

# The Treasury

## Project Korimako - Tranche Two Release of Advice

April 2023

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- [23] 9(2)(a) - to protect the privacy of natural persons, including deceased people
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- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [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: Kiwi Group Capital Shareholding

<b>Date:</b>	16 November 2022	<b>Report No:</b>	T2022/2342
		<b>File Number:</b>	SE-1-3-22-2

### Action sought

	Action sought	Deadline
Hon Grant Robertson <b>Minister of Finance</b>	<b>Note</b> the contents of this report	None
Hon Dr David Clark <b>Minister for State Owned Enterprises</b>	<p><b>Note</b> the contents of this report.</p> <p><b>Note</b> your responsibilities as shareholding Minister for Kiwi Group Capital will commence once the Korimako transaction completes, expected to be on 30 November 2022.</p> <p><b>Agree</b> to discuss with Treasury officials, if you wish</p>	Wednesday 30 November 2022

### Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Simon Hay	Principal Advisor, Commercial & Institutional Performance	[39]	N/A (mob) ✓
David Stanley	Acting Manager, Commercial & Institutional Performance	[35]	

### Minister's Office actions (if required)

**Return** the signed report to Treasury.

Note any feedback on the quality of the report

**Enclosure:** Yes (attached)

Project Korimako – Sector Landscape Report (T2021/866) (Treasury:4437117v3)  
 Project Korimako – Final Project Documentation (T2022/1663) (Treasury:4720675v1)  
 Project Korimako – Documents for Execution (T2022/1828) (Treasury:4720673v1)  
 Project Korimako – Kiwi Group Consolidation Options (T2022/2229) (Treasury: 4720674v1)  
 Project Korimako – Completion Documents for Execution (2022/2462) (Treasury: 4717255v1)

# Treasury Report: Kiwi Group Capital Shareholding

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## Executive Summary

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This report briefs you on your role as shareholding Minister in Kiwi Group Capital Limited (KGC) once the Crown's purchase of Kiwi Group Holdings Limited (KGH), the parent company of Kiwibank Limited (Kiwibank) and The New Zealand Home Loan Company (NZHL), has been completed (expected on 30 November).

The Crown's purchase of KGH has involved a robust arms-length negotiation process with each of the KGH shareholders, with agreement reached for 100% acquisition of the shares for a purchase price of \$2,050 million [25]. This price is consistent with the initial work on valuation perspectives provided by Goldman Sachs, and further valuation scenarios work done by EY Australia (EY) as part of the due diligence phase of the process. This provided the Crown additional confidence in the approach taken.

At a summary level, the due diligence exercise conducted as part transaction did not reveal any significant issues [25], [37]

In terms of corporate structure, the Crown's shareholding in KGH will be held by KGC, a new Public Finance Act 1989 (PFA) Schedule 4A company.

The Minister of Finance and acting Minister for State Owned Enterprises have, subject to Cabinet approval, appointed David McLean (Chair) and Sir Brian Roche as initial KGC directors. Eventually the board is likely to comprise four or five directors. [25], [33], [37]

At the KGH level, the existing directors would ordinarily be expected to resign following a transaction. However, in order to provide continuity, the Minister of Finance and acting Minister for State Owned Enterprises confirmed they have no objection to the current KGH Chair (Dame Paula Rebstock) continuing for at least a transitional period following the transaction. KGC's incoming board members are also considering the composition of the KGH board going forward. They will have flexibility to continue with a subset of the existing board or make further changes following transaction completion.

The due diligence exercise has also informed Treasury's areas of focus for its monitoring and reporting to Ministers. [25], [37]

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<sup>1</sup> See Footnote 3 on page 4 of this report that describes the price calculations in more detail.

KGC's addition to PFA Schedule 4A is intended to be effected through an Order in Council. The shareholding Ministers (currently Hon Robertson as Minister of Finance and Hon Parker as acting Minister for State Owned Enterprises) are to submit the attached Cabinet paper by Wednesday 30 November 2022, which is to be considered at the LEG Committee meeting on Thursday 8 December 2022 and Cabinet on Monday 12 December 2022. By that time, you will be serving as a shareholding Minister in KGC.

## **Recommended Action**

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We recommend that you:

- a **note** that your responsibilities as a shareholder of Kiwi Group Capital Limited (KGC) commence when the Crown completes the acquisition of 100% of the shares of Kiwi Group Holdings Limited (KGH) which is expected to occur on 30 November 2022.

*Noted.*

Minister for State Owned Enterprises

- b **note** the current focus on establishing KGC as the holding company acquiring KGH, including the appointment of Directors, adding KGC to Schedule 4A of the Public Finance Act 1989 via an Order in Council, identifying areas of focus for monitoring and reporting, and retaining continuity on the KGH board.

