

The Treasury

Project Korimako - Release of advice

December 2022

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- [35] 9(2)(g)(ii) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisations, officers and employees from improper pressure or harassment;
- [36] 9(2)(h) - to maintain legal professional privilege
- [37] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [38] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

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Treasury Report: Project Korimako: Options Exploration Paper

Date:	8 April 2021	Report No:	T2021/391
		File Number:	SE-2-12-4-2-3

Action sought

	Action sought	Deadline
Minister of Finance (Hon Grant Robertson)	Confirm the Government's objectives, and a narrowed set of ownership preferences, for Kiwi Group Holdings to inform subsequent advice and formulation of a negotiating strategy. Agree the scope of a Cabinet paper informing Cabinet of work underway.	Thursday, 15 April 2021
Associate Minister of Finance (Hon Dr Megan Woods)	Note the contents of this report	None
Associate Minister of Finance (Hon David Parker)	Note the contents of this report	None

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Madeleine Lock	Senior Analyst, Commercial Performance	[39]	[35] ✓
David Stanley	Principal Advisor, Commercial Performance		
Shelley Hollingsworth	Manager, Commercial Performance		

Minister's Office actions

Return the signed report to the Treasury.

Note any feedback on the quality of the report

Enclosure: [26], [33], [37]

Executive Summary

This report seeks to confirm objectives and narrow down ownership options for KGH

This report follows on from advice provided to you in January 2021 [T2020/3571], which initiated a program of work regarding ownership considerations for Kiwi Group Holdings Limited (KGH, Kiwibank Limited's (Kiwibank's) parent company). This advice is provided in conjunction with our overview on the current banking market landscape [T2021/866], and primarily seeks your feedback on:

- what Government objectives for KGH you consider to be the most important, and
- a narrowed set of ownership options for KGH, of those canvassed in this report, that you wish to further explore (recognising that there may be some level of trade-off of objectives within the preferred option or options).

The timing of advice regarding the ownership of KGH is driven by the need to revisit the current ownership arrangements, compounded by a forthcoming key contractual milestone.

The status quo ownership arrangements for KGH are not sustainable (with KGH owned 53% by New Zealand Post (NZ Post), 25% by the New Zealand Superannuation Fund (NZSF) and 22% by the Accident Compensation Corporation (ACC)). The views of KGH's direct owners regarding their abilities and time horizons for remaining invested have diverged. NZ Post is a willing seller

[25]

Further, there is a contractual five-year "lock-up" period, ending 31 October 2021, pertaining to the current ownership arrangements. Absent the determination of a Crown position, shareholders could seek to progress new ownership arrangements without the Crown having considered its preferences for KGH by this time.

We are seeking to confirm Government objectives for KGH to determine a way forward

We understand your stated objectives for Kiwibank, in particular, so far include, a preference for long term New Zealand ownership (at least partly through the Crown), affordable banking (for retail and small to medium enterprise (SME) markets), for it to be profitable and self-sufficient (meet its cost of capital), for it to be a "disrupter" bank in the New Zealand market [25]

We have identified other possible objectives for further consideration as being: minimising funding required at the core Crown level;² profit maximising (exceeds cost of capital); and mitigating financial risk tolerance to the core Crown.

There may be a high degree of overlap of the Crown's objectives with Kiwibank's strategy

An aligned owner will be one that shares the objectives of the Government and the strategic ambitions of Kiwibank. There may be a high degree of existing overlap between possible Government objectives and Kiwibank's forward-looking strategy, in that Kiwibank aims to be:

[25]

² For funding the cost of any changes to the direct ownership of KGH and also provision of new growth capital to KGH.
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- a “bank of tomorrow”, which includes improving accessibility to the majority of New Zealanders predominantly through digital and mobile interfaces,
- provide affordable banking (i.e. low transaction fees) for retail and SME markets, and in doing so look to better service and provide access to credit in New Zealand’s SME sector,
- maintain New Zealand ownership, which is also a competitive advantage for the bank,
- scalable, so as to grow the market share of a New Zealand owned bank, and
- profitable and commercial, so as to at least meet its cost of capital to enable it to compete in the New Zealand market and to be self-sufficient in the long term.

Following the establishment of a set of possible objectives, this report seeks to establish how those might align with a high-level set of ownership options. The ownership categories are based on those canvassed in the January 2021 advice:

Crown ownership through:	Direct	Indirect (at least partly)
Full	A: i. KGH directly held by the Crown	B: i. NZSF, or together with other Crown entity(ies) holding 100%, ii. As above, with a Crown “Kiwi Share”, or iii. Crown owns part directly and part through a Crown-owned entity (or entities).
Partial	C: i. Crown / private investor joint venture; or ii. KGH is listed on the NZX and the Crown owns a majority of the shares directly (Mixed ownership model structure)	D: i. joint venture between a Crown-owned entity and a private investor; or ii. KGH is listed on the NZX and the Crown owns a majority of the shares via another Crown-owned entity

Full and at least partly indirect Crown ownership of KGH may provide the best ability for the Government to achieve what we understand to be its objectives for KGH and Kiwibank

There is a wide range of outcomes associated with the sub-options possible within “full and indirect Crown ownership” options category, summarised in this report. [25]

An example of full and indirect Crown ownership is a proposal from the NZSF for the ownership of KGH.³

There may also be a high amount of overlap between NZSF’s proposal for KGH with the Government’s stated and possible further objectives

[25], [26]

It proposes to undertake a controlling interest in KGH to support development of these businesses and provide new capital to accelerate Kiwibank’s current strategy and provide growth options for both Kiwibank and Kiwi Wealth.

[25]

In considering NZSF's proposal, we see a high amount of overlap between its vision for KGH, the Government's objectives, and Kiwibank's existing go-forward strategy. There may however be some areas which will warrant further exploration (including exit terms and control) that could be ironed out through negotiations between investing parties (which could include the Crown, NZSF and ACC, for example).

[33]

We note, however, there may be options that involve NZSF taking on less than a controlling interest in KGH (but retaining influence and rights of veto) that might warrant further exploration.

There may be alternative structural options or levers for achieving the Government's stated and possible further objectives or specific outcomes

If the Government determines that it is seeking specific outcomes, rather than more high-level influence of objectives of Kiwibank (or of any bank operating in New Zealand), viable ways of achieving those could be through contracting with a bank to carry out actions which seek to achieve those outcomes, or through specific Government policies (not specific to any one bank or financial services provider).

As well as full and at least partly indirect bank ownership, seeking any specific outcomes through contracting or Government policies may be the most effective way of achieving any wider banking sector objectives of the Government, while mitigating financial risk to the Crown.

[37]

Next steps

To inform a pathway for our subsequent advice and possibly the formulation of a negotiating strategy regarding the ownership of KGH, we are seeking your confirmation of:

1. what objectives for KGH are of primary importance to the Government and what are secondary (that may be traded-off if other conditions are met),
2. [25]
3. what ownership option categories you wish to further explore, based on our indicative analysis of how various options sets might align with the Government's objectives, and
4. the proposed scope of a draft Cabinet paper which will inform Cabinet of work underway and signalling the potential need for non-departmental funding (if required, depending on the options you wish to further explore). [33]

Treasury officials are scheduled to meet with the Minister of Finance to discuss this advice and seek feedback on the Government's preferred objectives and ownership options at the Finance Priorities meeting on **15 April 2021**.

Recommended Action

We recommend that you:

a confirm:

- i. what objectives for KGH are of primary importance to the Government and what are secondary (that may be traded-off if other conditions are met) out of:

(Tick ✓)	 Long term NZ ownership	Disrupter	 Accessible	 EBITDA ≥ Self-sufficient	 EBITDA ↓ Profit Maximising	Direction of specific outcomes	[25]	 Mitigate financial risk to core Crown	 Low cost to core Crown
Primary									
Secondary									
Not at all									

- ii. any other objectives for KGH that are of primary or secondary importance to the Government that are not stated above.

