

The Treasury

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- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through protecting ministers, members of government organisation, officers and employees from improper pressure or harassment
- [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

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Minister of Finance

Chair
Cabinet Economic Development Committee

PROPOSAL FOR KIWI GROUP HOLDINGS - KIWIBANK

Purpose

1. This paper asks Cabinet to confirm the Government's preferences regarding the ownership of Kiwi Group Holdings Limited (KGH), the parent company of Kiwibank Limited. The New Zealand Superannuation Fund (NZSF) has made a proposal to the Government that NZSF negotiate to purchase New Zealand Post Limited's (NZ Post's) shareholding in KGH. This paper considers the merits of NZSF's proposal versus the alternative of the Crown taking direct majority ownership of KGH and seeks Cabinet agreement on a way forward.

Executive Summary

2. KGH is a holding company which wholly owns Kiwibank and other adjacent subsidiaries including Kiwi Wealth Limited (Kiwi Wealth) and New Zealand Home Loans Limited. KGH is currently owned by NZ Post, (53%), NZSF, (25%) and the Accident Compensation Corporation (ACC, 22%).
3. NZSF and ACC became shareholders in 2016 when NZ Post sold part of its ownership to provide KGH (especially Kiwibank) with greater access to growth capital than would otherwise have been the case and brought a broader range of skills and disciplines to the governance of KGH. The shareholder arrangements restricted shareholder exit for five years and provided preferential rights to purchase KGH shares, firstly for other KGH shareholders and secondly for the Crown. The "lock-up" period for KGH shareholders ended on 31 October 2021 and I have written to them asking for their continued patience while the Crown determines its preferred ownership arrangements for KGH.
4. The Government's goals for KGH, and primarily its main subsidiary Kiwibank, are significant. We intend for Kiwibank to achieve an increase in its scale, efficiency, and cost competitiveness so that it can be a more effective disruptor bank which should drive better outcomes for New Zealand consumers. In addition, Kiwibank should remain New Zealand and to some extent Crown owned in the long term.
5. Kiwibank is facing several challenges and the current shareholding arrangements are a constraint on its performance as [25] and [37].
The NZ Post board no longer sees a strategic rationale for the company remaining invested in KGH and would like to divest its shares. [25]
while ACC may also seek to divest, NZSF would like to take a controlling position and invest further so as to drive an improvement in KGH's performance.
6. In June 2021 I outlined to Cabinet the context for the important decisions to be made on how the Government would prefer the Crown's interests in KGH to be expressed. I noted that the

Treasury would undertake further work on my behalf, and I am now reporting back to you so that Cabinet can decide on the preferred pathway forward.

7. After considering several ownership options for KGH, I have assessed two shortlisted options in this paper. These options are NZSF's proposal to negotiate to purchase a controlling stake in KGH and the alternative of the Crown acquiring direct majority ownership in KGH
[33], [37], [38]

NZSF's Proposal

8. NZSF has made a proposal to the Government for it to achieve a controlling interest in KGH. NZSF would attempt to negotiate to purchase the KGH shareholding of NZ Post while simultaneously negotiating with the Crown regarding any restraints on its KGH shareholding required to meet Crown objectives. NZSF has also expressed a preference to introduce a strategic minority investor in a few years once Kiwibank's Te Ara Hou transformation process is completed. A strategic investor would be an investor with specialised banking sector expertise which would further help Kiwibank to realise its long-term potential in the New Zealand market.

Crown purchase as an alternative

9. NZSF has indicated that if it cannot acquire a controlling interest in KGH, it may seek to divest its KGH shareholding. Recognising this, along with the potential merit of the Crown purchasing all or most of KGH, I have considered the key implications of both these alternatives.