*Noted.*

Minister for State Owned Enterprises

- c **agree** to discuss this with Treasury officials, if you wish.

*Agree/disagree.*

Minister for State Owned Enterprises

David Stanley  
**Acting Manager, Commercial and Institutional Performance**

Hon Grant Robertson  
**Minister of Finance**

Hon Dr David Clark  
**Minister for State Owned Enterprises**

# Treasury Report: Kiwi Group Capital Shareholding

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## Purpose of Report

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1. This report briefs you on your role as shareholding Minister in Kiwi Group Capital Limited (KGC) once the Crown's purchase of Kiwi Group Holdings Limited (KGH) has been completed.

## Background on KGH

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### ***KGH is the holding company of Kiwibank and the New Zealand Home Loan Company Limited (NZHL)***

2. KGH owns Kiwibank Limited (Kiwibank) and The New Zealand Home Loan Company Limited (NZHL). It has recently undertaken divestment of three other subsidiaries; Kiwi Wealth, its long-term savings management business (which is being sold to Fisher Funds Management), Kiwi Insurance and online investment platform Hatch. [25]
3. Since its formation by New Zealand Post Limited (NZ Post) in 2002, Kiwibank has grown to be the fifth largest bank in New Zealand, and it remains the country's largest locally owned bank. Kiwibank is a retail bank with most of its customers holding residential mortgages. [25], [37]
4. Wholly-owned by KGH, NZHL is a large mortgage broker with 70 locally owned franchises around the country and with the core purpose of "helping Kiwis pay off their mortgages faster." [25], [37]

## The Crown's Acquisition of KGH (Project Korimako)

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### ***The ownership arrangements put in place in 2016 became sub-optimal***

5. Since 31 October 2016, KGH has been owned by NZ Post, the New Zealand Superannuation Fund (NZSF), and Accident Compensation Corporation (ACC).
6. Over time it became clear that this shareholding arrangement was not the best way to support KGH's operating companies to achieve their full potential. The NZ Post board no longer saw a strategic rationale to remain invested in KGH and preferred to focus its attention on its core business. ACC and NZSF are focused on investment return and considered that their investment in KGH was constrained by the shareholding arrangements. ACC also considered this large private capital-type investment did not sit well in its portfolio and welcomed an opportunity to exit its KGH investment at a reasonable price.

***NZSF initially sought a controlling interest, but Crown and NZSF could not agree terms***

7. NZSF initially sought to acquire a controlling interest in KGH but NZSF's requirement that it be able to introduce a minority investor from anywhere in the world "at a suitable time in the future" did not fall within acceptable parameters for the Crown (namely that KGH be wholly New Zealand owned).<sup>2</sup> Therefore NZSF also became a willing seller recognising that the Crown's offer to purchase KGH was on reasonable terms and conditions.
8. The Crown has reached agreement to purchase of 100% of KGH. Subject to RBNZ approval (expected later this month), settlement is expected to occur on 30 November.

***Process leading to Crown acquisition***

9. A robust arms-length negotiation process was conducted with each of the KGH shareholders. Agreement has been reached with all three KGH shareholders for the Crown to purchase their KGH shareholdings for a purchase price of \$2,050 million [25]
10. The final transaction price was consistent with the initial proposed value for a transaction that the Crown put to shareholders following its consideration of valuation perspectives provided by our commercial advisor Goldman Sachs. In addition, during the due diligence phase of the negotiation process, EY Australia (EY) provided a valuation scenarios analysis of Kiwibank as part of the due diligence work. [25]
11. Due diligence was conducted as part of the transaction, as discussed more fully below. At a summary level, the due diligence exercise did not reveal any significant issues [25], [37]

12.

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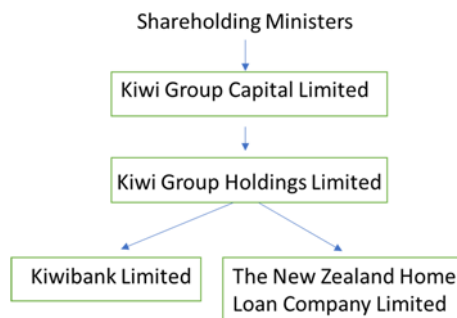
<sup>2</sup> There were some other differences between the Crown and NZSF's position for moving forward with an arrangement involving NZSF majority control of KGH but the others could likely have been worked through, unlike this specific issue.

<sup>3</sup> [25]

## **The Crown's shareholding in KGH is to be held by KGC**

13. Cabinet has decided that the Crown's shareholding in KGH will be held by KGC, a new Public Finance Act 1989 Schedule 4A company. The shareholding Ministers of KGC are to be the Minister of Finance (Hon Robertson) and you as Minister for State Owned Enterprises once the Korimako transaction is completed (expected to occur on 30 November). Up until the transfer of KGH shares, the shareholding Ministers are the Minister of Finance and Acting Minister for State Owned Enterprises (Hon Parker).
14. Under the currently agreed arrangements KGC and its subsidiaries (the Kiwi Group) would be comprised by four main companies, as depicted in Figure 1.