Other: (indicate primary or secondary)	
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- iii. your intended meaning of stated objectives regarding Kiwibank being a “disrupter” with “accessible” services out of:

(Tick all applicable ✓)	Provider of competitively priced interest rates for borrowers	Provider of low cost banking transactions and fees for New Zealanders and SMEs <i>(High overlay with Kiwibank’s ambitions)</i>	“Bank of tomorrow” (first mover, innovative, digital) <i>(High overlay with Kiwibank’s ambitions)</i>
Disruptor as a....			

and:

(Tick all applicable ✓)	Those that are otherwise at risk of exclusion	The majority of New Zealanders through sought-after service offerings with high usability <i>(High overlay with Kiwibank’s ambitions)</i>
Accessible to....		

- b **note** that this report contemplates that a mix of full and at least partly indirect Crown bank ownership as well as seeking any specific outcomes through contracting or Government policies may be the most effective way of achieving any wider banking sector objectives of the Government, while mitigating financial risk to the Crown.

- c **confirm** what ownership option categories you wish to further explore, based on our indicative analysis of how various options sets might align with Government objectives out of:

	Crown Ownership			
(Tick ✓)	A: Full, Direct	B: Full, At least partly indirect <i>(including NZSF’s proposal)</i>	C: Partial, Direct	D: Partial, Indirect
Primary				
Secondary				
Not at all				

- d **direct** the Treasury to provide you with a draft Cabinet paper (by 22 April 2021) which will inform Cabinet of work underway regarding the Crown's positioning on the ownership of KGH [33]

It will also signal the potential need for non-departmental funding for the Treasury to support any subsequent negotiations and transaction of KGH shares on behalf of the Crown (if required and depending on the preferred narrowed set of options you wish to explore).

Agree / Disagree.
Minister of Finance

- e **note** that Treasury officials are seeking to discuss this advice with the Minister of Finance at the Finance Priorities meeting on 15 April 2021.

Agree / Disagree.
Minister of Finance

Shelley Hollingsworth
Manager, Commercial Performance

Hon Grant Robertson
Minister of Finance

Hon Dr Megan Woods
Associate Minister of Finance

Hon David Parker
Associate Minister of Finance

Treasury Report: Project Korimako: Options Exploration Paper

Purpose of Report

1. This report follows our advice provided to you in January 2021 regarding Kiwi Group Holdings Limited (KGH), which initiated Project Korimako [T2020/3571]. It seeks your feedback on and/or confirmation of:
 - a what we understand to be the Government's objectives for KGH,
 - b any particular options canvassed in this report (or others) that you wish to further explore, and
 - c the scope and objective of a draft Cabinet paper should you wish to take one to Cabinet to inform Cabinet on matters regarding the ownership of KGH.
2. To inform your feedback on the above, this report provides:
 - a an update on our understanding of the positions of KGH shareholders following a series of meetings they have had with you,
 - b further details of possible options for future ownership arrangements for KGH, and the degree to which these align to possible Government objectives,
 - c ways in which the Government might seek to achieve specific outcomes for the banking sector other than through ownership levers, and
 - d [37]

Structure of report

3. This report is organised into seven parts, as noted in **Table 1**. Various ownership options for KGH and an indicative view on how these might align to possible Government objectives are discussed at Part 4, before considering a proposal put forward to you by the NZSF in Part 5 (a specific option within the broader ownership categories discussed).

Table 1: Structure of Report

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Key terms

4. The key terms used in this report are summarised in **Table 2**.

Table 2: Key Terms throughout Report

Term	Definition
ACC	Accident Compensation Corporation
Bank of tomorrow	Banks globally are needing to evolve to meet the customer needs of tomorrow, using technology that exists today. At a minimum, tomorrow's banks need to be digital interfacing, with high usability and accessibility. It is expected that such banks will have low or nil transaction fees, innovative new products, open integration of digital platforms with third parties, and flexible and mobile banking services.
Big 4 banks	The four largest banks in New Zealand, each of which currently is owned by one of Australia's largest listed banks, being ANZ Bank New Zealand (ANZ), ASB Bank (ASB), Bank of New Zealand (BNZ) and Westpac New Zealand (Westpac or WNZ).
Crown Deed	One of the key agreements which was part of the arrangements signed on 31 October 2016 bringing the ACC and NZSF in as shareholders of KGH alongside former 100% owner, NZ Post. This agreement between the three shareholders and the Crown, includes the terms and conditions for transactions in KGH shares by current shareholders, and the pre-emptive rights of the Crown.
Current KGH shareholders	NZ Post, NZSF and ACC.
Lock-up period	The five-year contractual period to 31 October 2021, as per the Crown Deed, during which only ACC, NZSF and NZ Post can buy or sell KGH shares. There is a wider range of possible transaction outcomes outside this period.
KGH	Kiwi Group Holdings Limited, the holding company for operating subsidiaries Kiwibank, Kiwi Wealth, Kiwi Insurance Limited, The New Zealand Home Loan Company Limited and Kiwi Financial Services Limited. [25]
KGH Shareholders' Agreement	One of the key agreements which was part of the arrangements signed on 31 October 2016 bringing the ACC and NZSF in as shareholders of KGH alongside former 100% owner, NZ Post.
Kiwibank	Kiwibank Limited, the largest operating subsidiary of KGH. [25]
Kiwi Wealth	Kiwi Wealth Limited, the second largest operating subsidiary of KGH. [25]
NZ Post	New Zealand Post Limited
NZSF	The New Zealand Superannuation Fund (managed by the Guardians of New Zealand Superannuation)
Project Tui	The work-stream of advice leading up to NZ Post's sale of 47% of KGH to ACC and NZSF on 31 October 2016
RBNZ	Reserve Bank of New Zealand
Sale and Purchase Agreement	One of the key agreements which was part of the arrangements signed on 31 October 2016 bringing the ACC and NZSF in as shareholders of KGH alongside former 100% owner, NZ Post.

Part 1: Problem definition

Two key issues are driving need for the Crown to determine its position on KGH

5. As the positioning of the current shareholders of KGH evolves, we have identified the key issues which prompted this advice stream as being:

a *Lack of shareholder alignment*: the current ownership arrangement for KGH, from the perspective of both the current shareholders and the Crown, are now viewed as, at the least, sub-optimal:

i From a KGH shareholder perspective, the position of the three shareholders is that their views of success, abilities and time horizons for remaining invested have diverged. [25], [34]

The KGH shareholders have represented their positions to you and there appears to be agreement among them that the current position is not sustainable. [25], [34]

ii From the Crown's perspective, questions have arisen as to whether the agreed objectives of the KGH board for its operating subsidiaries (especially Kiwibank) are insufficiently aligned with those of the Government's own ambitions for the indirectly Crown-owned bank. In particular, we understand that the Government is concerned that Kiwibank's presence [25] may have diminished under the current ownership arrangements.

b *A forthcoming key contractual milestone*: The five year 'lock-up' period ends on 31 October 2021. Up until then, KGH shareholder arrangements and the Crown Deed provide that the three KGH shareholders could enter into transactions among themselves (noting, however, that the shareholding Ministers of NZ Post introduced in their Letters of Expectations to the NZ Post board that it not sell any shares while the Government considers its ownership preferences in relation to KGH).

i After 31 October 2021 the existing KGH shareholders continue to have the ability to transact shares between themselves (and have priority over any share transactions) but KGH shareholders can also explore other options including potentially transactions with third parties in the private sector. However, the Crown Deed has a number of provisions ensuring that the Crown can buy any shares which might otherwise be intended for sale to a third party. The Crown therefore has effective control over whether all KGH shares remain owned (indirectly or directly) by the Crown.

ii With the end of the lock-up period in sight, NZSF and NZ Post have been prompted to state their positions regarding their respective stakes in KGH. For the Crown to respond effectively, it will need to first clarify its position and objectives regarding the ownership of KGH. Otherwise, the current shareholders may each move towards their respective commercially preferred positions, to the extent possible without the need for Crown permission. We expect that the KGH shareholders will see the expiring lock-up period as an opportunity to leverage favourable outcomes for their own entities.

iii It is quite possible that the actions and ultimate shareholding configuration sought or agreed by the current shareholders after the lock-up period may not align well with the objectives of the Crown. It is also possible that there could be

considerable alignment with one or more shareholders – this report explores the extent of possible alignment.

