Registered Bank Disclosure Statement

For the six months ended 31 December 2023

Number 78

Contents

General matters

Details of incorporation

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

This Disclosure Statement has been issued by Kiwibank for the six months ended 31 December 2023, in accordance with the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "**Order**"). Words and phrases defined by the Order have the same meanings used in this Disclosure Statement.

In this Disclosure Statement, "**Banking Group**" means Kiwibank's financial reporting group, which consists of Kiwibank, all its wholly owned entities, and all other entities consolidated for financial reporting purposes.

Registered office and address for service

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

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.

Credit ratings

The Bank has the following credit ratings applicable to its long-term senior unsecured obligations payable in New Zealand, in New Zealand dollars.

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

Conditions of registration

Changes to conditions of registration

The RBNZ issued revisions to the conditions of registration for Kiwibank effective on and after 1 October 2023.

The following changes to the conditions have been made to incorporate changes to the revised Connected Exposures policy (BS8) dated 1 October 2023:

- New paragraph 4 provides that from 1 October 2023 the bank must comply with all the requirements in revised Connected Exposures policy (BS8) dated 1 October 2023 except for the new definition of connected person which does not take effect until 1 April 2024. From 1 October 2023 to 31 March 2024 the bank must apply the definition of connected person in the previous version of BS8 dated 1 October 2021.
- Paragraph 4A (previously paragraph 4) amended to change the version date for BS8 to 1 October 2023 and to reflect the revised wording on limits on connected exposures.
- New paragraph 4B inserted to ensure that disclosure obligations are consistent with the revised BS8 requirements until such time as relevant amendments are made to the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended).

The conditions were also updated to the latest version dates for other RBNZ Banking Prudential Requirement documents issued in October 2023.

There have been no other changes to the Bank's conditions of registration from those which were in force on 30 June 2023.

General matters continued

Directorate

Anna Valerie Curzon and Jonathan Keith Macdonald were appointed as independent non-executive directors on 1 September 2023. There have been no other changes in the Board since 30 June 2023.

Responsible persons

Jonathan Peter Hartley and Mary Jane Daly have been authorised in writing to sign this Disclosure Statement in accordance with Section 82 of the Banking (Prudential Supervision) Act 1989, on behalf of the directors, being:

Jonathan Peter Hartley	Mary Jane Daly
Kevin Mark Malloy	Kate Louise Jorgensen
Ian Cameron Blair	Anna Valerie Curzon
Scott John Pickering	Jonathan Keith Macdonald

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 review of the interim 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 6140, New Zealand.

Guarantees

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 at 28 February 2017 and still outstanding have the benefit of a deed poll guarantee by the New Zealand Crown (the "**Crown Guarantee**").

A summary of the details of each guarantee is set out below.

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 on, and the principal of Covered Bonds, and such guarantee is secured over a pool of assets. There are no other limits on the obligations guaranteed. The carrying value of the Kiwi Covered Bond Trust pool at 31 December 2023 is $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. 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 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 Crown Guarantee is available on the Kiwibank website: https://www.kiwibank.co.nz/about-us/governance/legal-documents-and-information/legal-documents/#crown-guarantee-formally-known-as-new-zealand-post-guarantee.

Further information on the Crown Guarantee can be found in the Banking Group's Disclosure Statement for the year ended 30 June 2023 which is available on the Kiwibank website: https://www.kiwibank.co.nz/about-us/governance/investor-centre/reports-and-presentations/.

Directors' statement

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

1. 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 six months ended 31 December 2023:
   - i) Kiwibank has complied in all material respects with the conditions of registration applicable during the period;
   - ii) credit exposures to connected persons were not contrary to the interests of the Banking Group; and
   - iii) Kiwibank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

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 February 2024

Interim financial statements

Income statement

$ millions For the six months ended	Note	Unaudited 31 Dec 23	Unaudited 31 Dec 22
Interest income		**935**	628
Interest expense		**(504)**	(242)
Net interest income		**431**	386
Net gains on financial instruments	2	**-**	7
Other operating income	3	**17**	22
Total operating income		**448**	415
Operating expenses		**(286)**	(263)
Profit before credit impairment and tax		**162**	152
Credit impairment losses	5	**(15)**	(12)
Profit before tax		**147**	140
Income tax expense		**(42)**	(42)
Profit after tax		**105**	98

Statement of comprehensive income

$ millions For the six months ended	Unaudited 31 Dec 23	Unaudited 31 Dec 22
Profit after tax	**105**	98
Other comprehensive income, net of tax		
Items that may subsequently be reclassified to profit or loss:		
- Net change in fair value reserve	**32**	(10)
- Net change in cash flow hedge reserve	**(131)**	27
Other comprehensive income, net of tax	**(99)**	17
Total comprehensive income	**6**	115

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

Interim financial statements

Statement of changes in equity

$ millions	Note	Ordinary shares	Retained earnings	Fair value reserve	Cash flow hedge reserve	Perpetual preference shares	Total equity
Unaudited for the six months ended 31 December 2022							
Balance at 1 July 2022		737	1,074	(65)	210	246	2,202
Profit after tax		-	98	-	-	-	98
Other comprehensive income, net of tax		-	-	(10)	27	-	17
Total comprehensive income		-	98	(10)	27	-	115
Transactions with owners:							
Ordinary dividends paid		-	(14)	-	-	-	(14)
Perpetual preference distributions paid		-	(4)	-	-	-	(4)
Balance at 31 December 2022		737	1,154	(75)	237	246	2,299
Unaudited for the six months ended 31 December 2023							
Balance at 1 July 2023		**737**	**1,226**	**(50)**	**152**	**246**	**2,311**
Profit after tax		**-**	**105**	**-**	**-**	**-**	**105**
Other comprehensive income, net of tax		**-**	**-**	**32**	**(131)**	**-**	**(99)**
Total comprehensive income		**-**	**105**	**32**	**(131)**	**-**	**6**
Transactions with owners:							
Ordinary shares issued	12	**225**	**-**	**-**	**-**	**-**	**225**
Perpetual preference distributions paid		**-**	**(4)**	**-**	**-**	**-**	**(4)**
Balance at 31 December 2023		**962**	**1,327**	**(18)**	**21**	**246**	**2,538**

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

Interim financial statements

Balance sheet

$ millions	Note	Unaudited 31 Dec 23	Audited 30 June 23
Assets			
Cash and cash equivalents		**1,212**	1,027
Due from other financial institutions		**81**	129
Investment securities		**2,585**	2,299
Derivative financial instruments		**251**	447
Loans and advances	4	**30,988**	29,682
Deferred tax assets		**83**	38
Premises and equipment		**127**	129
Intangible assets		**20**	25
Other assets		**47**	62
Total assets		**35,394**	33,838
Total interest earning and discount bearing assets		***34,754***	*33,054*
Liabilities			
Due to other financial institutions		**1,612**	1,768
Deposits and other borrowings	8	**26,835**	25,756
Derivative financial instruments		**276**	243
Debt securities issued	9	**3,449**	3,038
Other liabilities		**226**	276
Subordinated debt		**458**	446
Total liabilities		**32,856**	31,527
Total interest and discount bearing liabilities		***28,000***	*26,644*
Equity			
Share capital	12	**962**	737
Retained earnings		**1,327**	1,226
Reserves		**3**	102
Perpetual preference shares		**246**	246
Total equity		**2,538**	2,311
Total liabilities and equity		**35,394**	33,838

