77**	72
Total cash and cash equivalents	**1,005**	1,027

14. Due from other financial institutions

Accounting policy

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

Certain short-term advances due from other financial institutions 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.

All amounts due from other financial institutions are considered current assets.

$ millions	30 June 24	30 June 23
Short term advances due from other financial institutions	**-**	50
Collateral paid	**95**	79
Total due from other financial institutions	**95**	129

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

Notes to the financial statements continued

15. Investment securities

Accounting policy

Investment securities are debt securities measured at FVOCI. Gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost: any interest calculated using the effective interest method; ECL and reversals; and foreign exchange gains and losses. On derecognition, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement; see 'Net (losses)/gains on financial instruments' (Note 3).

All investment securities are considered current assets.

$ millions	30 June 24	30 June 23
Government stock and multilateral development banks	**1,681**	1,324
Treasury bills	**119**	19
Local authority securities	**441**	434
Other debt securities	**417**	522
Total investment securities	**2,658**	2,299

The fair value of investment securities pledged under repurchase agreements is nil for the year ended 30 June 2024 (2023: nil).

16. Due to other financial institutions

Accounting policy

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

Under repurchase agreements, collateral in the form of securities is advanced to a third party and the Banking Group receives cash in exchange. The counterparty has an obligation to return the collateral at the maturity of the contract. The Banking Group has determined that it retains substantially all the risks and rewards of the securities advanced and therefore they are not derecognised and are retained within the relevant security portfolio and accounted for accordingly. Liability accounts are used to record the obligation to repurchase. The difference between the sale and repurchase price represents interest expense and is recognised in the income statement over the term of the repurchase agreement.

$ millions	30 June 24	30 June 23
Cash collateral received	**22**	224
Unsettled transactions	**-**	15
Transaction balances with other financial institutions	**68**	13
Repurchase agreements	**1,019**	1,516
Total due to other financial institutions	**1,109**	1,768
Residual contractual maturity:		
Current	**798**	845
Non-current	**311**	923

16. Due to other financial institutions continued

Funding for Lending Programme

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

A total of $1,156m of residentially mortgage-backed securities ("**RMBS**") has been pledged as approved eligible collateral (30 June 2023: $1,716m). As at 30 June 2024, $885m had been drawn down (30 June 2023: $1,385m). Refer to 'Transfer of financial assets' (Note 24) and 'Liquidity' (Note 32) for further information.

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 $56m of RMBS has been pledged as approved eligible collateral (30 June 2023: $81m). As at 30 June 2024, $47m had been drawn down (30 June 2023: $68m). Refer to 'Transfer of financial assets' (Note 24) and 'Liquidity' (Note 32) for further information.

17. Deposits

Accounting policy

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

$ millions	30 June 24	30 June 23
Deposits not bearing interest	**3,808**	4,148
On demand deposits	**7,116**	6,806
Term deposits	**17,252**	14,802
Total deposits from customers	**28,176**	25,756
Residual contractual maturity:		
Current	**27,433**	25,267
Non-current	**743**	489

The 30 June 2023 comparative information has been restated to ensure consistency with the presentation in the current period. Interest payable of $188m at 30 June 2023 has been reclassified from 'Deposits not bearing interest' to match the classification of the related products within 'On demand deposits' ($3m) and 'Term deposits' ($185m). This restatement does not impact total deposits from customers.

In the event of the liquidation of Kiwibank, deposit holders will rank equally with all other creditors but ahead of subordinated debt holders, shareholders and holders of perpetual preference shares. In addition, all payment obligations of Kiwibank that existed on 28 February 2017, and still outstanding, 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.

Notes to the financial statements continued

18. Debt securities issued

Accounting policy

Debt securities issued are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method. Amortisation and foreign exchange gains and losses are recognised in the income statement, as is any gain or loss when the liability is derecognised. See 'Derivative financial instruments and hedging activities' (Note 22) for the accounting policy including fair value hedge adjustments.

$ millions	30 June 24	30 June 23
Short-term debt		
Certificates of deposit	**244**	467
Long-term debt		
Medium-term notes	**3,047**	2,107
Covered bonds	**547**	544
Fair value hedge adjustment	**(40)**	(80)
Total debt securities issued	**3,798**	3,038
Residual contractual maturity:		
Current	**644**	741
Non-current	**3,154**	2,297

Reconciliation of movement in liability arising from financing activities

$ millions	30 June 24	30 June 23
Opening balance	3,038	2,579
Issuances	**1,842**	1,557
Repayments	**(1,176)**	(1,132)
Total cash movements	**666**	425
Effect of changes in foreign exchange rates	**16**	17
Fair value and other movements	**78**	17
Closing balance	**3,798**	3,038

The Banking Group has not issued any covered bonds during the year ended 30 June 2024 (2023: nil). The Banking Group has not redeemed any covered bonds during the year ended 30 June 2024 (2023: nil).

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

The guarantee arrangements and other details relating to covered bonds are disclosed in 'Transfer of financial assets' (Note 24).

Kiwibank has not had any defaults of principal, interest or other breaches with respect to debt securities issued during the year ended 30 June 2024 (2023: no defaults).

Notes to the financial statements continued

19. Subordinated debt

Accounting policy

Subordinated debt issues are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at amortised cost using the effective interest method. Amortisation is recognised in the income statement, as is any gain or loss when the liability is derecognised. See 'Derivative financial instruments and hedging activities' (Note 22) for the accounting policy including fair value hedge adjustments.

$ millions	30 June 24	30 June 23
Subordinated notes	**473**	472
Fair value hedge adjustments	**(15)**	(26)
Total subordinated debt	**458**	446
Residual contractual maturity:		
Current	**-**	-
Non-current	**458**	446

The Banking Group has not issued any subordinated notes during the year ended 30 June 2024 (2023: $200m).

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

The Banking Group has not had any defaults of principal, interest or other breaches with respect to subordinated debt during the year ended 30 June 2024 (2023: nil).

As at 30 June 2024, $472m of subordinated debt qualified as Tier 2 capital for Capital Adequacy calculation purposes (30 June 2023: $470m). The contractual terms of subordinated debt instruments on issue expressly stipulate that they do not have the benefit of the Crown Guarantee.

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

Interest is paid quarterly in arrears.

Reconciliation of movement in liability arising from financing activities

$ millions	30 June 24	30 June 23
Opening balance	446	250
Issuances	-	200
Issuance costs	-	(3)
Repayments	-	-
Interest paid	**(19)**	(6)
Total cash movements	**(19)**	191
Interest accrued	**19**	8
Fair value and other movements	**12**	(3)
Closing balance	**458**	446

Notes to the financial statements continued

20. Concentration of funding

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

$ millions	30 June 24	30 June 23
New Zealand		
Agriculture	**46**	32
Food and other manufacturing	**147**	149
Electricity, gas and water	**17**	23
Construction	**420**	388
Retail and wholesale trade	**255**	277
Transport and storage	**113**	171
Communications	**176**	6
Finance, investment and insurance	**5,738**	5,569
Property and business services	**517**	354
Professional, scientific and technical services	**461**	352
Government, local authorities and services	**570**	614
Education	**233**	214
Personal and other services	**369**	317
Health and community services	**400**	433
Households	**22,034**	20,420
Overseas		
Finance, investment and insurance	**1,839**	1,559
Households	**402**	373
Total funding	**33,737**	31,251
Other financial liabilities	**192**	127
Total financial liabilities	**33,929**	31,378

Notes to the financial statements continued

21. Fair value of financial instruments

Accounting policy

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

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

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The Banking Group must have access to the principal or the most advantageous market.

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

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

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

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

a) Measurement basis of financial assets and financial 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 table presents the carrying amounts of the financial assets and financial liabilities by category.

	30 June 24			
$ millions	**Amortised cost**	**FVOCI**	**FVTPL[1]**	**Total**
Cash and cash equivalents	**1,005**	**-**	**-**	**1,005**
Due from other financial institutions	**95**	**-**	**-**	**95**
Investment securities	**-**	**2,658**	**-**	**2,658**
Loans and advances	**32,445**	**-**	**-**	**32,445**
Derivative financial instruments	**-**	**-**	**162**	**162**
Other financial assets	**38**	**-**	**-**	**38**
Total financial assets	**33,583**	**2,658**	**162**	**36,403**
Due to other financial institutions	**1,109**	**-**	**-**	**1,109**
Deposits	**28,176**	**-**	**-**	**28,176**
Derivative financial instruments	**-**	**-**	**196**	**196**
Debt securities issued	**3,798**	**-**	**-**	**3,798**
Subordinated debt	**458**	**-**	**-**	**458**
Other financial liabilities	**192**	**-**	**-**	**192**
Total financial liabilities	**33,733**	**-**	**196**	**33,929**

Notes to the financial statements continued

21. Fair value of financial instruments continued

	30 June 23			
$ millions	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	29,682	-	-	29,682
Derivative financial instruments	-	-	447	447
Other financial assets	45	-	-	45
Total financial assets	30,833	2,349	447	33,629
Due to other financial institutions	1,768	-	-	1,768
Deposits	25,756	-	-	25,756
Derivative financial instruments	-	-	243	243
Debt securities issued	3,038	-	-	3,038
Subordinated debt	446	-	-	446
Other financial liabilities	127	-	-	127
Total financial liabilities	31,135	-	243	31,378

[1] FVTPL includes derivatives held for trading; refer to 'Derivative financial instruments and hedging activities' (Note 22).

b) Fair value hierarchy and measurement

Assets and liabilities carried at fair value have been classified into three levels based on the observability of inputs used to measure the fair values. The three levels of the fair value hierarchy are defined as follows:

Level 1 – Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuations are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 – Valuations where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

There have been no transfers between levels 1 and 2 during the year (2023: no transfers). There were also no transfers into/out of level 3 during the year (2023: no transfers).

c) Financial assets and financial liabilities carried at fair value

The fair values of assets and liabilities carried at fair value were determined by the 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.

Notes to the financial statements continued

21. Fair value of financial instruments continued

Derivative financial instruments

Where the Banking Group's derivative financial assets and derivative financial liabilities are not traded on an exchange, they are valued using valuation techniques, including discounted cash flow models and option pricing models, as appropriate. The models make maximum use of market observable inputs, including interest rate yield curves and foreign exchange ('**FX**') rates.

The table below presents financial assets and financial liabilities carried at fair value in accordance with their fair value hierarchy:

	30 June 24				30 June 23			
$ millions	**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
Investment securities	**597**	**2,061**	**-**	**2,658**	316	1,983	-	2,299
Derivative financial assets	**-**	**162**	**-**	**162**	-	447	-	447
Financial liabilities at fair value								
Derivative financial liabilities	**-**	**196**	**-**	**196**	-	243	-	243

d) Financial assets and financial liabilities carried at amortised cost

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

Loans and advances

The Banking Group provides loans and advances to retail and corporate customers at both variable and fixed rates. The carrying amount of the variable rate loans and advances is assumed to be their fair value. For fixed-rate lending, the estimate of fair value is based on the discounted contractual cash flows of the loan until it next reprices. The discount rate reflects the time until the loan next reprices, prevailing market interest rates, the Bank's cost of funding above swap rates and recently observed lending margins for the loan type.

Impaired and past due loans and advances

For impaired and 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 amount.

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.

Notes to the financial statements continued

21. Fair value of financial instruments continued

The following table compares the carrying amounts of financial instruments not measured at fair value (as presented in the Banking Group's balance sheet) with their estimated fair values and analyses them by level in the fair value hierarchy. The fair values presented in the tables are at a specific date and may be significantly different from the amounts which will be paid or received on the maturity or settlement date.

$ millions	30 June 24					30 June 23				
	Level 1	**Level 2**	**Level 3**	**Total**	**Carrying amount**	Level 1	Level 2	Level 3	Total	Carrying amount
Financial assets at amortised cost										
Loans and advances	**-**	**-**	**32,294**	**32,294**	**32,445**	-	-	29,286	29,286	29,682
Financial liabilities at amortised cost										
Deposits	**-**	**-**	**28,187**	**28,187**	**28,176**	-	-	25,741	25,741	25,756
Debt securities issued	**-**	**3,814**	**-**	**3,814**	**3,798**	-	3,027	-	3,027	3,038
Subordinated debt	**-**	**459**	**-**	**459**	**458**	-	447	-	447	446

The carrying amounts 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.

22. Derivative financial instruments and hedging activities

Accounting policy

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

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

Derivative financial instruments are classified as either held for trading or held for hedging.

Derivatives held for trading

These include derivatives transacted as part of the trading activity of the Banking Group, as well as derivatives transacted as economic hedges that do not qualify 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.

Derivatives held for hedging

Derivatives held for hedging are instruments held for risk management purposes, which meet the criteria for hedge accounting.

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

(1) hedges of the fair value of recognised assets or liabilities or firm commitments (a '**fair value hedge**'); or,

(2) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (a '**cash flow hedge**').

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

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

As permitted by NZ IFRS 9 *Financial Instruments*, the Banking Group has elected to continue to apply the hedge accounting requirements of NZ IAS 39 *Financial Instruments: Recognition and Measurement*.

Notes to the financial statements continued

22. Derivative financial instruments and hedging activities continued

Accounting policy continued

Fair value hedge ('**FVH**')

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 ('**CFH**')

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

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

When a hedging instrument expires or is sold, terminated, 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.