6. In light of these issues, you are seeking to establish the Crown's preferences and negotiating position regarding KGH in order to optimise the outcomes of KGH (in particular Kiwibank and Kiwi Wealth) according to the Crown's stated (and possible further) objectives.

Part 2: Positioning of the KGH Shareholders

The current KGH shareholders have communicated their present positioning

7. Through a combination of submissions from the current KGH shareholders, and conversations between shareholder Chairs with yourself and with officials, we summarise below our understanding of the position of the board of each shareholding company.

NZ Post – a willing seller

8. The NZ Post board is clear that there is no longer a strategic rationale for NZ Post to remain invested in KGH. Common ownership of NZ Post and Kiwibank no longer provides strategic synergies that a past joint retail network used to provide (through cross selling of services and shared property costs). NZ Post's focus is now on managing the decline in mail volumes and investing in the future of its parcel business. It is looking ahead at a major business transformation over the next few years and is likely to utilise most of its current cash reserves to successfully execute on its mail and parcel business strategies.
9. NZ Post's intention to exit KGH as soon as practicable [25], [34]

10. While the Government is working through its objectives for the ownership of KGH, we recommend that shareholding Ministers continue to advise NZ Post's board that they expect it to protect the value of KGH in the meantime to enable its operating subsidiaries to develop as competitive commercial entities, and to act as responsible owners for the Crown's ultimate interest in KGH. In light of the RBNZ's recent changes regarding banking dividend policy, we will follow up separately with advice for the shareholding Ministers of NZ Post of any suggested action points in this regard.

NZSF – a conditional buyer

11. Subsequent to your receipt of our January 2021 advice on KGH, the Chair⁴ of the Guardians of New Zealand Superannuation (the Guardians) wrote to you in a letter dated 10 February 2021 (attached), [33]
12. [25], [26]

⁴ The outgoing Chair, Catherine Savage have will completed her 10 year board term on 31 March 2021. The Audit Committee Chair, Catherine Drayton, succeeded the Chair position from 1 April 2021.

[25], [26]

13. [33]
NZSF would like to explore the possibility of taking a controlling interest in KGH. [33]

In considering ownership options in this report, we will include the possibility that NZSF is able to take a controlling stake in KGH.

14. The Guardians Chair noted that maintaining the ownership status quo is not in the long-term commercial interests of the fund [25], [26]

The Chair further stated that were it not able to gain control of KGH, it would seek to divest its interest. While this could be NZSF's firm position, this would warrant further exploration.⁶

15. This report considers NZSF's proposal in more detail, including where there may be overlapping objectives for Kiwibank between the Crown, NZSF and Kiwibank's own business growth strategy.

ACC – a conditional “holder”

16. We understand that ACC holds a similar view to NZSF on the prospects for Kiwibank at least. The Chair of ACC has signalled, however, that the KGH shareholder arrangement would need to change [25]

We do, however, expect that ACC's [34] will remain a more passive stakeholder than NZSF, with ACC viewing KGH purely as a financial investment with a finite time horizon.

17. [34]

In terms of Kiwi Insurance, all three KGH shareholders support the search for a new owner for that business which is currently underway.

18. In the balance of this report we have not specifically separated ACC out in our analysis, but have instead assumed that it will act in a way similar to, but not necessarily always the same as, NZSF.

Part 3: Government Objectives for KGH

You have initially communicated some objectives of the Government for KGH

19. Your office has communicated some of your initial feedback from our project-initiating advice on KGH, provided in January 2021. Based on the feedback from your office, we interpret that your key objectives identified for Kiwibank, in particular, so far include:

a a preference for long term New Zealand ownership,

[26]

⁶ Following 31 October 2021 (the 'lock up date') KGH shareholders would be able to "go to market" to determine potential purchasers and a prospective price for sale but, the Crown would have the pre-emptive right to purchase.
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- b affordable banking (for retail and SME markets),
- c profitable, self-sufficient (meets its cost of capital),
- d for it to be a “disrupter” bank in the New Zealand market [34]
- e [25]

We have identified some further possible objectives for consideration

20. We have included the following other possible objectives for the purposes of analysis and discussion:
- a Minimise funding required at the core Crown level (for funding the cost of any changes to the direct ownership of KGH and also provision of new growth capital to KGH):
 - i You may wish to determine the tolerance of the Government to apply core Crown funding to KGH and trade-offs for Crown funding available for re-disbursement for other financial and public benefit priorities of the Government.
 - b Profit maximising (aims to exceed cost of capital, rather than meeting its cost of capital or merely breaking even):
 - i A profit maximisation approach would generally be aligned with commercially rational objectives. [25]
 - c Low financial risk tolerance to the core Crown.
 - i You may wish to determine the level of Crown financial backing and liability to the KGH Group that the Government might be willing to tolerate. This includes the need to provide core Crown funding out of necessity rather than growth, including to meet capital adequacy requirements, or in times of external stress. The actual and perceived level of Crown financial liability for Kiwibank will be higher through direct ownership, and as the proportion of direct ownership increases. Some ownership options will mean that the Crown will be widely viewed as the guarantor of Kiwibank.

We are seeking to understand what objectives you consider to be most important through exploration of wider options

21. While you have identified some objectives in initial feedback to your office staff and communicated to the Treasury, this report aims to further determine what the Crown’s objectives might be regarding KGH through analysing the wider options set identified.
22. We note that some of the objectives identified above may create tensions with each other. We are therefore seeking to understand:
- a what objectives are the most important, recognising that there may be some level of trade-off of objectives within the preferred option or options analysed; and
 - b where the Crown’s objectives might overlap or be in contrast with some or all of the existing shareholders and the strategic intent of Kiwibank, in particular.
23. Answers to the above questions might be determined through the narrowing of the options set discussed in this report. A narrowing of the options set, and associated objectives, are a key part of the feedback that we are seeking from you from this advice.

Interpretation of two objectives initially signalled will assist in determining a path forward

24. The clarification of what is important to the Government regarding particular objectives, will assist in determining what options best align with their associated outcomes. In particular, the stated objectives, “accessible” and “disrupter” may have a number of meanings:

- a What does “**accessible**” mean in terms of banking?
 - i This could be interpreted as having an emphasis on banking services that are accessible to either, or both of (as they are not necessarily in contrast with each other):
 - those that are otherwise at risk of exclusion, or
 - the widest or “best” or most sought after product and service offering to the majority of New Zealanders.

[25]

- iii *The majority:* In both today’s world and in the future, banking accessibility to the majority of users might be interpreted as having a sophisticated digital offering, providing:
 - the ability for the vast majority of people to access a wide range of banking services remotely and across a number of platforms (mobile, computer, phone, chat pop-ups online), at any time,
 - an easy to use, safe and intuitive interface.