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

Jonathan Peter Hartley

Mary Jane Daly

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

Interim financial statements

Cash flow statement

$ millions For the six months ended	Note	Unaudited 31 Dec 23	Unaudited 31 Dec 22
Cash flows from operating activities			
Interest received		**926**	631
Interest paid		**(427)**	(187)
Fees and other income received		**57**	62
Direct fee expenses paid		**(37)**	(40)
Operating expenses paid		**(257)**	(256)
Income tax paid		**(94)**	(58)
Net cash flows from operating activities before changes in operating assets and liabilities		**168**	152
Net changes in operating assets and liabilities			
Investment securities		**(241)**	(696)
Loans and advances		**(1,217)**	(1,154)
Due from other financial institutions		**48**	22
Deposits and other borrowings		**1,033**	1,000
Due to other financial institutions		**(145)**	9
Other liabilities		**(1)**	-
Net cash flows from operating activities		**(355)**	(667)
Cash flows from investing activities			
Purchase of premises and equipment		**(5)**	(6)
Purchase of intangible assets		**-**	(1)
Net cash flows from investing activities		**(5)**	(7)
Cash flows from financing activities			
Net (repayment)/proceeds from repurchase agreements		**(11)**	270
Issue of debt securities		**1,080**	1,178
Redemption of debt securities		**(737)**	(823)
Payment of principal portion of lease liabilities		**(7)**	(7)
Issue of share capital	12	**225**	-
Ordinary dividends paid		**-**	(14)
Perpetual preference distributions paid		**(4)**	(4)
Net cash flows from financing activities		**546**	600
Increase/(decrease) in cash and cash equivalents		**186**	(74)
Cash and cash equivalents at beginning of the period		**1,027**	1,522
Effects of exchange rate changes on cash and cash equivalents		**(1)**	(2)
Cash and cash equivalents at end of the period		**1,212**	1,446

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

Notes to the interim financial statements

1. About these interim financial statements

1.1. Reporting Entity

These condensed consolidated interim financial statements ("**interim 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. The principal activity of the Banking Group is the provision of banking products and services to individuals and small to medium-sized businesses.

Kiwibank's immediate parent company 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

These interim financial statements are for the Banking Group for the six months ended 31 December 2023 and have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand, as appropriate for for-profit entities. They comply with NZ IAS 34 *Interim Financial Reporting*, IAS 34 *Interim Financial Reporting* and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "**Order**"). The interim financial statements have been reviewed, not audited. These interim financial statements should be read in conjunction with the Banking Group's financial statements for the year ended 30 June 2023.

The Banking Group's interim 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.

Measurement base

These interim 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 values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

1.3. Accounting policies

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the Banking Group's annual financial statements for the year ended 30 June 2023.

1.4. New and amended standards and interpretations

In the current year, the Banking Group applied amendments to accounting standards and Interpretations that are effective for an annual reporting period that begins on 1 July 2023. Their adoption has not had any material impact on the disclosures or amounts reported in these interim financial statements.

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

1.5. Critical accounting judgements, estimates and assumptions

Information regarding the critical accounting judgements, estimates and assumptions is provided in the financial statements for the year ended 30 June 2023. These judgements, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances. Actual results could differ from these estimates. Updated judgements, estimates and assumptions in relation to the measurement of expected credit losses are set out in note 5 Asset Quality.

1.6. Comparative amounts

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 4) & Asset quality (Note 5)

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 4), 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 5), the opening value of the gross carrying amount of residential mortgage loans derived from the prior year closing at 30 June 2023 has increased by $28m with a corresponding decrease in corporate exposures.

Notes to the interim financial statements

2. Net gains on financial instruments

$ millions For the six months ended	Unaudited 31 Dec 23	Unaudited 31 Dec 22
Financial instruments held for trading	**(21)**	(14)
Financial instruments designated at FVTPL	**-**	(1)
Net ineffectiveness on qualifying fair value hedges	**(1)**	(1)
Cumulative loss transferred from fair value reserve	**(1)**	(6)
Cumulative gain transferred from cash flow hedge reserve[1]	**22**	24
Net foreign exchange gains	**1**	5
Total net gains on financial instruments at fair value	**-**	7

[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 are recorded in financial instruments held for trading ($22m) (6 months ended 31 December 2022: ($20m)). The amortisation of the interest rate swap values recorded in the cash flow hedge reserve before de-designation is recorded in cumulative gain transferred from cash flow hedge reserve $22m (6 months ended 31 December 2022: $24m). 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 (six months ended 31 December 2022: insignificant).

3. Other operating income

$ millions For the six months ended	Unaudited 31 Dec 23	Unaudited 31 Dec 22
Transactional account and other services	**20**	19
Card services	**30**	35
Lending services	**4**	3
Total revenue from contracts with customers	**54**	57
Other income	**-**	6
Gross fee and other income	**54**	63
Direct fee expenses	**(37)**	(41)
Total other operating income	**17**	22

4. Loans and advances

$ millions	Unaudited 31 Dec 23	Audited 30 June 23
Overdrafts	**282**	226
Credit cards	**361**	346
Term loans - housing	**25,507**	24,276
Other term lending	**4,360**	4,431
Other lending	**592**	504
Gross loans and advances	**31,102**	29,783
Credit impairment provision	**(114)**	(101)
Total loans and advances	**30,988**	29,682

Certain comparatives have been restated, refer to Note 1.6 for further information.

Notes to the interim financial statements

4. Loans and advances continued

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

$ millions	Unaudited 31 Dec 23
Gross term loans - housing per loans and advances (Note 4)	**25,507**
Other residentially secured term lending including corporate lending	**1,232**
Gross residential mortgage loans per asset quality (Note 5)	**26,739**
Credit impairment provision	**(37)**
Deferred arrangement fees	**(134)**
Residential mortgages total on-balance sheet exposures (Capital Adequacy)	**26,568**

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

5. Asset quality

Credit impairment losses recognised in income statement

$ millions Unaudited for the six months ended 31 Dec 23	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Credited/(charged) to the income statement for collectively assessed provisions	**1**	**4**	**(19)**	**(14)**
Charged to the income statement for individually assessed provisions	**-**	**-**	**-**	**-**
Written off directly to the income statement	**(2)**	**-**	**-**	**(2)**
Recovery of amounts previously written off	**1**	**-**	**-**	**1**
Total credit impairment losses per income statement	**-**	**4**	**(19)**	**(15)**

$ millions Unaudited for the six months ended 31 Dec 22	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Charged to the income statement for collectively assessed provisions	-	(1)	(9)	(10)
Charged to the income statement for individually assessed provisions	-	-	(1)	(1)
Written off directly to the income statement	(1)	-	(1)	(2)
Recovery of amounts previously written off	1	-	-	1
Total credit impairment losses per income statement	-	(1)	(11)	(12)

Notes to the interim financial statements

5. Asset quality 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 expected credit losses ("**ECL**") movements, and model overlays is detailed below. Total credit impairment provision includes credit impairment provision on loans and advances, and undrawn commitments.

	Unaudited at 31 Dec 23			
$ millions	**Retail unsecured lending**	**Residential mortgage loans**	**Corporate exposures**	**Total**
Individually assessed provision	**1**	**-**	**3**	**4**
Collectively assessed provision				
Modelled ECL on loans and advances	**6**	**26**	**60**	**92**
Modelled ECL on undrawn commitments	**1**	**1**	**5**	**7**
Judgemental modelled overlays - interest repricing	**-**	**6**	**-**	**6**
Other judgemental overlays	**1**	**5**	**6**	**12**
Total collectively assessed provision	**8**	**38**	**71**	**117**
Total credit impairment provision	**9**	**38**	**74**	**121**

	Audited at 30 June 23			
$ millions	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

Changes in model overlays

Judgemental model overlays – interest repricing

Kiwibank has an overlay that covers the risk that some more highly leveraged home loan borrowers may be unable to maintain loan payments as their loans reprice on to higher interest rates. Kiwibank continues to monitor impacted customers and has evidenced only modest credit deterioration to date. A strong labour market has largely supported rising home loan interest rates. The Banking Group continues to monitor and reassess this overlay. The 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 lower interest rates following expected OCR cuts in early 2025.

