

Kiwi Capital Funding Limited

Investment Statement

for an offer of Capital Notes
of up to \$100 million

9 May 2014

Kiwi
bank.

It's
Ours.

**This investment is riskier than a bank deposit.
The securities are not call deposits or term deposits
with Kiwi Capital Funding Limited or Kiwibank Limited
and may not be suitable for many investors.**

JOINT ARRANGERS AND JOINT LEAD MANAGERS

DeutscheCRAIGS

Kiwi
bank.

JOINT LEAD MANAGER

 FORSYTH BARR

Important information

(The information in this section is required under the Securities Act 1978.)

Investment decisions are very important. They often have long term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

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In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.

The Financial Markets Authority regulates conduct in financial markets

The Financial Markets Authority regulates conduct in New Zealand's financial markets. The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets.

For more information about investing, go to <http://www.fma.govt.nz>.

Financial advisers can help you make investment decisions

Using a financial adviser cannot prevent you from losing money, but it should be able to help you make better investment decisions.

Financial advisers are regulated by the Financial Markets Authority to varying levels, depending on the type of adviser and the nature of the services they provide. Some financial advisers are only allowed to provide advice on a limited range of products.

When seeking or receiving financial advice, you should check -

- the type of adviser you are dealing with;
- the services the adviser can provide you with;
- the products the adviser can advise you on.

A financial adviser who provides you with personalised financial adviser services may be required to give you a disclosure statement covering these and other matters. You should ask your adviser about how he or she is paid and any conflicts of interest he or she may have.

Financial advisers must have a complaints process in place and they, or the financial services provider they work for, must belong to a dispute resolution scheme if they provide services to retail clients. So if there is a dispute over an investment, you can ask someone independent to resolve it.

Most financial advisers, or the financial services provider they work for, must also be registered on the financial service providers register. You can search for information about registered financial service providers at <http://www.fspr.govt.nz>.

You can also complain to the Financial Markets Authority if you have concerns about the behaviour of a financial adviser.

Warning Statement¹

This is an offer by Kiwi Capital Funding Limited (“KCFL”) for you to invest in Capital Notes. An investment by you in Capital Notes is riskier than a bank deposit. Capital Notes are complex instruments and might not be suitable for many investors.

Capital Notes carry similar risks to an investment in convertible subordinated bonds issued by Kiwibank Limited (“Kiwibank”). This is because KCFL invests 100% of the proceeds of Capital Notes in convertible subordinated bonds issued by Kiwibank (“Kiwibank Bonds”), and KCFL’s ability to make payments on your Capital Notes is entirely dependent on KCFL receiving payments from Kiwibank on that investment. Although the returns on your Capital Notes are derived from the returns KCFL receives on its investment in Kiwibank Bonds, at no time will you yourself hold any Kiwibank Bonds (only KCFL does).

The risks associated with your Capital Notes could result in the loss of your investment and associated income.

Capital Notes are not guaranteed by Kiwibank, Kiwi Group Holdings Limited, New Zealand Post Limited, the government, or any other person.

If Kiwibank experiences severe financial difficulties, the Kiwibank Bonds held by KCFL may be converted into ordinary shares in Kiwibank or written off. If the Kiwibank Bonds held by KCFL are converted into ordinary shares in Kiwibank, the returns on your Capital Notes will be derived from the returns KCFL receives on those ordinary shares. These returns will not be paid on scheduled dates or in fixed amounts, and may not be paid at all.

The value of your Capital Notes is likely to fall if the Kiwibank Bonds held by KCFL are converted. If the Kiwibank Bonds held by KCFL are written off you will lose all of your investment in Capital Notes including any accrued but unpaid interest.

All shares in Kiwibank that are issued on conversion of the Kiwibank Bonds held by KCFL will be held by KCFL, and not you. An investment in Capital Notes will not result in you becoming a shareholder in Kiwibank or KCFL in any circumstances.

Neither you, nor KCFL as the holder of the Kiwibank Bonds, will have any choice as to whether a conversion or write-off of the Kiwibank Bonds occurs, and you may not have a chance to sell your Capital Notes before the conversion or write-off of the Kiwibank Bonds held by KCFL.

The Capital Notes are subordinated obligations of KCFL. This means that your claim in a liquidation of KCFL will rank after KCFL’s general unsecured creditors and any other higher ranking claims. KCFL is not expected to have any secured creditors and is not expecting to have any material obligations to unsecured, unsubordinated creditors. See Section 5.6.13 for more detail.

The ranking of the Kiwibank Bonds held by KCFL is most relevant for investors because KCFL relies on payments made on those bonds to make payments to investors. The Kiwibank Bonds held by KCFL are subordinated obligations of Kiwibank. This means KCFL’s claim in a liquidation of Kiwibank will rank after Kiwibank’s general unsecured creditors (including depositors) and any other higher ranking claims.

The table below illustrates how the liquidation of Kiwibank would affect payments to you by KCFL on your Capital Notes.

We recommend that you consult an independent financial adviser before deciding whether or not to invest and that you make certain that you are comfortable that this investment is suitable for your needs. Further information about key risks of this investment can be found in Section 5.6.

		Kiwibank	
		Examples	Examples of existing Kiwibank financial obligations
<p>You (as an investor in Capital Notes)</p> <p>Subordinated claim against KCFL under Capital Notes</p> <p>KCFL</p> <p>Ranking of KCFL’s claim for payments on Kiwibank Bonds</p> <p>Ranking of KCFL’s claim for payments if Kiwibank Bonds are converted into ordinary shares in Kiwibank</p>	<p>Higher ranking/ Earlier priority/ First to be repaid</p> <p>Lower ranking/ Later priority/ Last to be repaid</p>	<p>Higher ranking than Kiwibank Bonds held by KCFL</p> <p>Secured debt and creditors preferred by law</p>	<p>Secured creditors</p> <p>Liabilities given preference by law including employee entitlements and taxes</p>
		<p>Unsubordinated unsecured debt</p>	<p>Deposit accounts, senior bonds and trade and general creditors</p>
		<p>Equal ranking with Kiwibank Bonds held by KCFL</p> <p>Term subordinated unsecured debt</p>	<p>Subordinated bonds issued in December 2012</p>
		<p>Lower ranking than Kiwibank Bonds held by KCFL</p> <p>Preference shares</p>	<p>Perpetual preference shares issued in May 2010</p>
		<p>Ordinary shares</p>	<p>Ordinary Shares</p>

¹ This warning statement and the warning statement on the cover of this Investment Statement are based on the form of FMA warning statements that banks relying on the Securities Act [Banks’ Regulatory Capital] Exemption Notice 2014 must include in their investment statements. Although KCFL is not relying on that exemption notice, it has agreed to include similar warning statements in this Investment Statement.

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1. Key information

This is an investment statement for the purposes of the Securities Act 1978.

Some capitalised words and expressions used in this Investment Statement have defined meanings. The Glossary in Section 9 defines these words and expressions.

What are Capital Notes?	Capital Notes are unsecured, subordinated, cumulative, loss absorbing debt securities issued by KCFL.			
About KCFL and Kiwibank	<p>Both KCFL and Kiwibank are wholly owned subsidiaries of Kiwi Group Holdings Limited (itself, a wholly owned subsidiary of New Zealand Post Limited). KCFL has been established solely for the purpose of issuing debt securities (such as your Capital Notes) and using the proceeds to subscribe for regulatory capital instruments issued by Kiwibank (such as the Kiwibank Bonds held by KCFL).</p> <p>Kiwibank is a registered bank under the RBNZ Act. Kiwibank offers a range of personal and business transactional banking, savings account, term deposit, home loan, credit card and business loan products. More information on Kiwibank is contained in this Investment Statement and the Prospectus and also is available at www.kiwibank.co.nz/about-us/investor-centre/.</p>	See Sections 6, 7 and 8		
Use of funds	<p>KCFL will use the proceeds of the Capital Notes to invest in Kiwibank Bonds. Kiwibank will use the proceeds of the Kiwibank Bonds issued to KCFL to help meet its regulatory capital requirements. The Kiwibank Bonds held by KCFL are expected to count as Tier 2 Capital for Kiwibank under the RBNZ's prudential standards.</p> <p>You can find more information on these capital requirements and Kiwibank's capital position in Section 7. Section 7 also explains how Kiwibank's capital position is enhanced by New Zealand Post Limited's uncalled capital facility with the Crown.</p>	See Sections 7 and 8		
Relationship between your Capital Notes and the Kiwibank Bonds held by KCFL	<p>It is important that you understand the difference between your Capital Notes and the Kiwibank Bonds held by KCFL. You invest in Capital Notes. KCFL uses the proceeds it receives from the Capital Notes to invest in the Kiwibank Bonds. KCFL's ability to make payments to you on your Capital Notes is entirely dependent on KCFL receiving payments from Kiwibank on KCFL's investment in the Kiwibank Bonds. You do not and will not hold any Kiwibank Bonds (only KCFL does).</p> <p>The Kiwibank Bonds held by KCFL may be required to convert into Ordinary Shares in Kiwibank if a Non-Viability Trigger Event occurs (this is described below). If this happens, you will not hold any shares in Kiwibank or have any rights (such as voting rights) in relation to those shares (again, KCFL alone will hold the Ordinary Shares that are issued on conversion). Your Capital Notes are not convertible in any circumstances, but the returns on them will change if the Kiwibank Bonds held by KCFL are converted into Ordinary Shares.</p> <p>A Non-Viability Trigger Event will occur if the RBNZ directs Kiwibank to convert Kiwibank Bonds held by KCFL into Ordinary Shares or write off Kiwibank Bonds or if a statutory manager is appointed to Kiwibank and decides Kiwibank must convert Kiwibank Bonds held by KCFL into Ordinary Shares or write off Kiwibank Bonds. The RBNZ direction can only be given, or a statutory manager can only be appointed, in limited circumstances where Kiwibank encounters severe financial difficulty.</p>	See Sections 5.1 and 5.5		
How returns are paid on your Capital Notes	<p>Your Capital Notes have terms (such as interest rate, interest payment dates, maturity date) that match the terms of the Kiwibank Bonds held by KCFL, unless the Kiwibank Bonds held by KCFL are converted into Ordinary Shares.</p> <div style="text-align: center; margin-bottom: 10px;"> <pre> graph LR You[You] KCFL[KCFL] Kiwibank[Kiwibank] KCFL -- Capital Notes --> You Kiwibank -- Kiwibank Bonds --> KCFL </pre> </div> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"> <ul style="list-style-type: none"> ■ semi-annual fixed interest payments ■ principal repaid on maturity </td> <td style="width: 50%; border: none;"> <ul style="list-style-type: none"> ■ semi-annual fixed interest payments ■ principal repaid on maturity </td> </tr> </table>	<ul style="list-style-type: none"> ■ semi-annual fixed interest payments ■ principal repaid on maturity 	<ul style="list-style-type: none"> ■ semi-annual fixed interest payments ■ principal repaid on maturity 	See Sections 5.1 and 5.5
<ul style="list-style-type: none"> ■ semi-annual fixed interest payments ■ principal repaid on maturity 	<ul style="list-style-type: none"> ■ semi-annual fixed interest payments ■ principal repaid on maturity 			

	<p>In the unlikely event that Kiwibank encounters financial difficulty severe enough to result in a Non-Viability Trigger Event and the Kiwibank Bonds held by KCFL are converted into Ordinary Shares, interest will only be paid to you on your Capital Notes if KCFL receives a dividend payment from Kiwibank on the Ordinary Shares it will then hold. You should be aware that the payment of dividends is at the discretion of the board of Kiwibank and so there is no certainty that dividends will be paid in the future, particularly following a Non-Viability Trigger Event.</p> <div style="text-align: center; margin: 10px 0;"> <pre> graph LR You[You] KCFL[KCFL] Kiwibank[Kiwibank] KCFL -- Capital Notes --> You Kiwibank -- Ordinary Shares --> KCFL </pre> </div> <ul style="list-style-type: none"> <li style="display: inline-block; width: 45%; vertical-align: top;"> <ul style="list-style-type: none"> ■ interest payments are based on dividends received by KCFL (no scheduled dates) ■ no maturity date <li style="display: inline-block; width: 45%; vertical-align: top;"> <ul style="list-style-type: none"> ■ dividend payments if paid (no scheduled dates) 	See Section 5.1.2
	<p>If the Kiwibank Bonds held by KCFL are converted into Ordinary Shares, your Capital Notes will only be repaid if there is a sale of, or capital reduction involving, the Ordinary Shares issued to KCFL on conversion of those Kiwibank Bonds. See Section 5.5.8, “Repayment of the Loss Absorbing Amount” for more detail.</p> <p>If it is not possible for Kiwibank Bonds held by KCFL to convert into Ordinary Shares when required, then those Kiwibank Bonds will be written off. If the Kiwibank Bonds held by KCFL are written off in part or in whole, you will lose a corresponding amount of your investment in Capital Notes (including any accrued but unpaid interest).</p>	
Key terms of your Capital Notes		
Maturity Date	<p>15 July 2024. KCFL must pay the Principal Amount to you on this day.</p> <p>KCFL’s obligation to repay your Capital Notes changes or will terminate if the Kiwibank Bonds held by KCFL are converted into Ordinary Shares or are written-off – see “What happens if the Kiwibank Bonds held by KCFL are converted into Ordinary Shares or written off?”.</p>	See Sections 5.5.7 and 5.5.8
Early repayment of the Principal Amount	<p>15 July 2019, each scheduled Interest Payment Date falling after 15 July 2019 or if a Tax Event or Regulatory Event occurs, but only if specified conditions are satisfied (including obtaining RBNZ consent). You do not have a right to request your Capital Notes be repaid early for any reason.</p>	See Sections 5.5.7 and 5.5.8
Interest payments	<p>Interest on your Capital Notes is scheduled to be paid semi-annually in arrear on each Interest Payment Date. KCFL’s obligation to pay interest on your Capital Notes (other than on the Maturity Date) is subject to the condition that KCFL receives a corresponding payment of interest from Kiwibank on its investment in the Kiwibank Bonds. Kiwibank must pay interest to KCFL on the Kiwibank Bonds KCFL holds on each Interest Payment Date unless Kiwibank or the Kiwibank Group would not be Solvent immediately after the payment is made.</p> <p>If interest is not paid when due on your Capital Notes it will continue to accrue and will be payable by KCFL when KCFL receives a corresponding payment of interest on the Kiwibank Bonds it holds or on the Maturity Date (whichever is the earlier).</p> <p>KCFL’s obligation to pay interest on your Capital Notes changes or will terminate if the Kiwibank Bonds held by KCFL are converted into Ordinary Shares or written off – see “What happens if the Kiwibank Bonds held by KCFL are converted into Ordinary Shares or written off?”.</p>	See Sections 5.5.5, 5.5.6 and 8
Interest Rate	<ul style="list-style-type: none"> ■ The Interest Rate for the period from the Issue Date to the Reset Date will be set on the Rate Set Date and announced by KCFL via NZX and at www.kiwibank.co.nz/about-us/investor-centre/ on or before the Opening Date. ■ The Interest Rate for the period from the Reset Date to the Maturity Date will be equal to the 5 Year Swap Rate as at the Reset Date plus the Margin. <p>How interest on your Capital Notes is determined changes if the Kiwibank Bonds held by KCFL are converted into Ordinary Shares – see “What happens if the Kiwibank Bonds held by KCFL are converted into Ordinary Shares or written off?”.</p>	See Section 5.5.6

Determination of the Margin and the 5 Year Swap Rate	<p>The Margin will be determined by KCFL and the Joint Arrangers on the Rate Set Date, and announced via NZX and at www.kiwibank.co.nz/about-us/investor-centre/ on that date. If your Capital Notes are not repaid on 15 July 2019, the 5 Year Swap Rate to apply from the Reset Date will be determined by KCFL and announced via NZX on that date. The Margin will not change during the term of your Capital Notes.</p>	See Section 5.5.6
What happens if the Kiwibank Bonds held by KCFL are converted into Ordinary Shares or written off?	<p>The returns on your Capital Notes are derived from the returns KCFL receives on its investment in Kiwibank Bonds. This means that if all of the Kiwibank Bonds held by KCFL are converted into Ordinary Shares, the returns on your Capital Notes will change. In particular:</p> <ul style="list-style-type: none"> ■ your Capital Notes will no longer have a maturity date (that is, your Capital Notes may not be repaid at all); ■ interest will no longer be payable on scheduled dates and at a fixed rate. Interest on your Capital Notes will only be paid if and to the extent KCFL receives a dividend payment from Kiwibank on the Ordinary Shares issued to KCFL on conversion of the Kiwibank Bonds held by KCFL. The payment of dividends is at the discretion of the board of Kiwibank and so there is no certainty that dividends will be paid in the future, particularly following a Non-Viability Trigger Event; ■ your Capital Notes will only be repaid if and to the extent that KCFL receives the proceeds of a sale of, or capital reduction involving, the Ordinary Shares issued to KCFL on a conversion of the Kiwibank Bonds held by KCFL; and ■ KCFL has no liability to pay any accrued but unpaid interest on your Capital Notes as at the date the Kiwibank Bonds held by KCFL are converted into Ordinary Shares. <p>If Kiwibank is required to convert Kiwibank Bonds held by KCFL into Ordinary Shares but conversion is not possible, the Kiwibank Bonds held by KCFL that were required to convert will be written off instead. If the Kiwibank Bonds held by KCFL are written off in part or in whole, you will lose a corresponding amount of your investment in Capital Notes (including any accrued but unpaid interest).</p> <p><i>Partial conversion or write off of the Kiwibank Bonds held by KCFL</i></p> <p>It is possible that, if a Non-Viability Trigger Event occurs, some but not all of the Kiwibank Bonds held by KCFL will be converted into Ordinary Shares or written off. In that case, the number of Capital Notes you hold will remain the same, but the returns on a part only of each of your Capital Notes (equal to the proportion of the Kiwibank Bonds held by KCFL that are converted into Ordinary Shares or written off) will change or be written off to reflect the partial conversion or write off of the Kiwibank Bonds held by KCFL.</p>	See Section 5.5.3, “Interest Payments on the Loss Absorbing Amount” in Section 5.5.6 and Sections 5.5.8 and 8
No guarantee or security of your Capital Notes	<p>Your Capital Notes are not guaranteed by any person, and none of Kiwibank, Kiwi Group Holdings Limited, New Zealand Post Limited nor any other person guarantees KCFL. Your Capital Notes are unsecured.</p>	See Section 5.6.5, “No guarantee”
Credit rating of your Capital Notes	<p>At the date of this Investment Statement, KCFL has obtained a rating of BB+ from Standard & Poor’s for your Capital Notes. This is lower than Kiwibank’s issuer credit rating for long term senior unsecured obligations of A+ (negative outlook) because the returns on your Capital Notes are derived from the performance of the Kiwibank Bonds held by KCFL, and those Kiwibank Bonds are subordinated obligations of Kiwibank which may be converted into Ordinary Shares or written off if a Non-Viability Trigger Event occurs.</p>	See Section 5.1.5