- b What does a “**disrupter**” mean in terms of banking?
 - i Two interpretations (which are again not necessarily in contrast with each other) could have emphasis on a bank that is focussed on being a:
 - low cost provider to New Zealanders and small-medium enterprises (SMEs); or
 - “bank of tomorrow” and a first mover in the New Zealand market in terms of both cost, service offering and innovation.
 - ii *Low cost provider:* Low cost could either mean most competitively priced interest rates for borrowers (reducing net interest margin (NIM)), or simply reduced transaction and account fees. Banks in a position to be sustainable low-cost providers must usually have operations which are lower cost than the market average. When referring to “affordable banking” in this report, we are usually referring to transaction and account fees. These items vary more from bank to

bank and are less determined than interest rates paid and charged by banks by constantly changing market dynamics.

iii *Bank of tomorrow*: The large banks operating in New Zealand (i.e. the Big 4 and Kiwibank) will be developing strategies to harness new technologies to more cost-effectively deliver the type of products and services increasingly being sought by customers. None of the large banks in New Zealand are particularly well positioned in this regard and the larger the bank the more complex any transition will be from traditional banking platforms to fully harness these new technologies.⁷ As we note later in this report, KGH, being significantly smaller than the Big 4 banks, has options around the preferred pace of change and scale of investment it sees Kiwibank undertaking and whether it will be a first-mover or a follower in the New Zealand market. Based on offshore market trends, a 'bank of tomorrow' might comprise:

- customer services that are predominantly digital interfacing, with high usability and accessibility,
- low or nil transaction fees,⁸
- innovative new products, using intelligent data and Artificial Intelligence (AI) including for automated services to reduce manual processing costs, and
- flexible and mobile services (e.g. loan and mortgage managers come to the client, which Kiwibank is already doing).

Our analysis of options in this report are based on these objectives

25. We have based our analysis of the merits and outcomes associated with a wider options set for the ownership of KGH, against the objectives as described above. What we understand to be the Crown's objectives, and the above-described further possible objectives, are noted as icons and summarised in **Table 3**. These icons are used throughout this report to provide visual indicators for describing the alignment on the various options to objectives.

Table 3: Objectives Icons for Key Crown objectives

Icon	Key Description
	Long term New Zealand ownership (at least partly through the Crown)
	Disrupter, an innovative 'bank of tomorrow', with low transaction costs and fees for retail and SME markets
	Accessible, banking services for the majority of users through a number of platforms with easy to use, safe and intuitive user interfaces
EBITDA ≥ 	Profitable, self-sufficient (meets costs of capital)
EBITDA ↓ 	Profit maximising (exceeds cost of capital)
	Crown <i>direction of specific outcomes</i> of KGH and its subsidiaries, including those that might emerge in future (for example, the provision of continued access to those at risk of exclusion)
[25]	
(!)	Mitigate financial risk to the core Crown (current and potential risk to the core Crown of needing to meet shortfalls or future liabilities that could arise). Given the size and nature of liabilities, Kiwibank would be where the majority of financial risks fall.

⁷ In Australia and further afield the major banks are either developing or acquiring a smaller neo-bank (or other fin-techs) alongside their current brand and platform and are likely to evolve gradually over time.

⁸ Growing competition with instantaneous mobile money transfers and FX transactions such as PayPal is putting pressure on banks to enable comparable services.



Cost of transaction to core Crown (where the costs of a KGH share transaction and potential provision of capital to KGH are directly traded-off for other Crown priorities or core Crown debt)

Part 4: Ownership structure options: Broader Options Set

An aligned owner will be one that shares the objectives of the Government and the strategic ambitions of Kiwibank

26. In determining a set of preferred ownership options for KGH, we first consider the extent to which the Crown's objectives might already overlap with our assessment of the existing strategic intent of a less capital-constrained Kiwibank (summarised in **Annex 3**). There may be an existing high degree of overlap in that we consider Kiwibank is ideally seeking to:
- a be a "bank of tomorrow", which includes improving accessibility to the majority of New Zealanders predominantly through digital and mobile interface,
 - b provide affordable banking for retail and small to medium enterprise (SME) markets, and in doing so seek to grow significantly in New Zealand's SME sector by providing better service and access to credit than its competitors,
 - c emphasise its New Zealand ownership, which is also a competitive advantage for the bank,
 - d have scalable systems and operations, so as to enable it to better act as a disrupter in the sector and to grow its market share, and
 - e be profitable and commercial, so as to at least meet its cost of capital to enable it to be self-sufficient and an increasingly effective competitor over the long term.
27. [25], [26]

This section discusses broader ownership options and alignment to possible objectives

28. Following the establishment of a set of possible objectives, this section of the report seeks to establish how those might align with a high-level set of ownership options. The ownership categories analysed below seek to differentiate the proportion of direct Crown ownership of KGH and its closeness to the core Crown.
29. This section does not contemplate full ownership of KGH outside of the Crown or partial indirect ownership through NZSF with the remainder held outside of the Crown. We understand from your office that these are outside the scope of the advice you are seeking.
30. The ownership categories are based on those canvassed in our January 2021 advice:

Crown ownership through:	Direct ⁹	Indirect (at least partly)
Full	A: i. KGH directly held by the Crown	B: i. NZSF, or together with other Crown entity(ies) holding 100%, ii. As above, with a Crown “Kiwi Share”, or iii. Crown owns part directly and part through a Crown-owned entity (or entities).
Partial	C: i. Crown / private investor joint venture; or ii. KGH is listed on the NZX and the Crown owns a majority of the shares (Mixed ownership model (MOM) structure)	D: i. joint venture between a Crown-owned entity and a private investor; or ii. KGH is listed on the NZX and the Crown owns a majority of the shares via another Crown-owned entity

31. The NZSF’s ownership proposal for KGH fits into category **B**. Categories A-D are discussed from a high-level hypothetical perspective. However, given the detail provided by NZSF in its recent proposal made for KGH, it is also specifically discussed below in order to consider how NZSF’s vision for KGH might overlap with, or be in contrast with, the possible objectives of the Government for KGH, and with Kiwibank’s own strategy.
32. Visual maps analysing each category and their alignment to possible Government objectives are included in **Annex 1**, but summarised below. The visual maps at Annex 1 are intended to also aid a discussion with you at the Finance Priorities meeting on 15 April 2021 (or in a more specific subsequent meeting if one is sought with officials once you have discussed this advice with your Associate Finance Minister colleagues). For each ownership category, the visual maps comprise:
 - a structure diagrams for possible ownerships arrangements,
 - b considerations around governance,
 - c key outcomes and the alignment of those to possible Government objectives,
 - d estimated price and transaction costings to the core Crown, and
 - e the possible timing of any ownership changes.

⁹ Direct Crown ownership may include where there is a Crown holding company (for example, a schedule 4A Crown entity) that holds the Crown’s shareholding in KGH but mimics a direct interest.

Summary of wider options analysis

33. **Table 5** provides a summary of indicators for how the outcomes associated with each ownership category might map to the possible objectives of the Crown and the overall ability for those objectives to be achieved under those arrangements. This analysis is indicative only, based on your stated objectives and further possible objectives. Once we understand more about the relative importance of these objectives to the Government and any particular options you would like to explore, our analysis of alignment with those objectives will be further refined.

Table 4: Indicators for the ability to achieve objectives under each high-level structure

Crown Ownership	A: Full, direct	B: Full, indirect	C: Partial, direct	D: Partial, indirect	Perceived Importance
 [25] NZ Owned					
 Disrupter					
 Accessible					
 EBITDA ≥ Self-sufficient					
 EBITDA ↓ Profit max.					
 Specific Outcomes					
[25]					
 Cost to Crown					
(!) Financial Risk					
Ability to achieve Govt. objectives					

* Viable alternative options are available for achieving specific outcomes, discussed below in this report.

High ability to achieve
Some risks to achieving, but could be worked around
Many barriers to achieving

34. [25]

a [25]

b

c [25]

d

e

35. The option analysis has been prepared with regard to unique features regarding the legal documents surrounding the existing arrangement, banking governance and Crown financial backing, which are discussed at a high level below.

Application of the Project Tui documents

36. [33]

If KGH were to continue to be held 100% indirectly by the Crown, there would be a sale of shares between the existing shareholders, which could take place both before and after the end of the lock-up period.

37. If an element of direct Crown ownership were introduced to the KGH arrangement, there would need to be a sale of shares under the terms of the Crown Deed. The price at which the Crown were to hypothetically take on a direct interest would need to be negotiated and would depend on whether it takes on a controlling interest (above 50%), in which case it would likely incur a control premium on the purchasing proportion of the KGH base price.