Assessment of Ownership Options

10. I have assessed how the two shortlisted options would ensure the maintenance of New Zealand and Crown majority ownership, maintain an appropriate ability for the Government to influence KGH's objectives, support Kiwibank's growth strategy and competitive position, and minimise costs for the core Crown. A table summarising the pros and cons of the two options is included as Annex 1.
[33], [37], [38]
11. NZSF's proposal ensures that KGH has capable ownership and governance during Kiwibank's key transformation period, access to the growth capital it requires, and cost advantages for the core Crown by reducing gross sovereign-issued debt and core Crown debt. It also would mean that NZSF and other shareholders would be responsible for funding ongoing capital requirements for Kiwibank rather than these competing against the Government's other budget priorities. The introduction of a strategic minority investor could aid KGH through the provision of specialised expertise, [25] and could affect the ability to maintain New Zealand and Crown majority ownership. As such, if Cabinet chooses to proceed with NZSF's proposal, it is asked to indicate whether it would be comfortable with the potential for the introduction of a strategic minority investor in KGH in a few years, so long as the strategic minority investor addresses the Government's requirements for ongoing New Zealand and Crown majority ownership of KGH.
12. The advantages of direct Crown majority purchase is that it is the most secure means of ensuring ongoing Crown ownership and enables the Government to exercise greater influence over KGH through the ability to directly appoint its Board members, issue shareholder's expectations and determine availability of growth capital. In addition, acquiring direct majority Crown ownership now may involve a lower financial outlay than acquiring a direct majority interest from NZSF in the future if it has majority control and decides to divest.
[33], [37], [38]
13. I am asking Cabinet to consider the two ownership options and select a preference. [25]

[33], [37], [38]

14. Once Cabinet has selected a preference, I will write to the KGH shareholders advising them of the Government's decision.
15. If NZSF's proposal was preferred, KGH shareholders will then commence negotiations on possible changes to their shareholdings ^[33]
while NZSF and the Crown negotiate any arrangements necessary to meet Government objectives. Negotiations with NZSF will likely quickly fail if NZSF is unwilling to accept constraints necessary to fulfil the Government's objectives. Under this scenario it would be possible to then move on to the direct Crown majority option. If however negotiations with NZSF are successful, my expectation is that KGH shareholders and the Crown engage with a view to finalising future arrangements in the first half of 2022.
16. If direct majority Crown ownership is preferred, I will instruct my officials to prepare a purchase strategy and I will return to Cabinet by the end of February 2022 for approval of appropriations for the funds to make the required share purchases.
17. Under either scenario specialist commercial and legal advisors will be required to support the Crown's involvement in negotiations and appropriations are included in this paper to cover these costs. Under the NZSF option an appropriation for \$4 million is included to fund these external advisors while under a direct Crown majority ownership option \$8m is sought to fund the more extensive work that would be required.

Background

18. KGH is a holding company which wholly owns Kiwibank Limited (Kiwibank) and other adjacent subsidiaries including Kiwi Wealth Limited (Kiwi Wealth), and New Zealand Home Loans Limited. Since 2016 KGH has been owned by NZ Post (53%), NZSF (25%) and ACC (22%).
19. Kiwibank was established by NZ Post in 2001 and has grown to become New Zealand's fifth largest registered bank after the four largest banks that are all Australian-owned (the Big 4). Kiwi Wealth has also experienced strong growth since establishment including through its acquisition of Gareth Morgan Investment in 2012 and today it is one of the larger players in the funds management marketplace.
20. By 2015 NZ Post was no longer able to support KGH's growth alone and so, following a comprehensive negotiation process, in October 2016 NZSF (25%) and ACC (22%) became KGH shareholders. NZ Post's sale of 47% of KGH resulted in a greater separation of NZ Post's and KGH's operations, offered KGH greater access to growth capital than would otherwise have been the case and brought a broader range of skills and disciplines to the governance of KGH.
21. A Crown Deed was established at the time of the 2016 transaction that places controls on the ability of the shareholders to transact their shares. Up until 31 October 2021, there was a contractual "lock-up" period, during which only ACC, NZSF and NZ Post could buy or sell KGH shares. Now shares must be offered to the other KGH shareholders first, and then to the Crown if other existing KGH shareholders decline to purchase them. Shares offered but not taken up by other existing KGH shareholders or the Crown may be offered to external parties.
22. The current shareholding arrangements are not a viable longer-term option. The NZ Post board no longer sees a strategic rationale for the company to remain invested in KGH and its preference is to divest its shares as soon as practicable. ^[25] and ^[37]
23. ACC has indicated that it does not want to remain as a shareholder in KGH and will respond to the right opportunity to exit, rather than to retain its current stake or invest further. ACC

[25]