<p>Risks that KCFL doesn't meet its commitments</p>	<p>A description of the key risks that may affect your returns and repayment of your investment in Capital Notes is set out in Section 5.6 under the heading "What are my risks?" You should read that section in full before deciding to invest in Capital Notes. Those risks include:</p> <ul style="list-style-type: none"> ■ KCFL's ability to make payments on your Capital Notes, including on the Maturity Date, is entirely dependent on KCFL receiving payments from Kiwibank on the Kiwibank Bonds it holds. Accordingly, if KCFL does not receive a payment from Kiwibank, KCFL will not be able to make payments to you on your Capital Notes. ■ If a Non-Viability Trigger Event occurs, the Kiwibank Bonds held by KCFL will be either: <ul style="list-style-type: none"> – converted into Ordinary Shares, which will affect the returns on your Capital Notes, including that there will be no scheduled interest payments or maturity date; or – written off, in which case your investment in Capital Notes will lose all of its value, you will not have your capital repaid or be paid any accrued but unpaid interest and you will not receive any compensation. ■ Risks associated with Kiwibank's business may affect Kiwibank's ability to make payments on the Kiwibank Bonds held by KCFL and/or the likelihood of a Non-Viability Trigger Event occurring, either of which may affect the value of your Capital Notes and the likelihood of you receiving the returns on your Capital Notes on the scheduled dates. ■ Risks that reflect the features of your Capital Notes. For example, each of your Capital Notes and the Kiwibank Bonds held by KCFL are subordinated debt obligations of the relevant issuer and are not guaranteed by any person. You have no right to be repaid early. But nor can you prevent KCFL from repaying your Capital Notes early if the Kiwibank Bonds held by KCFL are repaid early by Kiwibank. In addition, the Interest Rate is fixed for five years and will be reset on the Reset Date (although the Margin will not change) if your Capital Notes are not repaid on 15 July 2019. ■ Market-related risks, such as the risk that the market for your Capital Notes is not liquid or the risk that the market price of your Capital Notes fluctuates, both of which mean you may be unable to sell your Capital Notes at an acceptable price, or at all. 	<p>See Section 5.6</p>
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2. The Offer

Issue amount	Up to \$100 million.
Issue price	\$1 per Capital Note.
Minimum application	\$5,000, and in multiples of \$1,000 thereafter.
Scaling	The Joint Arrangers, in consultation with KCFL, reserve the right to scale applications at their discretion.
Offer process	All Capital Notes are reserved for subscription by clients of the joint lead managers, Primary Market Participants (as defined in the NZX's "Participant Rules") and other persons invited to participate in the distribution of Capital Notes. There is no public pool.
How to apply	Instructions on how to make an application for Capital Notes are contained under the heading "How much do I pay?" in Section 5.3 and the Application Instructions in Section 11.
Early bird interest	KCFL will pay interest on application moneys for applications that are accepted at the interest rate that will apply to your Capital Notes when they are issued. This interest will be paid on the first Interest Payment Date, and will be paid for the period from the date on which those application moneys are banked until (but excluding) the Issue Date. Consequently, on the first Interest Payment Date, each original subscriber will be paid an amount that is the same as it would have been if the Capital Notes had been issued on the date his or her application moneys were banked.
Brokerage	You are not required to pay brokerage to KCFL for Capital Notes under this Offer.
No underwriting	The Offer is not underwritten.
NZX Debt Market quotation and trading your Capital Notes	<p>Application has been made to NZX for permission to quote Capital Notes on the NZX Debt Market and all the requirements of NZX relating thereto that can be complied with on or before the date of this Investment Statement have been duly complied with. However, Capital Notes have not yet been approved for quotation and NZX accepts no responsibility for any statement in this Investment Statement. NZX is a registered exchange and the NZX Debt Market is a registered market under the Securities Markets Act 1988.</p> <p>NZX has approved, under Listing Rule 11.1.5, the inclusion of provisions in the Trust Deed allowing KCFL to refuse a transfer of Capital Notes if the transfer is not in multiples of 1,000 Capital Notes or would result in the transferee or transferor holding less than Minimum Holding of Capital Notes (5,000 Capital Notes).</p> <p>Information on how to trade your Capital Notes is contained in Section 5.8.</p>
NZX Debt Market ticker code	NZX Debt Market ticker code KCF010 has been reserved for the Capital Notes.
Offer in New Zealand only	<p>This Investment Statement does not constitute an offer of Capital Notes in any jurisdiction other than New Zealand. No action has been or will be taken by KCFL or Kiwibank which would permit a public offering of Capital Notes, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). Capital Notes may only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered. No information memorandum, prospectus, circular, advertisement or other offering material in respect of any Capital Notes may be published, delivered or distributed in or from any country or jurisdiction except under circumstances which will result in compliance with all applicable laws and regulations.</p> <p>Under the Trust Deed you indemnify KCFL in respect of any loss incurred as a result of you breaching the above selling restrictions.</p>

3. Important dates

Rate Set Date:	14 May 2014
Opening Date:	15 May 2014
Closing Time:	5.00pm on 3 June 2014
Issue Date:	6 June 2014
Expected date of quotation on the NZX Debt Market	9 June 2014
Expected date of commencement of trading on the NZX Debt Market	9 June 2014
First Interest Payment Date:	15 July 2014
Subsequent Interest Payment Dates:	each 15 July and 15 January up to and including the Maturity Date*
Reset Date:	15 July 2019
Optional Repayment Dates:	15 July 2019 and each Interest Payment Date falling after 15 July 2019
Maturity Date:	15 July 2024

* If the Capital Notes are repaid before the Maturity Date (see Section 5.5.7), the Early Repayment Date will also be an Interest Payment Date.

The key dates for the Offer (other than the Interest Payment Dates, Reset Date, Optional Repayment Dates and Maturity Date) are indicative only and may change without notice. You are encouraged to apply as soon as possible after the Opening Date.

KCFL may vary the timetable, including by extending the Closing Time, closing the Offer early without notice, or withdrawing the Offer at any time before Capital Notes are issued. If the Offer is withdrawn before the issue of Capital Notes, all application payments received by KCFL from you will be refunded (without interest) to you as soon as possible after the withdrawal and, in any event, within five Business Days of the withdrawal.

In addition, as described in more detail in this Investment Statement, if a Non-Viability Trigger Event occurs you may not be entitled to payments of interest or repayment of your investment on the scheduled dates set out above, or at all.

4. Letter to investors

Dear Investor,

The Board and Management of Kiwibank are pleased to offer you an opportunity to subscribe for Capital Notes to be issued by Kiwi Capital Funding Limited (KCFL). The Capital Notes are being issued by KCFL which is a member of the New Zealand Post Group (that includes Kiwibank) and has been specifically established to issue the Capital Notes.

We welcome the participation of existing and new investors in this Offer. The proceeds of the Offer will be used by KCFL to invest in bonds to be issued by Kiwibank. These “Kiwibank Bonds” will provide Kiwibank with Tier 2 capital so it can continue to meet regulatory capital requirements.

Kiwibank’s vision is to continue to build a bank that makes a difference and supports the needs of New Zealanders and New Zealand businesses. The bank was established in 2002 as a bank with a value based offering to challenge the New Zealand banking sector. Kiwibank has secured a sizeable portion of the market and now has a customer base of more than 800,000 spread across retail, business, wealth and insurance segments.

Kiwibank’s position is underpinned by strong brand awareness and its current strategy is focussed on diversifying revenue streams, strengthening its capital position and improving profitability. In 2013 Kiwibank received the Major Bank of the Year award (for the third straight year) in the Roy Morgan Research annual customer satisfaction awards.

Kiwibank’s financial performance in the six months to 31 December 2013 showed a net profit of \$52 million after tax. In addition, Kiwibank now meets the Reserve Bank’s criteria for a systemically important bank, joining the other major banks as an important financial player in the New Zealand economy.

Kiwibank has a credit rating of A+ (negative outlook). The Capital Notes have been assigned a lower rating of BB+ by Standard & Poor’s because of their subordination and loss absorption features. An obligation with a “BB” credit rating is less vulnerable to non-payment than other speculative grade issues.

The Capital Notes are not guaranteed by any entity in the New Zealand Post Group, including Kiwibank or the government. The Capital Notes are unsecured, subordinated obligations of KCFL and all payments KCFL makes on the Capital Notes are dependent on KCFL receiving payments from Kiwibank on KCFL’s investment in Kiwibank Bonds. The Capital Notes are expected to pay semi-annual interest payments and principal on maturity. However, if Kiwibank experiences severe financial difficulty, this may lead to an adverse change in the returns on the Capital Notes.

Yours sincerely



Robert Morrison
Chairman
Kiwibank Limited



Paul Brock
Chief Executive
Kiwibank Limited

5. Answers to important questions

Section 5 provides answers to the questions that are prescribed by the Securities Regulations 2009 and are designed to help you make your investment decisions.

5.1 What sort of investment is this?

5.1.1 Overview

The Offer is for the issue of Capital Notes to raise up to \$100 million.

Capital Notes are unsecured, subordinated, cumulative, loss absorbing debt securities issued by KCFL. KCFL will use 100% of the proceeds of the Offer to subscribe for Kiwibank Bonds issued by Kiwibank that count as Tier 2 Capital for Kiwibank. Capital Notes have terms (such as interest rate, interest payment dates, maturity date) that match the terms of the Kiwibank Bonds held by KCFL, unless the Kiwibank Bonds held by KCFL are converted into Ordinary Shares.

Your Capital Notes are expected to pay fixed interest semi-annually in arrear and to be repaid in full on the Maturity Date (15 July 2024). Your Capital Notes may also be repaid earlier if certain conditions are satisfied, including Kiwibank choosing to repay the Kiwibank Bonds held by KCFL early, and the RBNZ providing its consent to the early repayment. There is no certainty that any of these conditions will be satisfied.

In the unlikely event that Kiwibank encounters severe financial difficulty resulting in a Non-Viability Trigger Event and the Kiwibank Bonds held by KCFL are converted into Ordinary Shares, the returns paid to you on your Capital Notes will be derived from the returns KCFL receives on the Ordinary Shares it will then hold.

5.1.2 Loss absorbency

To qualify as Tier 2 Capital for Kiwibank, the Kiwibank Bonds held by KCFL are required to absorb losses if Kiwibank becomes non-viable. The Kiwibank Bonds held by KCFL meet this requirement. If a Non-Viability Trigger Event occurs, the Kiwibank Bonds held by KCFL must be converted into Ordinary Shares. However, if conversion is not possible, the Kiwibank Bonds held by KCFL will be written off. The Kiwibank Bonds held by KCFL will not be converted or written off in any other circumstances.

Non-Viability Trigger Event

The RBNZ Act gives the RBNZ broad powers that may be exercised if a bank encounters severe financial difficulty. Those powers include giving directions to the bank or recommending that the bank be placed in statutory management. A Non-Viability Trigger Event will occur if, as a result of severe financial difficulty encountered by Kiwibank:

- (a) the RBNZ directs Kiwibank to convert or write off Kiwibank Bonds held by KCFL; or
- (b) following the RBNZ's recommendation, a statutory manager is appointed in respect of Kiwibank and the statutory manager decides that Kiwibank must convert or write off Kiwibank Bonds held by KCFL.

More information about what constitutes a Non-Viability Trigger Event, including the circumstances in which the RBNZ may exercise the powers described above, is set out in Section 8.

Effect of loss absorbency on your Capital Notes

The returns on your Capital Notes will change if the Kiwibank Bonds held by KCFL are converted into Ordinary Shares. If all of the Kiwibank Bonds held by KCFL are written off, your Capital Notes will be automatically and irrevocably written off, meaning you will lose your investment (including any accrued but unpaid interest). This is explained in the Section 5.5, headed "What returns will I get?"

5.1.3 No claims against Kiwibank and no rights as shareholders

KCFL's ability to make payment on your Capital Notes is entirely dependent on KCFL receiving payments from Kiwibank on the Kiwibank Bonds it holds or, if a conversion has occurred, the Ordinary Shares that are issued to KCFL. However you:

- **have only limited rights to make a claim on KCFL in respect of your Capital Notes (your rights to make a claim on KCFL are described under the heading "Limited enforcement rights of Holders of Capital Notes" in Section 5.6.14);**
- **do not have any claim on Kiwibank, and your Capital Notes are not guaranteed by Kiwibank or any other person; and**
- **will not become a shareholder in Kiwibank and do not have any rights of a shareholder in Kiwibank.**

5.1.4 Comparison of Capital Notes to other instruments issued by Kiwibank and related companies

Your Capital Notes are different from other instruments issued by Kiwibank or its related companies. You should consider these differences in light of your investment objectives, financial situation and particular needs (including financial and taxation issues) before deciding to apply for Capital Notes.

	Term deposits	Perpetual Preference Shares ("PPS") issued in May 2010	Subordinated bonds issued in December 2012	Capital Notes
Issuer	Kiwibank	Kiwi Capital Securities Limited ("KCSL")	Kiwibank	KCFL
Term	Varies	Perpetual, subject to early redemption (see below)	10 years, subject to early redemption (see below)	10 years, subject to early repayment (see below)*
Interest/Dividend rate	Varies	Fixed (although reset at five yearly intervals)	Fixed (although reset if the bonds are not redeemed on 15 December 2017)	Fixed (although reset on the Reset Date if the Kiwibank Bonds held by KCFL are not repaid on 15 July 2019)*
Interest/Dividend payment dates	Varies	Quarterly	Semi-annually	Semi-annually*
Conditions to payment of interest/dividends	None	Yes, subject to KCSL's absolute discretion and other payment conditions	Yes, Kiwibank must pay interest on the Subordinated Bonds unless it would not be solvent immediately after making the payment	Yes, subject to KCFL receiving a Corresponding Payment from Kiwibank (Kiwibank must pay interest on the Kiwibank Bonds held by KCFL unless Kiwibank or the Kiwibank Group would not be Solvent immediately after making the payment)
Cumulative rights to unpaid interest/dividend	Cumulative	Non-cumulative	Cumulative	Cumulative
Transferable	No	Yes – quoted on NZX Debt Market as "KCSHA"	Yes – although not quoted on NZX Debt Market	Yes – expected to be quoted on NZX Debt Market as "KCF010"
Issuer has early repayment option on fixed date	No	Yes	Yes	Yes
Issuer has other early repayment options	No	Yes, tax, regulatory and liquidation events	Yes, tax and regulatory events	Yes, tax and regulatory events
Loss absorption	None	None	Yes	Yes
Consequences of loss absorption	Not applicable	Not applicable	Bonds are written off	The Kiwibank Bonds held by KCFL will be converted into Ordinary Shares (in which case, the returns on your Capital Notes will change (see Sections 5.5.6 and 5.5.8)) or, if this is not possible, written off (in which case, your Capital Notes will also be written off (see Section 5.5.3))
Capital classification for Kiwibank	Not applicable	Tier 1	Tier 2	Tier 2
Ranking	Unsubordinated unsecured	Preference shares	Subordinated unsecured	Your Capital Notes and the Kiwibank Bonds held by KCFL are both subordinated and unsecured
Credit Rating on issue Standard & Poor's	A+ (negative outlook)	BB+	BB+	BB+

* You should note that the term of and returns on your Capital Notes will change if the Kiwibank Bonds held by KCFL are converted into Ordinary Shares or will terminate if the Kiwibank Bonds held by KCFL are written off. See the "Loss absorption" and "Consequences of the loss absorption" rows of the table.

5.1.5 Credit rating of your Capital Notes

At the date of this Investment Statement your Capital Notes have a credit rating of BB+ from Standard & Poor's. This is lower than Kiwibank's issuer credit rating for long term senior unsecured obligations of A+ (negative outlook) because the returns on your Capital Notes are derived from the performance of the Kiwibank Bonds held by KCFL, which are subordinated obligations of Kiwibank and may be converted into Ordinary Shares or written off if a Non-Viability Trigger Event occurs. In its most recent review, Standard & Poor's has assigned a negative outlook to Kiwibank's A+ long term senior debt rating highlighting economic risks in the New Zealand economy in relation to the housing market and persistent current account deficits.

A credit rating in respect of an entity (an issuer rating) is an independent opinion of the capability and willingness of an entity to repay its debts – in other words, its financial strength or creditworthiness. A credit rating in respect of a security (such as your Capital Notes) is an independent opinion of the capability and willingness of an entity to repay the debt under that security. A rating is not a guarantee that the securities being offered are a safe investment or that any or all amounts payable under that security will be repaid.

Standard & Poor's gives ratings from "AAA" through to "CC", as set out in the table below. Credit ratings of "AAA" to "BBB" are considered to be investment grade.

Credit ratings below "BBB" are regarded by Standard & Poor's as having significant speculative characteristics. "BB" indicates the least degree of speculation. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. An obligation rated "BB" is less vulnerable to non-payment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

The ratings from "AA" to "CCC" may be modified by the addition of a plus (+) or minus sign (-) to show relative standing within the major rating categories. Ratings may also be subject to positive, negative or stable outlooks. Although not included in the diagram, ratings of "C" and "D" can also be given if insolvency proceedings have been commenced or there are payment defaults on financial commitments.

Further information about the ratings criteria used by Standard & Poor's can be found on the Standard & Poor's website (www.standardandpoors.com).

Credit ratings are not a recommendation to buy, sell or hold Capital Notes. Credit rating agencies may withdraw, revise or suspend credit ratings or change the methodology by which securities are rated.

Rating	AAA	AA	A	BBB	BB	B	CCC	CC
Capacity to meet financial commitments	Extremely strong	Very strong	Strong	Adequate	Less vulnerable	More vulnerable	Currently vulnerable	Currently highly vulnerable
					Capital Notes			

5.2 Who is involved in providing it for me?

Issuer of your Capital Notes

KCFL is the issuer of your Capital Notes. KCFL's full name is Kiwi Capital Funding Limited. As at the date of this Investment Statement, KCFL's registered office is:

Level 12
New Zealand Post House
7 Waterloo Quay, Wellington 6011

KCFL's registered office may change from time to time. KCFL's current registered office may be viewed on www.business.govt.nz/companies. As at the date of this Investment Statement, KCFL's directors are:

Paul Robert Brock
Graeme William Watt

KCFL's directors may change from time to time. A list of KCFL's current directors is available on the "Directors" tab on KCFL's record on the Companies Office website, www.business.govt.nz/companies.

KCFL's activities

KCFL was incorporated as a limited liability company on 17 March 2014. KCFL has not carried on business prior to the date of this Investment Statement. KCFL was incorporated for the sole purpose of issuing debt securities and utilising the proceeds to subscribe for regulatory capital instruments issued by Kiwibank. KCFL has the benefit of the Deposit Takers (Banks' Regulatory Capital) Exemption Notice 2014. Under that exemption notice, KCFL is exempt from the prudential requirements applicable to non-bank deposit takers under the RBNZ Act (being requirements relating to credit ratings, governance, risk management, capital ratios, related party exposures and liquidity). The exemption recognises that compliance with these requirements by entities such as KCFL would be redundant because of the relationship KCFL has with Kiwibank, which is a registered bank and already subject to the prudential supervision of the RBNZ.

Trustee

The New Zealand Guardian Trust Company Limited has been appointed trustee in respect of your Capital Notes. As at the date of this Investment Statement, the Trustee's registered office is:

Level 7, Vero Centre
48 Shortland Street, Auckland 1010

The Trustee's registered office may change from time to time. The Trustee's current registered office may be viewed on www.business.govt.nz/companies.

The Trustee has been granted a licence under Section 16(1) of the Securities Trustees and Statutory Supervisors Act 2011 to act as a trustee in respect of debt securities, unit trusts, and KiwiSaver schemes, and as a statutory supervisor for participatory securities, for a term expiring 16 March 2018.

A copy of the Trustee's licence, including the conditions on the licence, can be obtained at the FMA's website: www.fma.govt.nz by clicking on "Help Me Comply", "Trustees", "Licensed Trustees and Statutory Supervisors", "The New Zealand Guardian Trust Company Limited" or the Trustee's website: www.guardiantrust.co.nz. All conditions and reporting obligations have been duly satisfied by the required dates. If you have any queries about the licence please contact the Trustee in the first instance.