[25]

38. Depending on your preferred ownership option(s) identified from this report, our subsequent advice will incorporate more detail on the implications of the legal documents surrounding the existing arrangement in regards to those options (or option if there is only one preference).

Banking governance

39. Business objectives, board skill mix and how board members are appointed are major factors in whether KGH has or will have clear and rational governance. The most appropriate governance model for the KGH group should be based on its shareholders' shared objectives and vision for the group. The style of governance and the mix of board representatives for KGH and Kiwibank (notwithstanding RBNZ requirements for registered banks) should reflect those shared objectives and vision. Ownership should then be informed by the character and skill mix required on the boards to carry out those objectives.
40. In terms of Kiwibank's board, the RBNZ's principles for bank registration include that it needs to be satisfied that there will be sufficient separation between a bank and its owners. If the bank is to remain registered in New Zealand, per RBNZ's key governance requirements, the board needs to maintain at least five directors, a majority of non-executive directors, and at least half of the board must be independent, including the Chair.¹¹ [25]

Financial risk, market-implied Crown guarantees and Crown backing

41. The various ownership options for KGH will have associated financial liabilities to the core Crown, in proportion to its level of direct and indirect ownership share. In addition, there is a general expectation held in the financial market that Crown-owned companies are subject to Government support (e.g. future debt write-downs and capital injections) should they come under financial pressure. This is evidenced in credit ratings provided by independent credit rating agencies that generally notch up their ratings provided to Crown-owned companies with listed securities (such as the case with both NZ Post and Kiwibank), stating implied Crown guarantees. Credit rating agency S&P provides Kiwibank with three notches of uplift above the bank's stand-alone, long-term credit profile outlook on the basis it believes the bank will be a beneficiary of extraordinary government support, if needed.¹²
42. However, the NZ Government has also, in the past, shown that it will not stand behind a Crown-owned company just because it is Crown-owned (the most well-known situation of this nature being Solid Energy). There are therefore circumstances and situations in which Crown support might not arise beyond the extent contractually provided for. That said, the closer ownership of an entity is to the core-Crown the more likely it is that funding providers will expect the Crown to provide financial support.
43. Another factor that will need to be considered at the time of making any changes to ownership arrangements is in relation to the \$300 million uncalled capital facility provided to KGH by the Crown back to back with KGH's provision of a facility to Kiwibank which can be drawn upon should certain unexpected external events arise. The merits of retaining such a facility might continue to be viable in any future ownership arrangement, particularly when the Crown only has partial ownership of KGH, to the extent the Crown wishes to impart an additional layer of support in the event of financial stress at the Kiwibank level due to external shocks.

¹¹ The RBNZ's governance requirements are to ensure as far as possible that board of a bank will take decisions in the best interests of the bank, without undue influence from parties (i.e. shareholders) whose interests may diverge from the bank's. These bank-specific requirements go further than the general requirement in the Companies Act 1993 for directors to act in good faith and in what they believe to be the best interests of a company.

¹² S&P states in November 2020 ratings report that, "we believe Kiwibank plays an important role to the New Zealand government, and crown ownership provides a very strong link between the bank and government. Consequently, we see a high likelihood that, if needed, the government will provide timely financial support to Kiwibank. We expect such support to be channelled via KGH."

Part 5: Ownership structure options: NZSF's Proposal

44. This section explores the extent of alignment or overlap between: (i) NZSF's visions for Kiwibank, (ii) the Government's stated and possible objectives, and (iii) Kiwibank's current strategy.

NZSF has a reasonably well-formed vision for Kiwibank and Kiwi Wealth

45. As outlined in its letter dated 10 February 2021, NZSF proposes to undertake a controlling interest in KGH. The following aspects are central to NZSF's proposal:

a NZSF considers that KGH's operating subsidiaries, Kiwibank and Kiwi Wealth, have a strong outlook if supported by owners with shared vision and preparedness to invest.

b [26]

c [33]

d [26]

e [25] and [26]

46. [25] and [34]

47. In regards to KGH's second largest operating subsidiary, Kiwi Wealth, [25]

We agree that there is likely to be significant consolidation in the New Zealand wealth management sector in coming years [25]

[33]

48. [33]

49.

50.

51.

52.

¹³ Kiwi Wealth has applied to the Ministry of Business, Innovation and Employment to continue to be a default KiwiSaver provider when the current default arrangements for nine existing funds expire in June 2021. The decision on who will be these default providers going forward is expected in the next few weeks. Decisions in this space may prompt takeover activity in the sector.

¹⁴ [33]

There may be strong overlap in the Crown and NZSF objectives for Kiwibank but some matters will need to be further explored

53. On the basis of the information provided to date, there appears to be merit in the Crown exploring NZSF's proposal for KGH further [33]

However, key matters that require further exploration are:

a *Control*: whether there are ownership arrangements other than absolute control that would provide the degree of commercial decision-making certainty that NZSF (and potentially ACC) requires going forward. You may wish to explore options where NZSF has an influencing but not controlling stake, for example, with the largest but not a controlling stake of KGH, alongside ACC and the Crown.

b [26]

ii if KGH, supported by its shareholders, successfully executes its growth strategy, the group will be serving more of the New Zealand retail and small business market and should have also grown significantly in value. [26]

Alternatively, the core Crown might seek to acquire a partial or controlling stake at that time. Should an exit clause exist in any future agreement, the Crown will need to keep in mind the potential requirement to have funds available for such a purchase; and

iii [26]

We expect that, if the Crown were willing to further explore NZSF's proposal, it may be able to negotiate the terms around NZSF's eventual exit and conditions upon sale such that both parties could reach a compromised, but workable solution.

c [26]

[25], [26] and [34]

Part 6: Alternative Levers for Seeking Specific Outcomes

[25]

55. [25]

56.

b specific Government policies:

- i The Business Finance Guarantee Scheme¹⁵ (BFGS) is the latest example of Government policy filling a credit gap (perceived or actual) in the New Zealand market, particularly in the event of a market shock, being COVID-19 in this instance. Through the deployment of a Government policy whereby the Crown takes up to 80% of a loan's default risk, the Government has created an effective "Crown bank" via the management of other retail banks. As there is a parallel work-stream underway (lead by the Ministry for Business Innovation and Employment) to inform advice to Ministers on whether the Government should extend the BFGS or the scheme for Non-Deposit Taking Lenders, this part of the report looks to simply recognise the possible interplay between the Government's wider current policy objectives within in the banking sector and ownership considerations for KGH.

c engaging with the banking sector for industry-led solutions:

- i For example, the New Zealand Bankers' Association and six banks are trialling regional banking hubs. Under its *'Future of the Cash System – Te Pūnaha Moni Anamata'* work programme, the RBNZ's current priority is to work with the banking and service industries to ensure that the cash system continues to be fit for purpose.
- d Establishment of a low-cost, sustainable (but low profit) Crown-owned banking service (akin to a cooperative bank) that is managed by a larger registered commercial bank:

¹⁵ The Scheme was initiated to support the provision of scheme loans to businesses that need help with cash flow or capital investment to respond or recover from the impacts of COVID-19.

- i A separate Crown-owned entity could deliver specific outcomes (such as being low-cost and providing physical retail access in regional areas), while the Crown would also be able to set high-level objectives for the entity.
- ii Any such arrangement would benefit from the management of a larger registered bank so as to instil best-practice banking disciplines and bring a range of necessary experience and skills to the governance and/or management of the Crown-owned cooperative-style bank. The arrangement would be managed through commercial contracts between a “manager bank” and the Crown.
- iii Significant downsides to this arrangement would include: lack of scale, lack of financial stability and the potential to attract customers with a high risk of default would mean any such operation could be an expensive venture for the Crown. It may be possible to achieve similar or identical specific outcomes sought for banking through much more efficient means, such as contracting with existing banks, including Kiwibank.