24. NZSF considers there is significant 'unlocked potential' in KGH, particularly in Kiwibank, but that it needs a period of focussed shareholder control to be successful. For NZSF to remain invested in KGH, it needs to be able to mitigate risks inherent with Kiwibank during a period of necessary transformation and stabilisation, and for it to adequately capitalise Kiwibank to enable the scalability it needs to be a genuine competitor in the banking industry.
25. In June 2021, I outlined the context for the important decisions to be made on how the Government would prefer the Crown's interests in KGH to be expressed. I noted that the Treasury would undertake further work on a range of ownership options considering them against the key objectives I outlined to you. As I indicated then, officials went on to engage on my behalf further with the current shareholders of KGH to gain a deeper understanding of their positions. They also sought a deeper understanding of key elements of NZSF's proposal to acquire a majority interest in KGH [33]
26. [33], [37], [38]

27.

28.

Kiwibank Faces Various Challenges

29. Since its establishment nearly 20 years ago Kiwibank has created a strong brand but the banking sector remains dominated by the four Australian-owned banks.
30. Kiwibank is today a significant provider of financial services in New Zealand but it remains much smaller than the four Australian-owned banks that together have more than 88% of the market. In comparison, Kiwibank provides around 5% of bank loans overall, including 7% of residential mortgages. It accounts for just 2% of banking industry profits, with this lower level of profitability due in part to its lack of scale and business breadth along with a higher cost overall operating structure. Kiwibank's operating expenses as a percentage of income are around 70% above the industry average.
31. Last year, Kiwibank commenced a five-year transformation programme [25]
Te Ara Hou includes
Kiwibank moving from its dated legacy IT system to a new platform. [25]
32. An additional challenge is that Kiwibank needs [25] build capital to meet the Reserve Bank of New Zealand's (RBNZ's) new capital requirements for registered banks.
[25]

33. Under the current ownership arrangements, the ability to deal with Kiwibank's strategic challenges has been limited due to differing capabilities, risk appetites and capital availability within the existing shareholder group.

The Government's Objectives for KGH and Assessment Criteria for Ownership Options

34. The Government's goals for KGH, and primarily its main subsidiary Kiwibank, are significant. I consider it important that Kiwibank achieves an increase in its scale, efficiency, and cost competitiveness so that it can become a genuine competitor in the banking industry capable of increased lending to the retail and SME markets and improved accessibility for its customers. This goal is known as Kiwibank as a disruptor bank, indicating that we would like Kiwibank to compete strongly to achieve better results for New Zealand consumers in a sector currently dominated by foreign-owned banks which are not significantly differentiated from each other.
35. [33], [37], [38]
36. The criteria for assessing ownership options against their ability to deliver against the primary objectives I outlined to you in June [33], [37], [38] are as follows:
- 36.1. Long term New Zealand ownership of Kiwibank: ensuring the Government's requirement that Kiwibank remains New Zealand-owned with at least a majority of the shares remaining (directly or indirectly) within the Crown,
- 36.2. [25]
- 36.3. For Kiwibank to be a disruptor bank while also acting commercially (as a minimum the need for the bank to continue to be self-sustainable); supporting Kiwibank to be a genuine competitor in the banking industry,
- 36.4. [33], [37], [38]
- 36.5. Cost: [33], [37], [38] there are different impacts on the core Crown and the Crown balance sheet.

Ownership Options for Consideration

37. After considering several ownership options for KGH, the two shortlisted options assessed in this paper are NZSF's proposal to negotiate to purchase a controlling stake in KGH and the alternative of the Crown acquiring direct majority ownership in KGH as outlined below.
38. Each of the options describe a potential outcome but there is no certainty that options will play out as envisioned. Under each option parties will need to negotiate and there is no certainty that sellers and acquirers will agree to terms, with price likely being a major potential sticking point.

NZSF's Proposal

39. NZSF has indicated that it is open to entering into discussions with both the Crown and NZ Post to investigate the possibility of increasing NZSF's shareholding in KGH.
40. Officials have had several discussions with NZSF's management to inform them of the Government's high-level requirements for a KGH transaction, as outlined in paragraph 36 above, and to attempt to get agreement to these requirements before commencing detailed

negotiations. [25]

41. [25]

NZSF has also expressed a preference to introduce a strategic minority investor in a few years once Kiwibank's Te Ara Hou transformation process is completed.