Promoter

Kiwibank and each of its directors are promoters of your Capital Notes. As at the date of this Investment Statement, Kiwibank's registered office is:

Level 12
New Zealand Post House
7 Waterloo Quay, Wellington 6011

Kiwibank's registered office may change from time to time. Kiwibank's current registered office may be viewed on www.business.govt.nz/companies. As at the date of this Investment Statement, Kiwibank's directors are:

Michael John Cullen
Alison Rosemary Gerry
Robert William Bentley Morrison
Brian Joseph Roche
Catherine Maria Savage
David Stephen Willis

Kiwibank's directors may change from time to time. A director can only be appointed if the RBNZ has advised that it has no objections to the appointment. A list of Kiwibank's current directors is available on the "Directors" tab on Kiwibank's records on the Companies Office website, www.business.govt.nz/companies. The directors of Kiwibank can be contacted through Kiwibank at its registered office.

More information on Kiwibank is contained in Section 6.

Registrar

The Registrar of your Capital Notes is Link Market Services Limited. Link Market Services Limited's address is:

Level 7, Zurich House
21 Queen Street, Auckland 1010
or
PO Box 91976, Auckland 1142
www.linkmarketservices.co.nz

5.3 How much do I pay?

Issue price

You must pay \$1.00 for each Capital Note.

You must pay the issue price for each Capital Note you apply for in full to KCFL at the time of application in accordance with the instructions set out in Section 11.

Minimum investment

The minimum amount of Capital Notes you can subscribe for is \$5,000 (and you must subscribe for multiples of \$1,000 thereafter). There is no maximum limit on the number of Capital Notes you can subscribe for.

Application payment

You must pay your application payment by direct debit, by a cheque delivered with the application form (attached to this Investment Statement) prior to the Closing Time, through the NZClear system or other method acceptable to KCFL. Further details on how to make your application and application payment are set out in Section 11.

Applications

Your application and application payment must be received by the Registrar on or before the Closing Time (5.00 pm on 3 June 2014).

All Capital Notes are reserved for subscription by clients of the joint lead managers, Primary Market Participants (as defined in the NZX's "Participant Rules") and other persons invited to participate in the distribution of Capital Notes.

You should contact your financial adviser for details of the application process for Capital Notes as there is no public pool for Capital Notes.

KCFL reserves the right to refuse any application or accept any application in part only without giving a reason.

Any application money received from you in respect of an application which is not accepted by KCFL, whether because of late receipt or otherwise, will be returned (without interest) to you as soon as reasonably practicable after KCFL decides not to accept the application and, in any event, within five Business Days of the Issue Date.

If KCFL accepts an application in part, the balance of the application money (without interest) will be refunded as soon as reasonably practicable and, in any event, within five Business Days of the Issue Date.

If your payment for Capital Notes is dishonoured, any Capital Notes issued to you will be forfeited, and KCFL may seek to recover from you any damages it suffers.

No cooling-off

There is no cooling-off period in relation to Capital Notes. Consequently, once your application has been lodged, you cannot withdraw or revoke it, unless KCFL determines otherwise in its sole discretion.

5.4 What are the charges?

You pay no fees or charges to KCFL in respect of your initial investment in Capital Notes (other than the issue price of \$1.00 per Capital Note). However, you may have to pay a fee or commission and other applicable fees to any financial intermediary you received a firm allocation from, or any person who recommends the investment to you or who arranges the application for you.

KCFL will pay to approved financial intermediaries a firm fee of 0.50% of the Principal Amount on firm allocations and brokerage of 0.75% of the Principal Amount on applications accepted bearing their stamp. Pursuant to the Administration Agreement (described in more detail in Section 5.6.13), Kiwibank has agreed to pay these brokerage costs on behalf of KCFL.

5.5 What returns will I get?

The information set out in this section should be read in conjunction with the information set out under the heading "What are my risks?" in Section 5.6. Certain events could reduce or eliminate the returns you expected to receive from holding Capital Notes.

The information set out in this section under the heading "What returns will I get?" contains:

- An overview of the returns (Section 5.5.1)
- A list of the key factors that determine your returns (Section 5.5.2)
- Explanations of some important concepts for understanding what returns you will receive:
 - how the principal on which returns are determined may vary (Section 5.5.3)
 - who is legally responsible to pay returns (Section 5.5.4)
 - what receipt of a Corresponding Payment means (Section 5.5.5)
- A description of the interest that is payable (including after a Non-Viability Trigger Event) (Section 5.5.6)
- A description of your rights to repayment (including after a Non-Viability Trigger Event) (Sections 5.5.7–5.5.8)
- Information about payments and what happens if KCFL does not repay your Capital Notes on the Maturity Date (Sections 5.5.9–5.5.10)
- Information about taxation in relation to your Capital Notes (Section 5.5.11)

5.5.1 Overview

The returns you receive on your Capital Notes will be in the nature of interest payments and the repayment of principal on the Maturity Date, or earlier if Kiwibank repays the Kiwibank Bonds held by KCFL before their scheduled maturity. Except for early repayment, payments are expected to be made on scheduled Interest Payment Dates and on the Maturity Date. The returns will reflect the returns received by KCFL on its investment in the Kiwibank Bonds.

If the Kiwibank Bonds held by KCFL are converted into Ordinary Shares, you may not receive any further returns on your Capital Notes. If returns are received, they will be in the nature of interest payments and the repayment of principal. The returns will reflect the returns received by KCFL on the Ordinary Shares issued to it on conversion of the Kiwibank Bonds held by KCFL. It is not possible to predict if or when any returns will be paid in these circumstances, or the amount of the returns.

The table below summarises what will happen to your investment if certain events occur. Many of the potential outcomes are subject to conditions being satisfied (for example, Kiwibank may only make a payment on the Kiwibank Bonds held by KCFL if Kiwibank and the Kiwibank Group would be Solvent immediately after making that

payment) and some of which (such as the approval of the RBNZ) are outside of Kiwibank's control. Some outcomes also depend on choices being made by Kiwibank (for instance, choosing to repay the Kiwibank Bonds held by KCFL early). The potential outcomes are discussed in more detail in this Section 5.5.

Kiwibank Event				What value will you receive from KCFL in relation to your Capital Notes?
When?	RBNZ approval needed?	Do other conditions apply?		
Kiwibank makes a scheduled interest payment to KCFL on Kiwibank Bonds held by KCFL	Semi-annual on each Interest Payment Date	No	Yes, Solvency	KCFL must pay you interest on your Capital Notes
Kiwibank does not make a scheduled interest payment to KCFL on Kiwibank Bonds held by KCFL	Semi-annual on each Interest Payment Date	No	No	No amount is payable to you by KCFL, although if Kiwibank subsequently pays the interest to KCFL, KCFL must immediately pay you interest on your Capital Notes
Kiwibank repays the Kiwibank Bonds held by KCFL on an Optional Repayment Date	Optional Repayment Date	Yes	Yes, including Solvency	KCFL must repay your Capital Notes
Kiwibank does not repay the Kiwibank Bonds held by KCFL on an Optional Repayment Date	Each Optional Repayment Date	No	No	No change to your Capital Notes except that, in the case of the first Optional Repayment Date only, the Interest Rate will be reset. (Kiwibank is not obliged to repay the Kiwibank Bonds held by KCFL on any Optional Repayment Date so you should not expect your Capital Notes to be repaid on any of those dates)
Kiwibank repays the Kiwibank Bonds held by KCFL on the Maturity Date	Maturity Date	No	No	KCFL must repay your Capital Notes
Kiwibank does not repay the Kiwibank Bonds held by KCFL on the Maturity Date	Maturity Date	No	No	KCFL will not have any funds to pay to you, so cannot repay your Capital Notes. The Trustee may take enforcement action against KCFL in respect of your Capital Notes
Kiwibank repays Kiwibank Bonds held by KCFL following a Tax Event or Regulatory Event	If a Tax Event or Regulatory Event occurs	Yes	Yes, including Solvency	KCFL must repay your Capital Notes
Potential outcomes following a Non-Viability Trigger Event				
Conversion of Kiwibank Bonds held by KCFL into Ordinary Shares in Kiwibank	If a Non-Viability Trigger Event occurs	No	No	The returns on your Capital Notes will change. As described below, returns will only be paid if and to the extent Kiwibank pays a dividend to KCFL or there is a sale of, or capital reduction involving, the Ordinary Shares issued to KCFL

Kiwibank Event				What value will you receive from KCFL in relation to your Capital Notes?
When?	RBNZ approval needed?	Do other conditions apply?		
Following conversion of the Kiwibank Bonds held by KCFL Kiwibank pays dividends on its Ordinary Shares to KCFL	No scheduled dates	No	Yes, including Solvency	KCFL must pay you interest on your Capital Notes, the amount of which is determined by reference to the dividends received by KCFL
Following conversion of the Kiwibank Bonds held by KCFL there is a sale of, or capital reduction involving, the Ordinary Shares held by KCFL	No scheduled date	No	Yes, for example, a share buy back must be completed in accordance with the Companies Act 1993	KCFL must pay you a proportion of the proceeds it receives (equal to the proportion of the Capital Notes you hold) less tax and other expenses
Write off of Kiwibank Bonds held by KCFL in part or in whole	If a Non-Viability Trigger Event occurs and conversion is not possible	No	No	A corresponding amount of each of your Capital Notes will be automatically and irrevocably written off, meaning you will lose that amount of your investment (including any accrued but unpaid interest)

If a Non-Viability Trigger Event occurs, it is possible only some, but not all, of the Kiwibank Bonds held by KCFL will be converted into Ordinary Shares or, if conversion is not possible, written off. In those circumstances, more than one of the potential outcomes may apply to your Capital Notes.

If you sell your Capital Notes you will receive the market price for your Capital Notes at that time which may be more or less than the amount you paid for your Capital Notes.

If the Kiwibank Bonds held by KCFL are written off in part or in whole, you will lose a corresponding amount of your investment in Capital Notes (including any accrued but unpaid interest).

5.5.2 Key factors that determine returns

The key factors that determine your returns on your Capital Notes are:

- the Interest Rate applicable to your Capital Notes over the term of your investment – see Section 5.5.6;
- any applicable taxes – see Section 5.5.11;
- the extent to which KCFL receives a Corresponding Payment from Kiwibank and so is able to make payments on your Capital Notes when scheduled – see Section 5.5.5;
- the financial condition of KCFL, Kiwibank and the Kiwibank Group – see Sections 5.6, 6 and 7;
- fluctuations in the price of your Capital Notes sold on a secondary market, as described under the heading “What are my risks?” in Section 5.6;
- whether the Kiwibank Bonds held by KCFL are repaid early – see Section 5.5.7;

- whether any Kiwibank Bonds held by KCFL are converted into Ordinary Shares or written off – see Sections 5.5.3 and 8; and
- the other risk factors described under the heading “What are my risks?” in Section 5.6.

5.5.3 The principal on which returns are determined may vary

Most debt securities determine returns to investors by reference to a principal amount that does not vary during the term of the investment. Your Capital Notes are structured differently, with each of your Capital Notes having a Principal Amount and a Loss Absorbing Amount. On the Issue Date, the Principal Amount will be \$1.00 and the Loss Absorbing Amount will be zero. These amounts will only change if there is a Non-Viability Trigger Event.

The total return on your Capital Notes is made up of the return on each of the Principal Amount and the Loss Absorbing Amount, described in Section 5.5.6 under the headings “Interest Payments on the Principal Amount” and “Interest Payments on the Loss Absorbing Amount”.

This section describes the ways in which the Principal Amount and Loss Absorbing Amount can change following a Non-Viability Trigger Event.

For so long as the Kiwibank Bonds held by KCFL have not been converted into Ordinary Shares or written off, the Principal Amount of each of your Capital Notes will remain at \$1.00 and the Loss Absorbing Amount will remain zero. This is shown below, by reference to a holding of 10,000 Capital Notes having a Principal Amount of \$10,000 on the Issue Date.

Composition of Capital Notes on Issue Date		Composition of Capital Notes when repaid
Principal Amount \$10,000 <ul style="list-style-type: none"> fixed maturity scheduled fixed interest payments on \$10,000 Loss Absorbing Amount is zero 	No conversion or write off of the Kiwibank Bonds held by KCFL	Principal Amount \$10,000 <ul style="list-style-type: none"> repayment of principal payment of final interest payment on \$10,000 Loss Absorbing Amount is zero

If a Non-Viability Trigger Event occurs, Kiwibank Bonds held by KCFL may be converted into Ordinary Shares or, if this is not possible, written off. If a Non-Viability Trigger Event occurs and all of the Kiwibank Bonds held by KCFL are converted into Ordinary Shares, the number of Capital Notes you hold will remain the same, but the Principal Amount of each of your Capital Notes will reduce to zero and the Loss Absorbing Amount of each of your Capital Notes will increase to \$1.00. If a Non-Viability Trigger Event occurs and only some of the Kiwibank Bonds held by KCFL are converted into Ordinary Shares, the number of Capital Notes you hold will remain the same, but the Principal Amount of each of your Capital Notes will reduce by an amount equal to the proportion of the Kiwibank Bonds held by KCFL that have converted into Ordinary Shares, and the Loss Absorbing Amount will increase by the same amount.

If a Non-Viability Trigger Event occurs and all of the Kiwibank Bonds held by KCFL are written off, all of your Capital Notes will be written off and you will lose your investment (including any accrued but unpaid interest). If a Non-Viability Trigger Event occurs and only some of the Kiwibank Bonds held by KCFL are written off, the number of Capital Notes you hold will remain the same, but the Principal Amount of each of your Capital Notes will reduce by the proportion of the Kiwibank Bonds held by KCFL that are written off and you will lose that amount of your investment (including any accrued but unpaid interest). There is no increase in the Loss Absorbing Amount in these circumstances.

If a Non-Viability Trigger Event occurs, not all of the Kiwibank Bonds held by KCFL will need to be converted into Ordinary Shares or written off if the RBNZ or the statutory manager of Kiwibank can be satisfied that Kiwibank will be viable following conversion or write off of only some of the Kiwibank Bonds held by KCFL. In those circumstances either Kiwibank (in consultation with the RBNZ) or the statutory manager of Kiwibank will determine how many Kiwibank Bonds held by KCFL will be converted into Ordinary Shares or written off.

More detail on the conversion and write off processes is set out in Section 8, "The Kiwibank Bonds held by KCFL" and in the Prospectus.

The potential adjustments to the Principal Amount and Loss Absorbing Amount of your Capital Notes are shown below for three different scenarios, by reference to a holding of \$10,000 of Capital Notes.

Scenario 1: 100% of the Kiwibank Bonds held by KCFL are converted into Ordinary Shares

Composition of Capital Notes on Issue Date		Composition of Capital Notes after conversion
Principal Amount \$10,000 <ul style="list-style-type: none"> fixed maturity scheduled fixed interest payments on \$10,000 Loss Absorbing Amount is zero 	→	Loss Absorbing Amount \$10,000 <ul style="list-style-type: none"> no fixed maturity interest determined by reference to Kiwibank dividends received by KCFL principal repaid only if a capital reduction or share sale occurs Principal Amount is zero

Scenario 2: 40% of the Kiwibank Bonds held by KCFL are converted into Ordinary Shares

Composition of Capital Notes on Issue Date		Composition of Capital Note after conversion		
Principal Amount \$10,000 <ul style="list-style-type: none"> fixed maturity scheduled fixed interest payments on \$10,000 Loss Absorbing Amount is zero 	→	<table border="1"> <tr> <td>Principal Amount \$6,000</td> <td>Loss Absorbing Amount \$4,000</td> </tr> </table> <ul style="list-style-type: none"> repayment of \$6,000 of principal at fixed maturity scheduled fixed interest payments on \$6,000 no fixed maturity interest determined by reference to Kiwibank dividends received by KCFL remaining principal repaid only if a capital reduction or share sale occurs 	Principal Amount \$6,000	Loss Absorbing Amount \$4,000
Principal Amount \$6,000	Loss Absorbing Amount \$4,000			

Scenario 3: 40% of the Kiwibank Bonds held by KCFL are written off

Composition of Capital Notes on Issue Date	Composition of Capital Notes after write off
Principal Amount \$10,000	Principal Amount \$6,000
<ul style="list-style-type: none"> ■ fixed maturity ■ scheduled fixed interest payments on \$10,000 ■ Loss Absorbing Amount is zero 	<ul style="list-style-type: none"> ■ repayment of \$6,000 of principal at fixed maturity ■ scheduled fixed interest payments on \$6,000 ■ Loss Absorbing Amount is zero (the remaining \$4,000 of principal is written off and you lose that amount of your investment)

Each of the adjustments described above occurs automatically whenever a conversion or write off of the Kiwibank Bonds held by KCFL occurs and is irreversible.

In addition, if there has been a conversion of Kiwibank Bonds held by KCFL into Ordinary Shares following a Non-Viability Trigger Event:

- the Loss Absorbing Amount of each Capital Note will be adjusted if there is a sale (including by a liquidator of KCFL) of, or capital reduction involving, the Ordinary Shares issued to KCFL on conversion of the Kiwibank Bonds held by KCFL to reflect the net value of those shares; and
- the Principal Amount of each Capital Note will be reduced when the Principal Amount is repaid and the Loss Absorbing Amount of each Capital Note will be reduced if the Loss Absorbing Amount is repaid.

5.5.4 Person legally responsible to pay returns

The person legally responsible to make payments on your Capital Notes is KCFL. It is not possible to quantify as at the date of this Investment Statement the exact amount of returns you will receive, and therefore no such amount can be promised by KCFL. Your Capital Notes are not guaranteed by any person, and neither Kiwibank nor any other person guarantees KCFL.

While KCFL is the only person obliged to make payments to you, KCFL's obligations to make payments on your Capital Notes, other than on the Maturity Date, are subject to KCFL receiving a Corresponding Payment from Kiwibank.

5.5.5 What does receipt of a Corresponding Payment mean?

Receipt of a Corresponding Payment (and similar expressions) means that KCFL has received a payment from Kiwibank on the relevant date either in respect of the Kiwibank Bonds held by KCFL or, following the conversion

of the Kiwibank Bonds held by KCFL, in respect of the Ordinary Shares issued to KCFL on conversion of those Kiwibank Bonds. In relation to the Kiwibank Bonds held by KCFL, Corresponding Payments will take the form of interest payments and the repayment of principal by Kiwibank to KCFL on those Kiwibank Bonds. In relation to Ordinary Shares issued to KCFL on conversion of the Kiwibank Bonds held by KCFL, Corresponding Payments will take the form of dividends paid on those Ordinary Shares to KCFL or the proceeds received by KCFL of a sale of, or capital reduction involving, those Ordinary Shares.

This is explained in more detail in the Prospectus.

If KCFL is not required to make a payment to you on your Capital Notes because it has not received a Corresponding Payment from Kiwibank it must make the payment to you as soon as it receives the Corresponding Payment from Kiwibank or on the Maturity Date (whichever is the earlier). If KCFL's obligation to make a payment is conditional on it receiving a Corresponding Payment from Kiwibank, then non-payment by KCFL because the condition is not satisfied does not constitute a default under your Capital Notes.

Unless KCFL is placed in liquidation, each Corresponding Payment received by KCFL is held on trust by KCFL for the benefit of you and the other Holders until paid by KCFL to you and the other Holders.

The condition that KCFL receives a Corresponding Payment does not apply to KCFL's obligation to repay the Principal Amount and accrued but unpaid interest on your Capital Notes on the Maturity Date. However, KCFL will not have sufficient funds to make those payments on the Maturity Date unless it receives a Corresponding Payment from Kiwibank. Failure by KCFL to make those payments on the Maturity Date will constitute a default under your Capital Notes. Your rights to make a claim against KCFL in these circumstances are described under the heading "Limited enforcement rights of Holders of Capital Notes" in Section 5.6.14.

KCFL will not receive a Corresponding Payment if Kiwibank is not Solvent or RBNZ does not consent

The obligation of Kiwibank to pay interest on the Kiwibank Bonds held by KCFL, other than on the maturity date of those Kiwibank Bonds, and to repay the Kiwibank Bonds held by KCFL before maturity, is conditional upon Kiwibank and the Kiwibank Group being Solvent immediately after the payment is made and in the case of early repayment, the RBNZ consenting to the early repayment.