Full and at least partly indirect bank ownership mixed with seeking contracts or policies for specific outcomes may be the most effective way of achieving Government objectives

57. We consider that a mix of full and at least partly indirect Crown bank ownership (i.e. category B) as well as seeking any specific outcomes through contracting or Government policies may be the most effective way of achieving any wider banking sector objectives of the Government, while mitigating financial risk to the Crown.

58. [25]

59. Though retaining indirect Crown ownership of KGH, Kiwibank will likely remain a majority New Zealand owned bank and continue to prioritise opportunities in the domestic market. For it to attain sufficient scale and larger New Zealand retail and SME market share, a commercial model is a minimum requirement. [25], [34]

[37]

60. [37]

61.

62. [37]

63.

64.

65.

Next steps

Subsequent Treasury advice

66. To inform a pathway for our subsequent advice and possibly the formulation of a negotiating strategy regarding the ownership of KGH, we are seeking your confirmation of:
- a what objectives for KGH are of primary importance to the Government and what are secondary (that may be traded-off if other conditions are met),
 - b your intended meaning of stated objectives regarding Kiwibank being a “disrupter” with “accessible” services, and
 - c what ownership option categories you wish to further explore, based on our indicative analysis of how various options sets might align with the Government’s objectives.
67. [33]

Draft Cabinet papers

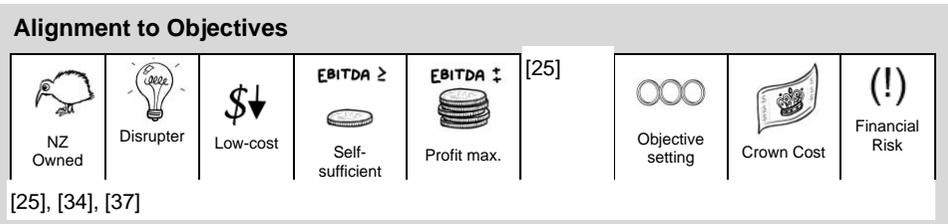
68. We are seeking your confirmation regarding the scope and objective of a draft Cabinet paper which we suggest we will provide to you by **22 April 2021**, for you to take to Cabinet by early May. We suggest this draft Cabinet paper will:
- a inform Cabinet that you are exploring options for the future ownership of KGH,
 - b signal (but not yet request) the need for non-departmental funding if the Crown should proceed with a formal exploration phase regarding potential changes to the KGH shareholding structure and enter into negotiations with the current shareholders, and
 - c [33]
69. Should you wish to further explore a narrowed set of options in more detail, with a view to potentially entering into formal negotiations with the current KGH shareholders, you may wish to provide a second Cabinet paper, shortly after the Budget moratorium period (i.e. late May 2021), seeking Cabinet’s endorsement of:
- a the proposed or emerging negotiating position of the Crown (if established by yourself and Associate Finance Ministers by this stage), and
 - b a non-departmental appropriation for the Treasury to cover advisory costs from external parties, including for: impending due diligence advisory, external legal costs, and for an external party (most likely an investment bank) to act in a negotiating capacity on behalf of the Crown.

Meeting with officials

70. Treasury officials are scheduled to discuss this advice with the Minister of Finance and seek feedback on your preferred objectives and ownership options at the Finance Priorities meeting on 15 April 2021.

A: Full and Direct Crown Ownership

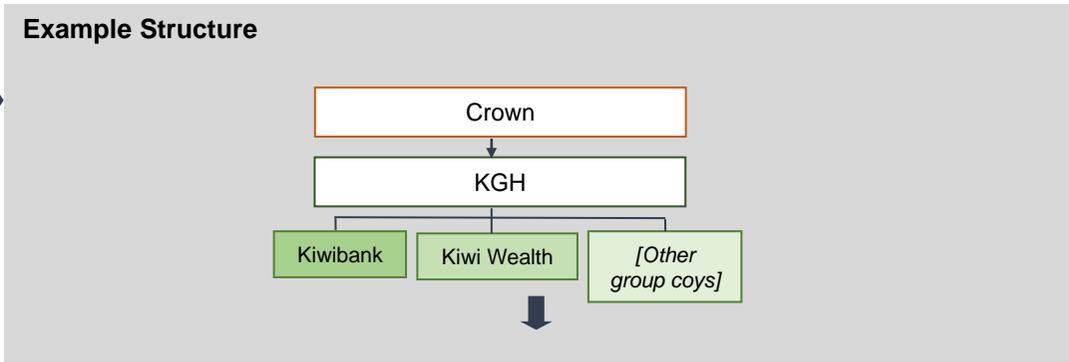
KGH Ownership Structure
Full Crown ownership, with KGH directly held by the Crown.



- Key Outcomes**
- Certainty of long-term NZ ownership (for as long as within this structure).
 - [25]
 -

- Ability / Dependencies**
- Ability to negotiate a commercial agreement and price for the purchase of KGH from ACC and NZSF. The current shareholders have no requirement to sell to the Crown, unless they seek out an external buyer, where the Crown will be able to exercise its pre-emptive rights.
 - Agreement of Cabinet to buy-back KGH for an indicatively agreed-upon price.

- Timing**
- Post lock-up period (after 31 October 2021)



- Governance**
- KGH board members would be appointed by the Crown. Skill mix a major success criteria to clear and rationale governance of the KGH group.
 - To remain a registered bank, Kiwibank would still need majority independent board members (limiting ability to direct specific outcomes of Kiwibank).

[25], [37]

B: Full and Indirect Crown Ownership (Part 1)

KGH Ownership Structure

Full but indirect Crown ownership, either with:

- i. NZSF alone or with other Crown entity(ies) holding 100%;
- ii. As above, but the Crown holds a “Kiwi Share”; or
- iii. Crown owns part directly and part through a Crown-owned entity.

Alignment to objectives (if Crown-owned entity is a “disciplined investor”)



[25], [34], [37]