Direct Crown Ownership

42. To pursue direct Crown majority ownership a strategy would need to be developed to identify the optimal way to acquire a direct stake based on the ownership level preferred. There are several potential pathways.
43. Working within the Crown Deed arrangements, the Crown could make it known to shareholders that in order to achieve its key objectives, it will directly purchase KGH shares (e.g. by acquiring NZ Post's current holding), and seek to purchase holdings in KGH as they become available through the rights of refusal process.
44. Alternatively, the Crown could act outside of the existing Crown Deed arrangement and make an offer to all shareholders to acquire 100% of KGH.
45. [33], [37], [38]

Assessing the Ownership Options' Ability to Meet the Government's Objectives for KGH

46. [25]

Maintaining New Zealand and Crown Ownership

47. There is potentially little difference between the two alternative ownership options for this criterion. Under NZSF's proposal the Government controls whether shares are sold outside of the Crown as any sales of shares must first be offered to other KGH shareholders and then to the Crown. Only if the Crown declined to purchase them could they then be offered to shareholders outside the Crown.
48. One complexity, however, is that in its letter the NZSF Board has indicated a desire to introduce a strategic minority investor in a few years once Kiwibank's Te Ara Hou transformation process is completed. The type of strategic investor NZSF appears to contemplate is one with specialised banking sector expertise and it seems more likely to be a non-New Zealand owner than a New Zealand one. NZSF will presumably seek a commitment from the Crown that it would waive its pre-emptive purchase right in order to facilitate this investment. If the Government was to allow the introduction of a non-Crown shareholder, the Crown would need to directly own a shareholding greater than that of all non-Crown shareholders to ensure it could maintain a majority Crown ownership of KGH in the long term. Alternatively, the Government can refuse to provide the commitment to facilitate the introduction of the new shareholder noting that this may lead to NZSF withdrawing from a potential transaction.
49. Under direct Crown ownership the Crown directly controls ownership so shares could only be sold outside of the Crown if the Government decided to sell.

[25]

[25]

Kiwibank as a Disruptor

53. The Government's increased level of ambition for Kiwibank and the challenges that it faces best suit a commercially strong and focused owner which understands and is prepared to take on the risk associated with the bank's transformation. This owner needs to actively engage with the company and make timely commercial decisions, including for the provision of regulatory, growth and risk capital.
54. NZSF as KGH's controlling shareholder can provide the capable ownership and governance needed to support Kiwibank during its transformation period, and the ability to capitalise Kiwibank adequately to enable the scalability it needs to be a genuine competitor in the banking industry. Introduction of a strategic minority investor could also provide specialised expertise that would aid KGH's performance.
55. In contrast, direct Crown majority control may be less beneficial, particularly during the transformation period. [25]

[33], [37], [38]

56. [33], [37], [38]

57.

58.

Cost

59. The NZSF proposal provides initial cost advantages for the Crown. If NZSF acquires extra shares it will fund this through the divestment of other portfolio holdings or the redirection of already known inflows of funds. Conversely, if the Crown purchases extra shares it must fund this from an increase in debt.
60. Based on a valuation of KGH of \$2 billion (solely for the sake of estimations) and [25]

[33], [37], [38]

In addition, NZSF and other remaining shareholders would then be responsible for funding ongoing capital requirements of KGH, [25]

61. In contrast, on the same assumptions, if the Crown purchased 100% of KGH directly, [25] Ongoing capital requirements would fall on the Crown and compete against other Budget priorities.