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

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

- *Currency forwards* represent commitments to purchase domestic and foreign currency, including undelivered spot transactions.
- *Interest rate futures* are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.
- *Forward rate agreements* are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- *Currency and interest rate swaps* are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (e.g., fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps. The Banking Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, the Banking Group assesses counterparties using the same techniques as for its lending activities.
- *Foreign currency 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 at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange risk. The Banking Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.
- The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Banking Group's exposure to credit or price risks. Derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates as applicable relative to their terms. The aggregate contractual or notional amount of derivative financial instruments held and the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and derivative financial liabilities, can fluctuate significantly from time to time.

22. Derivative financial instruments and hedging activities continued

The following tables presents the fair value of derivative instruments:

	30 June 24			30 June 23		
	Notional	Fair values		Notional	Fair values	
$ millions	amount	Assets	Liabilities	amount	Assets	Liabilities
Derivatives held for trading[1]	13,983	37	(37)	11,910	69	(55)
Derivatives held for hedging	24,340	125	(159)	20,714	378	(188)
Total derivative financial instruments	**38,323**	**162**	**(196)**	32,624	447	(243)
Residual contractual maturity:						
Current		56	(50)		249	(32)
Non-current		106	(146)		198	(211)

[1] Derivatives held for trading includes those transacted as economic hedges.

Derivatives held for trading

	30 June 24			30 June 23		
	Notional	Fair values		Notional	Fair values	
$ millions	amount	Assets	Liabilities	amount	Assets	Liabilities
Foreign exchange contracts						
Forwards	1,638	10	(10)	1,332	18	(12)
Options	110	2	(2)	33	-	-
Total foreign exchange contracts	**1,748**	**12**	**(12)**	1,365	18	(12)
Interest rate contracts						
Swaps	12,235	25	(25)	10,545	51	(43)
Total interest rate contracts	**12,235**	**25**	**(25)**	10,545	51	(43)
Total derivatives held for trading	**13,983**	**37**	**(37)**	11,910	69	(55)

Derivatives held for hedging

Interest rate derivatives

The Banking Group hedges benchmark interest rate risk. Hedge accounting is applied where economic hedge relationships meet the hedge accounting criteria.

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

The Banking Group establishes a hedge ratio by aligning the par amount of the exposure to be hedged and the notional amount of the interest rate swap designated as a hedging instrument. The hedge relationship is reviewed monthly, and the hedging instruments and hedged items are de-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 fixed-rate subordinated debt (refer to 'Subordinated debt' (Note 19)) and medium-term notes (refer to 'Debt securities issued' (Note 18)).
- 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.

Notes to the financial statements continued

22. Derivative financial instruments and hedging activities continued

Interest rate derivatives continued

- Portfolio (macro) cash flow hedge accounting is applied to interest rate swaps designated as hedges of the Banking Group's portfolios of floating-rate assets and liabilities. The effective portion of the fair value gains and losses on the hedging instrument is initially recognised directly in other comprehensive income within equity (cash flow hedge reserve). The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in 'Net gains/(losses) on financial instruments' (Note 3) in the income statement.

Interest and foreign exchange derivatives

The interest and foreign currency risk arising from the Bank's foreign currency 'Debt securities issued' (Note 18) is hedged using cross-currency swaps. The foreign currency legs of the cross-currency swaps match the critical terms of the hedged debt securities issued, creating economic hedge relationships that meet hedge accounting criteria.

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

- Fair value hedge relationship where cross-currency swaps are used to manage the interest rate risk in relation to foreign-currency-denominated borrowing with fixed interest rates;
- 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 payments of principal and interest on the Bank's foreign currency debt securities issued.

Foreign exchange derivatives

The foreign currency risk arising from the Bank's foreign currency expenses is hedged used forward foreign exchange contracts. Under these contracts, the Bank agrees to purchase specified amounts of foreign currency to create an economic hedge relationship that meets hedge accounting criteria.

These are designated as cash flow hedge relationships of the foreign currency risk of highly probable vendor payments.

Summary of designated hedge relationships

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

		30 June 24					
		Notional amount				Fair value	
$ millions	Hedged risk	Up to 1 year	Between 1 & 5 years	Over 5 years	Total	Assets	Liabilities
Fair value hedges							
Interest rate swap	Interest rate	**200**	**1,521**	**-**	**1,721**	**12**	**(34)**
Cross-currency swap	Interest rate	**-**	**711**	**-**	**711**	**-**	**(37)**
Total designated in fair value hedges		**200**	**2,232**	**-**	**2,432**	**12**	**(71)**
Cash flow hedges							
Interest rate swap	Interest rate	**10,312**	**10,680**	**-**	**20,992**	**90**	**(108)**
Cross-currency swap	Interest rate & FX	**-**	**1,614**	**-**	**1,614**	**23**	**20**
Foreign exchange	FX	**12**	**1**	**-**	**13**	**-**	**-**
Total designated in cash flow hedges		**10,324**	**12,295**	**-**	**22,619**	**113**	**(88)**
Less derivatives in both FVH and CFH		**-**	**(711)**	**-**	**(711)**	**-**	**-**
Total derivatives held for hedging		**10,524**	**13,816**	**-**	**24,340**	**125**	**(159)**

Notes to the financial statements continued

22. Derivative financial instruments and hedging activities continued

		30 June 23					
		Notional amount				Fair value	
$ millions	Hedged risk	Up to 1 year	Between 1 & 5 years	Over 5 years	Total	Assets	Liabilities
Fair value hedges							
Interest rate swap	Interest rate	-	1,233	-	1,233	-	(62)
Cross-currency swap	Interest rate	274	394	123	791	-	(48)
Total designated in fair value hedges		274	1,627	123	2,024	-	(110)
Cash flow hedges							
Interest rate swap	Interest rate	8,930	9,170	25	18,125	315	(104)
Cross-currency swap	Interest rate & FX	274	938	123	1,335	62	26
Foreign exchange	FX	12	9	-	21	1	-
Total designated in cash flow hedges		9,216	10,117	148	19,481	378	(78)
Less derivatives in both FVH and CFH		(274)	(394)	(123)	(791)	-	-
Total derivatives held for hedging		9,216	11,350	148	20,714	378	(188)

The average fixed interest rate of hedging instruments used to hedge interest rate risk during the reporting period was 3.51% for fair value hedges and 4.39% for cash flow hedges (2023: 2.86% for fair value hedges and 2.91% for cash flow hedges).

The average exchange rates related to foreign exchange and cross-currency swaps used to hedge foreign currency risk against NZD during the year ended 30 June 2024 were AUD 0.92, GBP 0.49, HKD 5.51 and USD 0.62 (2023: AUD 0.91, CHF 0.69, GBP 0.50, HKD 5.51 and USD 0.64).

Hedge Ineffectiveness

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.

The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in 'Net gains/(losses) on financial instruments' (Note 3) in the income statement.

The following table sets out the changes in fair value of the Banking Group's hedged items and hedging instruments used for calculating hedge ineffectiveness.

		30 June 24		30 June 23	
$ millions	**Hedged risk**	**Change in value of hedged item**	**Change in value of hedging instrument**	Change in value of hedged item	Change in value of hedging instrument
Fair value hedges					
Interest rate swap	Interest rate	**(41)**	**41**	6	(6)
Cross currency swap	Interest rate	**(11)**	**11**	4	(4)
Total		**(52)**	**52**	10	(10)
Cash flow hedges					
Interest rate swap	Interest rate	**(57)**	**57**	(162)	162
Cross currency swap	Interest rate & FX	**(4)**	**4**	(1)	1
Foreign exchange	FX	**-**	**-**	-	-
Total		**(61)**	**61**	(163)	163

Certain comparative information has been reclassified to align with the current period presentation.

Notes to the financial statements continued

22. Derivative financial instruments and hedging activities continued

Hedged items in fair value hedge relationships

The following table sets out the Banking Group's hedged items in fair value hedge accounting relationships, and the accumulated amount of fair value hedge adjustments included in their carrying amounts. During the year ended 30 June 2024, there were no adjustments relating to discontinued hedge relationships (2023: nil).

		30 June 24		30 June 23	
$ millions	Hedged risk	Carrying amount	Accumulated fair value hedge adjustments	Carrying amount	Accumulated fair value hedge adjustments
Subordinated debt	Interest rate	**(386)**	**15**	(374)	26
Debt securities issued	Interest rate	**(1,318)**	**3**	(801)	32
Debt securities issued	Interest rate & FX	**(673)**	**37**	(742)	48
Total		**(2,377)**	**55**	(1,917)	106

Cash flow hedge reserve

The table below sets out the movements in the Banking Group's cash flow hedge reserve during the year. This includes the impact of both continuing and discontinued cash flow hedge relationships on profit after tax and other comprehensive income (excluding hedge ineffectiveness):

	30 June 24			30 June 23		
	Type of risk			Type of risk		
$ millions	Interest rate	Interest rate and FX	Total	Interest rate	Interest rate and FX	Total
Opening balance	156	(4)	152	214	(4)	210
Gross changes in fair value[1]	**57**	**4**	**61**	162	1	163
Reclassified to Income statement:						
Interest income	**72**	**-**	**72**	36	-	36
Interest expense	**(295)**	**16**	**(279)**	(221)	20	(201)
Net gains/(losses) on financial instruments	**(26)**	**(19)**	**(45)**	(58)	(21)	(79)
Deferred tax	**54**	**-**	**54**	23	-	23
Closing balance	**18**	**(3)**	**15**	156	(4)	152

Certain comparative information has been restated to align with the current period presentation.

[1] Changes in the fair value of the hedging instrument recognised in other comprehensive income.

As at 30 June 2024, there were no outstanding interest rate swaps that had been de-designated from cash flow hedge relationships to manage hedge capacity. As at 30 June 2023, there were $1.7b de-designated interest rate swaps. The forecast transactions for these de-designated interest rate swaps were still expected to occur. Therefore, the cumulative gains or losses recognised directly in the cash flow hedge reserve while the hedge instruments were designated remained in equity until the forecast transaction occurred.

During the year ended 30 June 2024, $26m (2023: $58m) was reclassified from the cash flow hedge reserve to 'Net gains/(losses) on financial instruments' (Note 3) in the income statement. This is the amortisation of the fair value of de-designated interest rate swaps at the time of revoking the hedge designation. The amortisation is offset by subsequent fair value movements in those de-designated interest rate swaps of (-$26m) (30 June 2023: (-$58m)).

At 30 June 2024, there were no cumulative gains or losses on de-designated interest rate swaps remaining in the cash flow hedge reserve (30 June 2023: $3m).

Notes to the financial statements continued

23. Offsetting financial assets and financial liabilities

Accounting policy

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

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

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

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

		30 June 24					
					Related amounts not offset in the balance sheet		
$ millions	Note	**Gross amounts of recognised financial instruments**	**Amounts offset in the balance sheet**	**Net amounts of financial instruments presented in the balance sheet**	**Financial instruments**	**Cash collateral**	**Net amount**
Derivative financial assets	22	**162**	**-**	**162**	**(137)**	**(21)**	**4**
Total		**162**	**-**	**162**	**(137)**	**(21)**	**4**
Derivative financial liabilities	22	**196**	**-**	**196**	**(137)**	**(46)**	**13**
Repurchase agreements[1]		**1,019**	**-**	**1,019**	**(1,019)**	**-**	**-**
Total		**1,215**	**-**	**1,215**	**(1,156)**	**(46)**	**13**

		30 June 23					
					Related amounts not offset in the balance sheet		
$ millions	Note	Gross amounts of recognised financial instruments	Amounts offset in the balance sheet	Net amounts of financial instruments presented in the balance sheet	Financial instruments	Cash collateral	Net amount
Derivative financial assets	22	447	-	447	(210)	(223)	14
Total		447	-	447	(210)	(223)	14
Derivative financial liabilities	22	243	-	243	(210)	(20)	13
Repurchase agreements[1]		1,516	-	1,516	(1,516)	-	-
Total		1,759	-	1,759	(1,726)	(20)	13

[1] $1,212m of residentially mortgage-backed securities have been pledged as collateral under a collateralised borrowing arrangement (repurchase agreements) (30 June 2023: $1,797m). Refer to 'Due to other financial institutions' (Note 16) for further details.

Notes to the financial statements continued

24. Transfer of financial assets

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

Kiwibank RMBS Trust Series 2009-1 (the 'RMBS Trust')

The RMBS Trust was established to hold individual residentially secured mortgages (loans and advances) and to restructure these assets into internal residential mortgage-backed securities ('**RMBS**') which are eligible for repurchase under agreements with the RBNZ. The Banking Group can borrow from the RBNZ using the RMBS as collateral until repurchased at a later date, in order to manage its liquidity requirements.

The carrying amount of the RMBS pool as at 30 June 2024 is $4,250m (30 June 2023: $4,250m). These securities are ring-fenced to ensure they are not used as collateral outside of agreements established with the RMBS Trust.

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

Kiwi Covered Bond Trust (the 'Covered Bond Trust')

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

The carrying amount of the Covered Bond Trust pool as at 30 June 2024 is $700m (30 June 2023: $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 Covered Bond Trust do not qualify for derecognition as the Banking Group retains a continuing involvement and retains substantially all the risks and rewards of ownership of the transferred assets (funding, liquidity and credit risk remains with the Banking Group).