If the applicable condition is not able to be satisfied, Kiwibank will not be obliged to make the relevant payment on the Kiwibank Bonds to KCFL, and KCFL will not receive the Corresponding Payment from Kiwibank.

5.5.6 Interest Payments

You will receive interest payments on the Principal Amount outstanding based on the Interest Rate then applicable. The Principal Amount will be \$1.00 unless there has been a Non-Viability Trigger Event, in which case the Principal Amount will be reduced as described earlier in Section 5.5.3. **You will have no right to receive any more interest payments on**

any part of the Principal Amount that has been reduced, whether following a conversion of the Kiwibank Bonds held by KCFL into Ordinary Shares or a write off of the Kiwibank Bonds held by KCFL.

If Kiwibank Bonds held by KCFL are converted into Ordinary Shares following a Non-Viability Trigger Event then you will be entitled to receive interest payments on the Loss Absorbing Amount.

How interest payments are calculated for the Principal Amount and the Loss Absorbing Amount is described below.

Interest Payments on the Principal Amount

Interest on your Capital Notes is scheduled to be paid on the Principal Amount of each of your Capital Notes semi-annually in arrear on each Interest Payment Date. **KCFL's obligation to pay interest on your Capital Notes, other than on the Maturity Date, is conditional on KCFL receiving a Corresponding Payment from Kiwibank.** KCFL may not receive a Corresponding Payment meaning interest on your Capital Notes may not always be paid when expected on scheduled Interest Payment Dates.

If interest is not paid when scheduled, interest on the Principal Amount will continue to accrue at the Interest Rate and the interest that was not paid on the scheduled Interest Payment Date will be paid by KCFL when it receives a Corresponding Payment from Kiwibank or on the Maturity Date (whichever is the earlier). **Non-payment of interest on a scheduled Interest Payment Date because no Corresponding Payment has been received by KCFL will not constitute a default by KCFL except for on the Maturity Date.**

The Interest Rate for the period from the Issue Date to the Reset Date will be set on the Rate Set Date and announced by KCFL via NZX and at www.kiwibank.co.nz/about-us/investor-centre/ on or before the Opening Date. The Interest Rate for the period from the Reset Date to the Maturity Date will be equal to the sum of the 5 Year Swap Rate as at the Reset Date and the Margin.

Reset Date – what is the 5 Year Swap Rate?

A swap rate is a benchmark interest rate used in the New Zealand financial markets and is commonly used as a reference by major financial institutions. The 5 Year Swap Rate is the reference rate for an instrument with a five year term. Swap rates change to reflect market conditions over time. They are volatile and today's 5 Year Swap Rate is no indication of what the 5 Year Swap Rate will be in five years' time.

Reset Date – what is the Margin?

The Margin is the percentage rate per annum set by KCFL in conjunction with the Joint Arrangers and announced via NZX and at www.kiwibank.co.nz/about-us/investor-centre/ on or before the Opening Date. On the Reset Date, the Margin is added to the 5 Year Swap Rate to determine the interest rate that will apply for the period from the Reset Date to the Maturity Date. The Margin will not change during the term of your Capital Notes.

Early bird interest

KCFL will pay interest on application moneys for applications that are accepted at the interest rate that will apply to your Capital Notes. This interest will be paid on the first Interest Payment Date, and will be paid for the period from the date on which those application moneys are banked until (but excluding) the Issue Date. Consequently, on the first Interest Payment Date, each original subscriber will be paid an amount that is the same as it would have been if the Capital Notes had been issued on the date his or her application moneys were banked.

Effect of a conversion of Kiwibank Bonds held by KCFL into Ordinary Shares on accrued interest

If Kiwibank is required to convert some or all of the Kiwibank Bonds held by KCFL into Ordinary Shares, all accrued but unpaid interest on the Kiwibank Bonds held by KCFL will also be converted into Ordinary Shares. In these circumstances, KCFL has no liability to pay any accrued but unpaid interest on your Capital Notes.

Interest Payments on the Loss Absorbing Amount (This only applies if the Kiwibank Bonds held by KCFL have been converted into Ordinary Shares.)

If a Non-Viability Trigger Event occurs and some or all of the Kiwibank Bonds held by KCFL are converted into Ordinary Shares, you will be entitled to interest payments on the Loss Absorbing Amount.

Interest Payments Dates in respect of the Loss Absorbing Amount

Each date on which Kiwibank pays a dividend on the Ordinary Shares to KCFL will be an Interest Payment Date in relation to the Loss Absorbing Amount if the Kiwibank Bonds held by KCFL have been converted into Ordinary Shares. **There are no scheduled Interest Payment Dates in respect of the Loss Absorbing Amount as the payment of dividends (if any) is at the discretion of the Kiwibank board. This means that you will not receive interest payments in respect of the Loss Absorbing Amount on the Interest Payment Dates specified in Section 3, "Important Dates".**

How will interest on the Loss Absorbing Amount be calculated?

If there is an Interest Payment Date in relation to the Loss Absorbing Amount, the amount of interest paid to you on the Loss Absorbing Amount of each of your Capital Notes will be calculated by dividing (x) the total amount of dividends paid on that date by Kiwibank to KCFL in respect of the Ordinary Shares issued to KCFL on conversion of the Kiwibank Bonds held by KCFL by (y) the total number of Capital Notes held by you and all other Holders.

Payment of interest on the Loss Absorbing Amount is conditional on KCFL receiving a Corresponding Payment.

5.5.7 Repayment of the Principal Amount

KCFL must repay each of your Capital Notes on the Maturity Date or, in certain circumstances, on the Early Repayment Date.

In most cases, the amount required to repay each of your Capital Notes will be equal to the Principal Amount. However, if the Early Repayment Date is not the Reset Date, has not occurred as a consequence of a Tax Event or a Regulatory Event and none of the Kiwibank Bonds held by KCFL has been converted into Ordinary Shares, the amount required to repay each of your Capital Notes will be the greater of the Principal Amount and the market value of the Capital Notes. The market value will be determined by an independent valuer in accordance with the Trust Deed and is explained in more detail in the Prospectus.

Repayment of the Principal Amount on the Maturity Date

KCFL's obligation to repay your Capital Notes on the Maturity Date is not subject to conditions.

Repayment of the Principal Amount before the Maturity Date

KCFL is only obliged to repay your Capital Notes on an Early Repayment Date if:

- (a) Kiwibank has exercised an early repayment option in respect of the Kiwibank Bonds held by KCFL; and
- (b) the RBNZ has consented to the repayment of the Kiwibank Bonds held by KCFL; and
- (c) all other pre-conditions to the exercise of the early repayment option by Kiwibank have been satisfied; and
- (d) KCFL has received a Corresponding Payment from Kiwibank.

There is no certainty that Kiwibank will elect to exercise an early repayment option or that Kiwibank will be able to satisfy the pre-conditions to the exercise of the option.

Early repayment option

Kiwibank may, with the consent of the RBNZ, elect to exercise the early repayment option:

- (a) on any Optional Repayment Date (15 July 2019 and each scheduled Interest Payment Date falling after that date); or
- (b) if a Tax Event or a Regulatory Event has occurred.

Tax Event and Regulatory Event are defined in the Glossary. Broadly:

- (a) a **Tax Event** occurs when there has been, or will be, a change in taxation which would result in a more than minimal increase in costs for Kiwibank in relation to the Kiwibank Bonds held by KCFL or for KCFL in relation to your Capital Notes; and
- (b) a **Regulatory Event** occurs when there has been, or will be, a change in regulation which adversely affects, or will adversely affect, in more than a minor way, Kiwibank's regulatory capital treatment of the Kiwibank Bonds held by KCFL.

5.5.8 Repayment of the Loss Absorbing Amount (This only applies if the Kiwibank Bonds held by KCFL have been converted into Ordinary Shares.)

If, following a conversion of all or some of the Kiwibank Bonds held by KCFL into Ordinary Shares, there is a sale of, or capital reduction involving, the Ordinary Shares issued to KCFL on conversion, KCFL must pay to you an amount (the "**Loss Absorbing Payment Amount**") in respect of each of your Capital Notes calculated by dividing (x) the total proceeds of the share sale or capital reduction paid to KCFL in respect of those Ordinary Shares (less any applicable tax or expenses payable by KCFL (or by the consolidated group of which KCFL is a member)) by (y) the total number of Capital Notes held by you and other Holders. The Loss Absorbing Payment Amount is described in more detail in the Prospectus.

KCFL has no obligation to repay the Loss Absorbing Amount in any other circumstances.

KCFL must not accept an offer made by Kiwibank for a capital reduction involving Ordinary Shares held by KCFL, or an offer from a purchaser to buy Ordinary Shares held by KCFL, without approval by an Extraordinary Resolution of Holders.

5.5.9 Payments

Interest paid on the first Interest Payment Date (plus any early bird interest) will be paid to the original subscriber for each Capital Note. After that, KCFL will make payments on each Capital Note to the person registered as the Holder of the Capital Note as at the Record Date for the payment. KCFL will make payments to the bank account you nominated on your application form or such other bank account as you may advise the Registrar in writing from time to time (provided you give such notice prior to the Record Date for the payment).

If a payment date is not a Business Day, payment will be made on the next date which is a Business Day, but the amount paid will not be adjusted.

There are no reserves or retentions that will impact on returns to investors.

5.5.10 Non-payment on the Maturity Date

If your Capital Notes are not repaid on the Maturity Date, interest will continue to accrue at the Interest Rate up to the date on which your Capital Notes are repaid in full.

5.5.11 Taxation

The return on your Capital Notes will be affected by taxes. If a law requires KCFL to deduct an amount in respect of taxes from a payment under a Capital Note, then KCFL will deduct the amount and pay it to the relevant authority. KCFL is not obliged to pay you any additional amounts in relation to any such deduction.

Under the terms of your Capital Notes, you indemnify KCFL in respect of any tax which KCFL becomes liable to pay on your behalf. KCFL may deduct any indemnity payment from future amounts payable.

You must notify the Registrar:

- of your country of residence for tax purposes; and
- if you are not a New Zealand tax resident, whether you are engaged in business in New Zealand through a fixed establishment; and
- if your country of residence for tax purposes changes.

The information set out below does not constitute taxation advice to you or any other Holder of Capital Notes. The information detailed below is general in nature and KCFL understands it to be correct as at the date of this Investment Statement. Taxation laws are subject to change, and such changes may materially affect your tax position with respect to an investment in Capital Notes. You should seek qualified, independent financial and taxation advice in relation to your circumstances before deciding to invest.

Resident withholding tax

If you are either a New Zealand resident for tax purposes or you are engaged in business through a fixed establishment (as defined in the Income Tax Act 2007 (“Tax Act”)) in New Zealand (“Resident Holder”), KCFL will deduct resident withholding tax (“RWT”) from the gross amount of interest (and other payments deemed to be interest) paid to you in accordance with the provisions of the Tax Act.

If you are an individual or hold Capital Notes as trustee, and have supplied your IRD number to the Registrar, you may elect for RWT to be deducted at a rate of 10.5%, 17.5%, 30% or 33%. You may elect a rate of 10.5% only if you are an individual (not acting as a trustee) and you have a reasonable expectation at the time of making the election that your income for the income year applicable to you (eg 1 April 2014 to 31 March 2015) will be \$14,000 or less, or if you are holding Capital Notes as trustee of certain testamentary trusts. If you are an individual or hold Capital Notes as trustee and you do not supply your IRD number to the Registrar, KCFL will deduct RWT at 33%. If the Commissioner of Inland Revenue determines that the rate you have notified to KCFL is inconsistent with your marginal tax rate, the Commissioner may require KCFL to deduct RWT at a different rate to the rate you elected.

KCFL will deduct RWT at 28% from interest paid to a Holder that is a company (not acting as a trustee) that has supplied its IRD number to the Registrar and that has not elected that RWT be deducted at 33%. KCFL will deduct RWT at 33% from interest paid to a company that has not supplied its IRD number to the Registrar.

KCFL will not deduct RWT if you provide a copy of an appropriate RWT exemption certificate to the Registrar at least five Business Days before the Record Date for the relevant payment.

Non-resident withholding tax

Notwithstanding that KCFL is only offering Capital Notes to investors who are New Zealand residents, if at any time you hold a Capital Note and are not a New Zealand tax resident and are not engaged in business through a fixed establishment (as defined in the Tax Act) in New Zealand (“Non-resident Holder”), KCFL will deduct non-resident

withholding tax (“NRWT”), where appropriate, at the rate required by law from payments made to you. If KCFL is lawfully able to pay approved issuer levy (as defined in section 86F of the Stamp and Cheque Duties Act 1971) (“AIL”) in respect of any payment of interest (or deemed interest) to you, KCFL will pay the AIL (currently equal to 2 percent of such payments of interest) to the appropriate authority and will deduct the amount paid from the interest (or deemed interest) payable to you in lieu of deducting NRWT. If Capital Notes qualify for the zero percent rate of AIL under section 86IB of the Stamp and Cheque Duties Act 1971 and KCFL takes the steps necessary to apply the zero percent rate, KCFL will not deduct any amount from the interest (or deemed interest) payable to you on account of AIL or NRWT.

If you are a Non-resident Holder you may request in writing that NRWT be deducted from interest (or deemed interest) paid to you instead of AIL.

If you are a Non-resident Holder and derive interest under Capital Notes jointly with one or more New Zealand tax residents, the AIL regime is not applicable and withholding tax will be deducted from interest paid or credited at the applicable RWT rate. Non-resident Holders may then be entitled to claim a refund from Inland Revenue to the extent that tax was withheld in excess of their applicable NRWT rate.

Financial arrangements rules

Under the financial arrangements rules, gains you make on the sale or other disposal (including on maturity) of your Capital Notes will generally be taxable to you if you are resident in New Zealand for tax purposes. If you are a non-resident for tax purposes, you may also be subject to tax on such gains. You should consult your own taxation advisers about the effect of taxes on your investment in any Capital Notes.

5.6 What are my risks?

5.6.1 Key Risks

Your Capital Notes are an investment and there are risks you need to be aware of, including those described in this section. You need to consider how these risks apply to your personal circumstances, and KCFL recommends that you talk to an authorised financial adviser about the investment options available to you before deciding whether to invest in Capital Notes.

The selection of risks has been based on an assessment of a combination of the probability of the risk occurring and impact of the risk if it did occur. There is no guarantee or assurance that the importance of different risks will not change or that other risks will not emerge.

If you have any questions about these risks you should seek advice from your financial adviser or other professional adviser before deciding to invest in Capital Notes.

More information on these risks is contained in the Prospectus.

5.6.2 KCFL is reliant on payments being made by Kiwibank

There is a risk that Kiwibank will not make payments on the Kiwibank Bonds held by KCFL when due. Other than on the Maturity Date, KCFL's obligation to make any payments on your Capital Notes is conditional on it receiving a Corresponding Payment from Kiwibank. This means that if Kiwibank does not make a payment to KCFL on its investment in the Kiwibank Bonds, KCFL is not obliged to make the corresponding payment to you on your Capital Notes. This will occur, for instance, if Kiwibank or the Kiwibank Group would not be Solvent after making an interest payment on the Kiwibank Bonds held by KCFL as Kiwibank is not obliged to pay interest on the Kiwibank Bonds held by KCFL in those circumstances.

The terms of your Capital Notes provide that (other than on the Maturity Date) failure to pay an interest payment when scheduled because KCFL has not received the Corresponding Payment from Kiwibank will not constitute an event of default. This means that if an interest payment is not paid in full on an Interest Payment Date because KCFL did not receive a Corresponding Payment from Kiwibank, you have no claim or entitlement in respect of non-payment on your Capital Notes prior to the Maturity Date.

Payments on your Capital Notes by KCFL on the Maturity Date are not conditional on KCFL receiving a Corresponding Payment from Kiwibank. However, KCFL's ability to make payment to you on the Maturity Date is entirely dependent on KCFL receiving payments from Kiwibank on the Kiwibank Bonds held by KCFL. As a result, if KCFL does not receive a payment from Kiwibank on the Kiwibank Bonds it holds, KCFL will not be able to make payment to you on your Capital Notes.

The terms of your Capital Notes also provide that, if any Kiwibank Bonds held by KCFL are converted into Ordinary Shares or written off, KCFL has no liability to pay any interest that has accrued on your Capital Notes prior to the date of conversion or write off but which is unpaid (the corresponding interest on the Kiwibank Bonds held by KCFL will have been converted into Ordinary Shares or written off).

Kiwibank has also agreed to pay certain costs and other amounts that KCFL will owe to the Trustee, the Registrar and NZX in connection with your Capital Notes. If Kiwibank does not meet those costs, in a liquidation of KCFL those other creditors would be paid before you (see Section 5.6.5 below, "Capital Notes are subordinated obligations of KCFL"). As a member of the New Zealand Post Limited consolidated group for income tax purposes, KCFL may be jointly and severally liable for taxes payable by the consolidated group. However, the tax liability of the consolidated group is expected to be paid by one or more of the other members. Therefore, KCFL is not expected to have any liabilities for tax except in the unlikely event that the consolidated group's tax liability is not met by any other member.

5.6.3 Conversion or write off of the Kiwibank Bonds held by KCFL following a Non-Viability Trigger Event

If all of the Kiwibank Bonds held by KCFL are converted into Ordinary Shares, the returns on your Capital Notes will change and there will be no scheduled interest payments or maturity date. The returns on your Capital Notes after the conversion will reflect the returns received by KCFL on the Ordinary Shares issued to KCFL on conversion of the Kiwibank Bonds held by it. It is not possible to predict if or when any returns will be paid in these circumstances, or the amount of the returns.

For instance, interest payments on your Capital Notes following conversion of the Kiwibank Bonds held by KCFL into Ordinary Shares will be derived from dividends paid by Kiwibank to KCFL on the Ordinary Shares then held by KCFL. In addition, KCFL has no obligation to repay the Loss Absorbing Amount unless there is a sale of, or capital reduction involving, the Ordinary Shares issued to KCFL on conversion of the Kiwibank Bonds held by KCFL. If there is a sale of, or capital reduction involving, the Ordinary Shares held by KCFL, KCFL is only obliged to pay you an amount equal to the Loss Absorbing Payment Amount on each of your Capital Notes, which may be less than the Loss Absorbing Amount prior to the share sale or capital reduction.

In all likelihood, Kiwibank's financial position following the Non-Viability Trigger Event that resulted in the conversion of the Kiwibank Bonds held by KCFL into Ordinary Shares would not be strong enough to permit payment of a dividend. Also, even if Kiwibank's financial position subsequently improved, payment of a dividend is at the discretion of the Kiwibank board. Directors cannot be compelled to pay a dividend, even if Kiwibank's financial position would allow it. Similarly, in these circumstances it may be difficult for KCFL to find a purchaser for the Ordinary Shares held by it at an acceptable price, or at all, or for Kiwibank to be able to offer to buy back Ordinary Shares or do a capital reduction. These matters may adversely affect the price at which you can sell your Capital Notes or whether you can sell them at all if insufficient liquidity exists in the market for Capital Notes.

If, following a Non-Viability Trigger Event, conversion of the Kiwibank Bonds held by KCFL into Ordinary Shares is not possible within five Business Days after the Non-Viability Trigger Event occurred, the Kiwibank Bonds held by KCFL required to be converted will not be converted into Ordinary Shares, but instead, will be written off. If write off occurs, all rights (including to interest payments) in respect of the Kiwibank Bonds held by KCFL will be terminated. As the returns on your Capital Notes are derived from the returns on the Kiwibank Bonds held by KCFL, if the Kiwibank Bonds held by KCFL are written off in part or in whole, you will lose a corresponding amount of your investment in Capital Notes, you will not have that amount of your capital repaid, or be paid any accrued but unpaid interest, and you will not receive any compensation.