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 data gaps from 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 31 December 2023, compared to 30 June 2023.

Notes to the interim financial statements

5. Asset quality continued

Changes in ECL model assumptions and inputs

The modelled provision for ECL is an estimate of forward-looking losses based on the Banking Group's view of four different economic scenarios. Kiwibank's assumptions around the macroeconomic factors used within each scenario and the weighting applied to each scenario are key judgements applied to the ECL models. The Banking Group has adjusted the macroeconomic variables used in the ECL model based on current economic forecasts. The weightings assigned to each scenario have been reassessed and adjusted to reflect the potential upside due to the surge in migration and monetary policy loosening before 2025.

The Banking Group's four macroeconomic scenarios have been updated during the six months ended 31 December 2023 as follows:

- **Central scenario**: this is the Banking Group's base scenario which assumes a continuation of recent macroeconomic trends. The domestic economy experiences two quarters of recession with the RBNZ holding the cash rate at 5.5% to November 2024, with rate cuts expected thereafter as inflation falls within the target range of 1 to 3% per annum from June 2024. The economy returns to low GDP growth post June 2024. Unemployment increases and peaks at 5.1% in March 2025 but remains relatively low compared to previous recessions. As house prices have stabilised, prices increase at a growth rate of 3-6% per annum are assumed.
- **Upside and downside scenarios**: these scenarios reflect the relativity of favourable or unfavourable 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 scenarios that are used in RBNZ's 2022 industry stress test. It reflects a prolonged contraction of the economy and more severe impacts on house prices in an environment where interest rates and unemployment remain elevated.

The scenario variables and weightings used at 31 December 2023 and 30 June 2023 are presented below.

Unaudited at 31 Dec 23		Forecast financial year		
Scenario	**Macroeconomic assumption**	**2024**	**2025**	**2026**
Central	GDP (annual % change)	**(0.2%)**	**2.2%**	**2.9%**
	Unemployment rate	**4.7%**	**5.1%**	**4.7%**
	House price index (annual % change)	**5.8%**	**3.3%**	**3.8%**
	Consumer price index (annual % change)	**3.7%**	**2.2%**	**2.0%**
	90-day bank bill rate	**5.6%**	**4.8%**	**3.8%**
Upside	GDP (annual % change)	**0.5%**	**3.0%**	**3.3%**
	Unemployment rate	**4.5%**	**4.5%**	**4.1%**
	House price index (annual % change)	**11.0%**	**8.0%**	**8.8%**
	Consumer price index (annual % change)	**4.0%**	**3.7%**	**3.4%**
	90-day bank bill rate	**6.3%**	**5.5%**	**4.5%**
Downside	GDP (annual % change)	**(1.9%)**	**1.1%**	**2.5%**
	Unemployment rate	**5.6%**	**6.2%**	**5.2%**
	House price index (annual % change)	**-**	**-**	**0.8%**
	Consumer price index (annual % change)	**3.0%**	**1.4%**	**1.7%**
	90-day bank bill rate	**5.3%**	**3.3%**	**1.2%**
Severe stress	GDP (annual % change)	**(1.5%)**	**(3.3%)**	**(0.9%)**
	Unemployment rate	**5.3%**	**8.1%**	**9.8%**
	House price index (annual % change)	**(9.6%)**	**(21.9%)**	**(13.3%)**
	Consumer price index (annual % change)	**4.9%**	**4.9%**	**4.5%**
	90-day bank bill rate	**6.4%**	**8.4%**	**9.8%**

Notes to the interim financial statements

5. Asset quality continued

Audited 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%

Changes in scenario weightings

The weightings applied to each scenario have been reviewed and adjusted from the weightings applied at 30 June 2023, to reflect the potential upside due to the surge in migration and monetary policy loosening before 2025. The weightings applied to the scenarios in the calculation of ECL are set out below.

Scenario weighting applied	Unaudited 31 Dec 23	Audited 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 underpin 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.

Notes to the interim financial statements

5. Asset quality continued

The following table outlines the sensitivity of ECL to the key factors used to determine credit impairment provision as at 31 December 2023. This sensitivity includes giving each economic scenario a 100% weighting, adjusting some model overlays to reflect those scenario conditions while holding all other modelling factors constant.

	Unaudited at 31 Dec 23	
$ millions	Total ECL	Impact
Credit impairment provision based on reported probability weighted ECL	121	-
If 1% of stage 1 exposure transitions to stage 2	129	8
If 1% of stage 2 exposure transitions to stage 1	121	-
100% upside scenario ECL	90	(31)
100% central scenario ECL	110	(11)
100% downside scenario ECL	139	18
100% severe stress ECL	174	53

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

Summary of lending

	Unaudited at 31 Dec 23			
$ millions	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Neither past due nor impaired	378	26,642	3,787	30,807
Past due but not impaired	16	97	177	290
Impaired	1	-	4	5
Gross loans and advances	395	26,739	3,968	31,102
Credit impairment provision	(8)	(37)	(69)	(114)
Total loans and advances	387	26,702	3,899	30,988

Loans and advances past due but not individually impaired

	Unaudited at 31 Dec 23			
$ millions	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Past due less than 30 days	13	46	85	144
Past due 30 - 59 days	2	16	72	90
Past due 60 - 89 days	1	11	3	15
Past due 90 days or greater	-	24	17	41
Total loans and advances past due but not individually impaired	16	97	177	290

Other asset quality information

	Unaudited at 31 Dec 23			
$ millions	Retail unsecured lending	Residential mortgage loans	Corporate exposures	Total
Undrawn lending commitments to counterparties with individually impaired assets	-	-	1	1
Other assets under administration	-	-	1	1

Notes to the interim financial statements

5. Asset quality continued

Movement in credit impairment provision and gross carrying amounts

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

The movement tables are presented on the following basis:

- Additions are amounts from new commitments and 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 impaired asset.

"**Other assets under administration**" means any credit exposure which is not an 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 interim financial statements

5. Asset quality continued

Movement in credit impairment provision – retail unsecured lending

$ millions	Unaudited at 31 Dec 23				
	Stage 1	Stage 2	Stage 3		
	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Credit impairment provision at 1 July 23	6	3	-	1	10
Transfers between stages	-	-	-	-	-
Net remeasurement of loss allowances	**(1)**	**2**	-	-	**1**
Changes due to additions and deletions	-	-	-	-	-
Changes due to amounts written off	-	**(1)**	-	-	**(1)**
Other changes	**(1)**	-	-	-	**(1)**
(Credited)/charged to IS for CP	**(2)**	**1**	-	-	**(1)**
New and increased provision	-	-	-	-	-
Write-back of provision no longer required	-	-	-	-	-
Charged/(credited) to IS for IP	-	-	-	-	-
Amounts written off from individually assessed provision	-	-	-	-	-
Credit impairment provision at 31 December 23	**4**	**4**	-	**1**	**9**
Provision on loans and advances	**3**	**4**	-	**1**	**8**
Provision on undrawn commitments	**1**	-	-	-	**1**
Credit impairment provision at 31 December 23	**4**	**4**	-	**1**	**9**
Impact of changes in gross carrying amount and credit commitments on ECL – retail unsecured lending					
Gross carrying amount at 1 July 23	288	81	-	1	370
Net transfers between stages	**2**	**(2)**	-	-	-
Additions	**106**	**13**	-	-	**119**
Deletions	**(81)**	**(11)**	-	-	**(92)**
Amounts written off	-	**(2)**	-	-	**(2)**
Gross carrying amount at 31 December 23	**315**	**79**	-	**1**	**395**
Off-balance sheet credit commitments at 1 July 23	839	21	-	-	860
Net transfers between stages	**(4)**	**4**	-	-	-
Additions	**96**	**7**	-	-	**103**
Deletions	**(112)**	**(10)**	-	-	**(122)**
Off-balance sheet credit commitments at 31 December 23	**819**	**22**	-	-	**841**