Repurchase agreements

The Banking Group enters into sale and repurchase agreements with the wider market in order to manage liquidity. Under the repurchase agreements, collateral in the form of securities is advanced to a third party and the Banking Group receives cash in exchange. The counterparty is allowed to sell or re-pledge the collateral advanced under repurchase agreements in the absence of default by the Banking Group but has an obligation to return the collateral at the maturity of the contract. The Banking Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognised them (funding, liquidity and credit risk remains with the Banking Group). In addition, it recognises a financial liability for cash received which is included in 'Due to other financial institutions' (Note 16).

As at 30 June 2024, the Banking Group has recognised liabilities for an outstanding repurchase agreement of $1,019m (30 June 2023: $1,516m).

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

The Banking Group has entered into an agreement with the RBNZ to draw down funds under the FLP and the TLF. RMBS have been pledged as approved eligible collateral. Refer to 'Due to other financial institutions' (Note 16) and 'Liquidity' (Note 32) for further information.

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

As at 30 June 2024, the Banking Group has not derecognised any financial assets where they have a continuing involvement (30 June 2023: nil).

Notes to the financial statements continued

25. Other liabilities

Accounting policy

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

Provisions

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

Contract liabilities

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

Lease liabilities

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

$ millions	30 June 24	30 June 23
Trade and other payables	**30**	30
Employee entitlements	**48**	41
Current tax liability	**-**	57
Contract liabilities	**9**	8
ECL allowance on undrawn commitments	**8**	7
Provisions	**17**	21
Lease liabilities	**92**	88
Trail commission payable	**66**	-
Other liabilities	**22**	24
Total other liabilities	**292**	276
Residual contractual maturity:		
Current	**175**	198
Non-current	**117**	78

During the current year, the Banking Group revised its accounting treatment of trail commissions payable to mortgage brokers. As a result, a liability was recognised within 'Other liabilities' equal to the present value of the expected trail commissions payable, with a corresponding increase in capitalised brokerage costs within 'Loans and advances' Note 7). This balance as at 30 June 2024 was $66m. Refer to 'Accounting policies' (Note 1.4) for further details.

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

25. Other liabilities continued

Movement in provisions

$ millions	30 June 24 Remediation	30 June 24 Other	30 June 24 Total	30 June 23 Remediation	30 June 23 Other	30 June 23 Total
Opening balance	7	14	21	8	9	17
New and increased provisions	**2**	**13**	**15**	5	11	16
Provisions used	**(5)**	**(12)**	**(17)**	(5)	(4)	(9)
Unused amounts reversed	**(2)**	**-**	**(2)**	(1)	(2)	(3)
Closing balance	**2**	**15**	**17**	7	14	21

Remediation

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

Other provisions

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

Lease liabilities

$ millions	30 June 24 Property	30 June 24 Other	30 June 24 Total	30 June 23 Property	30 June 23 Other	30 June 23 Total
Opening balance	84	4	88	91	5	96
Additions/(disposals)	**16**	**3**	**19**	5	1	6
Accretion of interest	**3**	**-**	**3**	2	-	2
Payments	**(15)**	**(3)**	**(18)**	(14)	(2)	(16)
Closing balance	**88**	**4**	**92**	84	4	88

Notes to the financial statements continued

26. Equity

Accounting policy

Share capital

i) Ordinary shares

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

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

ii) Perpetual preference shares

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

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

Other reserves

i) Fair value reserve

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

ii) Cash flow hedge reserve

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

Ordinary shares

The total number of issued and fully paid ordinary shares in Kiwibank at the reporting date was 962 million (30 June 2023: 737 million). 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. As at 30 June 2024 and 30 June 2023, all issued ordinary share capital is owned by KGCL, which is incorporated in New Zealand.

$ millions	30 June 24	30 June 23
Opening balance	737	737
Issued in year	**225**	-
Closing balance	**962**	737

Perpetual preference shares

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

The total authorised number of PPS in Kiwibank at the reporting date was 250 million (30 June 2023: 250 million). All issued PPS are fully paid and do not carry any voting rights. The PPS are classified as equity instruments as there is no contractual obligation for Kiwibank to either deliver cash or another financial instrument or to exchange financial instruments on a potentially unfavourable basis.

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

$ millions	30 June 24	30 June 23
Opening balance	246	246
Issued in year	**-**	-
Closing balance	**246**	246

26. Equity continued

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative change in the fair value of designated cash flow hedging instruments related to hedged forecasted transactions that have not yet occurred.

$ millions	30 June 24	30 June 23
Opening balance	152	210
Gross changes in fair value	**61**	163
Tax on changes in fair value	**(12)**	(39)
Cumulative gains transferred to the income statement	**(252)**	(244)
Tax effect of items transferred to income statement	**66**	62
Closing balance	**15**	152

Certain comparative information has been restated to align with the current period presentation.

Fair value reserve

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

$ millions	30 June 24	30 June 23
Opening balance	(50)	(65)
Gross changes in fair value	**39**	(8)
Tax on changes in fair value	**(11)**	2
Cumulative losses transferred to the income statement	**1**	29
Tax effect of items transferred to income statement	**-**	(8)
Closing balance	**(21)**	(50)

Notes to the financial statements continued

26. Equity continued

Capital

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

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

As at 30 June 2024 and 30 June 2023, Common Equity and Additional Tier 1 capital comprises ordinary shares, retained earnings, fair value reserve and PPS less deductions for intangible assets and deferred tax assets.

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

Capital management

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

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

RBNZ Capital Review

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

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

From 1 July 2024, Tier 1 capital ratio requirement increases from 6% to 7% and total capital ratio requirement increases from 8% to 9%.

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

There were no dividends paid during the year on ordinary shares. For the year ended 30 June 2023, dividends paid were $14m (1.86 cents per share).

Discretionary distributions

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

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

These restrictions will apply until:

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

Notes to the financial statements continued

27. Related parties

Accounting policy

The Banking Group sponsors the formation of special purpose vehicles ('**SPV**') in the ordinary course of business, primarily to provide funding and liquidity. SPVs are typically set up for a single, pre-defined purpose, have a limited life and generally are not operating entities nor do they have employees.

An SPV is consolidated and reported as part of the Banking Group if it is controlled by the Bank. The definition of control is outlined in Note 1.2.

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

		Interest held by Kiwibank Limited	
Name of entity	**Principal activity**	**30 June 24**	30 June 23
Kiwibank Investment Management Limited	Provision of investment management services	**100%**	100%
Kiwibank PIE Unit Trust ("PIE Unit Trust")	Managed portfolio investment entity	-	-
Kiwibank RMBS Trust Series 2009-1	Securitisation finance entity	-	-
Kiwi Covered Bond Trust	Securitisation finance entity	-	-

The Banking Group consolidates the following SPVs: PIE Unit Trust, the Kiwibank RMBS Trust Series 2009-1 and the Kiwi Covered Bond Trust on the basis that Kiwibank controls these entities. All Banking Group entities have a reporting date of 30 June and are incorporated and/or domiciled in New Zealand.

Transactions with Kiwi Group Capital Limited (KGCL) and its subsidiary

During the year the Banking Group had transactions with KGCL and its subsidiary, The New Zealand Home Loan Company Limited ('**NZHL**'). All transactions with KGCL and NZHL were conducted within the Banking Group's approved policies. Refer to 'Equity' (Note 26) for details of dividends paid to shareholders.

The table below shows material transactions with related entities.

$ millions	**Year ended 30 June 24**	Year ended 30 June 23
Interest income		
KGCL	**-**	2
Total interest income received or due from related entities	**-**	2
Interest expense		
KGCL	**(3)**	(8)
Total interest expense paid or due to related entities	**(3)**	(8)
Other operating income		
KGCL	**-**	1
Total other operating income paid or due from related entities	**-**	1
Operating expenses		
Operating expenses paid or due to NZP[1]	**-**	(1)
Operating expenses paid or due to joint ventures of NZSF[1]	**-**	(7)
Total operating expenses paid or due to related entities	**-**	(8)
Other transactions		
Fees and commission paid to NZHL	**(29)**	(26)

[1] On 30 November 2022, NZ Post (NZP), the NZP Group (NZP and its subsidiaries), Accident Compensation Corporation (ACC), NZ Superannuation Fund (NZSF) and Guardians of New Zealand Superannuation ceased to be related parties. Transactions with NZP, the NZP Group, ACC, NZSF and Guardians of New Zealand Superannuation have been included until this date.

Notes to the financial statements continued

27. Related parties continued

Transactions with KGCL and its subsidiary continued

Transactions conducted with related entities, including KGCL include:

- During the year, NZHL received fees and commission from the Banking Group totalling $29m (2023: $26m). This includes trail commission of $20m (2023: $19m) and upfront fees and commission of $9m (2023: $7m).
- Certain shared service activities have been provided by the Banking Group to KGCL and NZHL. The fee charged for these services is based on activity and a mutually agreed fee. During the year, the fee charged was $0.4m and $40k for KGCL and NZHL respectively (2023: $0.5m and $40k for KGCL and NZHL respectively).
- Kiwibank is a member of, and benefits from, recognition of tax losses from members of the 'Kiwibank Consolidated Tax Group'. Refer to 'Income tax' (Note 6) for further details. During the year ended 30 June 2024, no tax losses were recognised (2023: nil).
- There is a revolving credit facility provided to NZHL, which is secured by a general security agreement given by NZHL. The facility limit is $6m and the interest rate on the outstanding principal amount is based on the Kiwibank business base rate less a negotiated discount, with a line fee of 1% per annum on the facility limit. The facility is repayable on demand. The balance as at 30 June 2024 is disclosed with loans and advances in the table below (2023: same).
- KGCL has a call account and term deposits with the Banking Group with interest rates ranging from 4.25% to 6.20% per annum and maturities within a year (2023: a call account and a term deposit with interest rates ranging from 5.5% to 5.8% per annum and maturities within a year).

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

$ millions	30 June 24	30 June 23
Loans and advances		
NZHL	**2**	2
Total due from related entities included in loans and advances	**2**	2
Total due from related entities	**2**	2
Deposits		
KGCL	**33**	256
Total due to related entities included in deposits	**33**	256
Other liabilities (trail commission payable)		
NZHL	**45**	1
Total due to related entities included in other liabilities	**45**	1
Total due to related entities	**78**	257

Transactions with other government-related entities

The Banking Group enters into banking transactions with other entities controlled by the Crown in the normal course of business on standard terms and conditions. In addition, the Banking Group has a commercial arrangement with Air New Zealand Limited (an entity controlled by the Crown) in relation to credit card loyalty programmes.

Notes to the financial statements continued

27. Related parties continued

Transactions with key management personnel

Loans made to and deposits held by key management personnel (including close family members of key management personnel and entities that are controlled or jointly controlled by key management personnel or their close family members) are made in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees. Loans are on terms of repayment that range between fixed and variable, all of which have been made in accordance with the Banking Group's lending policies. No individually assessed credit impairment provision has been recognised for loans made to key management personnel (30 June 2023: nil). Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. This includes the Board and members of the Executive Committee ('**EXCO**').

$ thousands	Year ended 30 June 24	Year ended 30 June 23
Directors' fees	**1,022**	1,002

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

$ millions	Year ended 30 June 24	Year ended 30 June 23
Salaries and short-term employee benefits	**9**	8
Long-term benefits	**2**	10
Termination benefits	**1**	-
Total key management personnel compensation	**12**	18

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

$ millions	30 June 24	30 June 23
Loans to key management personnel[1]	**2**	2
Deposits from key management personnel[1]	**4**	5

[1] 'Loans to' and 'deposits from' in the table above include close family members of key management personnel.

Long-term benefits

During the year ended 30 June 2021, the Bank entered into a cash-based long-term incentive scheme ('**LTI**') with members of the EXCO. The LTI covers the period from 1 July 2020 to 30 June 2025, and vests in three tranches. At each vesting date certain conditions are required to be met including financial and performance targets for the Banking Group. The key assumption in measuring the LTI is the probability of meeting the targets. As at 30 June 2024, the estimated liability of the LTI amounted to $5m and is included within 'Other liabilities' (Note 25) in the balance sheet (30 June 2023: $6m).

During the year ended 30 June 2022, the Bank entered into a further cash-based incentive scheme with senior management and key employees, which includes the EXCO, where retention of these individuals is critical. For key management personnel, this scheme extended to 31 January 2024, with the majority of awards vested on 30 June 2023, and one award vested on 31 January 2024. At each vesting date, the key condition is that each participant remained in employment with the Bank. If this condition was not met, amounts previously paid under the scheme were required to be reimbursed to the Banking Group. During the year ended 30 June 2024, $1m was recognised in the income statement in relation to this scheme (2023: $6m).

28. Fiduciary activities, securitisation, and funds under management

Insurance business

The Banking Group does not conduct any insurance business.

Marketing and distribution

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

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

Effective 31 August 2024, the Hollard Insurance Company Pty Limited will no longer provide new insurance policies to customers referred by Kiwibank. The Ando Insurance Group will continue to manage the existing policies taken out by customers referred by Kiwibank on or prior to 31 August 2024. From 1 September 2024 Tower Insurance Limited will be Kiwibank's insurance partner for house, contents and car insurance (in addition to travel insurance) for new customers referred by Kiwibank.