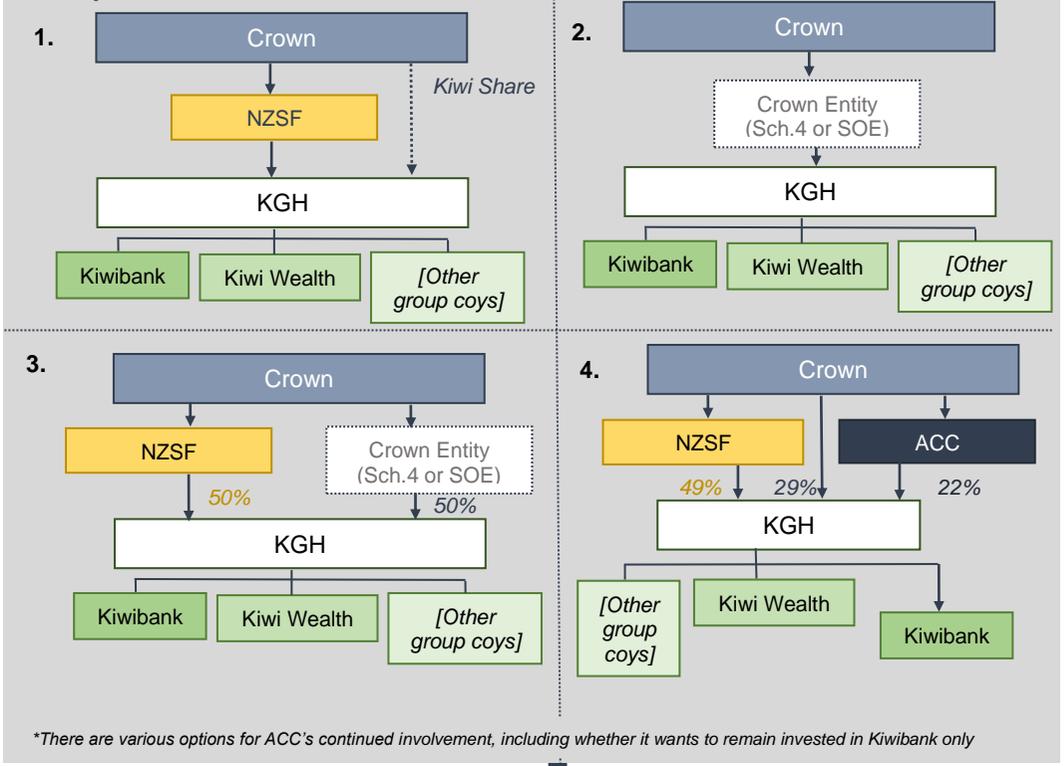
Key Outcomes

- [25]
- Ability to influence high-level objectives of KGH would depend on the nature and mandate of the indirect Crown owner and the proportion of any direct Crown stake in KGH.
- Control of ultimate future ownership though negotiated outcomes with indirect Crown co-owner (or through a Kiwi Share arrangement).
- If NZSF takes a controlling stake, a net return of some capital back to the core Crown (via NZ Post’s divestment) which the Crown can put to alternative uses.
- Note that the low cost to core Crown indicated above assumes that the Crown entity(ies) with a direct holding in KGH will provide funding for the purchase of shares in KGH, transaction costs and any further capital required for KGH under their ownership.

Long term outcomes / options (10 years +)

[25]

Example Structures



[25]

ANNEX 1: Visual Maps - Ownership Options Analysis

B: Full and Indirect Crown Ownership (Part 2)

Governance

- If Kiwibank and Kiwi Wealth are to be successful businesses, in the sense that they deliver to objectives, have a low-cost and fit-for-purpose business model, and at least meet their cost of capital, a strong sense of commercial disciplines and best-practice are imperative.
- Whichever Crown-owned entity is introduced or retained to the KGH ownership arrangement, that entity will have the ability to appoint directors in proportion to its ownership stake. The relevance of skills and experience of directors appointed to the KGH board might be limited to the pool of directors and executives within that entity (unless they look to appoint independent directors).
- There are few existing Crown entities (outside of NZSF and ACC) that have a mandate to invest in significant and strategically important Crown investments, and which have a strong track record of successful investment and are set up to provide the appropriate governance in respect of these.
- To remain a registered bank, Kiwibank would still need majority independent board members (limiting ability to direct specific outcomes and objectives of Kiwibank).

[25], [37]

Ability / Dependencies

- Ability to negotiate a commercial agreement and price for the purchase of KGH from ACC and NZSF. The current shareholders have no requirement to sell to the Crown, unless they seek out an external buyer, where the Crown will be able to exercise its pre-emptive rights.
- Agreement of Cabinet to buy-back KGH for an indicatively agreed-upon price.
- ACC's appetite and conditions for remaining invested in KGH.
- [33]

Timing

[October 2021 – March 2022]

- Should the Crown seek to attain a direct stake in KGH, its options expand post lock-up period, which will enable the undertaking of a direct Crown share or via a new Crown entity.
- Should NZSF take on a controlling interest (>50%) of KGH, the timing might be better sequenced [33] We estimate it could take up to 12 months from now (to the end of Q1 2022) to complete this process. However, it does not prevent the Crown from negotiating terms with NZSF ahead of the end of the lock-up, if the Crown views a NZSF controlling a preferable option.
- If only NZSF and ACC were to remain directly invested in KGH (e.g. with 50% each, this is possible before the end of the lock-up period (i.e. an immediately executable option).

ANNEX 1: Visual Maps - Ownership Options Analysis

C: Partial and Direct Crown Ownership

KGH Ownership Structure

Partial but direct Crown ownership, either with:

- i. Crown / private investor joint venture; or
- ii. KGH is listed on the NZX and the Crown owns a majority of the shares (mixed ownership model (MOM) structure)

Alignment to objectives



[25], [34], [37]

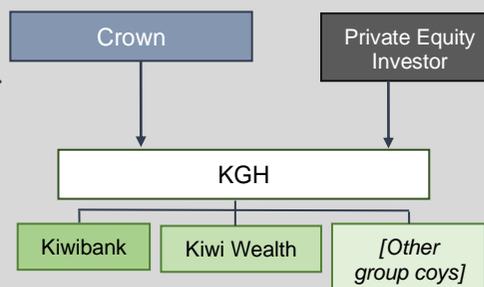
Key Outcomes

- Under either option (i) a private investor JV or (ii) a MOM structure, key outcomes would include the requirement of seeking strong commercial returns (exceed cost of capital), maintaining at least a *partially* NZ-owned bank (as the market could then on-sell the non-Crown portion of KGH to offshore investors); and keep banking profits at least *partially* 'onshore'.
- For capital growth, rational investors are likely to grow through scale, which may include seeking competitive advantage through low-cost services and investing in future banking abilities, i.e. a "bank of tomorrow" and "disrupter".

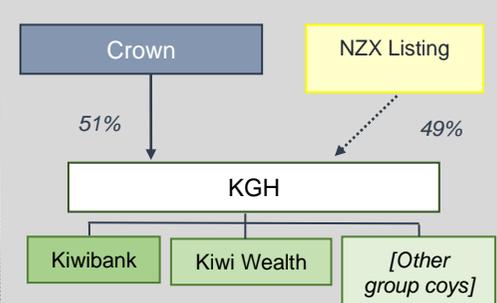
[25]

Example Structures

1.



2.



Governance

- Under either (1) or (2), the governance of KGH would likely have a mandate for strong commercial disciplines and best practice for any private investor or the market to participate in the ownership of KGH.
- Under a private investor JV, directors would be nominated by each shareholder in proportion to their ownership interest. The board of KGH would only look to undertake the high-level objectives of the shareholders where they were in agreement with each other – in the case of a profit maximising private equity firm, its main mandate would likely be to grow the bank, but there could be some alignment with social objectives where these led to growth and capital return (e.g. where social objectives also provide competitive advantage).
- Under a MOM structure, the KGH board itself would be responsible for nominating Chairs and directors to the KGH and Kiwibank boards. The KGH board would identify candidates with appropriate skills, knowledge and experience to contribute to effective direction of the Group companies, who can exercise an independence from the Crown and from the KGH operating subsidiaries.

[25], [37]

Timing

- o A post lock-up period possibility (subject to negotiation of pricing with existing shareholders)

ANNEX 1: Visual Maps - Ownership Options Analysis

	Principles
	Technicalities

D: Partial and Indirect Crown Ownership

KGH Ownership Structure
 Partial and indirect Crown ownership, either through:
 i. a joint venture between a Crown-owned entity and a private investor; or
 ii. KGH listing on the NZX and the Crown owns a majority of the shares via another Crown-owned entity

Alignment to Objectives

NZ Owned	Disrupter	Low-cost	EBITDA ≥	EBITDA ↓	[25]	Objectives setting	Crown Cost	Financial Risk
----------	-----------	----------	----------	----------	------	--------------------	------------	----------------

[25], [34], [37]

Key Outcomes

- Strong incentives for commercial outcomes, including profit maximisation.
- Rational banking investors are likely to seek capital growth (but not necessarily dividends over the short term), and eventual exit of the investment.
- For capital growth, rational investors are likely to grow through scale, which may include seeking competitive advantage through low-cost services and investing in future banking abilities, i.e. a “bank of tomorrow” and “disrupter”.