5.6.4 Risks associated with Kiwibank's business which may affect the Kiwibank Bonds held by KCFL and, therefore, your Capital Notes

If the financial performance or position of Kiwibank declines, or if market participants anticipate that it may decline, an investment in Capital Notes could decline in value even if Kiwibank Bonds held by KCFL have not been converted into Ordinary Shares. Accordingly, when you evaluate whether to invest in Capital Notes, you should carefully evaluate the investment risks associated with an investment in Kiwibank. The principal risks and uncertainties associated with Kiwibank are set out below.

Kiwibank's businesses may be adversely affected by the uncertainty in the global credit markets and associated impacts

Kiwibank's business is impacted by the operation of these global markets, either directly or indirectly, including through exposures in securities, loans, derivatives and other activities. In addition, turmoil in the financial markets has flowed into the real economy, with major global economies either slowing substantially or contracting, which has caused increased unemployment in many countries, including New Zealand. As a financial institution, Kiwibank may be impacted in a number of ways by the current economic climate.

A downturn in the New Zealand economy could adversely impact Kiwibank's results

Kiwibank's results may be influenced by the level and cyclical nature of business activity in New Zealand. New Zealand's business activity is impacted by both domestic and international economic and political events. A weakening in the New Zealand economy may have an adverse impact on Kiwibank's operations or future results.

Kiwibank reliance on New Zealand Post's retail network

Kiwibank utilises New Zealand Post's retail network in its provision of banking services to customers. Changes to this retail network may have an adverse impact on Kiwibank's ability to adequately service its customers and therefore on future results.

Kiwibank may incur losses associated with its counterparty exposures

Kiwibank faces the possibility that a counterparty may be unable to honour its contractual obligations to it. These parties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons.

Adverse credit market conditions or changes to Kiwibank's credit rating may significantly affect Kiwibank's ability to access domestic and international funding, raise the cost of funding and impair its ability to meet liquidity needs

Disruptions, uncertainty or volatility in the credit markets may limit Kiwibank's access to funding at a cost that is acceptable to Kiwibank. These market conditions may limit Kiwibank's ability to replace, in a timely manner, maturing liabilities, access the funding necessary to grow its business and maintain a high-quality portfolio of liquid assets to support its business, which may negatively affect Kiwibank's business. Kiwibank's ability to raise capital and funding and

other aspects of its performance may be affected if it fails to maintain its credit ratings.

Kiwibank is subject to extensive regulation, which could impact its results or operations

Kiwibank's banking activities are subject to extensive regulation, mainly relating to liquidity levels, solvency and provisioning. Its business and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities of the New Zealand Government.

Any change in regulation, including changes that increase the requirements of regulatory capital could have an adverse impact on Kiwibank's results or operations.

The RBNZ possesses a number of crisis management powers. Those powers include recommending that a bank's registration be cancelled, investigating the affairs of a registered bank, giving directions to a registered bank, removing, replacing or appointing a director of a registered bank or recommending that a registered bank be subject to statutory management.

Regulatory actions taken now or in the future may significantly affect Kiwibank's operations and financial condition

Recent events in the financial services industry and, more generally, in the international financial markets and the global economy, have led to various changes in the regulation of the financial services industry.

Changes in regulation may require changes to certain business practices, and may expose Kiwibank to additional costs.

Kiwibank may face operational risks associated with being a complex financial institution and may incur losses as a result of ineffective risk management processes and strategies

Kiwibank's businesses are highly dependent on its ability to process and monitor, on a daily basis, a very large number of transactions, many of which are highly complex, across numerous and diverse markets in many currencies. Kiwibank's financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are wholly or partially beyond its control, such as a spike in transaction volume, adversely affecting its ability to process these transactions or provide these services. In addition, Kiwibank is exposed to the risk of loss resulting from human error, the failure of internal or external processes and systems or from external events.

Risks relating to information technology systems

Like all banks, Kiwibank is highly dependent on information systems and technology and there is a risk that these, or the services they use or are dependent on, might fail. To manage some of these risks, Kiwibank has adequate recovery and systems continuity plans in place, which continue to be developed as Kiwibank grows. However, any failure in these systems could result in business interruption, data loss or corruption, the loss of customers, damaged reputation and weakening of Kiwibank's competitive position and could adversely impact the business and have a material adverse effect on Kiwibank's financial condition and operations.

Kiwibank considers it must constantly update and implement new information technology systems, in part to assist with satisfying regulatory demands, ensuring information security, enhancing computer-based banking services for customers and integrating the various segments of the business. These implementation projects may not be organised effectively or executed efficiently, which could lead to increased project costs, delays in the ability to comply with regulatory requirements, failure of information security controls or a decrease in Kiwibank's ability to enhance services to customers. Kiwibank has determined that it is appropriate to modernise its core banking system over the next 3-5 years. Therefore, there will be a higher level of investment during this period which will be actively managed to minimise the risk of unplanned costs or operational risk from a significant change programme.

Market, interest rate and currency risks could adversely impact Kiwibank's results

Kiwibank is subject to the risks typical of banking such as interest rate fluctuations, exchange rate variations and capital market volatility. Many of the events or circumstances giving rise to these risks are outside Kiwibank's control. The results of Kiwibank's banking operations are affected by Kiwibank's management of interest rate sensitivity. Activity in the securities markets generally also affects its banking business. Kiwibank also offers a number of financial products that expose it to risks associated with fluctuations in interest rates.

Kiwibank faces intense competition, which could adversely impact its results

Kiwibank faces intense competition in all of its principal areas of operation in New Zealand.

Access to capital from New Zealand Post

While Kiwibank's intention is to be capital self-sufficient, further capital support from New Zealand Post may be required. There is no assurance that New Zealand Post would be able to agree to the level of capital support requested.

Reputational damage and legal and regulatory issues could harm Kiwibank's business and prospects

Various issues may give rise to reputational risk and legal and regulatory consequences and cause harm to Kiwibank's business and prospects. Failure to address these issues appropriately could also give rise to additional legal risk, subject Kiwibank to regulatory enforcement actions, fines and penalties, cause loss for Kiwibank, adversely affect Kiwibank's regulatory or licensing status, or harm its reputation among customers and investors in the marketplace.

A group called Fair Play on Fees announced in June 2013 its intention to launch a representative action against New Zealand banks in relation to certain default fees, and proceedings were subsequently issued against one bank. In November 2013 the group issued proceedings against Kiwibank. The potential outcome of the proceedings cannot yet be determined.

Acquisitions

Kiwibank has undertaken, and may further undertake, acquisitions as part of its business strategy. There is no assurance that acquired businesses will be successfully integrated into the Kiwibank Group, that existing customer relationship and revenue levels will be maintained or that synergies or economies of scale will be achieved. Integration costs and failure to achieve the expected synergies or other benefits may have an adverse impact on Kiwibank's financial performance and business operations.

5.6.5 Risks associated with your Capital Notes specifically

Capital Notes are subordinated obligations of KCFL

Your Capital Notes are subordinated obligations of KCFL, meaning that, in the event of a liquidation of KCFL, you will not be entitled to any payment of principal or interest until all senior creditors of KCFL have been paid in full. Further information about the subordination of your Capital Notes is set out in Section 5.6.13, under the heading "Prior ranking claims".

Restrictions on KCFL's rights and ranking in a liquidation of Kiwibank

You have no claim against Kiwibank in respect of your Capital Notes. However, if the Kiwibank Bonds held by KCFL have not been converted into Ordinary Shares or written off, KCFL will be entitled to claim in Kiwibank's liquidation for an amount equal to the principal amount of the Kiwibank Bonds held by it and any accrued but unpaid interest on those Kiwibank Bonds. The claim for this amount ranks equally with any other instruments issued by Kiwibank expressed to rank equally with the Kiwibank Bonds held by KCFL, but behind all senior ranking securities and instruments and all depositors. If there is a shortfall of funds available to pay claims ranking senior to and equally with Kiwibank Bonds held by KCFL, there is a significant risk that KCFL will not be able to pay amounts owing to you on your Capital Notes.

KCFL's claim in a liquidation of Kiwibank will be adversely affected if a Non-Viability Trigger Event occurs. If Kiwibank Bonds held by KCFL have been converted into Ordinary Shares, KCFL will have the rights of a holder of Ordinary Shares in Kiwibank. In a liquidation of Kiwibank, the Ordinary Shares issued to KCFL on conversion of the Kiwibank Bonds held by KCFL will rank equally with other Ordinary Shares and behind all preferred shareholders and creditors of Kiwibank. If there is a shortfall of funds available to pay all claims ranking senior to Ordinary Shares, KCFL will not be able to pay amounts owing to you on your Capital Notes.

If Kiwibank Bonds held by KCFL are written off then KCFL will have no claim in the liquidation of Kiwibank in respect of those Kiwibank Bonds. In these circumstances a corresponding amount of your Capital Notes would also have been written off.

There is a significant risk that you will lose all or some of your investment (including any accrued but unpaid interest) should Kiwibank become insolvent.

Changes in interest rates

The Interest Rate is fixed for five years. If interest rates rise during this period, the return on your Capital Notes may be less attractive compared to returns on other investments. In addition, the Interest Rate will be reset if your Capital Notes are not repaid on 15 July 2019 by reference to the 5 Year Swap Rate at that time and the Margin set prior to the Issue Date. There is a risk that the reset Interest Rate will be lower than the initial Interest Rate, reducing the return on your Capital Notes, and the reset Interest Rate will be less attractive when compared to the rates of return available on comparable securities at that time.

You have no right to request early repayment

You have no right to request that your Capital Notes be repaid. Unless your Capital Notes are repaid, to realise your investment you would need to sell your Capital Notes on the NZX Debt Market at the prevailing market price. You may not be able to sell your Capital Notes, and even if you can, the price may be less than what you paid for your Capital Notes.

No guarantee

The payment of interest and repayment of your Capital Notes is not guaranteed by Kiwibank, Kiwi Group Holdings Limited, New Zealand Post Limited or any other person. Your Capital Notes are not guaranteed or insured by any government, government agency or compensation scheme. The New Zealand Post Deed Poll Guarantee dated 22 November 2001 (as amended from time to time) that applies to certain payment obligations of Kiwibank does not apply to the Kiwibank Bonds held by KCFL. Your Capital Notes are issued by KCFL under the terms contained in the Trust Deed. You have no claim on KCFL in respect of your Capital Notes except as provided in the Trust Deed. Your Capital Notes are unsecured.

KCFL may repay your Capital Notes early if a Regulatory Event occurs

RBNZ has issued a notice of non-objection to Kiwibank that the Kiwibank Bonds held by KCFL will constitute Tier 2 Capital for the purposes of Kiwibank's regulatory capital requirements. However, if the RBNZ subsequently determines that all of the Kiwibank Bonds held by KCFL are not or will not qualify as Tier 2 Capital for Kiwibank, Kiwibank may decide that a Regulatory Event has occurred. A Regulatory Event will not occur if the event is minor or could have been anticipated when the Kiwibank Bonds were issued to KCFL. A Regulatory Event will allow Kiwibank to repay the Kiwibank Bonds held by KCFL at its option (subject to the RBNZ's prior written approval) – see Section 5.5.7. If the Kiwibank Bonds held by KCFL are repaid early, KCFL will apply the amount received from Kiwibank to repay your Capital Notes.

KCFL may repay your Capital Notes early if a Tax Event occurs

If Kiwibank determines that there has been, or will be, a change in, or a change in the application, interpretation or administration of any, New Zealand law, regulation, ruling or directive, that applies, or is to apply, after the Issue Date, which affects the taxation treatment in relation to the Kiwibank Bonds held by KCFL or your Capital Notes (provided such event is not minor or could not have been anticipated when the Kiwibank Bonds were issued to KCFL)

Kiwibank is entitled to repay the Kiwibank Bonds held by KCFL at its option (subject to the RBNZ's prior written approval) – see Section 5.5.7. If the Kiwibank Bonds held by KCFL are repaid early, KCFL will apply the amount received from Kiwibank to repay your Capital Notes.

Amendment of the terms of your Capital Notes or the Kiwibank Bonds held by KCFL

The terms of your Capital Notes may be amended without your consent as described in Section 5.7.1 under the heading "Amendment without consent". You will be bound by any such amendments despite the fact that you may not agree with the amendments and that the changes may adversely affect the market price of and/or liquidity of the market for your Capital Notes.

In addition, Kiwibank may with the RBNZ's prior written approval in certain circumstances amend the terms of the Kiwibank Bonds held by KCFL without KCFL's consent. However, this can only occur in the limited circumstances described in Section 5.7.2.

5.6.6 Liquidity

There may be no liquid market for your Capital Notes. The market for your Capital Notes may be less liquid than the market for comparable securities issued by Kiwibank or other entities. If you wish to sell your Capital Notes, you may be unable to do so at an acceptable price, or at all, if insufficient liquidity exists in the market for your Capital Notes.

5.6.7 Financial market conditions

The market price of your Capital Notes may fluctuate due to various factors, including investor perceptions, worldwide economic conditions, interest rates, credit spreads, movements in the market price of senior or subordinated debt, and factors that may affect the financial performance and position of Kiwibank. Your Capital Notes may trade at a market price below the price you paid for your Capital Notes.

The market price of your Capital Notes may be affected by changes in interest rates and credit spreads. Increases in relevant interest rates or Kiwibank's credit spread may adversely affect the market price of your Capital Notes.

5.6.8 Changes to credit rating of your Capital Notes

Credit rating agencies may withdraw, revise or suspend credit ratings or change the methodology by which they assign credit ratings. Such changes could adversely affect the credit rating, market price and liquidity of your Capital Notes.

5.6.9 You should understand the New Zealand tax consequences for you of an investment in Capital Notes

A general outline of the tax consequences of investing in Capital Notes for certain potential investors is set out in the "Taxation" summary in Section 5.5.11. This outline is in general terms and is not intended to provide specific advice addressing the circumstances of any particular potential investor. Accordingly, potential investors should seek independent advice concerning their own individual tax position.

5.6.10 KCFL may be subject to FATCA withholding and information reporting

In order to comply with FATCA, it is possible that KCFL (or, if Capital Notes are held through another financial institution, such other financial institution) may be required (pursuant to an agreement with the United States Internal Revenue Service (“IRS”) or otherwise under applicable law) to request certain information from Holders or beneficial owners of Capital Notes, which information may in turn be provided to the IRS. KCFL may also be required to withhold US tax on some portion of payments in relation to Capital Notes made after 31 December 2016 if such information is not provided or if payments are made to certain foreign financial institutions that have not entered into a similar agreement with the IRS (and are not otherwise required to comply with the FATCA regime under applicable laws or are otherwise exempt from complying with the requirements to enter into a FATCA agreement with the IRS).

If KCFL or any other person is required to withhold amounts under or in connection with FATCA from any payments made in relation to Capital Notes, holders and beneficial owners of Capital Notes will not be entitled to receive any gross up or additional amounts to compensate them for such withholding.

This information is based on guidance issued by the IRS as at the date of this Investment Statement, including recently issued proposed regulations. Future guidance may affect the application of FATCA to KCFL, Holders or beneficial owners of Capital Notes.

5.6.11 Future issues or redemptions of securities by KCFL and Kiwibank

Your Capital Notes and the Kiwibank Bonds held by KCFL do not in any way restrict KCFL or Kiwibank from issuing further securities or from incurring further indebtedness.

Your investment in Capital Notes carries no right to participate in any future issue of securities by KCFL (whether related to Tier 1 Capital or Tier 2 Capital issued by Kiwibank – see Section 7).

No prediction can be made as to the effect, if any, which the future issue of securities by KCFL and/or Kiwibank may have on the market price or liquidity of your Capital Notes or of the likelihood of Kiwibank making payments on the Kiwibank Bonds held by KCFL, thereby enabling KCFL to make payments on your Capital Notes.

Similarly, the Kiwibank Bonds held by KCFL do not restrict Kiwibank from redeeming or otherwise repaying its other existing securities, including other existing securities which rank equally with or junior to Kiwibank Bonds.

Kiwibank may redeem or otherwise repay existing securities including existing equal or junior ranking Tier 2 Capital securities before, during or after the issue of the Kiwibank Bonds held by KCFL. KCFL's investment in Kiwibank Bonds held by KCFL carries no right to be redeemed or otherwise repaid at the same time as Kiwibank redeems or otherwise repays other securities (whether equity, Additional Tier 1 Capital, subordinated or senior debt or otherwise).

No prediction can be made as to the effect, if any, which the future redemption or repayment by Kiwibank of

existing securities may have on the market price or liquidity of your Capital Notes or on Kiwibank's financial position or performance.

As a result of subsequent issues or redemptions of securities, if you wish to sell your Capital Notes, you may be unable to do so at an acceptable price, or at all.

5.6.12 More information

Kiwibank's latest interim and full year disclosure statements published under section 81 of the RBNZ Act contain more information on the risks Kiwibank faces in carrying on its business as a registered bank, and the steps Kiwibank takes to mitigate these risks. You can obtain a copy of the latest interim and full year disclosure statements (which contain Kiwibank's most recent financial statements), free of charge, from Kiwibank's registered office at Level 12, New Zealand Post House, 7 Waterloo Quay, Wellington 6011 or at www.kiwibank.co.nz/about-us/legal-docs/.

5.6.13 Consequences of insolvency

Status of your Capital Notes

If KCFL becomes insolvent for any reason, you may be unable to recover from KCFL all or some of your investment in Capital Notes. Therefore, you may not receive the returns described in Section 5.5.

Your Capital Notes are unsecured, subordinated obligations of KCFL. In a liquidation of KCFL, your rights to payment of:

- (a) the Principal Amount of, and interest on the Principal Amount of, each of your Capital Notes will rank:
 - (i) after the claims of all secured creditors and all unsecured unsubordinated creditors of KCFL;
 - (ii) equally with claims of other Holders for payment of the Principal Amount of Capital Notes and interest thereon and with holders of other securities that rank or are expressed to rank equally with claims for payment of the Principal Amount of Capital Notes and interest thereon with respect to priority of payment in a liquidation; and
 - (iii) ahead of claims that rank or are expressed to rank after claims for payment of the Principal Amount of Capital Notes and interest thereon with respect to priority of payment in a liquidation and claims of shareholders; and
- (b) the Loss Absorbing Amount of each of your Capital Notes will rank:
 - (i) after the claims of all other creditors of KCFL (other than creditors referred to in paragraph (ii) below);
 - (ii) equally with claims of other Holders for payment of a Loss Absorbing Amount and holders of other claims that rank or are expressed to rank equally with the Loss Absorbing Amount with respect to priority of payment in a liquidation; and
 - (iii) ahead of claims of KCFL shareholders.

However, to the extent that KCFL receives a Corresponding Payment from Kiwibank prior to KCFL's liquidation, those funds are held on trust for you and the other Holders of

Capital Notes, so should not be treated as assets of KCFL were KCFL to become subject to insolvency proceedings.

Prior ranking claims

KCFL is not expected to have any secured creditors and is not expecting to have any material obligations to unsecured, unsubordinated creditors. KCFL will owe amounts to certain creditors in connection with your Capital Notes, for example, brokerage relating to subscriptions for Capital Notes and fees payable to the Trustee, the Registrar and NZX. However, KCFL and Kiwibank have entered into an Administration Agreement under which Kiwibank has agreed to pay these amounts on behalf of KCFL. These unsecured, unsubordinated creditors are able to claim directly against Kiwibank under the Administration Agreement if amounts owing to them are not paid when due. As a member of the New Zealand Post Limited consolidated group for income tax purposes, KCFL may be jointly and severally liable for taxes payable by the consolidated group. However, the tax liability of the consolidated group is expected to be paid by one or more of the other members, and not by KCFL. If no other member meets the tax liability of the consolidated group Inland Revenue is able to claim directly against KCFL.