Securitised assets

The Banking Group has an in-house RMBS facility and covered bond programme, which are discussed further in 'Transfer of financial assets' (Note 24).

Funds management

The Kiwibank PIE Unit Trust (the '**PIE Unit Trust**'), established in May 2008, operates three funds: the PIE Term Deposit Fund, the Notice Saver Fund and PIE Online Call Fund. A subsidiary of Kiwibank (Kiwibank Investment Management Limited – see 'Related parties' (Note 27)) 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 PIE Unit Trust is invested exclusively in term and on demand deposits bearing interest with Kiwibank.

As at 30 June 2024, $6,979m of the PIE Unit Trust's funds were invested in Kiwibank products or securities (30 June 2023: $6,235m). Kiwibank guarantees the payment obligations of the Manager and any amounts owing to Unit holders under the Trust Deed in respect of their units. Kiwibank agrees to pay to Unit holders any shortfall between the amount they may receive on redeeming their units or in the winding up of the Trust and the balance of their unit accounts.

The Banking Group has a strategic partnership with Fisher Funds Management Limited to refer Kiwibank customers to the Fisher Funds KiwiSaver Plan which is managed by Fisher Funds Wealth Limited and private portfolio services provided by members of the Fisher Funds group.

Provision of financial services

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

The Banking Group has not provided any funding to or purchased assets from entities which conduct the following activities during the years ended 30 June 2024 and 30 June 2023:

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

Arrangements to ensure no adverse impacts arising from the above activities

The Banking Group has in place policies and procedures that are designed to ensure that the activities listed above are conducted in an appropriate manner and will not adversely impact on the Banking Group. These policies and procedures include comprehensive and prominent disclosure of information regarding products including relevant rates, fees and terms and conditions, internal controls and formal reviews of operations and relevant policies by management. Further information explaining the Banking Group's risk management strategies is included in 'Risk management' (note 30).

Notes to the financial statements continued

29. Segment analysis

The Banking Group operates and reports as a single segment business consistent with the internal reporting provided to the chief operating decision-maker ('**CODM**'). Judgement has been applied in determining the CODM. The CODM, who is responsible for allocating resources and assessing performance of the Banking Group, has been identified as the Kiwibank Executive Committee ('**EXCO**'), which consists of the chief executive and their direct reports. The Banking Group operates a centralised shared infrastructure for operations and support functions. Capital is calculated and allocated at an entity level. As a result, performance is assessed, resources allocated, and other strategic and financial management decisions are determined by the EXCO based on assessing the Banking Group's business as a whole.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Banking Group's total revenue (2023: nil). Revenue from external customers is reported within 'Interest income and interest expense' (Note 2), 'Net gains/(losses) on financial instruments' (Note 3), and 'Other operating income' (Note 4).

30. Risk management

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

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

Governance

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

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

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

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

Notes to the financial statements continued

30. Risk management continued

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

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

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

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

The Risk management function has teams which operate alongside the Banking Group's business units to manage the Banking Group's financial and non-financial risks.

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

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

Notes to the financial statements continued

30. Risk management continued

Enterprise Risk Management Framework ('ERMF')

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

The key requirements of the risk management framework are:

Risk appetite statements

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

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

Governance frameworks

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

Three lines of defence model

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

First line of defence	Second line of defence	Third line of defence
Operational management/ Business units	**Risk management and compliance functions**	**Internal audit**
Consists of the business area whose role is to identify risk then take action to manage and mitigate the risk in line with risk appetite.	Sets standards through establishing policies, procedures and providing risk oversight specialists. The Second line will provide support and challenge to the First line risk management activities and report directly to the Board.	Provides independent assurance to the Board. Internal audit adds value and improves Kiwibank's operations by helping to evaluate and improve the effectiveness of governance, risk management and internal controls.

Monitoring and oversight of risk limits

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

Notes to the financial statements continued

30. Risk management continued

Internal audit

The Banking Group has an independent internal audit function, which provides independent assurance on the effectiveness of governance, risk management and internal controls across the Banking Group's operations. The internal audit function reports to the Chief of Finance and Operations with an independent reporting line to the Chair of the ARC.

The Internal Audit Plan covers the work plan for each financial year. It is developed using a risk-based approach and it is reviewed quarterly. The ARC approves the plan. The outcomes of the internal audit work against the plan are reported to the ARC and management. The frequency and scope of audits are based on the risk-based plan and assessment of risk.

Findings are reported quarterly to the ARC. The ARC considers the findings from the work conducted and assesses if appropriate action is taken by management. Internal audit tracks and monitors issues and agreed actions for remediation to ensure that actions agreed are undertaken.

Reviews of Banking Group's risk management systems

Various external reviews of the Banking Group's risk management systems have been conducted during the year ended 30 June 2024. These include reviews related to compliance with regulatory requirements and other aspects of operational risk. Reviews are conducted on an ad hoc or periodic basis (e.g., every three years) following a risk-based approach. Agreed actions from external reviews are tracked and monitored to completion.

Internal audit undertakes periodic reviews of the Banking Group's risk management systems as part of the Internal Audit Plan approved by the ARC. These reviews are not conducted by a party external to the Banking Group however internal audit uses external parties to provide specialist expertise and additional resources as required.

Key risks

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

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

Separate sections are also included to explain the Banking Group's management of climate change risk and strategic delivery risk.

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

30. Risk management continued

1. Credit risk

Credit risk overview, management, and control responsibilities

The Banking Group's credit risks arise from lending to customers and exposures to counterparties arising out of its treasury, financial markets, international trade, and underwriting activities. These credit risks can impact the Banking Group through actual credit losses when a customer or counterparty fails to meet their payment obligations and it can result in increases in the credit impairment provision due to changes in credit quality for the customer or counterparty resulting in changes in the estimates of the Banking Group's expected credit losses.

Factors such as deteriorating economic conditions, including higher inflation, interest rates and unemployment and declining property market valuations, and external events like extreme weather, natural disasters, and pandemics, can impact the ability of customers and counterparties to meet their payment obligations and the value of property used as security. This may result in an increase in expected credit losses.

Credit risk may arise because of climate change where a physical climate-related event (like rising sea levels or a storm surge, flood, fire, or drought) or the transition to a low-carbon, climate-resilient economy:

- results in our customers or counterparties having reduced income or profitability or increased expenses (including due to repair and recovery costs, increased insurance expenses, managed retreat costs, new regulations and changing market and consumer preferences); or
- affects the value of property provided as security (including through direct damage, infrastructure withdrawal, reduced insurance availability or changing market perceptions).

Refer to '8. Climate change risk' for more detail on the work underway by the Banking Group to monitor, assess and manage this risk.

The ARC provides oversight and approves the Credit Risk Management Framework ('**CRMF**') which ensures the Banking Group has a consistent approach to identify, measure, and monitor the credit risk appetite set by the Board. The Board requires sound lending growth for appropriate returns and is assisted and advised by the ARC in discharging its duty to oversee credit risk. The ARC monitors the risk profile of the lending portfolios on a quarterly basis and are responsible for approving the credit risk appetite, credit risk management strategies, credit approval framework, and material credit policies that are consistent with responsible lending and regulatory standards. The ARC delegates responsibility for monitoring credit risk to the Bank's Executive Risk Committee ('**ERC**'), with regular ongoing management of the CRMF being the responsibility of the Credit Risk function.

An independent credit management function exists to monitor and manage the Banking Group's internal credit rating models; provide independent credit decisions; support front-line lenders in the application of sound credit practices; and provide centralised remedial management of troublesome and impaired accounts. 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, and credit impairment provisioning.

These functions are segregated so that no one person can control all significant stages of the credit process, thereby reducing the chance of error or misappropriation. Execution of lending documentation only occurs after an independent officer in the operations division has verified that the credit application has been properly approved and the loan documentation matches the terms of the credit approval.

Credit risk management policies and credit approval standards

The Banking Group has clearly defined credit underwriting policies and standards for all lending, which incorporate income and servicing capacity, acceptable terms, security, and loan documentation criteria. Portfolio credit risk is managed through a combination of sector specific policies and standards, concentration limits and risk appetite statements. This is further managed through a tiered structure of delegated lending authorities designed to control approvals, limits, and the judgemental elements of credit risk management.

In the first instance, the Banking Group relies on the assessed integrity and character of the customer and their capacity to honour their financial obligations for repayment. Adequate and sustainable debt servicing capacity is required along with security cover within loan-to-valuation ratios as set out in the Banking Group's credit policies.

Credit risk monitoring

Exposure to credit risk is managed through monthly portfolio and asset quality monitoring, analysis, and reporting. The Banking Group's lending portfolio is divided into two asset classes: retail and corporate. Refer to 'Credit quality' (Note 10) for more detail on the asset classes and risk grades.

The credit quality of the retail asset class is managed by monitoring key risk indicators such as delinquency trends, behavioural scorecards, and early warning signals. The credit quality of the corporate asset classes is monitored on an individual exposure basis at least annually.

Credit exposures are monitored regularly through the review of delinquent accounts. This enables increases in credit risk to be immediately identified so that individual credit impairment provision for potential losses can be established as early as possible. Problem credit facilities are monitored to ensure collection and recovery strategies are established and enacted promptly to minimise risk of potential losses.

Notes to the financial statements continued

30. Risk management continued

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 function.

Credit risk mitigation and collateral

The Banking Group uses eligible collateral for on- and off-balance sheet exposures to mitigate credit risk in the event of default.

Collateral security in the form of real estate, other physical property and/or general security interest over business assets is generally taken for longer term credit exposures, except for government, bank, and corporate counterparties of strong financial standing. Short-term lending to customers (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-valuation ratios as set out in the Banking Group's credit policy.

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 that allows netting of derivative exposures, along with collateral management arrangements. The Banking Group uses International Swaps and Derivatives ('**ISDA**') Master Agreements to document derivative transactions and limit exposures to credit losses. Collateral is provided by the counterparty when their position is out of the money or provided to the counterparty when the Banking Group's position is out of the money. Under ISDA protocols, in the event of default, all contracts with the counterparty are terminated and settled on a net basis. The Banking Group also utilises central clearing counterparties to mitigate risk arising on derivatives.

The Banking Group does not use credit derivatives. The Banking Group uses the comprehensive method to measure the mitigating effects of collateral.

Refer to 'Offsetting financial assets and financial liabilities' (Note 23) for a further description of relevant policies and processes the Banking Group follows for on- and off- balance sheet netting and the extent of netting that is applied. Refer to the 'Capital Adequacy and Regulatory Liquidity Ratios' disclosures for details of the resulting exposure to central clearing counterparties.

Measurement of impaired assets

'Credit impairment losses' (Note 8) and 'Asset quality' (Note 9) explain the approach the Banking Group uses for calculating the individual and collective credit impairment provision. Loan portfolios are assessed for impairment monthly. The recoverable amount of loans and advances is reported as net loans and advances, which are calculated as gross loans less credit impairment provision.

Index of other note disclosures relevant to credit risk management

Credit impairment losses	**Note 8**	Accounting policy for measuring credit impairment provision for expected credit losses
Asset quality	**Note 9**	Analysis of asset quality by expected credit loss stage and portfolio.
Credit quality	**Note 10**	Explanation of the portfolio structure and internal customer credit rating system and classification of exposures by risk grade.
Concentrations of credit risk	**Note 11**	Analysis of concentrations of credit risk by ANZSIC business category and further details of the level of collateral held against exposures.
Offsetting financial assets and financial liabilities	**Note 23**	Further description of relevant policies and processes the Banking Group follows for on- and off- balance sheet netting and the extent of netting that applies.
Capital Adequacy and Regulatory Liquidity Ratios		Details of credit risk mitigation and the credit exposure to central clearing counterparties.

2. Market risk

Market risk is defined as the risk of the Banking Group's earnings or capital being reduced due to changes in market factors such as interest rates, foreign exchange rates and credit spreads. The Banking Group is exposed to market risk from customers' borrowing and deposit preferences, liquidity and funding management, and customer generated flow. The Board sets risk appetite and is responsible for the adequacy of the Banking Group's market risk management framework. The Board has delegated the governance oversight of market risk management framework to the ARC. ARC provides the Board with assurance that the Banking Group has an effective framework to manage market risk. The Asset and Liability Committee ('**ALCO**') has management oversight for the market risk management framework. The Market Risk Policy sets out the requirements for the governance and management of market risk, in line with Board-approved market risk appetite, and market risk measurement, limits, monitoring and reporting. The Market Risk team independently monitors and reports market risk against limits daily.

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

To manage exposure to market risk, the Banking Group transacts in derivative instruments such as swaps, options, and futures. These activities are managed using structural limits (including volume and basis point value limits) in conjunction with scenario analysis.

Notes to the financial statements continued

30. Risk management continued

Traded market risk

The Banking Group's financial markets business unit is 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, sensitivity analysis and exposure limits.

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 managed within risk limits and is not material.

Non-traded market risk

Interest rate risk is the predominant source of market risk from the Banking Group's balance sheet. This interest rate risk primarily arises from the provision of retail and wholesale (non-traded) banking products and services and Treasury's funding and liquidity management when the interest rate repricing date for loans (assets) is different to the repricing date for deposits (liabilities).