The decrease of $1m in credit impairment provisions on retail unsecured lending for the six months ended 31 December 2023 reflects:

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

Notes to the interim financial statements

5. Asset quality continued

Movement in credit impairment provision – residential mortgage loans

	Unaudited at 31 Dec 23				
	Stage 1	Stage 2	Stage 3		
$ millions	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Credit impairment provision at 1 July 23	23	15	4	1	43
Transfers between stages	**4**	**(4)**	**-**	**-**	**-**
Net remeasurement of loss allowances	**(4)**	**6**	**3**	**-**	**5**
Changes due to additions and deletions	**1**	**(1)**	**(1)**	**-**	**(1)**
Changes due to amounts written off	**-**	**-**	**-**	**-**	**-**
Other changes	**(6)**	**(2)**	**-**	**-**	**(8)**
(Credited)/charged to IS for CP	**(9)**	**3**	**2**	**-**	**(4)**
New and increased provision	**-**	**-**	**-**	**-**	**-**
Write-back of provision no longer required	**-**	**-**	**-**	**-**	**-**
Charged/(credited) to IS for IP	**-**	**-**	**-**	**-**	**-**
Amounts written off from individually assessed provision	**-**	**-**	**-**	**(1)**	**(1)**
Credit impairment provision at 31 December 23	**18**	**14**	**6**	**-**	**38**
Provision on loans and advances	**17**	**14**	**6**	**-**	**37**
Provision on undrawn commitments	**1**	**-**	**-**	**-**	**1**
Credit impairment provision at 31 December 23	**18**	**14**	**6**	**-**	**38**
Impact of changes in gross carrying amount and credit commitments on ECL – residential mortgage loans					
Gross carrying amount at 1 July 23	24,489	920	26	1	25,436
Net transfers between stages	**(118)**	**108**	**10**	**-**	**-**
Additions	**3,783**	**39**	**2**	**-**	**3,824**
Deletions	**(2,414)**	**(100)**	**(6)**	**-**	**(2,520)**
Amounts written off	**-**	**-**	**-**	**(1)**	**(1)**
Gross carrying amount at 31 December 23	**25,740**	**967**	**32**	**-**	**26,739**
Off-balance sheet credit commitments at 1 July 23	2,469	30	(1)	-	2,498
Net transfers between stages	**(4)**	**3**	**1**	**-**	**-**
Additions	**632**	**12**	**-**	**-**	**644**
Deletions	**(557)**	**(10)**	**-**	**-**	**(567)**
Off-balance sheet credit commitments at 31 December 23	**2,540**	**35**	**-**	**-**	**2,575**

Certain comparatives have been restated, refer to Note 1.6 for further information.

The decrease of $5m in credit impairment provisions on residential mortgage loans for the six months ended 31 December 2023 reflects:

- remeasurement of ECL due to asset growth and exposures migrating to higher risk grades (+$4m);
- changes to the management overlays, macroeconomic scenarios and weightings (-$8m); and
- $1m of gross balances that were written off from individually assessed provisions (-$1m).

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

$ millions	Unaudited 31 Dec 23
Gross residential mortgages per asset quality (note 5)	**2,575**
Adjustment for off-balance sheet credit conversion factor	**(1,824)**
Residential mortgages total off-balance sheet exposures (Capital Adequacy)	**751**

Notes to the interim financial statements

5. Asset quality continued

Movement in credit impairment provision – corporate exposures

	Unaudited at 31 Dec 23				
	Stage 1	Stage 2	Stage 3		
$ millions	Collectively assessed	Collectively assessed	Collectively assessed	Individually assessed	Total
Credit impairment provision at 1 July 23	27	15	10	3	55
Transfers between stages	**1**	**(4)**	**3**	-	-
Net remeasurement of loss allowances	**(2)**	**3**	**13**	-	**14**
Changes due to additions and deletions	**2**	**7**	**(1)**	-	**8**
Changes due to amounts written off	-	-	-	-	-
Other changes	**(4)**	**2**	**(1)**	-	**(3)**
(Credited)/charged to IS for CP	**(4)**	**12**	**11**	-	**19**
New and increased provision	-	-	-	**1**	**1**
Write-back of provision no longer required	-	-	-	**(1)**	**(1)**
Charged/(credited) to IS for IP	-	-	-	-	-
Amounts written off from individually assessed provision	-	-	-	-	-
Credit impairment provision at 31 December 23	**24**	**23**	**24**	**3**	**74**
Provision on loans and advances	**22**	**21**	**23**	**3**	**69**
Provision on undrawn commitments	**2**	**2**	**1**	-	**5**
Credit impairment provision at 31 December 23	**24**	**23**	**24**	**3**	**74**
Impact of changes in gross carrying amount and credit commitments on ECL – corporate exposures					
Gross carrying amount at 1 July 23	3,684	265	22	6	3,977
Net transfers between stages	**(136)**	**84**	**52**	-	-
Additions	**797**	**123**	**4**	**1**	**925**
Deletions	**(836)**	**(78)**	**(17)**	**(3)**	**(934)**
Amounts written off	-	-	-	-	-
Gross carrying amount at 31 December 23	**3,509**	**394**	**61**	**4**	**3,968**
Off-balance sheet credit commitments at 1 July 23	721	30	3	1	755
Net transfers between stages	**(7)**	**3**	**4**	-	-
Additions	**296**	**12**	**12**	-	**320**
Deletions	**(271)**	**(13)**	**(1)**	-	**(285)**
Off-balance sheet credit commitments at 31 December 23	**739**	**32**	**18**	**1**	**790**

Certain comparatives have been restated, refer to Note 1.6 for further information.

The increase of $19m in credit impairment provisions on corporate exposures for the six months ended 31 December 2023 reflects:

- remeasurement of ECL due to exposures migrating to higher risk grades (+$22m);
- changes to the macroeconomic scenarios and weightings, and management overlays (-$3m); and
- an increase in individually assessed provisions (+$1m), fully offset by balances that were written off (-$1m).