5.6.14 Limited enforcement rights of Holders of Capital Notes

You may not take any enforcement action in relation to your Capital Notes unless:

- (a) KCFL defaults in the payment of an amount that is due for payment to you, and the default is not remedied within seven days; or
- (b) KCFL breaches an obligation under the Trust Deed (other than an obligation to make a payment).

If you become entitled to take enforcement action in relation to your Capital Notes as described above, the only enforcement action you are entitled to take is:

- (i) if you are entitled to take enforcement action in reliance on paragraph (a) above, to bring proceedings against KCFL to recover any amounts that are due for payment but unpaid or apply to have a liquidator appointed in relation to KCFL; or
- (ii) if you are entitled to take enforcement action in reliance on paragraph (b) above, to apply for an order for specific performance by KCFL of the relevant obligation.

Under no circumstances may you seek to have any obligations of KCFL under your Capital Notes accelerated.

It is not a default by KCFL to withhold or refuse any payment in order to comply with any fiscal or other law or regulation or with the order of any court of competent jurisdiction, in each case applicable to such payment.

5.6.15 Acknowledgement by Holders

You irrevocably acknowledge that:

- (a) you will be bound by any adjustment to the Principal Amount and Loss Absorbing Amount made in accordance with the Trust Deed (as described in Section 5.5.3 and the Prospectus) and you have no

rights to compensation from, or any other remedies against, KCFL, the Trustee or Kiwibank in relation to any such adjustment or the consequences thereof;

- (b) you have no rights, title or interest in relation to any Ordinary Shares issued to KCFL on conversion of the Kiwibank Bonds held by KCFL;
- (c) KCFL's ownership of Ordinary Shares is not subject to any agency, trust or fiduciary arrangements in your favour or in favour of Holders generally; and
- (d) except as expressly limited by the Trust Deed, KCFL may exercise all rights as shareholder, and otherwise deal with, the Ordinary Shares it holds as it thinks fit.

More information relating to the status of your Capital Notes and your rights to take enforcement action against KCFL is contained in the Prospectus.

You will not, in any circumstances, be liable to pay money in addition to the issue price of \$1.00 per Capital Note to any person as a result of KCFL's insolvency.

5.7 Can the investment be altered?

5.7.1 Limited right to amend the terms of your Capital Notes

No provision of the Trust Deed may be cancelled, varied or amended by you, KCFL or any other person while any Capital Notes are outstanding except as described below:

Amendment without consent

The Trust Deed may be amended without your consent where:

- (a) the amendment, in the opinion of the Trustee is of a minor or technical nature, is to correct a manifest error, or is to comply with the requirements or a modification of the requirements of any applicable law or the Listing Rules, and, in any such case, the directors of KCFL have resolved that such amendment will not be materially prejudicial to the interests of Holders and the Trustee is of the opinion that such amendment will not be materially prejudicial to the interests of Holders generally; or
- (b) the Trustee is of the reasonable opinion that the amendment will not adversely affect the interests of affected Holders; or
- (c) the amendment has the effect of disapplying a provision that had been deemed by law to be included in the Trust Deed and is no longer deemed by law to be so included.

Amendment approved by Extraordinary Resolution

The Trust Deed may be amended if the amendment has been approved by an Extraordinary Resolution of the Holders or relevant class of Holders and notified in accordance with the Trust Deed.

5.7.2 Amendment to the terms of the Kiwibank Bonds held by KCFL

An amendment to the Deed Poll, which sets out the terms of the Kiwibank Bonds held by KCFL, could affect your Capital Notes. However, the Deed Poll can only be amended:

- with the consent of all the holders of bonds issued under the Deed Poll, including KCFL as holder of the Kiwibank Bonds (although KCFL may not consent to any amendment unless KCFL's directors have resolved that the amendment will not be adverse to Holders' interests and have certified this to the Trustee); or
- without the consent of the holders of bonds issued under the Deed Poll if the amendment is of a minor or technical nature or will not be of any prejudice to the holders of bonds issued under the Deed Poll or is expressed to be inapplicable to any outstanding bonds issued under the Deed Poll or is made to comply with applicable law.

5.8 How do I cash in my investment?

Early termination

You have no right to require KCFL to repay the Principal Amount of your Capital Notes before the Maturity Date.

However if Kiwibank repays the Kiwibank Bonds held by KCFL then, provided that KCFL receives a Corresponding Payment from Kiwibank, KCFL will be required to repay your Capital Notes on the same day.

KCFL is not obliged to repay the Loss Absorbing Amount on any of your Capital Notes unless it receives the proceeds of a sale of, or capital reduction involving, the Ordinary Shares issued to it on conversion of Kiwibank Bonds it holds. In that case KCFL will pay you the Loss Absorbing Payment Amount on your Capital Notes.

Transfer of Capital Notes

You are entitled to sell or transfer your Capital Notes at any time provided that the sale or transfer is not restricted by the terms of the Capital Notes and applicable securities laws and regulations, including the Listing Rules (if applicable).

You should not attempt to sell Capital Notes until you know whether, and how many, Capital Notes have been allotted to you. Neither KCFL or any of its directors or employees or any other person accepts any liability or responsibility should you attempt to sell or otherwise deal with any Capital Notes before receiving a statement recording the number of Capital Notes (if any) allotted to you.

You may transfer part of your interest in your Capital Notes if the transfer is for 1,000 Capital Notes or an integral multiple of 1,000 Capital Notes. However, KCFL will not register any transfer of your Capital Notes or any part of your interest in a Capital Note if the transfer would result in you or the transferee holding or continuing to hold less than the Minimum Holding of Capital Notes (5,000 Capital Notes), unless you would then hold no Capital Notes.

Application has been made to NZX for permission to quote Capital Notes on the NZX Debt Market. To be eligible to trade your Capital Notes on the NZX Debt Market, you must have an account with a NZX Primary Market Participant, a Common Shareholder Number (CSN) and an Authorisation Code ("FIN"). If you do not have an account with a broker you should be aware that opening an account can take a number of days depending on the NZX Primary Market Participant's new client procedures. If you do not have a

CSN you will be automatically assigned one. You will also be able to obtain your CSN by calling (09) 375 5999 from 6 June 2014. You will also receive a CSN from the Registrar when you receive your "Holding Statement" (which is expected to be sent on 9 June 2014). If you do not have a FIN, it is expected that you will be sent one as a separate communication by the Registrar on 9 June 2014. If you have a broker and have not received a FIN by the date you want to trade your Capital Notes, your broker can arrange to obtain your FIN from the Registrar. Your broker will be charged NZ\$20 for requesting your FIN from the Registrar and may pass this cost on to you.

While it is expected that a secondary trading market for your Capital Notes will develop over time, there can be no assurance of the liquidity of such a market. Consequently, you may not be able to sell your Capital Notes readily or at all, or at prices that will enable you to realise a yield comparable to that of similar instruments, if any, with a developed secondary market.

If your holding of Capital Notes is, in aggregate, less than the Minimum Holding, KCFL may require you to sell those Capital Notes, in accordance with the Trust Deed.

You will likely have to pay brokerage at applicable rates on any transfer of Capital Notes you make through a Primary Market Participant.

KCFL and the Registrar are entitled to accept and assume the authenticity and genuineness of any instrument of transfer or other document, and will not incur any liability for registering any instrument of transfer which is subsequently discovered to be a forgery or otherwise defective, unless KCFL or the Registrar had actual notice of such forgery or defect at the time of registration of such instrument of transfer.

5.9 Who do I contact with inquiries about my investment?

You can direct any inquiries in relation to your Capital Notes to:

The Registrar

Link Market Services Limited
Level 7, Zurich House
21 Queen Street
Auckland 1010

or

PO Box 91976
Auckland 1142

Telephone for investor enquiries: (09) 375 5998

Facsimile: (09) 375 5990

Email: enquiries@linkmarketservices.co.nz

or

The Issuer

Communications Manager
Kiwi Capital Funding Limited
Level 12, New Zealand Post House
7 Waterloo Quay
Wellington 6011

Telephone: (04) 473 1133

Facsimile: (04) 462 7941

5.10 Is there anyone to whom I can complain if I have problems with the investment?

You can direct any complaints about your Capital Notes to:

The Registrar

Link Market Services Limited
Level 7, Zurich House
21 Queen Street
Auckland 1010

or

PO Box 91976
Auckland 1142

Telephone for investor enquiries: (09) 375 5998
Facsimile: (09) 375 5990
Email: enquiries@linkmarketservices.co.nz

or

The Issuer

Communications Manager
Kiwi Capital Funding Limited
Level 12, New Zealand Post House
7 Waterloo Quay
Wellington 6011

Telephone: (04) 473 1133
Facsimile: (04) 462 7941

or

The Trustee

The New Zealand Guardian Trust Company Limited
Level 7, Vero Centre
48 Shortland Street
Auckland 1010

Telephone: (09) 909 5100

If you are not satisfied with the response you receive, you may direct your complaint to the Banking Ombudsman Scheme, which is an approved dispute resolution scheme, at the following address:

Freepost 218002
PO Box 10573, The Terrace
Wellington 6143

or by phoning: 0800 805 950 or (04) 471 0006.

5.11 What other information can I obtain about this investment?

Additional information about KCFL and your Capital Notes is contained or referred to in the Prospectus and the Trust Deed.

Additional information about Kiwibank is contained or referred to in Kiwibank's latest interim and full year disclosure statements (which contain Kiwibank's most recent financial statements) and information about the Kiwibank Bonds held by KCFL is contained in the Deed Poll.

You may obtain a copy of the Prospectus, the Trust Deed, the Deed Poll, and further copies of this Investment Statement free of charge, on request, during normal business hours from:

The Registrar

Link Market Services Limited
Level 7, Zurich House
21 Queen Street
Auckland 1010

Telephone for investor enquiries: (09) 375 5998
Facsimile: (09) 375 5990
Email: enquiries@linkmarketservices.co.nz

or

The Issuer

Communications Manager
Kiwi Capital Funding Limited
Level 12, New Zealand Post House
7 Waterloo Quay
Wellington 6011

Telephone: (04) 473 1133
Facsimile: (04) 462 7941

As KCFL was only incorporated on 17 March 2014, no financial statements have yet been prepared for KCFL. However, you can obtain a copy of Kiwibank's latest disclosure statement free of charge, on request, during normal business hours at any of Kiwibank's branches, at Kiwibank's registered office at Level 12, New Zealand Post House, 7 Waterloo Quay, Wellington and from www.kiwibank.co.nz/about-us/legal-docs/. Where you make the request at any branch, Kiwibank will provide the disclosure statement, free of charge, within two working days.

The Prospectus and other documents of, or relating to, KCFL and Kiwibank's full year disclosure statements (which contain Kiwibank's full year financial statements) and other documents of, or relating to, Kiwibank, are filed on a public register. You may view them on the Companies Office website (www.business.govt.nz/companies). You may also obtain copies of the publicly filed documents (on payment of a fee) by telephoning the Companies Office on 0508 266 726.

In addition to the above information, you (whether you subscribe for Capital Notes from KCFL or purchase them from someone else) will receive a holding statement from the Registrar setting out various information in relation to your holding of Capital Notes within five Business Days after the date of allotment of the Capital Notes or registration of the relevant transfer (as the case may be).

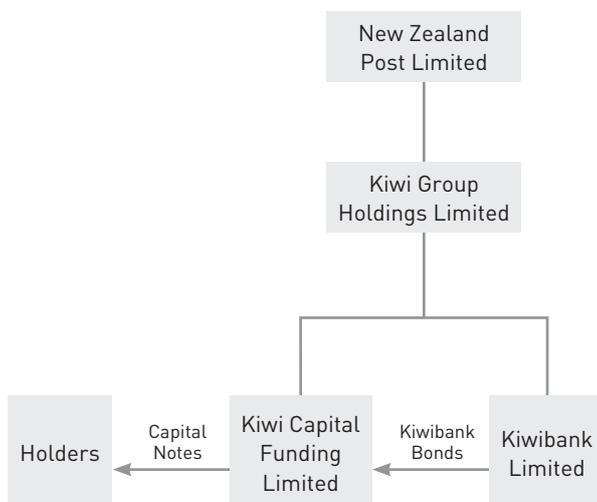
The Registrar will provide you with a RWT certificate (subject to minimum interest thresholds being met) on each Interest Payment Date that states the amount of interest that has been paid to you and, if applicable, the RWT deducted from interest paid or credited to you in respect of your Capital Notes.

Important information relating to your Capital Notes, KCFL and Kiwibank will be disclosed in accordance with the continuous disclosure provisions of the Listing Rules.

6. About KCFL and Kiwibank

6.1 The companies involved in the Offer

Both KCFL and Kiwibank are wholly owned subsidiaries of Kiwi Group Holdings Limited. Kiwi Group Holdings is a wholly owned subsidiary of New Zealand Post Limited, a state enterprise under the State-Owned Enterprises Act 1986. New Zealand Post is the main postal services provider in New Zealand. The ownership structure of the companies involved in the Offer is set out below:



None of Kiwibank, Kiwi Group Holdings Limited, New Zealand Post or any other person guarantees your Capital Notes.

6.2 KCFL

KCFL was incorporated for the sole purpose of issuing debt securities and using the proceeds to subscribe for regulatory capital instruments issued by Kiwibank and will not undertake any business that is not related to those purposes. KCFL will invest 100% of the proceeds of Capital Notes in Kiwibank Bonds issued by Kiwibank.

6.3 Kiwibank

Although KCFL is the issuer of your Capital Notes, the returns on your Capital Notes are derived from the performance of the Kiwibank Bonds issued to it by Kiwibank. Accordingly, set out below is information about Kiwibank and its business.

6.3.1 Background

Kiwibank opened for business early in 2002 as a New Zealand-owned banking alternative seeking to effectively compete in the New Zealand banking sector based on its service, products, fees and interest rates.

Kiwibank's strategy drew from the country's past where historically there had been a bank operating through the Post Office network and it looked to the future by embracing new technology and a new way of dealing with customers. Kiwibank's strategy is to capture and retain customers through offering high levels of customer service, competitive pricing and continuous innovation in financial products. Kiwibank employs about 1,200 staff.

6.3.2 Registration

On 29 November 2001, Kiwibank was registered as a bank under the RBNZ Act. Kiwibank is required to comply with the conditions of registration as laid down by the RBNZ.

The conditions of registration include, but are not limited to: minimum capital levels; risk measurement processes; board composition and quantitative liquidity risk management requirements. Kiwibank's full conditions of registration can be found in Kiwibank's latest Disclosure Statement at www.kiwibank.co.nz/about-us/legal-docs.

6.3.3 Principal activities

Kiwibank offers a range of personal and business transactional banking, savings account, term deposit, home loan, credit card and business loan products. Additional products include insurance, personal loans, and technological innovations not previously available in New Zealand – such as smartphone access to online relationship managers. Kiwibank intends to continually add to its product suite.

Kiwibank's overall share of the main banking market is 10.6% at the end of 2013, up from 10% at the end of 2012.

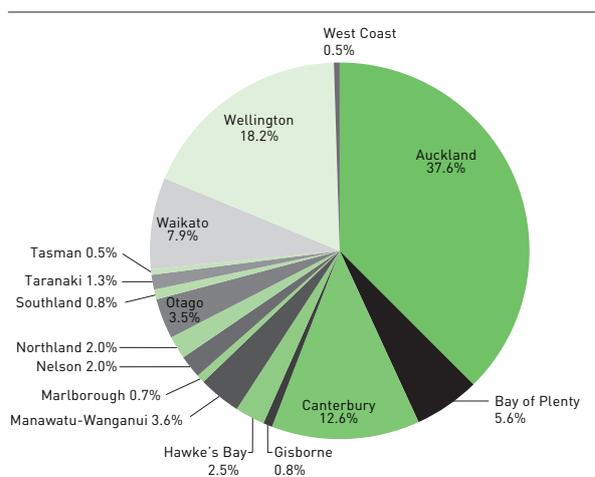
6.3.4 Distribution channels

Customer access is gained via the coverage of main urban centres and rural New Zealand through the New Zealand Post store network, a team of Kiwibank mobile mortgage specialists, and direct services through its Wellington headquarters. Other distribution channels include call centres, a network of around 245 Kiwibank ATMs, access agreements for the use of all ATMs operated by registered banks in New Zealand, and telephone, mobile and internet banking. Kiwibank's mobile banking service enables its customers to carry out their everyday banking needs as well as accessing an online relationship manager service. Home loans are also distributed through the New Zealand Home Loan franchise network throughout New Zealand.

6.3.5 Home loan market

Kiwibank's core business is the New Zealand home loan market in which it has increased its share from 4% in 2008 to 7% as at 31 December 2013.

Mortgage lending enquiries are serviced by a team of around 37 specialist mobile mortgage managers nationwide, a direct lending team in Wellington and over 60 lending specialists in PostShops across the country. Reflecting its wide distribution network, Kiwibank's mortgage portfolio has broad geographic distribution as shown below (as at 31 December 2013).



For the majority of housing loan applications, Kiwibank has decision-making using automated application scoring systems. For the remainder of applications, decision-making is made by Kiwibank's credit management team.

6.3.6 Business Banking

Kiwibank considers that many of the service and pricing dynamics that create opportunities in the home loan market are also apparent in the small to medium sized business market. Kiwibank offers business banking through its retail channels and specialist business banking centres throughout New Zealand. Kiwibank services a wide range of businesses across many different sectors of the economy.

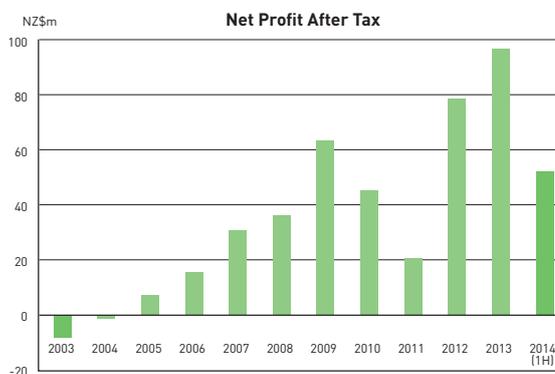
The business banking focus is on growing Kiwibank's market share in the small to medium-sized business market, utilising Kiwibank's relationship model to generate strong deposit and lending growth from both business and personal customer relationships.

6.3.7 Other activities

Kiwibank also manages payment services products and services for Kiwibank's and New Zealand Post's Payment Service business. This business includes traditional domestic and international payments, Visa pre-paid and debit products and New Zealand Post's agency business. The agency business provides over-the-counter payments at New Zealand Post outlets.

6.3.8 Financial performance

In the twelve months to 30 June 2013, Kiwibank announced an audited net profit of \$97 million after tax, a 23% improvement over the \$79 million after tax net profit reported for the year ended 30 June 2012. In the six months to 31 December 2013, Kiwibank announced an unaudited net profit of \$52 million after tax.



6.3.9 Directors and management

Kiwibank's directors are listed in Section 5.2 "Who is involved in providing it for me?". Kiwibank's directors, chief executive officer and any executive who reports to, or is accountable directly to Kiwibank's chief executive officer can only be appointed if the RBNZ has been provided with a copy of the curriculum vitae of the proposed appointee, and the RBNZ has advised that it has no objection to that appointment. More information about Kiwibank's directors and chief executive can be found at www.kiwibank.co.nz/about-us/more-about-us/key-people.asp.

7. Capital and funding for banks, including Kiwibank

This section sets out information about the capital requirements applicable to Kiwibank. Certain terms of the Kiwibank Bonds held by KCFL, including the terms relating to conversion of those Kiwibank Bonds into Ordinary Shares and write off, are required in order for the Kiwibank Bonds held by KCFL to constitute Tier 2 Capital for Kiwibank.