Interest rate risk management

The main objective of the management of interest rate risk is to achieve a balance between reducing risk to earnings from the adverse effect of interest rate movements and enhancing net interest income through the correct anticipation of the direction and extent of interest rate changes. Interest rate risk is managed by the Treasury business unit within approved limits.

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

Refer to 'Interest rate repricing' (Note 31) for an interest repricing schedule of the Banking Group's assets, liabilities and off-balance sheet instruments categorised by the earlier of contractual repricing date or maturity date.

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.

$ millions	30 June 24	30 June 23
Banking book basis point sensitivity (+/- 100 bps)	**2**	16

Currency risk management

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

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

Equity risk

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

3. Liquidity and funding risk

Liquidity and funding risk overview, management, and control responsibilities

Liquidity risk is the risk that the Banking Group will not have sufficient funds available to meet its financial obligations as they fall due. Funding risk is the risk of loss of access to the Banking Group's funding channels, or a substantial increase in the cost of funding to the Banking Group.

The Banking Group accesses domestic and global debt capital markets to fund its business, together with customer deposits. Amounts the Banking Group owes under its borrowing activities will be due at different times to amounts it receives under its lending activities. This mismatch gives rise to liquidity risk.

Disruptions, uncertainty, or volatility in any debt capital markets may adversely affect the Banking Group's funding and liquidity position, increase the cost of funding, limit the Banking Group's ability to replace maturing liabilities in a timely manner or maintain a high-quality portfolio of liquid assets. The Banking Group's ability to raise funding may be adversely affected if its credit ratings deteriorate, due to matters either within or outside its control.

Management of liquidity risk is designed to ensure that the Banking Group can generate or obtain sufficient cash in a timely manner and at a reasonable price to meet its financial commitments on a daily basis. This includes managing the amount, tenor and composition of funding and liquidity and maintaining access to a diverse range of funding sources.

Notes to the financial statements continued

30. Risk management continued

Funding and liquidity risk are measured by and managed in accordance with the policies and processes defined in the Board-approved Liquidity Policy. This sets 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 used to manage the Banking Group's balance sheet.

The Treasury business unit has day-to-day responsibility for the execution of liquidity management and the development and execution of the Banking Group's funding plan to ensure that this base is prudently maintained and adequately diversified under oversight of the ALCO. Under normal business conditions, the Banking Group seeks to satisfy the majority of its funding needs from retail liabilities. As part of the annual business planning process, a funding plan is prepared to support the balance sheet growth and strategic objectives. In preparing the funding plan, the Banking Group ensures it appropriately reflects the financial profile of the Bank, including credit ratings.

Measuring and monitoring liquidity and funding risk

The Banking Group monitors this risk daily, primarily by forecasting future cash requirements, both under normal conditions and over a range of short term stressed scenarios. The Banking Group manages this by:

- holding readily tradable investment assets that are eligible for the RBNZ's repurchase facilities and short-term investments with high-credit quality counterparties to provide for any unexpected patterns in cash movements; and
- seeking a stable funding base.

The Banking Group maintains a Contingency Funding Plan ('**CFP**') which describes the approach to managing through a period of liquidity stress. The CFP establishes different operating states, assigned roles and responsibilities, and balance sheet and communication strategies for managing the Banking Group through the stress event.

The Banking Group uses asset and liability cash flow modelling to determine appropriate liquidity and funding strategies. This modelling helps ensure that an appropriate portion of the Banking Group's assets is funded by customer liabilities, bank borrowing, and equity.

Liquidity risk management process

The Banking Group's liquidity management responsibilities include:

- Day-to-day liquidity requirements. The RBNZ's prudential liquidity ratios are calculated and monitored daily to ensure that the Group:
  - is compliant with part 13 of the conditions of registration and the RBNZ's 'Liquidity Policy' (BS13);
  - maintains a prudent level of cash and highly liquid assets ('**primary liquid assets**') and marketable assets of limited credit risk ('**secondary liquid assets**') to meet both expected and projected outflows under severe funding stress from the wholesale and retail balance sheet over a one-week and one-month period; and
  - maintains a diversified stable funding base.
- Securing an appropriately matched profile of future cash flows from maturing assets and liabilities;
- Implementing the Banking Group's funding plan; and
- Ensuring that the Banking Group has sufficient sources of liquidity with appropriate diversity and term to meet future projected outflows over a range of short term stressed scenarios.

Refer to 'Liquidity' (Note 32) for further details of the Banking Group's liquid assets and a maturity analysis of the non-derivative financial liabilities.

4. Capital risk

Capital risk is the risk that the Banking Group has insufficient capital to allow strategic initiatives to be undertaken or to maintain the level of capital required by prudential regulators and other key stakeholders such as shareholders, debt investors, depositors, and rating agencies.

The Banking Group's capital management strategy seeks to ensure the Banking Group is adequately capitalised while recognising capital is often an expensive form of funding or insurance. The Banking Group seeks to maintain and acquire capital in an economically effective manner to:

- support future development and growth aspirations;
- comply with regulatory capital requirements;
- maintain a strong internal capital base to cover all material inherent risks; and
- maintain an investment grade credit rating.

The Banking Group undertakes a programme of activities (the Internal Capital Adequacy Assessment Process '**ICAAP**') designed to ensure that it has sufficient financial resources to continue to meet current and future regulatory capital requirements even if it suffers a severe but plausible stress event (whether systemic or idiosyncratic). This risk assessment includes risks that are captured within prudential capital ratios as well as those that are not, or not fully captured. The assessment is carried out by specialists from across the business with oversight and approval from Senior management (EXCO and direct reports of EXCO) and the Board.

The Board have ultimate responsibility for capital adequacy and approve the Banking Group's capital policy, the results of the ICAAP, and set minimum internal capital limits. The Board and Senior management actively monitor the Banking Group's reported actual and forecast capital ratios against these limits. Refer to 'Equity' (Note 26) and 'Capital Adequacy and Regulatory Liquidity Ratios' for further detailed analysis of the Banking Group's capital position.

30. Risk management continued

5. Operational risk

Operational risk is the risk of loss due to inadequate or failed internal processes, people and systems or criminal activity. Operational risk can also arise from external events such as extreme weather, natural disasters, cyber-attacks, or acts of terrorism.

Operational risk is inherent in the Banking Group's activities due to the range of products and services provided to customers. Inadequate practices to identify and assess operational risk could lead to non-compliance, sanctions, fines/penalties, and losses due to errors, compensation, internal and external fraud. This includes the heightened risk of failure of processes and systems during transformational change to those processes and systems.

Operational risk covers a broad spectrum of activities aligned to Basel-defined categories and is mitigated by implementing the necessary processes, systems, and training regimes that maintain an effective control environment.

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

- Operational risk management relies on the support and participation of all Banking Group employees. Senior management is accountable to the Board for maintaining an effective control environment that is commensurate with the Banking Group's risk appetite and business objectives. This includes regular monitoring, reporting and reviewing of risks and the control environment.
- Operational Risk and Compliance teams own and manage the operational risk and compliance policy and provide guidance, review and assurance, and challenge any bank-wide risk reporting to relevant governance committees.
- Business units are responsible for the management of their operational risks. Each business area is responsible for the identification, measurement, monitoring and mitigation of operational risk in their areas of responsibility. Event management is also a fundamental element of managing operational risk and compliance. All business units are required to report risk events and ensure they are documented, escalated, and remediated based on a risk-based assessment of the potential impact.

Risks relating to the Banking Group's information technology systems

Most of the Banking Group's operations depend on technology. The reliability, resilience, and security of the Banking Group's information technology systems and infrastructure are essential to the effective operation of its business.

The Banking Group's information technology systems and infrastructure could potentially be disrupted for reasons including technical failure, third-party failure and human error. The Banking Group also faces external threats, such as cyber-attacks or other criminal activity, which may impact technology systems and operations. The growing sophistication and activities of organised crime have resulted in increased information security risks for banks including Kiwibank.

Any disruption to the Banking Group's information technology systems may result in business interruption, data loss or corruption, the loss of customers, reputational damage, and the weakening of the Banking Group's competitive position, all of which could have an adverse impact on the Banking Group's financial performance and position.

The Banking Group has systems and processes in place to manage these risks. However, any disruption to the Banking Group's information technology systems may be wholly or partially beyond the Banking Group's control.

Risks relating to fraud

Fraud is a complex and increasing risk due to the digitalising of bank services and the proliferation of new technology that creates more opportunities for external fraud to occur. It involves intentional acts or omissions designed to deceive others, causing significant harm to the Banking Group's customers, resulting in financial losses, reputational harm, and damage to customer trust.

The Banking Group has implemented measures to decrease the risk to the Banking Group and its customers of fraud. This includes investment in technology and operational improvements, engagement in industry wide initiatives, and continued education for both employees and customers. A dedicated team is focused on prevention, detection, and response to any instances of external fraud.

External events may adversely impact the Banking Group's operations

The Banking Group is exposed to the risk of external events across the country through branch sites and its significant operations in Wellington, Auckland, and Hastings. External events such as extreme weather, natural disasters, pandemics, and other biological hazards may impact the Banking Group, including through business disruption and property damage. The risks of these events are increased due to climate change risks. This may adversely affect the Banking Group's financial performance and business continuity and may lead to reputational damage if the Banking Group is not able to manage the impacts of an external event.

Regional diversity in operations is key to ensuring business continuity if a particular region is impacted by an external event. The risk to operations is further mitigated through the ability of staff to work remotely, away from corporate sites. The Banking Group also has business continuity and crisis management processes which have been successfully initiated to protect the health, safety and well-being of customers and employees.

Notes to the financial statements continued

30. Risk management continued

6. Strategic risk

Senior management and the Board consider a range of strategic uncertainties and business risks that may impede delivery of the business goals of the Banking Group. This includes the potential impact of climate change on the Banking Group's long term strategic objectives and business plan.

The Board reviews and approves the Banking Group's multi-year strategy annually. This includes scenario testing of the strategy against a range of new and current strategic uncertainties. Senior management and the Board receive quarterly market reporting that monitors signs of strategic uncertainties.

The Business Plan outlining the upcoming years financial plan, and Objectives and Key Results ('**OKR**') targets is approved by the Board in the context of the approved strategic direction. The Business Plan includes an assessment of the most material business risks and the potential impact of failing to mitigate these by adapting to internal and external market changes. Management and the Board receive monthly reporting on progress against the Business Plan and updates on the management of critical risks.

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

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

7. Strategic delivery risk

The Banking Group is making significant changes to the way it carries on business to reduce risks, improve customer experience, and make the bank more resilient and adaptable. This will impact the Banking Group's systems, processes, and people. Making these changes over the short-to-medium term depends on the successful management and implementation of a significant amount of work. This includes enhancing the Banking Group's information systems and technology and transforming customer service delivery. The required changes are ongoing and complex and are being implemented progressively. Carrying out these changes may take longer or cost more than planned. Failure to successfully carry out this work could have an adverse impact on the Banking Group's business, financial results, access to capital and competitive position.

8. Climate change risk

The Banking Group recognises climate change will have a significant impact on New Zealand's environment and economy. The key risks are financial and non-financial, derived from both physical risks (climate-related events) and transition risks resulting from, for example, the process of adjustment towards a low-carbon economy. There is a focus on these risks by key stakeholders including customers, shareholders, governments, and regulators.

Climate change risk cuts across several areas of risk. The credit risk section above sets out how climate change risk interacts with credit risk. The sections below summarise the Banking Group's current approach to managing climate risks:

- *Governance*: The ARC has responsibility for the oversight of all risk domains, including climate risk. The Banking Group's strategic response to climate risk is in development.
- *Strategy*: Climate scenario analysis has been undertaken to support identification of the Banking Group's climate risks and opportunities. The Banking Group's overall strategy to manage the impacts of climate change on its business is in development.
- *Risk management*: The Banking Group is developing its climate change risk management approach to ensure the Banking Group's activities appropriately consider climate-related risks and opportunities. The Banking Group views climate change as cross-cutting across its risk domains.
- *Metrics and targets*: The Banking Group has current metrics and targets related to the reduction of 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 intends to incorporate the identified risks into risk management policies as the analysis is completed.

Notes to the financial statements continued

31. Interest rate repricing

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

	30 June 24						
$ millions	Total	Non-interest bearing	Up to 3 months	3 to 6 months	6 months to 1 year	Between 1 & 2 years	Over 2 years
Financial assets							
Cash and cash equivalents	1,005	6	999	-	-	-	-
Due from other financial institutions	95	-	95	-	-	-	-
Investment securities	2,658	-	657	127	289	189	1,396
Derivative financial instruments	162	162	-	-	-	-	-
Loans and advances	32,445	127	10,536	5,799	8,004	5,791	2,188
Other financial assets	38	38	-	-	-	-	-
Total financial assets	36,403	333	12,287	5,926	8,293	5,980	3,584
Financial liabilities							
Due to other financial institutions	(1,109)	(68)	(1,020)	-	(21)	-	-
Deposits	(28,176)	(4,094)	(14,697)	(4,736)	(3,906)	(318)	(425)
Derivative financial instruments	(196)	(196)	-	-	-	-	-
Debt securities issued	(3,798)	-	(1,451)	(23)	(78)	(216)	(2,030)
Other financial liabilities	(192)	(192)	-	-	-	-	-
Subordinated debt	(458)	-	-	-	-	(261)	(197)
Total financial liabilities	(33,929)	(4,550)	(17,168)	(4,759)	(4,005)	(795)	(2,652)
On-balance sheet gap	2,474	(4,217)	(4,881)	1,167	4,288	5,185	932
Net derivative notional principals	54	-	7,258	(1,117)	(2,949)	(5,549)	2,411
Net interest rate repricing gap	2,528	(4,217)	2,377	50	1,339	(364)	3,343

Notes to the financial statements continued

31. Interest rate repricing continued

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

32. Liquidity

The following table sets out the total financial assets pledged as collateral for liabilities and the availability of the Banking Group's financial assets to meet funding requirements.