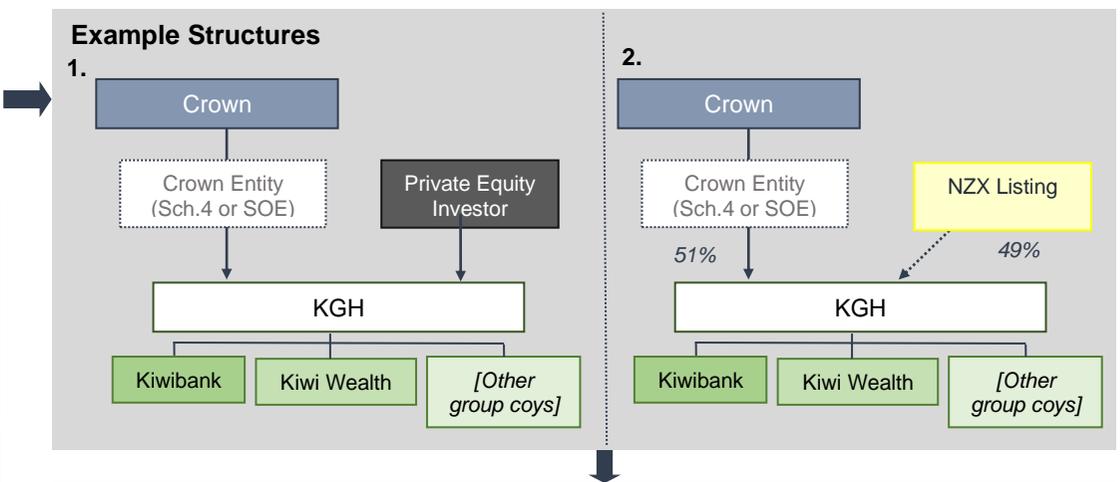
[25]

- Financial risks and future potential liabilities of Kiwibank to the Crown would be very limited. Liabilities or need for further capital would be absorbed through the Crown entity and its private co-investor or the market.

[34]

Timing

- A post lock-up period possibility (subject to negotiation of pricing with existing shareholders)



Governance

- Under either (1) or (2), the governance of KGH would likely have a mandate for strong commercial disciplines and best practice for any private investor or the market to participate in the ownership of KGH.

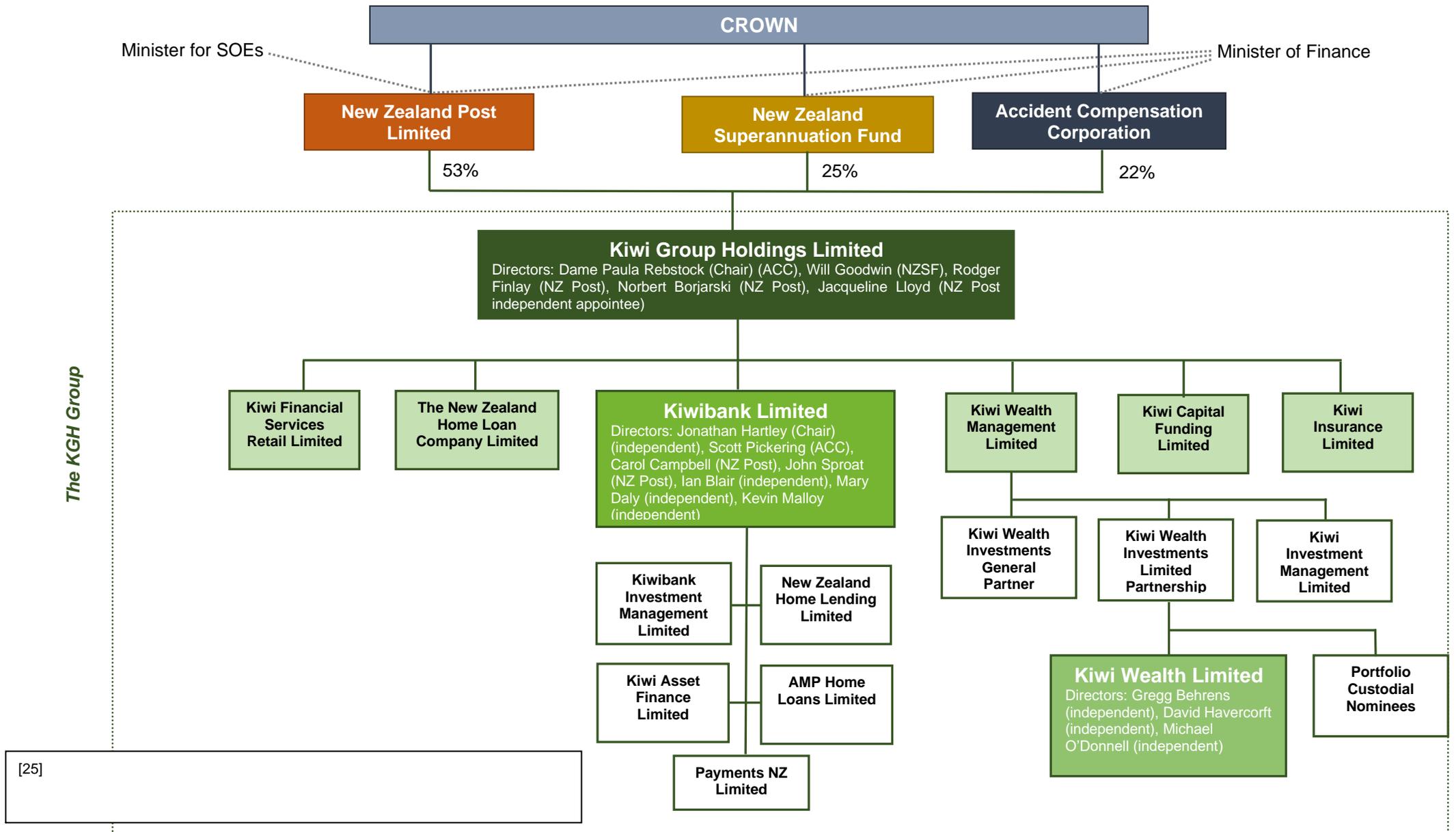
[25]

- For (2), similar to a MOM structure (as with 4(c) above), the KGH board itself may be responsible for nominating Chairs and directors to the KGH and Kiwibank boards.

[25]

[25], [37]

ANNEX 2: KGH Group Structure Diagram



[25], [26] and [37]

ANNEX 4: Kiwibank Financial Summary

	FY20	FY19	FY18	FY17	FY16	FY15	FY14	FY13	FY12	FY11	FY10
Kiwibank Financial Performance											
Net Interest Income	455	445	411	368	373	361	293	276	257	191	134
Net Fee Income and Gains on Financial Instruments	98	93	128	126	104	112	107	106	101	162	168
Operating Expenses	(428)	(375)	(373)	(339)	(301)	(284)	(265)	(240)	(212)	(242)	(219)
Credit Impairments	(51)	(12)	(1)	6	(11)	(13)	4	(7)	(35)	(79)	(18)
Other impairments 1	-	-	(11)	(90)	-	-	-	-	-	-	-
Profit Before Tax	74	151	154	71	165	176	139	135	111	32	65
Net Profit After Tax	57	108	115	53	124	127	100	97	79	21	46
Dividends Paid on Ordinary Shares	(17)	(25)	-	(5)	(29)	(22)	(9)	(9)	(9)	(8)	-
Kiwibank Financial Position											
Cash and cash equivalents	492	421	447	464	509	492	460	413	314	295	304
Total Assets	25,510	22,734	20,715	20,616	19,357	18,344	17,592	16,134	15,345	14,476	12,839
Deposits and other borrowings	20,597	18,240	16,173	15,983	14,782	13,740	12,753	12,120	11,565	10,586	10,295
Debt Securities Issued	2,229	2,078	2,265	2,258	2,207	2,397	2,143	1,508	1,806	1,510	795
Total Liabilities	23,940	21,185	19,228	19,236	18,228	17,311	16,590	15,272	14,598	13,868	12,251
Total Capital Ratio	12.60%										
S&P Credit Rating	A [stable]	A [stable]	A [stable]	A [stable]	A+	A+	A+	A+ [stable]	AA-	AA-	AA-
					[negative watch]	[negative watch]	[negative watch]		[stable]	[negative watch]	[stable]