Notes to the interim financial statements

5. Asset quality continued

Movement in credit impairment provision – total exposures

$ millions	Unaudited at 31 Dec 23 Stage 1 Collectively assessed	Stage 2 Collectively assessed	Stage 3 Collectively assessed	Stage 3 Individually assessed	Total
Credit impairment provision at 1 July 23	56	33	14	5	108
Transfers between stages	**5**	**(8)**	**3**	**-**	**-**
Net remeasurement of loss allowances	**(7)**	**11**	**16**	**-**	**20**
Changes due to additions and deletions	**3**	**6**	**(2)**	**-**	**7**
Changes due to amounts written off	**-**	**(1)**	**-**	**-**	**(1)**
Other changes	**(11)**	**-**	**(1)**	**-**	**(12)**
(Credited)/charged to IS for CP	**(15)**	**16**	**13**	**-**	**14**
New and increased provision	**-**	**-**	**-**	**1**	**1**
Write-back of provision no longer required	**-**	**-**	**-**	**(1)**	**(1)**
Charged/(credited) to IS for IP	**-**	**-**	**-**	**-**	**-**
Amounts written off from individually assessed provision	**-**	**-**	**-**	**(1)**	**(1)**
Credit impairment provision at 31 December 23	**46**	**41**	**30**	**4**	**121**
Provision on loans and advances	**42**	**39**	**29**	**4**	**114**
Provision on undrawn commitments	**4**	**2**	**1**	**-**	**7**
Credit impairment provision at 31 December 23	**46**	**41**	**30**	**4**	**121**
Impact of changes in gross carrying amount and credit commitments on ECL – total exposures					
Gross carrying amount at 1 July 23	28,461	1,266	48	8	29,783
Net transfers between stages	**(252)**	**190**	**62**	**-**	**-**
Additions	**4,686**	**175**	**6**	**1**	**4,868**
Deletions	**(3,331)**	**(189)**	**(23)**	**(3)**	**(3,546)**
Amounts written off	**-**	**(2)**	**-**	**(1)**	**(3)**
Gross carrying amount at 31 December 23	**29,564**	**1,440**	**93**	**5**	**31,102**
Off-balance sheet credit commitments at 1 July 23	4,029	81	2	1	4,113
Net transfers between stages	**(15)**	**10**	**5**	**-**	**-**
Additions	**1,024**	**31**	**12**	**-**	**1,067**
Deletions	**(940)**	**(33)**	**(1)**	**-**	**(974)**
Off-balance sheet credit commitments at 31 December 23	**4,098**	**89**	**18**	**1**	**4,206**

Notes to the interim financial statements

6. Concentration of credit risk

$ millions	On-balance sheet financial assets	Off-balance sheet financial assets	Maximum exposure to credit risk
	Unaudited at 31 Dec 23		
New Zealand			
Agriculture	**26**	**3**	**29**
Food and other manufacturing	**437**	**106**	**543**
Electricity, gas and water	**40**	**7**	**47**
Construction	**636**	**267**	**903**
Retail and wholesale trade	**457**	**92**	**549**
Transport and storage	**293**	**65**	**358**
Communications	**31**	**6**	**37**
Finance, investment and insurance	**783**	**52**	**835**
Property and business services	**2,829**	**116**	**2,945**
Professional, scientific and technical services	**126**	**62**	**188**
Government, local authorities and services	**2,289**	**3**	**2,292**
Education	**19**	**6**	**25**
Personal and other services	**140**	**37**	**177**
Health and community services	**165**	**31**	**196**
Households	**25,832**	**3,345**	**29,177**
Overseas			
Finance, investment and insurance	**1,128**	**8**	**1,136**
Total credit exposure	**35,231**	**4,206**	**39,437**
Less credit impairment provision	**(114)**	**(7)**	**(121)**
Other financial assets	**17**	**-**	**17**
Total	**35,134**	**4,199**	**39,333**

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 interim financial statements

6. Concentration of credit risk continued

Maximum exposure to credit risk

	Unaudited at 31 Dec 23		
$ millions	On-balance sheet financial assets	Off-balance sheet financial assets	Maximum exposure to credit risk
Credit risk exposure			
Cash and cash equivalents	**1,212**	**-**	**1,212**
Due from other financial institutions	**81**	**-**	**81**
Investment securities	**2,585**	**-**	**2,585**
Derivative financial instruments	**251**	**-**	**251**
Loans and advances	**31,102**	**4,206**	**35,308**
Other financial assets	**17**	**-**	**17**
Subtotal	**35,248**	**4,206**	**39,454**
Less credit impairment provision	**(114)**	**(7)**	**(121)**
Total	**35,134**	**4,199**	**39,333**

The table above represents the maximum net credit risk exposure of the Banking Group at 31 December 2023. The exposures set out are based on net carrying amounts as reported in the balance sheet.

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

Collateral management

The Banking Group holds financial charges over borrowers' specific assets and can 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% - 99.9% and unsecured exposures are those that have security cover less than 40.0%.

Retail unsecured lending

Retail unsecured lending includes credit cards and overdrafts and is an unsecured portfolio. At 31 December 2023, 100% of the maximum credit exposure is unsecured (30 June 2023: 100%)

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. At 31 December 2023, 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.

At 31 December 2023, 54.8% is fully secured, 9.9% is partially secured and 35.3% is unsecured (30 June 2023: 57.2% fully secured, 10.4% partially secured and 32.4% unsecured).

Collateral on credit impaired assets

At 31 December 2023, 55.6% of the Banking Group's impaired gross loans were fully secured, 20.6% were partially secured and 23.8% were unsecured (30 June 2023: 47.3% fully secured, 17.7% partially secured and 34.9% unsecured).

Notes to the interim financial statements

7. 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.

Unaudited for the six months ended	Period end 31 Dec 23	Peak 31 Dec 23
Exposures to banks		
Total number of exposures to banks that are greater than 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
- 15% to less than 20% of CET1 capital	**-**	-
- 20% to less than 25% of CET1 capital	**-**	-
- 25% to less than 30% of CET1 capital	**-**	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	**-**	-
Exposures to non-banks		
Total number of exposures to non-banks that are greater than 10% of CET1 capital	**2**	2
With a long-term credit rating of A- or A3 or above, or its equivalent	**2**	2
- 10% to less than 15% of CET1 capital	**2**	1
- 15% to less than 20% of CET1 capital	**-**	-
- 20% to less than 25% of CET1 capital	**-**	1
- 25% to less than 30% of CET1 capital	**-**	-
With a long-term credit rating of at least BBB- or Baa3, or its equivalent, and at most BBB+ or Baa1, or its equivalent	**-**	-

8. Deposits and other borrowings

$ millions	Unaudited 31 Dec 23	Audited 30 June 23
Demand deposits non-interest bearing	**4,065**	4,148
Demand deposits bearing interest	**6,927**	6,806
Term deposits	**15,843**	14,802
Total deposits and other borrowings	**26,835**	25,756

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 "Demand deposits non-interest bearing" to match the classification of the related products within "Demand deposits interest bearing" ($3m) and "Term deposits" ($185m). This restatement does not impact on total deposits and other borrowings.

Notes to the interim financial statements

9. Debt securities issued

$ millions	Unaudited 31 Dec 23	Audited 30 June 23
Short-term debt		
Certificates of deposit	**456**	467
Long-term debt		
Medium term notes	**2,476**	2,107
Covered bonds	**538**	544
Fair value hedge adjustments	**(21)**	(80)
Total debt securities issued	**3,449**	3,038

The Banking Group has not redeemed any covered bonds during the six months ended 31 December 2023 (year ended 30 June 2023: nil). The Banking Group has not issued any covered bonds during the six months ended 31 December 2023 (year ended 30 June 2023: nil).

Kiwibank has not had any defaults of principal, interest or other breaches with respect to debt securities issued during the six months ended 31 December 2023 (year ended 30 June 2023: no defaults).