	30 June 24				30 June 23			
$ millions	**Pledged as collateral**	**Liquid assets available[1]**	**Other[2]**	**Total**	Pledged as collateral	Liquid assets available[1]	Other[2]	Total
Cash and cash equivalents	**-**	**955**	**50**	**1,005**	-	975	52	1,027
Due from other financial institutions	**95**	**-**	**-**	**95**	79	-	50	129
Investment securities	**-**	**2,658**	**-**	**2,658**	-	2,284	15	2,299
Derivative financial instruments	**-**	**-**	**162**	**162**	-	-	447	447
Loans and advances	**1,912**	**2,868**	**27,665**	**32,445**	2,497	2,283	24,902	29,682
Other financial assets	**-**	**-**	**38**	**38**	-	-	45	45
Non-financial assets	**-**	**-**	**247**	**247**	-	-	209	209
Total assets	**2,007**	**6,481**	**28,162**	**36,650**	2,576	5,542	25,720	33,838

[1]'Liquid assets available' for loans and advances relates to residential mortgage-backed securities. Refer to 'Transfer of financial assets' (Note 24) for further details.

[2]'Other' represents assets that are neither pledged as collateral or considered highly liquid assets available to meet immediate funding requirements.

Notes to the financial statements continued

32. Liquidity continued

Financial assets pledged as collateral for liabilities

The total financial assets recognised in the balance sheet that had been pledged as collateral for liabilities as at 30 June 2024 and 2023 is shown in the preceding table.

Financial assets are pledged as collateral as part of securitisation and derivative transactions under terms that are usual and customary for such activities.

As at 30 June 2024, $1,156m of residential mortgage-backed securities ('**RMBS**') have been pledged as approved eligible collateral in relation to the RBNZ's FLP (30 June 2023: $1,716m). As at 30 June 2024, $56m of RMBS have been pledged as approved eligible collateral in relation to the RBNZ's TLF (30 June 2023: $81m).

The Covered Bonds issued by the Banking Group are guaranteed by the Covered Bond Guarantor and are secured over a pool of assets recognised within loans and advances. As at 30 June 2024, $700m of assets were pledged as collateral (30 June 2023: $700m).

Refer to 'Due to other financial institutions' (Note 16) and 'Transfer of financial assets' (Note 24) for further information.

Liquid assets portfolio

The Banking Group holds a diversified portfolio of high-quality liquid securities to support its management of liquidity risk. The size of the Banking Group's liquidity portfolio is based on the amount required to meet its internal and regulatory liquidity requirements.

The Bank also holds unencumbered internal residential mortgage-backed securities which would entitle the Banking Group to enter into repurchase transactions. Residential mortgage-backed securities disclosed below are available to be utilised for liquidity purposes. Refer to 'Transfer of financial assets' (Note 24) for more detail.

$ millions	**30 June 24**	30 June 23
Cash and cash equivalents	**955**	975
Certificates of deposit	**213**	349
Government bonds and Treasury bills	**716**	335
Local authority stock and bonds	**441**	434
Supranational bonds	**882**	809
Other bonds	**406**	357
Residential mortgage-backed securities	**2,868**	2,283
Total liquidity portfolio	**6,481**	5,542

Notes to the financial statements continued

32. Liquidity continued

Maturity analysis of financial liabilities

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

	30 June 24						
$ millions	On demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	Over 5 years	Gross nominal inflow/ outflow	Carrying amount
Non-derivative cash flows							
Financial liabilities							
Due to other financial institutions	(68)	(382)	(362)	(330)	-	(1,142)	(1,109)
Deposits	(11,043)	(7,674)	(9,062)	(854)	-	(28,633)	(28,176)
Debt securities issued	-	(561)	(246)	(3,527)	-	(4,334)	(3,798)
Lease liabilities	-	(4)	(13)	(52)	(34)	(103)	(92)
Other financial liabilities	-	(41)	(17)	(42)	(1)	(101)	(100)
Subordinated debt	-	(5)	(14)	(517)	-	(536)	(458)
Total	(11,111)	(8,667)	(9,714)	(5,322)	(35)	(34,849)	(33,733)
Derivative cash flows							
Net settled	-	(39)	(52)	(80)	(4)	(175)	
Gross settled – inflows	-	366	339	563	-	1,268	
Gross settled – outflows	-	(377)	(343)	(573)	-	(1,293)	
Total	-	(50)	(56)	(90)	(4)	(200)	
Off-balance sheet cash flows							
Letters of credit and performance-related contingencies	(143)	-	-	-	-	(143)	
Loan commitments	(4,333)	-	-	-	-	(4,333)	
Total	(4,476)	-	-	-	-	(4,476)	

Notes to the financial statements continued

32. Liquidity continued

$ millions	30 June 23						
	On demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	Over 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	(11,057)	(7,584)	(6,856)	(558)	-	(26,055)	(25,756)
Debt securities issued	-	(218)	(630)	(2,489)	(129)	(3,466)	(3,038)
Lease liabilities	-	(4)	(12)	(44)	(40)	(100)	(88)
Other financial liabilities	-	(40)	-	-	-	(40)	(39)
Subordinated debt	-	(5)	(14)	(536)	-	(555)	(446)
Total	(11,070)	(8,120)	(8,094)	(4,626)	(169)	(32,079)	(31,135)
Derivative cash flows							
Net settled	-	(62)	(59)	(94)	(4)	(219)	
Gross settled – inflows	-	191	333	897	129	1,550	
Gross settled – outflows	-	(201)	(350)	(921)	(112)	(1,584)	
Total	-	(72)	(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)	

Certain comparative information has been reclassified to align with the current period presentation.

Notes to the financial statements continued

33. Auditor's remuneration

$ thousands	Year ended 30 June 24	Year ended 30 June 23
Audit and review engagements [1]	**1,909**	1,785
Other services:		
Other assurance services [2]	**10**	10
Other services [3]	**21**	39
Total auditor's remuneration	**1,940**	1,834

[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] For the year ended 30 June 2024 and 30 June 2023, '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.

[3] 'Other services' comprise agreed-upon procedures over a debt programme (2023: agreed-upon procedures over debt programmes).

34. Capital expenditure commitments

Capital expenditure commitments contracted for as at 30 June 2024 (but not provided for in these financial statements) was $2m (30 June 2023: $4m). All capital expenditure commitments are due to be settled within the next 12 months.

35. Contingent liabilities and credit commitments

Accounting policy

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

Compliance, regulation, and remediation

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

Loan commitments

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

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

$ millions	30 June 24	30 June 23
Letters of credit and performance related contingencies	**143**	79
Loan commitments	**4,333**	4,034
Total undrawn credit commitments	**4,476**	4,113

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

Notes to the financial statements continued

36. Events subsequent to the reporting date

On 2 August 2024, Kiwibank paid a $2.2m distribution to holders of its perpetual preference shares. This was payment was approved by the Board on 23 July 2024.

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

Capital adequacy and regulatory liquidity ratios

Unaudited

Kiwibank Limited ('**Kiwibank**' or the '**Bank**') is subject to the capital adequacy requirements for registered banks as specified by the Reserve Bank of New Zealand ('**RBNZ**'). '**Banking Group**' means Kiwibank's financial reporting group, which consists of Kiwibank, all of its wholly owned entities and all other entities consolidated for financial reporting purposes.

Following an internationally agreed framework (commonly known as Basel III) developed by the Basel Committee on Banking Supervision, the RBNZ has set minimum acceptable regulatory capital requirements and provided methods for estimating or measuring the risks incurred by the Bank.

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

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

- Total capital ratio is not less than 8.0% of risk-weighted exposures.
- Tier 1 capital ratio is not less than 6.0% of risk-weighted exposures.
- The Common Equity Tier 1 capital ratio is not less than 4.5%.
- Capital of the Banking Group is not less than $30m.

Regulatory capital

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

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

Regulatory capital ratios

	Minimum ratio requirement	The Banking Group	
		30 June 24	30 June 23
Capital adequacy ratios			
Common equity Tier 1 capital ratio	**4.5%**	**11.9%**	10.3%
Tier 1 capital ratio	**6.0%**	**13.2%**	11.7%
Total capital ratio	**8.0%**	**15.6%**	14.3%
Prudential capital buffer ratio		**7.2%**	5.7%
Buffer trigger ratio		**2.5%**	2.5%

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

Ordinary shares

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

a) each share contains a single right to vote;

b) there are no redemption, conversion or capital repayment options/facilities;

c) there is no predetermined dividend rate;

d) there is no maturity date;

e) there are no options to be granted pursuant to any agreement; and

f) each share ranks equally to dividends and any surpluses on winding up.

Capital adequacy and regulatory liquidity ratios continued

Perpetual preference shares

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

a) the PPS have no voting rights;

b) distributions are payable quarterly in arrears, subject to the absolute discretion of Kiwibank. The distribution rate was initially fixed for a period of five years at the swap rate on the rate set date, being 2 November 2021, plus a margin. The distribution rate will be reset at five-yearly intervals;

c) if for any reason a distribution is not paid in full on a distribution payment date, Kiwibank must not make any distributions or payments on or issue any bonus securities in respect of its ordinary shares or any other preference shares or other securities that rank equally with the PPS;

d) distributions are non-cumulative;

e) the PPS do not have a maturity date; however, Kiwibank may elect to make early repayment on 2 November 2026 or any optional redemption date thereafter (optional redemption dates occur at five-yearly intervals) or if a tax or regulatory event has occurred (as described in the Deed Poll);

f) the PPS rank equally with other preference shares and ahead of ordinary shares, dividends and any surpluses on winding up; and

g) the PPS are not guaranteed by any member of the Banking Group, Kiwibank's parent company, the Crown or by any other person.

Subordinated notes

Issuance December 2020

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

a) the subordinated notes constitute direct, unsecured subordinated debt obligations of Kiwibank;

b) the subordinated notes pay interest quarterly in arrears at an initial rate of 2.36% p.a., subject to the condition that Kiwibank and the Banking Group is solvent after each payment;

c) unpaid interest accumulates;

d) the subordinated notes have no voting rights;

e) the subordinated notes have a maturity date of 11 December 2030; however, Kiwibank may elect to make early repayment on 11 December 2025 or any quarterly interest payment date thereafter;

f) the subordinated notes rank equally with other subordinated notes and ahead of PPS, ordinary shares, dividends and any surpluses on winding up; and

g) the subordinated notes are not guaranteed by any member of the Banking Group, Kiwibank's parent company, the Crown or by any other person.

Issuance May 2023

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

a) the subordinated notes constitute direct, unsecured subordinated debt obligations of Kiwibank;

b) the subordinated notes pay interest quarterly in arrears at an initial rate of 6.40% p.a., subject to the condition that Kiwibank and the Banking Group is solvent after each payment;

c) unpaid interest accumulates;

d) the subordinated notes have no voting rights;

e) the subordinated notes have a maturity date of 12 May 2033; however, Kiwibank may elect to make early repayment on 12 May 2028 or any quarterly interest payment date thereafter;

f) the subordinated notes rank equally with other subordinated notes and ahead of PPS, ordinary shares, dividends and any surpluses on winding up; and

g) the subordinated notes are not guaranteed by any member of the Banking Group, Kiwibank's parent company, the Crown or by any other person.

Capital adequacy and regulatory liquidity ratios continued

Risk-weighted exposures

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

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

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

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

The capital adequacy tables on the following pages summarise the composition of regulatory capital and capital adequacy ratios for the year ended 30 June 2024. Throughout the period, Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

Regulatory capital

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

$ millions	The Banking Group 30 June 24
Common equity Tier 1 capital	
Paid up ordinary shares issued	**962**
Retained earnings (net of appropriations)	**1,419**
Accumulated other comprehensive income and other disclosed reserves[1, 2]	**(6)**
Less deductions from common equity Tier 1 capital	
Intangible assets	**(17)**
Cash flow hedge reserve	**(15)**
Deferred tax assets	**(65)**
Total common equity Tier 1 capital	**2,278**
Additional Tier 1 capital	
Perpetual preference shares[3]	**246**
Total additional Tier 1 capital	**246**
Total Tier 1 capital	**2,524**
Tier 2 capital	
Subordinated notes[4]	**472**
Total Tier 2 capital	**472**
Total capital	**2,996**

[1] Includes fair value reserve of (-$21m). The fair value reserve includes the cumulative net change in the fair value of investment securities until the investment is derecognised or impaired.

[2] Includes cash flow hedge reserve of $15m. The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of designated cash flow hedging instruments related to hedged forecasted transactions that have not yet occurred. The cash flow hedge reserve is not eligible for inclusion in capital under BPR110 B1.8.

[3] Perpetual preference shares issued by Kiwibank Limited are classified as equity of the Banking Group for financial reporting purposes.