Conclusion

62. I would like Cabinet to consider the two ownership options and select a preference. A table summarising the pros and cons of the options is included as Annex 1.
63. The strengths of NZSF's proposal are that it provides the capable ownership and governance needed to support Kiwibank during its transformation period, and the ability to capitalise Kiwibank adequately to enable the scalability it needs to be a genuine competitor in the banking industry. It also has initial cost advantages for the core Crown. The introduction of a strategic minority investor could aid KGH through the provision of specialised expertise but it would [34] and affect the ability to maintain New Zealand and Crown majority ownership. If Cabinet was to prefer NZSF's proposal, it would need to be comfortable with the potential for the introduction of a strategic minority investor in KGH in a few years. NZSF would be advised that its proposal will only be allowed to proceed if NZSF agrees that the only investors that can become KGH shareholders in the future are those that ensure continuation of the Government's requirement that Kiwibank remains New Zealand-owned with at least a majority of the shares remaining (directly or indirectly) within the Crown.
64. [25]
65. Once Cabinet has selected a preference I will write to the KGH shareholders advising them of the Government's decision.
66. If NZSF's proposal was preferred, KGH shareholders will then commence negotiations on possible changes to their shareholdings [33] NZSF and the Crown would negotiate arrangements to ensure that the Government's objectives are met. Treasury officials will be at the table for negotiations to represent the Crown. Negotiations with NZSF will likely quickly fail if NZSF is unwilling to accept constraints necessary to fulfil the Government's objectives. Under this scenario it would then be possible to move on to with the direct Crown majority control option. If, however, negotiations with NZSF are successful, my expectation is that KGH shareholders and the Crown would engage with a view to finalising future arrangements in the first half of 2022.
67. If direct majority Crown ownership is preferred, I will instruct my officials to prepare a purchase strategy and I will return to Cabinet for approval of appropriations for the funds to make the required share purchases. Other KGH shareholders may also initiate action to sell their shares under this option and this would require a Government response to ensure that the shares do not go to non-Crown shareholders.

Financial Implications

68. If Cabinet prefers the NZSF proposal, an appropriation of \$4 million is sought to fund specialist commercial and legal advice. These advisors will support Treasury in negotiations on behalf of the Crown for modified arrangements covering matters such as future lock-up arrangements and maintaining on-going rights of first refusal and information requirements. [33], [37], [38]

If negotiations with NZSF fail and it was necessary to move on to the direct Crown

¹ [33], [37], [38]

majority control option an additional appropriation would be sought to cover the increased expense of this option.

69. As noted above, if NZSF was to successfully negotiate the purchase of NZ Post's KGH shares there would be impacts on gross sovereign debt and core Crown debt. The size of these impacts would depend on the negotiated price of the transaction and the size of the special dividend that would be expected from NZ Post. Based on the best assumptions we have at the moment, NZSF purchasing NZ Post's KGH shares would reduce gross sovereign-issued debt and core Crown debt by [25]
70. If Cabinet prefers direct Crown majority ownership, an appropriation of \$8m is sought to fund specialist commercial and legal advice. A strategy will be prepared and reported back to Cabinet by the end of February 2022, including seeking appropriations at that stage for share purchases. Purchasing 100% of KGH would likely cost in excess of \$2 billion but a special dividend from NZ Post reflecting most of the sales proceeds from its KGH shares would partially offset this cost. Based on a \$2 billion value for KGH, if the Crown purchased 100% of KGH directly, gross sovereign-issued debt and core Crown debt would increase by [25]

Legislative Implications

71. There are no legislative implications from this proposal, [33]

Human Rights, Gender implications, Disability Perspective

72. None.

Publicity

73. No publicity is proposed given the commercial sensitivity of the proposed transactions. It is also uncertain whether any transaction will occur as it is subject to the transacting parties successfully negotiating a deal, with agreement on price a potential sticking point. In addition, the NZSF proposal is dependent on the passage of legislation amending the New Zealand Superannuation and Retirement Income Act 2001. If a preferred transaction was successfully negotiated the Government, in coordination with the transaction participants, would make an announcement.

Proactive Release

74. I do not intend to release this Cabinet paper proactively in whole or in part, until any negotiations regarding changes in KGH shareholding arrangements and other commercially sensitive matters are finalised. There is considerable uncertainty as to the specific outcomes of negotiations between KGH shareholders (including any share transfer terms and prices) [33], [37], [38] To release information about these matters before offers are made and agreements reached has the potential to distract and unsettle the board and management of KGH's operating subsidiaries (especially Kiwibank during the early part of its transformation period) and could undermine both the course of negotiations [33], [37], [38]

Consultation

75. The Department of the Prime Minister and Cabinet has been informed.

Recommendations

I propose that Cabinet:

1. **note** that Kiwi Group Holdings (KGH) is a holding company which wholly owns Kiwibank Limited (Kiwibank) and other adjacent subsidiaries including Kiwi Wealth and Kiwi Home Loans
2. **note** that KGH is currently owned by New Zealand Post (53%), New Zealand Superannuation Fund (25%) and Accident Compensation Corporation (22%)
3. **note** that the current shareholding arrangements are adding constraints to the performance of KGH and Kiwibank [25]
4. **note** that the New Zealand Post (NZ Post) board no longer sees a strategic rationale for the company remaining invested in KGH and would like to divest its shares
5. **note** that both New Zealand Superannuation Fund (NZSF) and Accident Compensation Corporation (ACC) [25] but while ACC would like to divest, NZSF would like to take a controlling position so as to drive an improvement in KGH's performance
6. **note** that after considering several ownership options I have shortlisted two options for KGH ownership: NZSF control; and direct majority Crown ownership
7. [33]
8. **note** that I have considered the merits of the two shortlisted ownership options using the following criteria:
 - 8.1. Long term New Zealand ownership of Kiwibank: ensuring the Government's requirement that Kiwibank remains New Zealand-owned with at least a majority of the shares remaining (directly or indirectly) within the Crown,
 - 8.2. [25]
 - 8.3. For Kiwibank to be a disruptor bank while also acting commercially (as a minimum the need for the bank to continue to be self-sustainable); supporting Kiwibank to be a genuine competitor in the banking industry,
 - 8.4. [33], [37], [38]
 - 8.5. Cost: while [33], [37] and [38] all transacting parties are within the broader Crown, there are different impacts on the core Crown and the Crown balance sheet.
9. **note** that the advantages of NZSF's proposal are that:
 - 9.1. it best supports the Kiwibank as a disruptor bank criterion as NZSF is well placed to provide capable ownership and governance during Kiwibank's key transformation period and the growth capital required
 - 9.2. NZSF purchasing NZ Post's shares is estimated to reduce gross sovereign-issued debt and core Crown debt by [25]
 - 9.3. NZSF and other remaining shareholders would be responsible for funding ongoing capital requirements of Kiwibank [25]
10. **note** that the advantages of direct Crown majority control are that:

- 10.1. direct ownership is the most secure means of ensuring ongoing Crown majority ownership
- 10.2. [25]
- 10.3. [33], [37], [38]
- 10.4. acquiring direct majority Crown ownership now may involve a lower financial outlay than acquiring a direct majority interest from NZSF in the future if it has majority control and decides to divest

EITHER – Recommendations 11 - 21

- 11. **note** that NZSF has expressed a preference to introduce a strategic minority investor once Kiwibank's Te Ara Hou transformation process is completed to further help Kiwibank achieve its long-term potential in the New Zealand market
- 12. **note** that if the Government was to allow the introduction of a non-Crown shareholder, the Crown would need to directly own a shareholding greater than that of the non-Crown shareholder to maintain majority control of KGH in the future
- 13. **agree** that negotiations on NZSF's proposal should be allowed to proceed if NZSF agrees that the only investors that can become KGH shareholders in the future are those that ensure continuation of the Government's requirement that Kiwibank remains New Zealand-owned with at least a majority of the shares remaining (directly or indirectly) within the Crown
- 14. **agree** that if NZSF is unable to agree to the Government's requirement in recommendation 13:
 - 14.1. the Crown will proceed with recommendations 22 – 27, directly purchasing shares in KGH as a step towards putting in place long-term ownership arrangements for KGH
 - 14.2. the additional appropriation needed to provide for the changed nature of the Kiwi Group Holdings ownership negotiations be presented to Cabinet at the same time as the Minister of Finance would report back to Cabinet in line with recommendation 23
- 15. **delegate** authority to the Minister of Finance and Associate Minister of Finance (Hon David Parker) to take all necessary measures to support the KGH transaction [33], [37], [38] including matters such as amendments to the Crown Deed, entering other legal arrangements on behalf of the Crown [33], [37], [38]
- 16. **note** that there is no certainty that a transaction will take place as the parties will need to negotiate and there is no certainty that sellers and acquirers will agree to terms, with price likely being a major potential sticking point
- 17. **invite** the Minister of Finance to report back to Cabinet Economic Development Committee with an update by 30 June 2022 or at the failure or conclusion of the transaction if earlier
- 18. **note** that specialist commercial and legal advisors will be required to support the Crown's involvement in the negotiations including:
 - 18.1. establishing future lock-up arrangements and maintaining on-going rights of first refusal and information requirements
 - 18.2. [33], [37], [38]