10. 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	Unaudited 31 Dec 23
New Zealand	
Agriculture	**54**
Food and other manufacturing	**169**
Electricity, gas and water	**22**
Construction	**472**
Retail and wholesale trade	**288**
Transport and storage	**252**
Communications	**35**
Finance, investment and insurance	**6,015**
Property and business services	**410**
Professional, scientific and technical services	**357**
Government, local authorities and services	**597**
Education	**197**
Personal and other services	**356**
Health and community services	**403**
Households	**21,364**
Overseas	
Finance, investment and insurance	**1,258**
Households	**381**
Total funding	**32,630**
Other financial liabilities	**120**
Total financial liabilities	**32,750**

Notes to the interim financial statements

11. Financial instruments

Fair value 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 six months ended 31 December 2023 (six months ended 31 December 2022: no transfers). There were also no transfers into/out of level 3 during the six months ended 31 December 2023 (six months ended 31 December 2022: no transfers).

Valuation methodology

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

Investment securities

Estimates of fair value for investment securities are based on quoted market prices (mid-price) or determined using market-accepted valuation models as appropriate (including discounted cash flow models) with inputs including an interest rate yield curve developed from quoted rates and market-observable credit spreads.

Derivative financial instruments

Where the Banking Group's derivative financial assets and liabilities are not traded on an exchange, they are valued using valuation techniques, including discounted cash flow and option pricing models, as appropriate. The types of derivatives classified as level 2 and the valuation techniques used include:

- interest rate swaps which are valued using discounted cash flow models; the most significant inputs into those models are interest rate yield curves which are developed from quoted rates; and
- foreign exchange derivatives that do not contain options which are priced using rates available from publicly quoted sources.

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.

Financial assets and liabilities measured at fair value

	Unaudited at 31 Dec 23			
$ millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Investment securities	**401**	**2,184**	**-**	**2,585**
Derivative financial instruments	**-**	**251**	**-**	**251**
Financial liabilities at fair value				
Derivative financial instruments	**-**	**276**	**-**	**276**

	Audited at 30 June 23			
$ millions	Level 1	Level 2	Level 3	Total
Financial assets at fair value				
Investment securities	316	1,983	-	2,299
Derivative financial instruments	-	447	-	447
Due from other financial institutions	-	50	-	50
Financial liabilities at fair value				
Derivative financial instruments	-	243	-	243

Notes to the interim financial statements

11. Financial instruments continued

Financial assets and liabilities measured at amortised cost

The following table compares the carrying amounts (as presented in the Banking Group's balance sheet) with the estimated fair values of financial instruments not measured at fair value. 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.

	Unaudited at 31 Dec 23		Audited at 30 June 23	
$ millions	**Carrying amount**	**Estimated fair value**	Carrying amount	Estimated fair value
Financial assets				
Loans and advances	**30,988**	**30,789**	29,682	29,286
Financial liabilities				
Deposits and other borrowings	**26,835**	**26,851**	25,756	25,741
Debt securities issued	**3,449**	**3,459**	3,038	3,027
Subordinated debt	**458**	**458**	446	447

Financial assets pledged as collateral for liabilities

Collateral paid is recognised within due from other financial institutions and is the collateral pledged by Kiwibank in respect of its credit support annex obligations to derivative counterparties. As at 31 December 2023, $81m was pledged as collateral for liabilities (30 June 2023: $79m).

As at 31 December 2023, $1,716m of residential mortgage-backed securities ("RMBS") have been pledged as approved eligible collateral in relation to the RBNZ's Funding for Lending Programme (30 June 2023: $1,716m). As at 31 December 2023, $68m of RMBS has been pledged as approved eligible collateral in relation to the RBNZ's Term Lending Facility (30 June 2023: $81m).

The Covered Bonds issued by the Bank are guaranteed by the Covered Bond Guarantor and are secured over a pool of assets. The value of the assets pledged as at 31 December 2023 is $700m (30 June 2023: $700m).

12. Related entities

On 31 July 2023, Kiwi Group Capital Limited subscribed to an additional $225m of ordinary shares in Kiwibank at $1 each.

During the six months ended 31 December 2023, no ordinary dividends were paid to Kiwi Group Capital Limited (six months ended 31 December 2022: $13.7m to Kiwi Group Holdings Limited).

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

$ millions	**Unaudited 31 Dec 23**	Audited 30 June 23
Included in deposits and other borrowings	**34**	256
Included in other liabilities	**-**	1
Total due to related entities	**34**	257
Included in loans and advances	**4**	2
Total due from related entities	**4**	2

Notes to the interim financial statements

13. 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 on their behalf;
- Tower Insurance Limited for travel insurance;
- nib nz insurance limited (formerly Kiwi Insurance Limited) for life insurance; and
- American International Group (AIG) provides business insurance which is is administered by Aon New Zealand on their behalf.

Securitised assets

The Banking Group has an in-house RMBS facility and covered bond programme.

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 Fund and PIE Online Call Fund. Kiwibank Investment Management Limited is the issuer and manager (the "**Manager**"), Public Trust is the Supervisor and Kiwibank is the promoter of the Trust. Units in the Trust do not directly represent deposits or liabilities of Kiwibank; however, the PIE Unit Trust is invested exclusively in term and demand deposits bearing interest with Kiwibank (see note 8). At 31 December 2023, $6,760m 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 Kiwi Wealth KiwiSaver, managed funds provided by Kiwi Wealth Limited and private portfolio services provided by Kiwi Wealth Investments Limited Partnership, members of the Fisher Funds group.

Provision of financial services

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

The Banking Group has not provided any funding to entities which conduct the following activities during the six months ended 31 December 2023 and 31 December 2022:

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

Risk management

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

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

The RBNZ's collateral criteria includes the use of a pool of individual residentially secured mortgages (loans and advances) that are aggregated together to form residential mortgage-backed securities ("**RMBS**"). RMBS can be transferred to a separate Trust allowing the Banking Group to enter into a repurchase agreement on these loans with the RBNZ. The Banking Group can borrow from the RBNZ using the RMBS as collateral until repurchased at a later date, in order to manage its liquidity requirements. On 26 June 2009, the Banking Group established an in-house RMBS facility to issue securities that meet the RBNZ criteria. The carrying value of the RMBS pool at 31 December 2023 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.

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

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

Notes to the interim financial statements

13. Fiduciary activities, securitisation and funds under management continued

The carrying value of the Covered Bond Trust pool at 31 December 2023 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 RMBS Trust and Covered Bond Trust do not qualify for derecognition as the Banking Group retains a continuing involvement and retains substantially all the risks and rewards of ownership of the transferred assets (funding, liquidity, and credit risk remains with the Banking Group).

14. Segment analysis

There have been no changes to the Banking Group's segmental reporting since 30 June 2023. The Banking Group continues to operate and report as a single segment business consistent with the internal reporting provided to the chief operating decision-maker.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Banking Group's total revenue (six months ended 31 December 2022: nil).

15. Risk management

There have been no material changes to the Banking Group's policies for managing risk, or material exposures to new categories of risk since 30 June 2023.

16. Liquidity

Liquid assets portfolio

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

The Bank also holds unencumbered internal residential mortgage-backed securities which would entitle the Banking Group to enter repurchase transactions. Residential mortgage-backed securities disclosed below are available to be utilised for liquidity purposes; refer to Note 13 for more detail.

$ millions	Unaudited 31 Dec 23
Cash, balances with central bank, and certain foreign currency deposits	**1,148**
Certificates of deposit	**252**
Government bonds and Treasury bills	**597**
Local body stock and bonds	**413**
Supranational bonds	**867**
Other bonds	**456**
Residential mortgage-backed securities	**2,296**
Total liquidity portfolio	**6,029**

Notes to the interim financial statements

16. Liquidity continued

Maturity analysis of financial liabilities

The following table presents 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 amounts reported in the balance sheet. The Banking Group does not manage liquidity risk based on the information provided below.