[4] Subordinated notes are classified as debt of the Banking Group for financial reporting purposes.

Capital adequacy and regulatory liquidity ratios continued

Calculation of on-balance sheet exposures

	The Banking Group 30 June 24		
$ millions	Total exposure after credit risk mitigation	Risk weight	Risk weighted exposure
Cash and gold bullion	5	0%	-
Sovereigns and central banks	1,652	0%	-
Multilateral development banks and other international organisations	824	0%	-
	48	20%	10
Public-sector entities	412	20%	82
Banks	291	20%	58
	176	50%	88
Corporate	367	20%	73
	4,036	100%	4,036
Residential mortgages not past due			
Non-property investment residential mortgage loans	887	20%	177
	16,222	35%	5,678
	1,145	50%	573
	26	75%	20
	84	100%	84
Property investment residential mortgage loans	9,243	40%	3,697
	64	70%	45
	29	90%	26
	24	100%	24
Past due residential mortgages	1	35%	-
	34	100%	34
Other			
Other past due assets	18	100%	18
	31	150%	47
Other assets	13	20%	3
	729	100%	729
All other equity holdings (not deducted from capital)	-	400%	1
Non risk-weighted assets	245	0%	-
Total on-balance sheet exposures	**36,606**		**15,503**

Capital adequacy and regulatory liquidity ratios continued

Calculation of off-balance sheet exposures

	The Banking Group				
	30 June 24				
$ millions	Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure
Direct credit substitute	99	100%	99	99%	98
Performance-related contingency	41	50%	21	100%	21
Other commitments where original maturity is greater than one year	1,405	50%	703	60%	422
Other commitments where original maturity is less than or equal to one year	1,681	20%	336	37%	124
Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice	1,242	0%	-	0%	-
Counterparty credit risk[1]					
a) Foreign exchange contracts	3,329	n/a	87	49%	43
b) Interest rate contracts	34,948	n/a	31	7%	2
c) Other - CVA	-	n/a	-	n/a	24
d) Other - CCP initial margin	44	n/a	-	2%	1
Total off-balance sheet exposures	**42,789**		**1,277**		**735**

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

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

Residential mortgages by loan-to-valuation ratio ('LVR')

	The Banking Group		
	30 June 24		
$ millions	On-balance sheet	Off-balance sheet	Total
LVR does not exceed 80%	25,661	761	26,422
LVR exceeds 80% and not 90%	1,693	17	1,710
LVR exceeds 90%	405	8	413
Total	**27,759**	**786**	**28,545**

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

Capital adequacy and regulatory liquidity ratios continued

Credit risk mitigation

	The Banking Group 30 June 24	
$ millions	Total value of on- and off-balance sheet exposures covered by eligible collateral (after 'haircutting')	Total value of on- and off-balance sheet exposures covered by guarantees or credit derivatives
Exposure class		
Bank	**918**	-
Corporate	**34,633**	-
	35,551	-

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

Exposures arising from trades settled on Qualifying Central Counterparties (QCCP)

	The Banking Group 30 June 24		
$ millions	Trade exposure or collateral amount	Average risk weight	Risk weighted exposures
Bank as QCCP clearing member, clearing own trades	-	-	-
Collateral posted for clearing own trades	-	-	-
Bank as client of QCCP member, clearing trades through that member	**27**	**2%**	**1**
Collateral posted for clearing via member bank	**44**	**2%**	**1**
	71		**2**

Operational risk capital requirement

	The Banking Group 30 June 24	
$ millions	Implied risk weighted exposure	Total operational risk capital requirement
Operational risk	**2,159**	**173**

Capital adequacy and regulatory liquidity ratios continued

Market risk

	The Banking Group 30 June 24			
	Implied risk-weighted exposure		Aggregate capital charge	
$ millions	End of period	Peak end-of-day	End of period	Peak end-of-day
Interest rate risk	**756**	**826**	**60**	**66**
Foreign currency risk	**41**	**64**	**3**	**5**
Equity risk	**-**	**-**	**-**	**-**

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

The peak end-of-day aggregate capital charge is the maximum over the six months ended 30 June 2024 at the close of each business day for each market risk category.

Total capital requirements

	The Banking Group 30 June 24		
$ millions	Total exposure after credit risk mitigation	Risk weighted exposure or implied risk weighted exposure	Total capital requirement
Total credit risk plus equity	**43,844**	**16,238**	**1,299**
Operational risk	**n/a**	**2,159**	**173**
Market risk	**n/a**	**797**	**63**
Total Pillar I risk	**n/a**	**19,194**	**1,535**

Other material risks (Pillar II)

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

For these other material risks, the Bank has made an internal capital allocation of $40m (30 June 2023: $50m).

Regulatory liquidity ratios

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

	3 months ended 30 June 24	3 months ended 31 Mar 24
Average one-week mismatch ratio	**11.0%**	11.0%
Average one-month mismatch ratio	**10.7%**	10.9%
Average core funding ratio	**90.3%**	89.7%

Conditions of registration

Under section 74 of the Banking (Prudential Supervision) Act 1989, Kiwibank Limited is subject to the following conditions of registration set by the Reserve Bank of New Zealand, which were applicable as at 30 June 2024:

Conditions of registration for Kiwibank Limited

These conditions apply on and after 1 April 2024.

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

1. That:

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

   For the purposes of this condition of registration:

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

1A. That:

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

1B. That, if the prudential capital buffer ratio of the banking group is 2.5% or less, the bank must:

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

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

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

   For the purposes of this condition of registration:

   – 'prudential capital buffer ratio', 'distributions', and 'earnings' have the same meaning as in Subpart B2 of BPR100: Capital Adequacy;
   – an Additional Tier 1 capital instrument is an instrument that meets the requirements of B2.2(2)(a), (c) or (d) of BPR110: Capital Definitions.

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

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

Conditions of registration continued

1C. That:

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

For the purposes of this condition of registration:

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

– a Tier 2 capital instrument is an instrument that meets the requirements of subsection B3.2(2)(a) or (c) of BPR110: Capital Definitions.

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

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

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

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

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

In determining the total amount of the banking group's insurance business:

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

For the purposes of this condition of registration:

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

4. The bank must comply with all the requirements set out in the following document: BS8 Connected Exposures 1 October 2023.

4A. That full year disclosure statements are prepared on the basis that clause 6(2)(b), Schedule 14 of the Order does not apply.

For the purposes of this condition of registration, "Order" means the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014, and "disclosure statement" means a disclosure statement to be prepared under the Order.

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

6. That the bank complies with the following corporate governance requirements:

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

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

7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer is made in respect of the bank, unless:

a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
b) the Reserve Bank has advised that it has no objection to that appointment.

8. That a person must not be appointed as chairperson of the board of the bank, unless:

a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
b) the Reserve Bank has advised that it has no objection to that appointment.

9. That the bank has a board audit committee, or other separate board committee covering audit matters, that meets the following requirements:

a) the mandate of the committee must include: ensuring the integrity of the bank's financial controls, reporting systems and internal audit standards;
b) the committee must have at least three members;
c) every member of the committee must be a non-executive director of the bank;
d) the majority of the members of the committee must be independent; and
e) the chairperson of the committee must be independent and must not be the chairperson of the bank.

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

10. That a substantial proportion of the bank's business is conducted in and from New Zealand.

11. That the bank must comply with the Reserve Bank of New Zealand document "Outsourcing Policy" (BS11) dated September 2022.

12. That:

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

13. That the banking group complies with the following quantitative requirements for liquidity-risk management:

a) the one-week mismatch ratio of the banking group is not less than zero per cent at the end of each business day;
b) the one-month mismatch ratio of the banking group is not less than zero per cent at the end of each business day; and
c) the one-year core funding ratio of the banking group is not less than 75 per cent at the end of each business day.

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

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

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

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

For the purposes of this condition:

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

16. That:

a) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

Conditions of registration continued

   ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document 'Significant Acquisitions Policy' (BS15) dated December 2011; and

b) no member of the banking group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold, unless:

   i) the bank has notified the Reserve Bank in writing of the intended acquisition or business combination;
   ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document 'Significant Acquisitions Policy' (BS15) dated December 2011; and
   iii) the Reserve Bank has given the bank a notice of non-objection to the significant acquisition or business combination.

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

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

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

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

18. That the bank has an Implementation Plan that:

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

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

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

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

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

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

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

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

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

Conditions of registration continued

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

In these conditions of registration:

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

In these conditions of registration, the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement ('**BPR**') documents that are referred to in the capital adequacy conditions 1 to 1C, or are referred to in turn by those documents or by Banking Supervision Handbook ('**BS**') documents, are:

BPR document	Version date
BPR100: Capital adequacy	1 October 2021
BPR110: Capital definitions	1 October 2023
BPR120: Capital adequacy process requirements	1 October 2023
BPR130: Credit risk RWAs overview	1 October 2023
BPR131: Standardised credit risk RWAs	1 April 2024
BPR132: Credit risk mitigation	1 October 2023
BPR133: IRB credit risk RWAs	1 October 2023
BPR134: IRB minimum system requirements	1 July 2021
BPR140: Market risk exposure	1 October 2021
BPR150: Standardised operational risk	1 July 2021
BPR151: AMA operational risk	1 July 2021
BPR160: Insurance, securitisation, and loan transfers	1 July 2021
BPR001: Glossary	1 October 2023

In conditions of registration 21 to 23:

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

Non-compliance with conditions of registration

There are no cases where Kiwibank has not complied in a material respect with a condition of registration during the period.

Changes to conditions of registration

The RBNZ issued a revision to the conditions of registration effective for Kiwibank Limited on and after 1 April 2024.

The following changes to the conditions have been made:

- the transitional requirements under Conditions 4 and 4A have been removed as the requirements set out in BS8 Connected Exposures dated 1 October 2023 commenced in full on 1 April 2024;
- Condition 11 expired on 30 September 2023 and has been removed; and
- the version date of BPR131: Standardised credit risk RWAs has been changed to 1 April 2024. BPR131: Standardised credit risk RWAs has been amended to clarify how banks should calculate the risk weight for Kāinga Ora loans when they are past due.

Independent auditor’s report

To the shareholder of Kiwibank Limited

This report is for the Banking Group, comprising Kiwibank Limited (the “Bank”) and its controlled entities as at 30 June 2024 or from time to time during the financial year.

The Auditor-General is the auditor of the Bank and the Banking Group. The Auditor-General has appointed me, Callum Dixon, using the staff and resources of PricewaterhouseCoopers, to carry out this audit on his behalf.

Our opinion

In our opinion, the accompanying:

- consolidated financial statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 13, 14, 15 and 17 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the “Order”), of the Banking Group, present fairly, in all material respects, the financial position of the Banking Group as at 30 June 2024, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (“NZ IFRS”) and International Financial Reporting Standards Accounting Standards (“IFRS Accounting Standards”); and
- information disclosed in accordance with Schedules 4, 7, 13, 14, 15 and 17 of the Order (the “Supplementary Information”), in all material respects:
  - presents fairly the matters to which it relates; and
  - is disclosed in accordance with those schedules.

What we have audited

- The Banking Group’s consolidated financial statements (the “Financial Statements”) required by clause 24 of the Order, comprising:
  - the balance sheet as at 30 June 2024;
  - the income statement for the year then ended;
  - the statement of comprehensive income for the year then ended;
  - the statement of changes in equity for the year then ended;
  - the cash flow statement for the year then ended; and
  - the notes to the Financial Statements, which includes material accounting policy information and other explanatory information, but excludes the Supplementary Information and the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order.
- The Supplementary Information within the balance sheet and notes 7, 8, 9, 10, 11, 12, 23, 24, 28, 30, 31 and 32 of the Financial Statements for the year ended 30 June 2024 of the Banking Group.

  We have not audited the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order within the *Capital adequacy and regulatory liquidity ratios* section on pages 89 to 95 of the Disclosure Statement and our opinion does not extend to this information.

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Basis for opinion

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

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

Independence

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

In addition to the audit of the Financial Statements and the Supplementary Information, our firm carries out other services for the Banking Group in the areas of:

- limited assurance over capital adequacy and regulatory liquidity requirements for half year and year end;
- half year review of the interim financial statements of the Banking Group;
- reasonable assurance over registry compliance and limited assurance over compliance with certain matters in the trust deed in respect of a controlled entity within the Banking Group; and
- agreed-upon procedures over a debt programme.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements and the Supplementary Information of the current year. These matters were addressed in the context of our audit of the Financial Statements and the Supplementary Information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Credit impairment provision on loans and advances and credit commitments As disclosed in Note 8 of the Financial Statements, the Banking Group has recognised a credit impairment provision as at 30 June 2024 of $129 million (30 June 2023: $108 million) which includes both collectively assessed and individually assessed provisions. The Banking Group recognises credit impairment provisions for expected credit losses (ECL) which are probability weighted and determined by evaluating a range of possible outcomes, taking into account the	We obtained an understanding of the relevant controls implemented by management over the credit impairment provision. Our audit procedures also included assessing the design and implementation, and testing the operating effectiveness of selected controls relating to the Banking Group's ECL estimation process, which included controls over the data, changes to models, assumptions and governance used in determining the credit impairment provision on loans and advances and credit commitments, as well as IT general controls related to in-scope IT systems.