18.3. due diligence and independently testing of the pricing that is proposed for any share transactions that might be undertaken by the Crown [33], [37], [38]

19. **approve** the following changes to the appropriation to provide for the Kiwi Group Holdings ownership negotiations, with a corresponding impact on the operating balance and net core Crown debt:

Vote Finance Minister of Finance	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Multi-Year Multi-Category Appropriation Expenses and Capital Expenditure: Policy Advice and Financial Services MCA Departmental Output Expense: Policy Advice (funded by revenue Crown)	4.0	-	-	-	-

20. **agree** that the proposed changes to appropriations for 2021/22 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply

21. **agree** that the expenses incurred under recommendation 19 above be charged against the between-Budget contingency established as part of Budget 2021

OR – Recommendations 22 - 27

22. **agree** that the Government should pursue direct Crown majority ownership of KGH as a step towards putting in place long-term ownership arrangements for KGH

23. **invite** the Minister of Finance to report back to Cabinet by the end of February 2022 seeking the appropriations necessary to fund share purchases

24. **note** that specialist commercial and legal advisors will be required to support the Crown's involvement in the negotiations including:

24.1. supporting Treasury in negotiations on behalf of the Crown in determining and implementing the purchase strategy

24.2. supporting the actual negotiations with KGH shareholders [33], [37], [38]

24.3. due diligence and independent testing of the pricing that is proposed for any share transactions that might be undertaken by the Crown [33], [37], [38]
[33], [37], [38]

24.4. [33], [37], [38]

24.5. any necessary amendments to the Crown Deed

25. **approve** the following changes to the appropriation to provide for the Kiwi Group Holdings ownership negotiations, with a corresponding impact on the operating balance and net core Crown debt:

Vote Finance Minister of Finance	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Multi-Year Multi-Category Appropriation Expenses and Capital Expenditure: Policy Advice and Financial Services MCA Departmental Output Expense: Policy Advice (funded by revenue Crown)	8.0	-	-	-	-

26. **agree** that the proposed changes to appropriations for 2021/22 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply
27. **agree** that the expenses incurred under recommendation 25 above be charged against the between-Budget contingency established as part of Budget 2021

Authorised for lodgement

Hon Grant Robertson
Minister of Finance

Annex 1: Pros and Cons of the Shortlisted Ownership Options for KGH

NZSF Proposal	Crown Direct Ownership Options
<p>Pros</p> <ul style="list-style-type: none"> NZSF is well placed to provide capable ownership and governance during Kiwibank's key transformation period and the growth capital required. Assuming a \$2bn² implied value for 100% of KGH, NZSF purchasing NZ Post's shares would <u>reduce</u> gross sovereign-issued debt and [25], [33], [37] and [38] [33], [37], [38] NZSF and other remaining shareholders would be responsible for funding ongoing capital requirements of Kiwibank [25] <p>Cons</p> <ul style="list-style-type: none"> [33], [37], [38] The Crown Deed gives the Crown the ability to ensure ownership remains within the Crown through its ability to purchase shares before they can be sold externally but this is less secure than direct Crown ownership. The ability to maintain New Zealand ownership would be affected by any decision to allow a minority strategic investor. The Crown would need to maintain a direct ownership level greater than that of any non-Crown investor to ensure ongoing majority Crown control. [25] The Crown has a significant potential future cost if/when NZSF reduces its investment in KGH, especially if NZSF seeks to divest a controlling interest as one transaction. 	<p>Pros</p> <ul style="list-style-type: none"> Direct ownership is the most secure means of ensuring ongoing Crown ownership. [25] [33], [37], [38] <p>Cons</p> <ul style="list-style-type: none"> [25], [34] The Crown has many other competing priorities for its resources than growth capital for the business. The increased monitoring arrangements required under this option would be significant, recognising the regulatory and compliance requirements specifically applying to banking. Assuming a \$2bn implied value for 100% of KGH, the Crown purchasing 100% of KGH directly would <u>increase</u> gross sovereign-issued debt and core Crown debt by around [25] and ongoing capital requirements would fall on the Crown and compete against other Budget priorities.

² A \$2 billion implied value for 100% of KGH has been used but actual transaction prices are the subject of negotiations yet to occur and therefore actual values if, and when, transactions occur are uncertain.

³ [33], [37], [38]