**Figure 1: Kiwi Group Structure**



15. [25], [33], [37]

- 16.

## **KGC's directors**

17. We are currently working on establishment arrangements that would see KGC established by 22 November 2022. The eventual board of KGC is likely to comprise four or five directors who will oversee the investment in its subsidiaries to carry on and develop the group's banking and financial services.
18. Subject to Cabinet approval, the Minister of Finance and acting Minister for State Owned Enterprises have appointed David McLean (Chair) and Sir Brian Roche as initial KGC directors. The next step is to proceed with approaching other candidates to fill the remaining vacancies. A particular focus will be organisation innovation and transformation, Te Ao Māori, and diversity of perspective.

## **KGH director continuity has been prioritised**

19. Following the transaction, the existing KGH directors (all of whom were nominated by KGH shareholders) would ordinarily be expected to resign. The Government



recognised, however, that this would not provide continuity during a period of significant change and strategic decision-making. Therefore, the Minister of Finance and acting Minister for State Owned Enterprises confirmed they have no objection to the current KGH Chair (Dame Paula Rebstock) continuing for at least a transitional period following the transaction. KGC's incoming board members are also considering the composition of the KGH board going forward. They will have flexibility to continue with a subset of the existing board or make further changes following transaction completion.

20. As noted above, we are currently working on establishment arrangements that would see KGC established by 22 November 2022. From that date appointments to the KGH board will be decisions for KGC.
21. Ideally, we suspect the KGH board would have at least three directors. Currently the board has five members (three appointed by NZ Post, 1 by ACC and one by NZSF).

## Kiwibank

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22. [25], [37]

[25], [37]

[25], [37]

## Adding KGC to Schedule 4A of the Public Finance Act 1989

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24. On 4 July 2022 Cabinet approved KGC's addition to Schedule 4A of the Public Finance Act 1989 (PFA) [*DEV-22-MIN-0146 and CAB-22-MIN-0250 refers*]. On 31 October 2022 Cabinet subsequently approved that sections 161 to 165 of the Crown Entities Act 2004 should not apply to KGC [*DEV-22-MIN-0245 and CAB-22-MIN-0466 refers*].
25. Section 3AB(1)(a) of the PFA provides that the Minister of Finance can recommend that an Order in Council be made to amend Schedule 4A to add the name of a company that meets the criteria in s 3AB(1)(a)(i)-(iii). Once KGC is incorporated, it will meet the criteria prescribed by that section. As noted earlier, KGC's incorporation is planned for around Tuesday 22 November 2022.
26. The shareholding Ministers (currently Hon Robertson as Minister of Finance and Hon Parker as acting Minister for State Owned Enterprises) are to submit a Cabinet Paper seeking to add KGC as a PFA Schedule 4A company by **Wednesday 30 November 2022** (before the end of the transfer of the Minister for State Owned Enterprises role) (T2022/2462 refers).
27. The paper is to be considered at the LEG Committee meeting on Thursday 8 December 2022 and Cabinet on Monday 12 December 2022. By that time, you will be serving as a shareholding Minister in KGC.
28. The Cabinet Manual requires that regulations do not come into force until at least 28 days after they have been notified in the New Zealand Gazette unless a waiver is granted by Cabinet. The Cabinet paper seeks a waiver of the 28-day rule on the grounds that the Order has little or no effect on the public and that the establishment of KGC has already been well publicised, including through the Minister of Finance's announcement on KGC's proposed acquisition of KGH.
29. The Treasury considers that the process to make KGC into a PFA Schedule 4A company can proceed in parallel with settlement of the commercial transactions and does not need to be completed in advance). However, we recommend that it follows as soon as practicable thereafter.

## Next Steps

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30. The final steps in the transaction are:

22 November 2022	Appointment of KGC directors and establishment of KGC
22 November 2022	Expected date of regulatory approval from Reserve Bank of New Zealand (RBNZ)
30 November 2022	Expected date of financial close: KGC purchases 100% of KGH shares
Around end November	Shareholding Ministers provide the KGC Chair with an initial letter of expectations and commence routine monitoring
8 December 2022	LEG considers Order in Council as part of process for establishment of KGC as a PFA Schedule 4A company
12 December 2022	Cabinet considers Order in Council

31. We propose to provide you with the following background reporting (attached):

- Project Korimako – Sector Landscape Report (T2021/866)
- Project Korimako – Final Project Documentation (T2022/1663)
- Project Korimako – Documents for Execution (T2022/1828)
- [25], [33], [37]
- Project Korimako – Completion Documents for Execution (T2022/2462)