7.1 Prudential regulation

The prudential supervisor of banks in New Zealand is the RBNZ.

RBNZ's website at www.rbnz.govt.nz/regulation_and_supervision/banks/ includes further details of its functions and prudential standards.

The RBNZ imposes capital adequacy requirements on banks. These requirements are intended to ensure that an adequate level of capital is maintained, thereby providing a buffer to absorb unanticipated losses from activities. The RBNZ's approach to assessing capital adequacy focuses on credit risk associated with the bank's exposures, market and operational risks and the quality and quantity of a bank's capital.

RBNZ currently classifies a bank's regulatory capital into three tiers for its supervisory purposes; referred to as Common Equity Tier 1 Capital; Additional Tier 1 Capital; and Tier 2 Capital.

Common Equity Tier 1 Capital comprises the highest quality components of capital and includes paid up ordinary shares, certain reserves and retained earnings less certain deductions. The ratio of Common Equity Tier 1 Capital to risk weighted assets is called the Common Equity Tier 1 Capital Ratio.

Additional Tier 1 Capital comprises high quality components of capital and consists of certain securities not classified as Common Equity Tier 1 Capital but with loss absorbing characteristics. Additional Tier 1 Capital together with Common Equity Tier 1 Capital constitutes Tier 1 Capital and the ratio of Tier 1 Capital to risk weighted assets is called the Tier 1 Capital Ratio.

Tier 2 Capital consists of subordinated instruments and, whilst a lesser form of capital than Tier 1 Capital, still has a capacity to absorb losses and strengthens the bank's overall capital position. Tier 2 Capital together with Tier 1 Capital constitutes Total Capital and the ratio of Total Capital to risk weighted assets is called the Total Capital Ratio.

From 1 January 2013, most New Zealand incorporated registered banks, including Kiwibank, have been required to comply with the following capital ratios, measured in relation to their risk-weighted assets:

- a Common Equity Tier 1 Capital Ratio of 4.5%;
- a Tier 1 Capital Ratio of 6.0%; and
- a Total Capital Ratio (Tier 1 and Tier 2) of 8.0%.

RBNZ has issued a notice of non-objection to Kiwibank that the Kiwibank Bonds held by KCFL will constitute Tier 2 Capital for the purposes of Kiwibank's regulatory capital requirements.

From 1 January 2014, the RBNZ has also required most New Zealand incorporated registered banks, including Kiwibank, to maintain a conservation buffer of 2.5% above the minimum ratios or face restrictions on distributions. The RBNZ also has the discretion to apply a countercyclical buffer of common equity with an indicative range of between 0 and 2.5%, although there is no formal upper limit.

7.2 Kiwibank's capital management strategy

Adequacy, efficiency and flexibility are the core components of Kiwibank's capital management strategy. Kiwibank's capital objective is to maintain at all times a capital level that is above the minimum levels set by Kiwibank's board, which are in turn set above the RBNZ's regulatory capital requirements. In setting its minimum capital level Kiwibank's board considers the regulatory capital requirements, the risk position of Kiwibank's balance sheet, the capital position of its major competitors and market expectations.

The chart below illustrates Kiwibank's historic regulatory capital position under the RBNZ rules applicable at the relevant time.



As at 31 December 2013, Kiwibank's capital principally comprised:

- (a) \$360 million of ordinary share capital contributed by New Zealand Post;
- (b) \$397 million of retained earnings;
- (c) \$147 million of perpetual non-cumulative preference shares; and
- (d) \$108 million of subordinated bonds.

On 31 March 2014 Kiwibank's ordinary share capital was increased by \$40 million following Kiwi Group Holdings Limited subscribing for a further 40 million fully-paid Ordinary Shares.

Kiwibank's capital position is further enhanced by an uncalled capital facility that the Crown has entered into with New Zealand Post Limited. The \$300 million uncalled capital facility is available to New Zealand Post Limited to draw down to meet contingent events concerning Kiwibank's conditions of registration and in relation to the Kiwibank Group maintaining levels of capital and liquidity approved by Kiwibank's board.

7.3 Kiwibank's capital adequacy position

	Tier 1 Capital ratio	Minimum Tier 1 Capital ratio ¹	Total Capital ratio	Minimum Total Capital ratio ¹
Dec 2013 (Basel III)	10.2%	6.0%	11.5%	8.0%
Jun 2013 (Basel III)	10.4%	6.0%	12.6%	8.0%
Jun 2012 (Basel II)	10.4%	4.0%	11.3%	8.0%

Assuming that the net proceeds raised by the issue of Capital Notes is NZ\$100 million and using the method of calculation required by the RBNZ's banking standards, this would have increased Kiwibank's 31 December 2013 Total Capital Ratio by approximately 1.3%.²

¹ With effect from 1 January 2014, most New Zealand incorporated registered banks, including Kiwibank, have also been required to maintain a capital conservation buffer of 2.5% above these minimum ratios.

² Kiwibank's capital adequacy ratios will also be impacted by organic capital growth, changes in provisions and risk weighted assets growth since 31 December 2013.

7.4 Funding and liquidity

The primary objective of Kiwibank's liquidity policy is to ensure that it has adequate sources of reliable, diversified and cost effective funds that are continually available to satisfy current and prospective financial commitments under both normal and contemplated stress conditions.

Kiwibank maintains a diversified and high quality portfolio of liquid assets to meet its regulatory requirements and internal liquidity targets. This portfolio is supplemented by a residential mortgage backed securities programme which can, if required, be used to access additional funds from the RBNZ.

Kiwibank obtains its funding from a variety of sources. The dominant form of funding is customer deposits. As at 31 December 2013, those deposits stood at \$12.4 billion, which currently makes up 82% of all funding. Other sources of wholesale funding include bonds issued in New Zealand, Australia and Switzerland.

8. The Kiwibank Bonds held by KCFL

KCFL invests 100% of the proceeds of the Capital Notes in Kiwibank Bonds. KCFL's ability to make payments on your Capital Notes is entirely dependent on KCFL receiving payments from Kiwibank on the Kiwibank Bonds it holds. The Kiwibank Bonds held by KCFL have terms (such as interest rate, interest payment dates, maturity date) that match the terms of your Capital Notes unless the Kiwibank Bonds held by KCFL are converted into Ordinary Shares.

Set out below is a description of the key terms of the Kiwibank Bonds held by KCFL:

Issuer	Kiwibank
Subscriber	KCFL
Status	Subordinated convertible bonds that are expected to count as Tier 2 Capital for Kiwibank.
Issue date	6 June 2014
Issue amount	The amount of Kiwibank Bonds held by KCFL issued will be equal to the total amount of Capital Notes issued.
Maturity date	15 July 2024
Early repayment	15 July 2019, each scheduled Interest Payment Date after 15 July 2019, or if a Tax Event or Regulatory Event occurs. Early repayment in all cases is subject to specified conditions being satisfied (including RBNZ consent). See Section 5.5.7.
Interest payments	<p>Interest on the Kiwibank Bonds held by KCFL is scheduled to be paid semi-annually in arrear on each interest payment date. The interest payment dates on the Kiwibank Bonds held by KCFL are the same as the Interest Payment Dates on the Principal Amount of your Capital Notes. The payment of interest on an interest payment date, other than on the Maturity Date, is subject to the condition that Kiwibank and the Kiwibank Group would be Solvent after the payment is made. See Section 5.5.5.</p> <p>If interest is not paid when due on the Kiwibank Bonds held by KCFL it will continue to accrue and will be payable by Kiwibank when it is able to do so and satisfy the Solvency condition described above or on the Maturity Date (whichever is the earlier).</p>
Interest rate	The interest rate on the Kiwibank Bonds held by KCFL will be the same as the interest rate on the Principal Amount of your Capital Notes. See Section 5.5.6.
Loss Absorbency	<p>The Kiwibank Bonds held by KCFL are expected to count as Tier 2 Capital for Kiwibank under the RBNZ's prudential standards. To qualify as Tier 2 Capital, the Kiwibank Bonds held by KCFL must be able to absorb losses by either converting into common equity of the issuer or being written off if Kiwibank becomes non-viable.</p> <p>The Kiwibank Bonds held by KCFL may be required to be converted into Ordinary Shares (or written off if conversion into Ordinary Shares is not possible) if a Non-Viability Trigger Event occurs.</p>
Non-Viability Trigger Event	<p>A Non-Viability Trigger Event means the earlier of:</p> <ul style="list-style-type: none"> (a) a direction given, by notice in writing, to Kiwibank by the RBNZ under section 113 of the RBNZ Act, on the basis that the financial position of Kiwibank is such that it meets any of the grounds in subsections 113(1)(a)-(e) of the RBNZ Act, requiring Kiwibank to exercise its right of conversion or write off of its capital instruments; or (b) Kiwibank being made subject to statutory management by an Order in Council issued pursuant to section 117 of the RBNZ Act and the statutory manager deciding that Kiwibank exercise its right of conversion or write off of Kiwibank's capital instruments. <p>The grounds on which a direction may be given by the RBNZ are that the RBNZ has reasonable grounds to believe:</p> <ul style="list-style-type: none"> (a) Kiwibank is insolvent or is likely to become insolvent; (b) Kiwibank is about to suspend payment or is unable to meet its obligations as and when they fall due; (c) the affairs of Kiwibank are being conducted in a manner prejudicial to the soundness of the financial system; (d) the circumstances of Kiwibank are such as to be prejudicial to the soundness of the financial system; or (e) the business of Kiwibank has not been, or is not being, conducted in a prudent manner.

Conversion	<p>If Kiwibank is required to convert some or all of the Kiwibank Bonds held by KCFL into Ordinary Shares, the number of Ordinary Shares to be issued to KCFL will be determined by dividing (i) the total of the principal amount of the Kiwibank Bonds being converted plus accrued but unpaid interest on all of the existing Kiwibank Bonds by (ii) the value per share of the existing Ordinary Shares. The value per share of the existing Ordinary Shares will be determined by dividing (i) the value of Kiwibank's net tangible assets by (ii) the number of existing Ordinary Shares on issue. Unless Kiwibank appoints an independent expert to determine the market value, Kiwibank will determine the value of its net tangible assets by reference to its most recent management accounts and such other information as Kiwibank reasonably considers appropriate. However, if this would result in the value per share being zero or a negative number, the value of Kiwibank's net tangible assets will be deemed to be \$1 million for the purposes of determining the value per share. Kiwibank is not obliged to appoint an independent expert and it may not be practicable to do so in the circumstances to enable conversion to occur when required.</p> <p>Kiwibank (in consultation with the RBNZ) or the statutory manager determines how many Kiwibank Bonds are converted but it must be sufficient to satisfy the RBNZ or the statutory manager of Kiwibank that Kiwibank is viable without further conversion or write off. If Kiwibank has more than one loss absorbing capital instrument on issue, Kiwibank will, to the extent that it is able, convert or write off:</p> <p>(a) first, any Tier 1 Capital instruments that have loss absorbing terms; and</p> <p>(b) second, if the conversion or write off of all Tier 1 Capital instruments having loss absorbing terms is insufficient, any Tier 2 Capital instruments having loss absorbing terms (including the Kiwibank Bonds held by KCFL),</p> <p>on an approximately pro rata basis.</p>
Write off if conversion is not possible	<p>If, following a Non-Viability Trigger Event, conversion of the Kiwibank Bonds held by KCFL into Ordinary Shares is not possible within five Business Days of the date on which the Non-Viability Trigger Event occurred those Kiwibank Bonds will not be converted, but instead will be written off. Conversion will not be possible if Kiwibank is prevented from converting any Kiwibank Bonds held by KCFL into Ordinary Shares, including by applicable law or order of any court or action of any governmental agency (including regarding the dissolution or statutory management of Kiwibank).</p>
No guarantee	<p>The Kiwibank Bonds held by KCFL are not guaranteed by New Zealand Post Limited or any other person.</p>
No rights as shareholders	<p>In no circumstances will investors in Capital Notes become holders of Kiwibank Bonds or shareholders in Kiwibank.</p>
Documentation	<p>The Kiwibank Bonds held by KCFL will be issued on the terms set out in the Deed Poll dated 30 April 2014 made by Kiwibank, constituting the issue of Term Subordinated Bonds and Perpetual Subordinated Bonds. You can request a copy of the Deed Poll from KCFL or the Registrar as set out in Section 5.11.</p>

9. Glossary

“5 Year Swap Rate” means, on the Reset Date:

- (a) the average of the bid and offered swap rates (interpolated if necessary and rounded, if necessary, to the nearest three decimal places with five being rounded up) as displayed on Reuters page “ICAPAUKIWISWAP” or its successor page at or about 11am on that date for a fixed/floating interest rate swap having a term of 5 years, expressed on a percentage basis; or
- (b) if a rate is unable to be determined in accordance with (a) above, then the average (rounded if necessary to the nearest three decimal places with five being rounded up) of the mean bid and offered swap rates quoted by each of ANZ Bank New Zealand Limited, ASB Bank Limited, Bank of New Zealand and Westpac New Zealand Limited (or any further or replacement reference banks selected by KCFL in consultation with Kiwibank from time to time) at or about 11am on that date for a fixed/floating interest rate swap having a term of 5 years, expressed on a percentage basis.

“Administration Agreement” means the agreement dated 30 April 2014 between Kiwibank and KCFL and described in Section 5.6.13, under the heading “Prior ranking claims”.

“Business Day” means a day (other than a Saturday or Sunday) on which banks are open for business in Wellington and Auckland.

“Capital Note” means the unsecured, subordinated, cumulative, loss absorbing debt securities offered by KCFL under this Investment Statement.

“Closing Time” means the “Closing Time” specified in Section 3, “Important Dates”.

“Corresponding Payment” is described in Section 5.5.5, under the heading “What does receipt of a Corresponding Payment mean?”.

“Deed Poll” means the deed poll dated 30 April 2014 made by Kiwibank and under which the Kiwibank Bonds will be issued to KCFL.

“Early Repayment Date” means an Optional Repayment Date or a date specified by Kiwibank for repayment of the Kiwibank Bonds held by KCFL following a Regulatory Event or a Tax Event.

“Extraordinary Resolution” means a resolution passed at a meeting of Holders, properly convened and held in accordance with the provisions of the Trust Deed, at which not less than three fourths of the persons voting upon a show of hands or, if a poll is properly demanded, not less than three fourths of the votes given on such a poll voted in favour of the resolution.

“FATCA” means Sections 1471 through 1474 of the United States Internal Revenue Code of 1986, as amended (or any consolidation, amendment, re-enactment or replacement of those sections and including any current or future regulations or official interpretations issued, agreements entered into or non-US laws enacted in relation to those sections).

“Holder” means, in relation to a Capital Note at any time, the person whose name is recorded in the Register as the holder of the Capital Note at that time.

“Interest Payment Date” means each date specified as being an “Interest Payment Date” in Section 3, “Important Dates”, whether or not an interest payment is, or is able to be, paid on that date and, if Kiwibank Bonds held by KCFL are converted into Ordinary Shares, each date on which Kiwibank pays a dividend on the Ordinary Shares to KCFL.

“Interest Rate” means:

- (a) for the period from the Issue Date to the Reset Date, the interest rate set on the Rate Set Date and announced by KCFL via NZX and at www.kiwibank.co.nz/about-us/investor-centre/ on or before the Opening Date; and
- (b) for the period from the Reset Date to the Maturity Date, the interest rate equal to the aggregate of the 5 Year Swap Rate as at the Reset Date plus the Margin.

“Issue Date” means the “Issue Date” specified in Section 3, “Important Dates”.

“Joint Arrangers” means Deutsche Craigs Limited and Kiwibank.

“KCFL” means Kiwi Capital Funding Limited.

“Kiwibank” means Kiwibank Limited.

“Kiwibank Bonds” means the unsecured, subordinated, cumulative, loss absorbing debt securities to be issued by Kiwibank for which KCFL will subscribe using the proceeds of this Offer.

“Kiwibank Group” means Kiwibank, its wholly owned entities and all other entities consolidated for financial reporting purposes, as specified in its latest financial statements, on a consolidated and not an individual basis.

“Listing Rules” means the listing rules of the NZX relating to the NZX Debt Market in force from time to time.

“Loss Absorbing Amount” means, in relation to each Capital Note:

- (a) if there has not been any conversion of the Kiwibank Bonds held by KCFL into Ordinary Shares, zero; and
- (b) following a conversion of Kiwibank Bonds held by KCFL into Ordinary Shares, the aggregate of (i) the amount of the Loss Absorbing Amount immediately prior to the conversion and (ii) an amount equal to the amount of the reduction to the Principal Amount upon the conversion occurring; or
- (c) if there is a sale (including by a liquidator of KCFL) of, or capital reduction involving, the Ordinary Shares issued to KCFL on conversion of Kiwibank Bonds held by KCFL, an amount that reflects the aggregate value of the Ordinary Shares issued to KCFL on conversion of those Kiwibank Bonds and held by KCFL immediately prior to the share sale or capital reduction divided by the total amount of Capital Notes held by you and other Holders (where the value of the Ordinary Shares is determined by reference to the net proceeds of the share sale or capital reduction),

as such amount may be reduced upon payment of the Loss Absorbing Payment Amount.

“**Loss Absorbing Payment Amount**” is described in Section 5.5.8, under the heading “Repayment of the Loss Absorbing Amount”.

“**Margin**” means the margin set on the Rate Set Date and announced by KCFL via NZX and at www.kiwibank.co.nz/about-us/investor-centre/ on or before the Opening Date.

“**Maturity Date**” means the “Maturity Date” specified in Section 3, “Important Dates”.

“**Minimum Holding**” means 5,000 Capital Notes.

“**Non-Viability Trigger Event**” is described in Section 8.

“**NZX**” means NZX Limited, and includes any person or authority which may in the future assume and perform the functions of NZX Limited.

“**NZX Debt Market**” means the debt market operated from time to time by NZX.

“**Offer**” means the offer of Capital Notes made in this Investment Statement.

“**Opening Date**” means the “Opening Date” specified in Section 3, “Important Dates”.

“**Optional Repayment Date**” means each “Optional Repayment Date” specified in Section 3, “Important Dates”.

“**Ordinary Shares**” means ordinary shares issued by Kiwibank.

“**Principal Amount**” means, in relation to each Capital Note:

- (a) at any time prior to conversion of Kiwibank Bonds held by KCFL into Ordinary Shares or write off of Kiwibank Bonds held by KCFL, an amount equal to \$1.00; and
- (b) at any time thereafter, the amount adjusted to reflect the proportion of Kiwibank Bonds held by KCFL that have been converted into Ordinary Shares or written off, as described in Section 5.5.3 and in more detail in the Prospectus,

in each case, as such amount may be reduced by a repayment of the Principal Amount of the Capital Note.

“**Prospectus**” means the registered prospectus for the Offer.

“**Rate Set Date**” means the “Rate Set Date” specified in Section 3, “Important Dates”.

“**RBNZ**” means the Reserve Bank of New Zealand.

“**RBNZ Act**” means the Reserve Bank of New Zealand Act 1989.

“**Record Date**” means, in relation to a payment due on a Capital Note, the close of business on the 10th calendar day before the due date for that payment or, if that day is not a Business Day, the preceding Business Day.

“**Register**” means the register of Capital Notes maintained by the Registrar in accordance with the provisions of the Trust Deed and the Agency Agreement dated 30 April 2014 between KCFL and the Registrar.

“**Registrar**” means Link Market Services Limited.