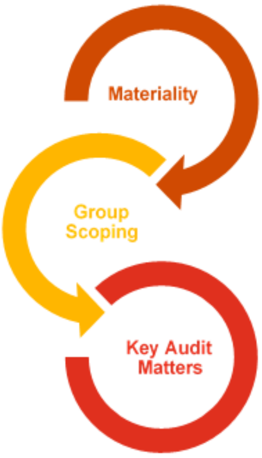
Description of the key audit matter	How our audit addressed the key audit matter
time value of money, past events, current conditions and forecast of future economic conditions. The ECL models to determine the collectively assessed credit impairment provision involve significant judgement to determine macroeconomic scenarios (MES), scenario weightings, forward looking adjustments, the assessment of significant increases in credit risk (SICR), and in identifying and calculating adjustments to model outputs (overlays). There is also a significant volume of data used in the models, which is sourced from multiple information technology (IT) systems. For loans and advances and credit commitments that meet specific risk-based criteria and quantitative criteria, the credit impairment provision is individually assessed by the Banking Group. The credit impairment provision is a key audit matter due to the subjective judgements and assumptions made by the Banking Group in determining the timing of recognition, the level of provision for ECL, and the nature and extent of audit effort needed. The key judgements and assumptions in determining the credit impairment provision include: ● modelling inputs for probability of default (PD), exposure at default (EAD) and loss given default (LGD); ● the criteria under which exposures move between NZ IFRS 9 stages, particularly when moving between fully performing (stage 1) and demonstrating a significant increase in credit risk (stage 2); ● the macroeconomic inputs used within each of the economic scenarios (central, upside, downside, severe stress); ● the weightings given to each economic scenario; and ● post-model overlays required to provide for potential loss events that could occur, as well as those which have occurred but for which the impacts have not yet been incorporated into the ECL models.	In addition to controls testing, we, along with our actuarial experts, where their involvement was determined to be needed, performed the following audit procedures, amongst others: ● evaluated the appropriateness of the models and the reasonableness of significant assumptions applied within the models, and assessed these against the requirements of NZ IFRS 9; ● assessed the Banking Group's judgements, including the reasonableness of forward-looking information incorporated into the ECL models, by comparing the forecasts, assumptions and probability weightings applied in determining the MES against current market conditions and other available evidence; ● challenged and assessed the appropriateness of post-model overlays identified by the Banking Group against internal and external supporting information and performed sensitivity analysis; ● on a sample basis, assessed the accuracy of post-model overlay adjustments by considering various factors, including data quality and other relevant risks; ● tested the accuracy of a sample of CDEs used in the ECL models by agreeing them to relevant source documentation or through recalculation where relevant; ● for a sample of corporate loans and advances and credit commitments identified as not credit impaired, obtained and examined the borrower's latest financial information provided to the Banking Group to assess the reasonableness of the credit risk grade rating that had been assigned to the borrower, a CDE which involves significant management judgement; ● for a sample of corporate loans and advances and credit commitments identified as credit impaired and for which an individually assessed provision has been recorded, reviewed the reasonableness of the assumptions made to determine the individually assessed credit impairment provision; ● for residential mortgage loans and retail unsecured lending, performed a risk assessment over the movement of individually assessed credit impaired loans and advances and credit commitments and considered the reasonableness of these movements;

Description of the key audit matter	How our audit addressed the key audit matter
The nature and extent of audit effort involved the use of professionals with specialised skills and knowledge, testing of the critical data elements (CDEs) used in the models, and testing of the IT general controls for the relevant IT systems used in determining the credit impairment provision on loans and advances and credit commitments. Refer to Note 8 in the Financial Statements which explains the critical accounting estimates and judgements in determining the credit impairment provision on loans and advances and credit commitments.	• recalculated the ECL model results for a sample of loans and advances and credit commitments; • performed a peer bank comparison and considered whether, with the inclusion of overlays, the overall collectively assessed credit impairment provision sits within a range of acceptable outcomes based on our professional judgement; • inspected the review and approval by the Executive Risk Committee and the Audit and Risk Committee of MES, scenario weightings, and post-model overlays, and assessed the reasonableness of the decisions made; • considered the results of management's model monitoring; and • considered the impact of events occurring subsequent to balance date on the credit impairment provision on loans and advances and credit commitments. We also assessed the appropriateness of the Banking Group's disclosures in the Financial Statements. We considered the results of the procedures above satisfactory in forming our opinion on the Financial Statements as a whole.
Operation of Information Technology (IT) systems and controls The Banking Group's operations and financial reporting processes are heavily reliant on IT systems, including automated processes and controls for the capture, processing, storage and extraction of significant volumes of transactions. In considering the complexity of the Banking Group's processes and the design of the internal control environment, there are certain areas of the audit where we seek to place reliance on system-generated reports, automated controls and calculations, and certain system-enforced access controls. The effective operation of these areas is dependent on the Banking Group's IT General Control (ITGC) environment. This includes: • user access controls which are important because they help ensure that staff have appropriate access to IT systems and that access is monitored; and	For material financial statement transactions and balances, our procedures included gaining an understanding of the business processes, key controls and IT systems used to generate and support those transactions and balances, and the associated IT application controls and IT dependent manual controls. Where relevant to our planned audit approach we, along with our IT specialists, assessed the design and implementation, and tested the operating effectiveness of the key controls that support the continued integrity of the in-scope IT systems that are relevant to financial reporting. This included assessing: • user access: how users are on-boarded, reviewed and removed on a timely basis from critical IT applications and supporting infrastructure. We also examined how privileged roles and functions are managed across each in-scope IT application and supporting infrastructure; and • change management: how changes are initiated, documented, approved, tested, and authorised prior to migration into the production environment of critical IT applications.

Description of the key audit matter	How our audit addressed the key audit matter
• change management internal controls which are important because they help ensure that changes to applications and data are appropriately processed and authorised. IT systems and controls affect the financial recording and reporting of transactions, and our audit approach could differ significantly depending on the effective design and operation of the Banking Group's IT general controls. For this reason we have determined this to be a key audit matter.	We also assessed the appropriateness of users with access to make changes to in-scope IT applications across the Banking Group. We also carried out tests, on a sample basis, of IT application controls and IT dependent manual controls that were key to our audit testing strategy, in order to assess the accuracy of system-generated reports and relevant calculations performed by IT applications, and the operation of certain automated controls and system-enforced access controls. A number of IT control deficiencies exist that impacted our audit approach. Where we identified deficiencies in the design or operating effectiveness of matters relating to in-scope IT systems and controls, we performed additional or alternative audit procedures

Our audit approach

Overview



The overall Banking Group materiality is $13.6 million, which represents approximately 5% of the profit before tax for the year ended 30 June 2024.

We chose profit before tax because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark.

A full scope audit was performed for the financially significant entity within the Banking Group, being the parent entity, Kiwibank Limited. Specified audit procedures were performed on the remaining entities.

As reported above, we have two key audit matters, being:

- Credit impairment provision on loans and advances and credit commitments; and
- Operation of Information Technology (IT) systems and controls

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements and the Supplementary Information. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the Financial Statements and the Supplementary Information, as a whole, as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the Financial Statements and the Supplementary Information, as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Financial Statements and the Supplementary Information, as a whole, taking into account the structure of the Banking Group, the financial reporting processes and controls, and the industry in which the Banking Group operates.

The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including history of misstatement through fraud or error).

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Disclosure Statement presented in accordance with Schedule 2 of the Order on pages 1 to 7, and 96 to 100, and the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order within the *Capital adequacy and regulatory liquidity ratios* section on pages 89 to 95, but does not include the Financial Statements, the Supplementary Information and our auditor's report thereon.

Our opinion on the Financial Statements and the Supplementary Information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon. We issue a separate limited assurance report on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order.

In connection with our audit of the Financial Statements and the Supplementary Information, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements and the Supplementary Information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Disclosure Statement

The Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 24 of the Order, NZ IFRS and IFRS Accounting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements and the Supplementary Information that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Bank, for the preparation and fair presentation of the Disclosure Statement which includes:

- all of the information prescribed in Schedule 2 of the Order; and
- the information prescribed in Schedules 4, 7, 9, 13, 14, 15 and 17 of the Order.

In preparing the Financial Statements, the Directors are responsible for assessing the Banking Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Banking Group or to cease operations, or have no realistic alternative but to do so.

The Directors' responsibilities also arise from the Financial Markets Conduct Act 2013.

Auditor’s responsibilities for the audit of the Financial Statements and the Supplementary Information

Our objectives are to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Auditor-General’s Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.

As part of an audit in accordance with the Auditor-General’s Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements and the Supplementary Information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banking Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the use of the going concern basis of accounting by the Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Banking Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the Financial Statements and the Supplementary Information, or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Banking Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements and the Supplementary Information, including the disclosures, and whether the Financial Statements and the Supplementary Information represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Banking Group to express an opinion on the Financial Statements and the Supplementary Information. We are responsible for the direction, supervision and performance of the Banking Group audit. We remain solely responsible for our audit opinion.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the Financial Statements and the Supplementary Information of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Our responsibilities arise from the Public Audit Act 2001.

PricewaterhouseCoopers.

Callum Dixon
On behalf of the Auditor-General
Wellington, New Zealand
21 August 2024

PricewaterhouseCoopers

Independent Assurance Report

To the shareholder of Kiwibank Limited

This report is for the Banking Group, comprising Kiwibank Limited (the "Bank") and the entities it controlled as at 30 June 2024 or from time to time during the financial year.

The Auditor-General is the auditor of the Bank and the Banking Group. The Auditor-General has appointed me, Callum Dixon, using the staff and resources of PricewaterhouseCoopers, to carry out a limited assurance engagement in respect of the information relating to capital adequacy and regulatory liquidity requirements included in the Disclosure Statement of the Banking Group, on his behalf.

Limited assurance report on compliance with the information required on capital adequacy and regulatory liquidity requirements

Our conclusion

We have undertaken a limited assurance engagement on the Bank's compliance, in all material respects, with clause 21 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") which requires information prescribed in Schedule 9 of the Order relating to capital adequacy and regulatory liquidity requirements to be disclosed in its full year Disclosure Statement for the year ended 30 June 2024 (the "Disclosure Statement"). The Disclosure Statement containing the information prescribed in Schedule 9 of the Order relating to capital adequacy and regulatory liquidity requirements will accompany our report, for the purpose of reporting to the shareholder.

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order and disclosed in the *Capital adequacy and regulatory liquidity ratios* section on pages 89 to 95 of the Disclosure Statement, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion

We have conducted our engagement in accordance with Standard on Assurance Engagements 3100 (Revised) *Compliance Engagements* ("SAE 3100 (Revised)") issued by the New Zealand Auditing and Assurance Standards Board.

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

Directors' responsibilities

The Directors are responsible on behalf of the Bank for compliance with the Order, including clause 21 of the Order which requires information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 9 of the Order to be included in the Disclosure Statement, for the identification of risks that may threaten compliance with that clause, controls that would mitigate those risks and monitoring ongoing compliance.

Our independence and quality management

We have complied with the Auditor-General's:

- Independence and other ethical requirements, which incorporate the requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board. PES 1 is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour; and
- Quality management requirements, which incorporate the requirements of Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (PES 3). PES 3 requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Banking Group. In addition to the audit of the annual financial statements and this limited assurance engagement, our firm carries out other services for the Banking Group in the areas of:

- Limited assurance over capital adequacy and regulatory liquidity requirements for the half year;
- Half year review of the interim financial statements of the Banking Group;
- Reasonable assurance over registry compliance and limited assurance over compliance with certain matters in the trust deed in respect of a controlled entity within the Banking Group; and
- Agreed-upon procedures over a debt programme.

In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and these relationships have not impaired our independence.

Assurance practitioner's responsibilities

Our responsibility is to express a limited assurance conclusion on whether the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 21 of the Order, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with clause 21 of the Order in respect of the information relating to capital adequacy and regulatory liquidity requirements is likely to arise.

Given the circumstances of the engagement we:

- Obtained an understanding of the process, models, data and internal controls implemented over the preparation of the information relating to capital adequacy and regulatory liquidity requirements;
- Obtained an understanding of the Bank's compliance framework and internal control environment to ensure the information relating to capital adequacy and regulatory liquidity requirements is in compliance with the Reserve Bank of New Zealand's (the "RBNZ") prudential requirements for banks;
- Obtained an understanding and assessed the impact of any matters of non-compliance with the RBNZ's prudential requirements for banks that relate to capital adequacy and regulatory liquidity requirements and inspected relevant correspondence with the RBNZ;
- Performed analytical and other procedures on the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order, and considered its consistency with the annual financial statements; and
- Agreed the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order to information extracted from the Bank's models, accounting records or other supporting documentation.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion on compliance with the compliance requirements.

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance with the compliance requirements may occur and not be detected.

A limited assurance engagement on the Bank's information relating to capital adequacy and regulatory liquidity requirements prescribed in Schedule 9 of the Order to be included in the Disclosure Statement in compliance with clause 21 of the Order does not provide assurance on whether compliance will continue in the future.

Use of report

This report has been prepared for use by the Bank's shareholder for the purpose of establishing that these compliance requirements have been met.

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Bank and the Bank's shareholder, or for any purpose other than that for which it was prepared.

Callum Dixon
On behalf of the Auditor-General
Wellington, New Zealand
21 August 2024

PricewaterhouseCoopers