	Unaudited at 31 Dec 23						
$ millions	On demand	Up to 3 months	3 to 12 months	Between 1 & 5 years	More than 5 years	Gross nominal inflow/ outflow	Carrying amount
Non-derivative cash flows							
Financial liabilities							
Due to other financial institutions	(53)	(232)	(946)	(445)	-	(1,676)	(1,612)
Deposits and other borrowings	(11,095)	(7,563)	(7,957)	(563)	-	(27,178)	(26,835)
Debt securities issued	-	(162)	(836)	(2,955)	-	(3,953)	(3,449)
Lease liabilities	-	(4)	(12)	(45)	(37)	(98)	(87)
Other financial liabilities	-	(33)	-	-	-	(33)	(33)
Subordinated debt	-	(5)	(14)	(526)	-	(545)	(458)
Total	(11,148)	(7,999)	(9,765)	(4,534)	(37)	(33,483)	(32,474)
Derivative cash flows							
Net Settled	-	5	(90)	(139)	(4)	(228)	
Gross settled - Inflow	-	394	376	1,052	-	1,822	
Gross settled - Outflow	-	(419)	(397)	(1,069)	-	(1,885)	
Total	-	(20)	(111)	(156)	(4)	(291)	
Off-balance sheet cash flows							
Letters of credit and performance-related contingencies	(90)	-	-	-	-	(90)	
Loan commitments	(4,116)	-	-	-	-	(4,116)	
Total	(4,206)	-	-	-	-	(4,206)	

Notes to the interim financial statements

17. Interest repricing

The following table, prescribed by the Order, presents 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.

	Unaudited at 31 Dec 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	**1,212**	**64**	**1,148**	**-**	**-**	**-**	**-**
Due from other financial institutions	**81**	**-**	**81**	**-**	**-**	**-**	**-**
Investment securities	**2,585**	**-**	**597**	**202**	**148**	**386**	**1,252**
Derivative financial instruments	**251**	**251**	**-**	**-**	**-**	**-**	**-**
Loans and advances	**30,988**	**48**	**8,448**	**4,414**	**8,880**	**6,566**	**2,632**
Other financial assets	**17**	**17**	**-**	**-**	**-**	**-**	**-**
Total financial assets	**35,134**	**380**	**10,274**	**4,616**	**9,028**	**6,952**	**3,884**
Financial liabilities							
Due to other financial institutions	**(1,612)**	**(53)**	**(1,502)**	**(29)**	**(28)**	**-**	**-**
Deposits and other borrowings	**(26,835)**	**(4,301)**	**(14,452)**	**(3,864)**	**(3,732)**	**(203)**	**(283)**
Derivative financial instruments	**(276)**	**(276)**	**-**	**-**	**-**	**-**	**-**
Debt securities issued	**(3,449)**	**-**	**(687)**	**(235)**	**(468)**	**-**	**(2,059)**
Other financial liabilities	**(120)**	**(120)**	**-**	**-**	**-**	**-**	**-**
Subordinated debt	**(458)**	**-**	**-**	**-**	**-**	**(258)**	**(200)**
Total financial liabilities	**(32,750)**	**(4,750)**	**(16,641)**	**(4,128)**	**(4,228)**	**(461)**	**(2,542)**
On-balance sheet gap	**2,384**	**(4,370)**	**(6,367)**	**488**	**4,800**	**6,491**	**1,342**
Net derivative notional principals	**22**	**-**	**8,104**	**(220)**	**(4,350)**	**(5,405)**	**1,893**
Net effective interest rate gap	**2,406**	**(4,370)**	**1,737**	**268**	**450**	**1,086**	**3,235**

18. Capital expenditure commitments

Capital expenditure commitments contracted for at 31 December 2023, but not provided for in these interim financial statements, total $3m (30 June 2023: $4m). All capital expenditure commitments are due to be settled within the next 12 months.

19. Contingent liabilities and credit commitments

Undrawn credit commitments at the reporting date are as follows:

$ millions	**Unaudited 31 Dec 23**	Audited 30 June 23
Letters of credit and performance-related contingencies	**90**	79
Loan commitments	**4,116**	4,034
Total undrawn credit commitments	**4,206**	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.

20. Events subsequent to the reporting date

There have been no material events that occurred after the reporting date which require adjustment or additional disclosure in these interim financial statements.

Capital adequacy and regulatory liquidity ratios

Unaudited

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

As a bank adopting the Standardised Approach under the Basel III regime, Kiwibank applies the RBNZ's Banking Prudential Requirements ("**BPR**") for estimating adequate prudential capital and calculating regulatory capital requirements. In accordance with Kiwibank's banking conditions of registration, Kiwibank applies the RBNZ's Basel III framework.

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 NZ$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	
		31 Dec 23	31 Dec 22
Capital adequacy ratios			
Common Equity Tier 1 capital ratio	4.5%	**11.9%**	10.4%
Tier 1 capital ratio	6.0%	**13.3%**	11.8%
Total capital ratio	8.0%	**15.9%**	13.4%
Prudential Capital Buffer ratio		**7.3%**	5.4%
Buffer Trigger ratio		**2.5%**	2.5%

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

Capital adequacy and regulatory liquidity ratios

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.

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) 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.

Capital adequacy and regulatory liquidity ratios

Subordinated notes continued

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.

Risk-weighted exposures

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

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

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

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

The capital adequacy tables on the following pages summarise the composition of regulatory capital and capital adequacy ratios for the six months ended 31 December 2023. Throughout the period, Kiwibank and the Banking Group complied with both regulatory and internal capital adequacy requirements.

Capital adequacy and regulatory liquidity ratios

Regulatory capital

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

$ millions	The Banking Group 31 Dec 23
Common Equity Tier 1 capital	
Paid up ordinary shares issued	**962**
Retained earnings (net of appropriations)	**1,327**
Accumulated other comprehensive income and other disclosed reserves [1, 2]	**3**
Less deductions from Common Equity Tier 1 capital	
Intangible assets	**(20)**
Cash flow hedge reserve	**(21)**
Deferred tax assets	**(83)**
Total Common Equity Tier 1 capital	**2,168**
Additional Tier 1 capital	
Perpetual preference shares [3]	**246**
Total Additional Tier 1 capital	**246**
Total Tier 1 capital	**2,414**
Tier 2 capital	
Subordinated notes [4]	**471**
Total Tier 2 capital	**471**
Total capital	**2,885**

[1] Includes fair value reserve of $(18m). 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 $21m. The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of foreign exchange and interest rate derivative contracts related to hedged forecasted transactions that have not yet occurred. The cash flow hedge reserve is not eligible for inclusion in capital under BPR110 B1.8.