“**Regulatory Event**” means a determination by Kiwibank to the effect that:

- (a) there has been a change in New Zealand law, regulation or directive (including by way of the imposition of any New Zealand law, regulation or directive) that applies, or is to apply, after the Issue Date;
- (b) there has been a change in the interpretation or administration of any New Zealand law, regulation or directive by any authority (including the RBNZ) that applies, or is to apply, after the Issue Date; or
- (c) Kiwibank is or will be required to comply with any change in New Zealand law, regulation or directive or changed interpretation or administration,

that adversely affects, or will adversely affect, Kiwibank in relation to its regulatory capital treatment of the Kiwibank Bonds held by KCFL, provided such event is not minor and could not have been anticipated when the Kiwibank Bonds held by KCFL were issued.

“**Reset Date**” means the “Reset Date” specified in Section 3, “Important Dates”.

“**Solvent**” means satisfying the solvency test contained in section 4 of the Companies Act 1993, applied to the Kiwibank Group as if the Kiwibank Group was a single entity and taking due account of the ability and willingness of the members of the Kiwibank Group to meet the debts of the other members of the Kiwibank Group and “**Solvency**” has a corresponding meaning.

“**Tax Event**” means a determination by Kiwibank to the effect that:

- (a) there has been a change in New Zealand law, regulation or directive (including by way of the imposition of any New Zealand law, regulation or directive) that applies, or is to apply, after the Issue Date;
- (b) there has been a change in the interpretation or administration of any New Zealand law, regulation or directive by any authority (including the New Zealand Inland Revenue Department) that applies, or is to apply, after the Issue Date; or
- (c) Kiwibank is or will be required to comply with any change in New Zealand law, regulation or directive or changed interpretation or administration,

that directly or indirectly affects the taxation treatment in relation to the Kiwibank Bonds held by KCFL or the Capital Notes and that would result in more than a minimal increase in Kiwibank’s costs in respect of the Kiwibank Bonds held by KCFL or KCFL’s costs in respect of the Capital Notes, provided such event is not minor and could not have been anticipated when the Kiwibank Bonds held by KCFL were issued.

“**Tier 2 Capital**” is described in Section 7, under the heading “Prudential regulation”.

“**Trust Deed**” means the master trust deed dated 30 April 2014 entered into by KCFL and the Trustee, together with a supplemental trust deed dated 30 April 2014 entered into by KCFL and the Trustee, under which Capital Notes will be issued.

“**Trustee**” means The New Zealand Guardian Trust Company Limited.

10. Directory

KCFL

Kiwi Capital Funding Limited
Level 12, New Zealand Post House
7 Waterloo Quay
Wellington 6011

Kiwibank

Kiwibank Limited
Level 12, New Zealand Post House
7 Waterloo Quay
Wellington 6011

Joint Arrangers and Joint Lead Managers

Deutsche Craigs Limited

Level 36, Vero Centre
48 Shortland Street
Auckland 1010

or

PO Box 1196
Auckland 1140

Kiwibank Limited

Level 12, New Zealand Post House
7 Waterloo Quay
Wellington 6011

Organising Participant

Craigs Investment Partners Limited

Craigs Investment Partners House
158 Cameron Road
Tauranga 3110

or

PO Box 13155
Tauranga 3141

Joint Lead Manager

Forsyth Barr Limited
Level 9, Forsyth Barr House
The Octagon
Dunedin 9016
or
Private Bag 1999
Dunedin 9054

Registrar

Link Market Services Limited
Level 7, Zurich House
21 Queen Street
Auckland 1010
or
PO Box 91976
Auckland 1142

Trustee

The New Zealand Guardian Trust Company Limited
Level 7, Vero Centre
48 Shortland Street
Auckland 1010

(The Trustee's registered office may change from time to time. The Trustee's current registered office may be viewed on www.business.govt.nz/companies.)

Legal advisers to KCFL and Kiwibank

Russell McVeagh
Level 24, Vodafone on the Quay
157 Lambton Quay
Wellington 6143
or
PO Box 10-214
Wellington 6011

Legal advisers to the Trustee

Buddle Findlay
PwC Tower
188 Quay Street
Auckland 1010
or
PO Box 1433
Auckland 1140

11. Application instructions

Applications to subscribe for Capital Notes must be made on the application form contained in this Investment Statement.

Investor details

Insert your full name(s), address and telephone numbers.

Applications must be in the name(s) of natural persons, companies or other legal entities, up to a maximum of three names per application.

Use the table below to see how to write your name correctly.

Type of Investor	Correct way to write name	Incorrect way to write name
Individual person	JOHN SMITH	J SMITH
More than one person	JOHN SMITH, MICHELLE SMITH	J & M SMITH
Company	ABC LIMITED	ABC
Trusts	JOHN SMITH, [JOHN SMITH FAMILY TRUST A/C]	SMITH FAMILY TRUST
Partnerships	JOHN SMITH, MICHAEL SMITH, [JOHN SMITH AND SONS A/C]	JOHN SMITH & SONS
Clubs and unincorporated associations	JOHN SMITH, [SMITH INVESTMENT CLUB A/C]	SMITH INVESTMENT CLUB
Superannuation funds	JOHN SMITH LIMITED [SUPERANNUATION FUND A/C]	JOHN SMITH, SUPERANNUATION FUND

Application details

- Complete the Principal Amount of Capital Notes applied for. Note the minimum number (5,000) and minimum multiples for Capital Notes (1,000).
- If you have other investments registered under a Common Shareholder Number (CSN) you must supply your CSN in the space provided. The name and address details on your application form must correspond with the registration details under that CSN.
- Provide your IRD number.
- Elect the rate at which you wish resident withholding tax to be deducted by ticking the relevant box.
- Tick the relevant box if you hold a resident withholding tax (RWT) exemption certificate. If you hold a valid exemption, please attach a photocopy of the exemption certificate and supply the expiry date.
- Select whether you wish to receive payments of interest and principal in respect of Capital Notes into a nominated bank account or into a Cash Management Account with a financial intermediary.

Signing and dating

Read the application form carefully and sign and date the form.

The application form must be signed by the applicant(s) personally, or by two directors of a company (or one director if there is only one director, whose signature must be witnessed), or in either case by an attorney or duly authorised agent.

If the application form is signed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate of non-revocation of power of attorney on the reverse of the application form.

If the application form is signed by an agent, the agent must complete the certificate of non-revocation of agency on the reverse of the application form.

Joint applicants must each sign the application form.

Payment

Capital Notes are issued at \$1.00 so the payment amount is an amount equal to the number of Capital Notes for which you apply. Payment must be made in New Zealand dollars.

Investors must pay for the Capital Notes applied for by direct debit (option 1), by a cheque delivered with the application form prior to the Closing Time (see below) (option 2), through the NZClear System (option 3) or by another payment method approved by KCFL.

Option 1 (Direct Debit)

If you choose the direct debit option you must tick the box authorising the Registrar to direct debit the bank account nominated on the application form, on the day the application form is received by the Registrar, for the amount applied for on the application form. You cannot specify a direct debit date and you must ensure that:

- the bank account details supplied are correct;
- the application funds in the bank account for direct debit are available on the day the Registrar receives the application form;
- the person(s) giving the direct debit instruction has/have the authority to operate the account solely/jointly; and
- the bank account you nominated is a transactional account eligible for direct debit transactions. If you are uncertain you should contact your bank.

Should your direct debit fail, your application will be rejected.

If requested, a direct debit authority form will be provided to you by the Registrar. Refer to the contact details above.

Option 2 (Cheque)

Cheques must be drawn on a New Zealand registered bank and must be made in NZ Dollars. Cheques must be made payable to "KCFL Capital Note Offer", crossed "Not Transferable" and must not be post-dated as cheques will be banked on the day of receipt. If your cheque is dishonoured, KCFL may cancel your allotment of Capital Notes and pursue any other remedies available to it at law.

If you pay by cheque, please supply your bank account details to enable KCFL to pay your interest into your nominated bank account. Future interest payments from KCFL will be made to you by direct credit.

Option 3 (NZClear)

Investors who are members of NZClear may, by prior arrangement with the Registrar, settle their applications for Capital Notes on the Issue Date through the NZClear system.

Other than where otherwise required by law, interest earned on application money will be paid to KCFL.

Closing Time

This Offer will close at 5.00pm on 3 June 2014 (the "Closing Time"). You should remember that the Closing Time may be changed at the sole discretion of KCFL. Changes will be advised by announcement.

KCFL reserves the right to refuse to accept applications received by the Registrar after the Closing Time.

Delivery

Applications received cannot be revoked or withdrawn.

Your Application Form should be received by the Registrar by the Closing Time.

All Capital Notes are reserved for subscription by clients of the joint lead managers, Primary Market Participants (as defined in the NZX's "Participant Rules") and other persons invited to participate in the distribution of Capital Notes. Retail investors should contact their broker for details of the application process for Capital Notes as there is no public pool for Capital Notes.

Personal information rights

Personal information provided by you will be held by KCFL and the Registrar at their respective addresses shown in Section 5.2 or at such other place as is notified upon request. This information will be used for the purpose of managing your investment. You have a right to access and correct any personal information about you under the Privacy Act 1993. You can also access your information on the Link Market Services website: www.linkmarketservices.co.nz. You will be required to enter your holder number and FIN.

This application form is issued with the Investment Statement prepared as at 9 May 2014, issued by Kiwi Capital Funding Limited (KCFL). Please complete this application form and return it to, or lodge it with, an appropriate person as specified in the section 'Application Instructions' in Section 11 of the Investment Statement. Before completing this application form, applicants should read the Investment Statement to which this application relates.

BROKER STAMP

Broker code

Advisor code

Application form

1. Application details and information (please print in block letters)

First name(s)	Address		
Last name			
First name(s)	Suburb		
Last name	Town/City	Postcode	
First name(s)	Telephone number		
Last name	Mobile []		
Company or Designated Account name	Business hours []		
	<p>If you supply your mobile phone number Link Market Services Limited (Link) will notify you by text message if there is any change in your holding (including your allotment), your address, bank account or if a new FIN is issued. This is an added security feature.</p>		

2. Application amount and payment

Your application form must be received by Link by the Closing Time (5.00pm on 3 June 2014).

Applications must be for a minimum of NZ\$5,000 and, thereafter, in multiples of NZ\$1,000.

Amount of Capital Notes applied for:

\$

You may choose only ONE of the options below for payment of your application moneys. Please tick the box next to your selected option

Option 1 – Direct debit

Please direct debit my bank account stated below for the amount of Capital Notes applied for above (or any lesser amount as determined by KCFL). By ticking this box and signing this application form, I agree that Link is authorised to direct debit my account for the full amount of Capital Notes applied for (or any lesser amount as determined by KCFL).

NEW ZEALAND DOLLAR BANK ACCOUNT DETAILS FOR DIRECT DEBIT

Name of Bank

Account Name

Bank	Branch	Account number	Suffix

Option 2 – Cheque

Please find attached my payment by cheque payable to "KCFL Capital Note Offer" and crossed "Not Transferable". I have supplied my bank account details below for the purpose of direct crediting any future interest paid by KCFL.

Option 3 – NZClear System

Payment will be made by NZClear as arranged with Link (authorised institutional investors only).

NZClear mnemonic

New Zealand Dollar Bank Account Details For Your Future Interest Payments:

Please provide your NZ bank account for future interest payments if this is different from the account provided for direct debit purposes or if you paid by cheque or via NZClear.

Name of Bank

Account Name

Bank	Branch	Account number	Suffix

OR for the purpose of interest payments only, direct credit to my Cash Management Account

Name of NZX Participant where Cash Management Account held:

Cash Management Account Client Account Number:

| | | | | | | |

3. Common Shareholder Number (CSN)

Please note that the application must be in the same name as the CSN below otherwise the application will be deemed to be made without a CSN and a base registry number will be allocated.

If you hold any other securities under a CSN, please enter your CSN here:

| | | | | | | |

4. IRD number and resident withholding tax rate

IRD number (only one IRD number is required in respect of a joint application):

| | | | | | | |

Deduct Resident Withholding Tax (RWT) from my interest earned at the following rate (please tick ✓ one).

Please note that companies (other than a company which is acting as a trustee or a company which is a Maori authority) do not need to tick any box unless they hold an RWT exemption certificate. Tax will automatically be deducted at 28%.

10.5% 17.5% 30% 33%

Exempt – please tick this box if you hold an RWT exemption certificate from IRD and attach a copy of your RWT exemption certificate. The RWT exemption certificate must relate to the IRD number provided.

Country of residence for tax purposes:

If not a New Zealand tax resident, are you engaged in business in New Zealand through a fixed establishment in New Zealand?

Yes / No (delete one)

5. Electronic Correspondence & Reporting

To enable KCFL to provide you with your investor correspondence in relation to your holding in this security electronically, please complete your email address below. If you do not provide an email address, investor correspondence will be mailed to you at the address provided on this application form.

Email

6. Agreement of terms

I/We hereby acknowledge that I/we have received and read the Investment Statement for Capital Notes, and apply for the Principal Amount of Capital Notes set out above and agree to accept such Capital Notes (or such lesser number as may be allotted to me/us) on, and subject to, the terms and conditions set out in the Investment Statement.

All applicants on the Application Form must sign.

Signature

Date

D | D | M | M | Y | Y | Y | Y

Signature

Date

D | D | M | M | Y | Y | Y | Y

Signature

Date

D | D | M | M | Y | Y | Y | Y

7. Certificate of non-revocation of agency

Complete this section if you are acting as agent on behalf of the applicant on this Application Form.

I, Full name

of Place & country of residence

Occupation

hereby certify that:

1. By the agency agreement dated D | D | M | M | Y | Y | Y | Y
(date of instrument creating the power of agency),

Full name

(full name of person/body corporate which appointed you as agent)

of Place & country of residence

(place and country of residence of person/body corporate which appointed you as agent**)

Appointed me

His/her/its name

agent;

2. That I have executed the application for Capital Notes printed on this application form under that appointment and pursuant to the powers thereby conferred on me; and

3. That I have not received notice or information of the revocation of my appointment as agent.

Signature of agent

Date

D | D | M | M | Y | Y | Y | Y

**If a donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.

8. Certificate of non-revocation of power of attorney

Complete this section if you are acting on behalf of the applicant on this Application Form for whom you have power of attorney.

I, Full name

of Place & country of residence

Occupation

hereby certify that:

1. By deed dated D | D | M | M | Y | Y | Y | Y

(date of instrument creating the power of attorney),

Full name

(full name of person/body corporate which granted power of attorney)

of Place & country of residence

(place and country of residence of person/body corporate which granted the power of attorney**)

Appointed me

His/her/its name

attorney;

2. That I have executed the application for Capital Notes printed on this application form under that appointment and pursuant to the powers thereby conferred on me; and

3. That I have not received notice of any event revoking the power of attorney.

Signed at

Location when signed

Signature of attorney

Date

D | D | M | M | Y | Y | Y | Y

**If a donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.

9. Terms and conditions of application

- By signing (or authorising an attorney or agent to sign) this application form:
 - the applicant acknowledges that this form was distributed with the Investment Statement; and
 - the applicant acknowledges that he/she/it has read and understood the statements made in the Investment Statement relating to the Privacy Act 1993 in the section of the Investment Statement entitled 'Application Instructions'.
- An application received by the Registrar cannot be withdrawn or revoked by the applicant.
- KCFL reserves the right to decline any application, in whole or in part, without giving any reason. KCFL may decide not to accept any applications whatsoever.
- Applications must conform with the application instructions in the section of the Investment Statement entitled 'Application Instructions' in Section 11.
- A joint application must be signed by all applicants. Only the address of the first named of the joint applicants will be recorded on the Register and all interest payments, notices, and other correspondence will be sent to that address.
- Applications lodged by individuals must be signed personally or by their attorney or agent. If this application form is signed by an attorney, the attorney must complete the certificate of non-revocation of power of attorney set out above. If this application form is signed by an agent, the agent must complete the certificate of non-revocation of agency set out above.
- Terms defined in the Investment Statement have the same meaning in this application form.
- This application form, the Offer and any contract arising out of its acceptance are governed by New Zealand law. Under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, investors may be required to produce evidence of their identity. You agree that your financial adviser may provide KCFL and its agents with all information evidencing your identity that is held by, or later provided to, your financial adviser and that is required by KCFL to satisfy its obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.

5. Electronic Correspondence & Reporting

To enable KCFL to provide you with your investor correspondence in relation to your holding in this security electronically, please complete your email address below. If you do not provide an email address, investor correspondence will be mailed to you at the address provided on this application form.

Email

6. Agreement of terms

I/We hereby acknowledge that I/we have received and read the Investment Statement for Capital Notes, and apply for the Principal Amount of Capital Notes set out above and agree to accept such Capital Notes (or such lesser number as may be allotted to me/us) on, and subject to, the terms and conditions set out in the Investment Statement.

All applicants on the Application Form must sign.

Signature

Date

D | D | M | M | Y | Y | Y | Y

Signature

Date

D | D | M | M | Y | Y | Y | Y

Signature

Date

D | D | M | M | Y | Y | Y | Y

7. Certificate of non-revocation of agency

Complete this section if you are acting as agent on behalf of the applicant on this Application Form.

I, Full name

of Place & country of residence

Occupation

hereby certify that:

1. By the agency agreement dated D | D | M | M | Y | Y | Y | Y
(date of instrument creating the power of agency),

Full name

(full name of person/body corporate which appointed you as agent)

of Place & country of residence

(place and country of residence of person/body corporate which appointed you as agent**)

Appointed me

His/her/its name

agent;

2. That I have executed the application for Capital Notes printed on this application form under that appointment and pursuant to the powers thereby conferred on me; and

3. That I have not received notice or information of the revocation of my appointment as agent.

Signature of agent

Date

D | D | M | M | Y | Y | Y | Y

**If a donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.

8. Certificate of non-revocation of power of attorney

Complete this section if you are acting on behalf of the applicant on this Application Form for whom you have power of attorney.

I, Full name

of Place & country of residence

Occupation

hereby certify that:

1. By deed dated D | D | M | M | Y | Y | Y | Y

(date of instrument creating the power of attorney),

Full name

(full name of person/body corporate which granted power of attorney)

of Place & country of residence

(place and country of residence of person/body corporate which granted the power of attorney**)

Appointed me

His/her/its name

attorney;

2. That I have executed the application for Capital Notes printed on this application form under that appointment and pursuant to the powers thereby conferred on me; and

3. That I have not received notice of any event revoking the power of attorney.

Signed at

Location when signed

Signature of attorney

Date

D | D | M | M | Y | Y | Y | Y

**If a donor is a body corporate, state place of registered office or principal place of business of donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.

9. Terms and conditions of application

- By signing (or authorising an attorney or agent to sign) this application form:
 - the applicant acknowledges that this form was distributed with the Investment Statement; and
 - the applicant acknowledges that he/she/it has read and understood the statements made in the Investment Statement relating to the Privacy Act 1993 in the section of the Investment Statement entitled 'Application Instructions'.
- An application received by the Registrar cannot be withdrawn or revoked by the applicant.
- KCFL reserves the right to decline any application, in whole or in part, without giving any reason. KCFL may decide not to accept any applications whatsoever.
- Applications must conform with the application instructions in the section of the Investment Statement entitled 'Application Instructions' in Section 11.
- A joint application must be signed by all applicants. Only the address of the first named of the joint applicants will be recorded on the Register and all interest payments, notices, and other correspondence will be sent to that address.
- Applications lodged by individuals must be signed personally or by their attorney or agent. If this application form is signed by an attorney, the attorney must complete the certificate of non-revocation of power of attorney set out above. If this application form is signed by an agent, the agent must complete the certificate of non-revocation of agency set out above.
- Terms defined in the Investment Statement have the same meaning in this application form.
- This application form, the Offer and any contract arising out of its acceptance are governed by New Zealand law. Under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, investors may be required to produce evidence of their identity. You agree that your financial adviser may provide KCFL and its agents with all information evidencing your identity that is held by, or later provided to, your financial adviser and that is required by KCFL to satisfy its obligations under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.