[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

Calculation of on-balance sheet exposures

$ millions	Total exposure after credit risk mitigation	Risk weight	Risk weighted exposure	Minimum Pillar I capital requirement
	The Banking Group 31 Dec 23			
Cash and gold bullion	65	0%	-	-
Sovereigns and central banks	1,670	0%	-	-
Multilateral development banks and other international organisations	810	0%	-	-
	47	20%	9	1
Public sector entities	384	20%	77	6
Banks	285	20%	57	5
	201	50%	101	8
Corporate	365	20%	73	6
	50	50%	25	2
	3,857	100%	3,857	309
Residential mortgages not past due				
Non-property investment residential mortgage loans	751	20%	150	12
	15,590	35%	5,457	437
	1,088	50%	544	44
	27	75%	20	2
	46	100%	46	4
Property investment residential mortgage loans	8,921	40%	3,568	285
	73	70%	51	4
	39	90%	35	3
	14	100%	14	1
Residential mortgages past due > 90 days				
Past due but not impaired	19	100%	19	2
Other				
Other past due assets	15	100%	15	1
Other assets	11	20%	2	-
	654	100%	654	52
All other equity holdings (not deducted from capital)	-	400%	1	-
Non risk-weighted assets	354	0%	-	-
Total on-balance sheet exposures	35,336		14,775	1,184

Capital adequacy and regulatory liquidity ratios

Calculation of off-balance sheet exposures

$ millions	The Banking Group 31 Dec 23 Total exposure	Credit conversion factor	Credit equivalent amount	Average risk weight	Risk weighted exposure	Minimum Pillar I capital requirement
Direct credit substitute	53	100%	53	99%	52	4
Performance-related contingency	35	50%	18	100%	18	1
Other commitments where original maturity is more than one year	1,220	50%	610	58%	354	28
Other commitments where original maturity is less than or equal to one year	1,644	20%	329	37%	122	10
Other commitments that cancel automatically when the creditworthiness of the counterparty deteriorates or that can be cancelled unconditionally at any time without prior notice	1,247	0%	-	0%	-	-
Counterparty credit risk: [1]						
(a) Foreign exchange contracts	1,995	n/a	48	57%	27	2
(b) Interest rate contracts	307	n/a	36	10%	4	-
(c) Other - CVA	-	n/a	-	0%	16	1
(d) Other - CCP initial margin	58	n/a	-	2%	1	-
Total off-balance sheet exposures	**6,559**		**1,094**		**594**	**46**

[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")

$ millions	The Banking Group 31 Dec 23 On-balance sheet	Off-balance sheet	Total
LVR does not exceed 80%	24,702	710	25,412
LVR exceeds 80% and not 90%	1,546	21	1,567
LVR exceeds 90%	320	20	340
Total	**26,568**	**751**	**27,319**

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

Credit risk mitigation

$ millions	The Banking Group 31 Dec 23 Total value of on- and off-balance sheet exposures covered by eligible collateral (after haircutting)	The Banking Group 31 Dec 23 Total value of on- and off-balance sheet exposures covered by guarantees or credit derivatives
Exposure class		
Bank	**32,102**	-
Total	**32,102**	-

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

Operational risk capital requirement

$ millions	The Banking Group 31 Dec 23 Implied risk weighted exposure	The Banking Group 31 Dec 23 Total operational risk capital requirement
Operational risk	**2,066**	**165**

Market risk

	The Banking Group 31 Dec 23			
	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	**682**	**816**	**55**	**65**
Foreign currency risk	**60**	**76**	**5**	**6**
Equity risk	-	-	-	-

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

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

Total capital requirements

$ millions	The Banking Group 31 Dec 23 Total exposure after credit risk mitigation	The Banking Group 31 Dec 23 Risk weighted exposure or implied risk weighted exposure	The Banking Group 31 Dec 23 Total capital requirement
Total credit risk plus equity	**41,895**	**15,369**	**1,230**
Operational risk	**n/a**	**2,066**	**165**
Market risk	**n/a**	**742**	**59**
Total Pillar I risk		**18,177**	**1,454**

Capital adequacy and regulatory liquidity ratios

Other material risks (Pillar II)

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

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

	The Banking Group	
For the three months ended	**31 Dec 23**	30 Sept 23
Quarterly average 1-week mismatch ratio	**10.7%**	9.8%
Quarterly average 1-month mismatch ratio	**10.9%**	10.0%
Quarterly average core funding ratio	**90.9%**	90.6%

Independent auditor's review 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 31 December 2023 or from time to time during the six months ended on that date.

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 the review of the interim financial statements and the supplementary information (excluding the supplementary information relating to capital adequacy and regulatory liquidity requirements) included in the Disclosure Statement of the Banking Group, on his behalf.

Report on the condensed consolidated interim Financial Statements and the Supplementary Information (excluding the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9)

Our conclusion

We have reviewed the condensed consolidated interim financial statements (the "Financial Statements") for the six month period ended 31 December 2023 of the Banking Group as required by clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2014 (as amended) (the "Order") and the supplementary information disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order (the "Supplementary Information"), excluding the information relating to capital adequacy and regulatory liquidity requirements disclosed in accordance with Schedule 9 of the Order contained in the half year disclosure statement (the "Disclosure Statement").

The Financial Statements comprise the balance sheet as at 31 December 2023, the related income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six month period then ended and selected explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying:

- Financial Statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34 *Interim Financial Reporting* (NZ IAS 34) and International Accounting Standard 34 *Interim Financial Reporting* (IAS 34); and
- Supplementary Information that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order:
  - does not present fairly, in all material respects, the matters to which it relates; or
  - is not disclosed, in all material respects, in accordance with those schedules.

Basis for conclusion

We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 (Revised) *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410 (Revised)"). Our responsibilities are further described in the *Auditor's responsibilities for the review of the Financial Statements and the Supplementary Information* section of our report.

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

In addition to the audit of the annual financial statements and this review, our firm carries out other services for the Banking Group. These services comprise:

- limited assurance over capital adequacy and regulatory liquidity requirements;
- reasonable assurance over registry compliance and limited assurance over compliance with certain matters in the trust deed in respect of a controlled entity within the Banking Group; and
- agreed-upon procedures over debt programmes.

These services are compatible with those independence requirements. 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 relationships have not impaired our independence.

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

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 25 of the Order, NZ IAS 34 and IAS 34 and for such internal control as the Directors determine is necessary to enable the preparation of the 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 3 of the Order; and
- the information prescribed in Schedules 5, 7, 9, 13, 16 and 18 of the Order.

The Directors are also responsible for the publication of the Disclosure Statement, whether in printed or electronic form.

Auditor's responsibilities for the review of the Financial Statements and the Supplementary Information

Our responsibility is to express a conclusion on the Financial Statements and the Supplementary Information based on our review. NZ SRE 2410 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the:

- Financial Statements, taken as a whole, have not been prepared, in all material respects, in accordance with NZ IAS 34 and IAS 34; and
- Supplementary Information that is required to be disclosed in accordance with Schedules 5, 7, 13, 16 and 18 of the Order:
  - does not present fairly, in all material respects, the matters to which it relates; or
  - is not disclosed, in all material respects, in accordance with those schedules; or
  - if applicable, has not been prepared, in all material respects, in accordance with any conditions of registration relating to disclosure requirements imposed under section 74(4)(c) of the Banking (Prudential Supervision) Act 1989.

A review in accordance with NZ SRE 2410 (Revised) is a limited assurance engagement. We perform procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing and consequently do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Financial Statements and the Supplementary Information.

PricewaterhouseCoopers.

Callum Dixon
On behalf of the Auditor-General
Wellington, New Zealand
21 February 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 31 December 2023 or from time to time during the six months ended on that date.

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 22 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 half year Disclosure Statement for the six month period ended 31 December 2023 (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 22 of the Order and disclosed in the Capital adequacy and regulatory liquidity ratios section on pages 31 to 38 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 22 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, the half year review of the interim 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 full year;
- reasonable assurance over registry compliance and limited assurance over compliance with certain matters in the trust deed in respect of a controlled entity within the Banking Group; and
- agreed-upon procedures over debt programmes.

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

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

Assurance practitioner's responsibilities
Our responsibility is to express a limited assurance conclusion on whether the Bank's information relating to capital adequacy and regulatory liquidity requirements, included in the Disclosure Statement in compliance with clause 22 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 22 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 22 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 interim 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 22 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.

PricewaterhouseCoopers

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

PricewaterhouseCoopers