

**KIWI CAPITAL FUNDING LIMITED**

**PROSPECTUS**

**for**

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

2 May 2014

**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.**

This document is a prospectus for the purposes of the Securities Act and is dated and has been prepared as at 2 May 2014. It is an important document and should be read in its entirety.

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## Warning Statement<sup>1</sup>

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.

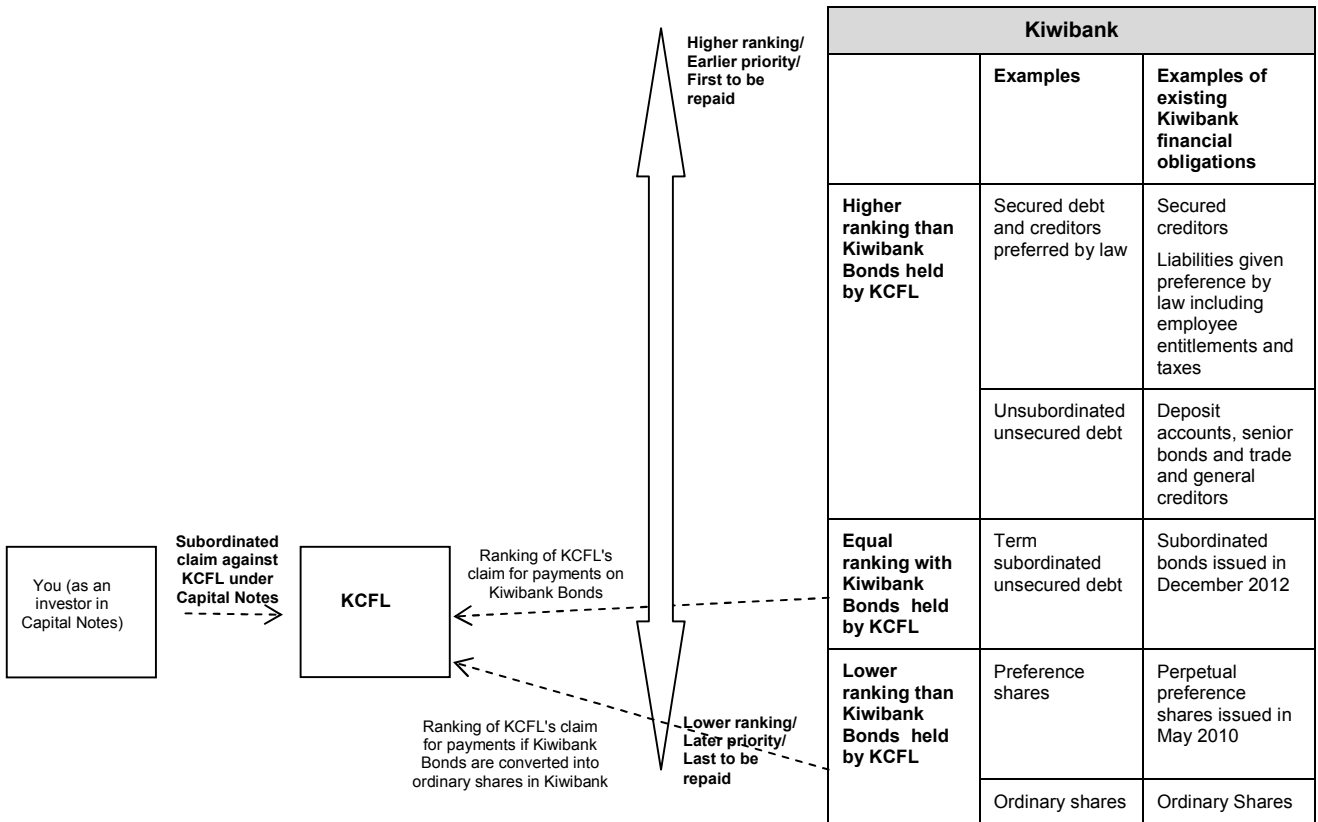
Capital Notes are subordinated obligations of KCFL. This means that your claim in a liquidation of KCFL will rank after KCFL's general unsecured creditors and any other higher ranking claims. KCFL is not expected to have any secured creditors and is not expecting to have any material obligations to unsecured, unsubordinated creditors. See Section 4.15.2, "Prior ranking claims" 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.

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<sup>1</sup> This warning statement and the warning statement on the cover of this Prospectus 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 the Investment Statement and this Prospectus.

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, "Risk Factors" of this Prospectus.

## 1. INTRODUCTION

This Prospectus is dated 2 May 2014 and relates to an offer ("**Offer**") of up to \$100 million of Capital Notes by KCFL.

The key terms of the Capital Notes are summarised in Section 4, "Details of the Capital Notes" of this Prospectus.

### Definitions

Unless the context otherwise requires, capitalised terms used in this Prospectus have defined meanings which appear in the Glossary.

### Registration

A copy of this Prospectus, duly signed by the directors of KCFL, Kiwibank and the directors of Kiwibank, and having endorsed on or attached to it all documents and other materials required by section 41 of the Securities Act, has been delivered to the Registrar of Financial Service Providers for registration under section 42 of the Securities Act. Kiwibank, and each director of Kiwibank, is a "promoter" of the Offer, as that term is defined in the Securities Act.

The documents required by section 41 of the Securities Act to be endorsed on or attached to the copy of this Prospectus and delivered to the Registrar of Financial Service Providers for registration are copies of any material contracts referred to at page 12 which have not previously been filed with the Registrar of Companies.

### Selling restrictions

This Prospectus 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.

Under the Trust Deed, you indemnify KCFL in respect of any loss incurred as a result of you breaching the above selling restrictions.

### Borrowing group

For the purposes of the Securities Regulations, KCFL is the "issuer" and, there are no "guaranteeing subsidiaries" of KCFL. Consequently, at the date of this Prospectus, KCFL is the sole member of the "borrowing group" and references to the "borrowing group" in this Prospectus should be understood as a reference to KCFL alone.

### No underwriting

The Offer is not underwritten.

### NZX Debt Market quotation and trading your Capital Notes

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 Prospectus 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 Prospectus. NZX is a registered exchange and the NZX Debt Market is a registered market under the Securities Markets Act 1988.

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).

Information on how to trade your Capital Notes is contained in Section 4.21, "Transfer of Capital Notes".

### **NZX Debt Market Ticker Code**

NZX Debt Market ticker code KCF010 has been reserved for the Capital Notes.

### **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.

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

### **Brokerage**

You are not required to pay brokerage to KCFL for Capital Notes under this Offer.

### **Scaling**

The Joint Arrangers, in consultation with KCFL, reserve the right to scale applications at their discretion.

### **Applications and payment**

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

You must pay your application payment by direct debit, by a cheque delivered with the application form (which can be found attached to the Investment Statement) prior to the Closing Time, through the NZClear system or other method acceptable to KCFL.

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.

## 2. 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 scheduled 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 4.9.2), 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 Prospectus, 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.**



### 3. STATUTORY AND OTHER INFORMATION

In accordance with Regulation 5(1)(b) of the Securities Regulations, this Prospectus contains all the information, statements and other matters specified in Schedule 2 of the Securities Regulations that are applicable to the Offer and Capital Notes. The paragraph numbers in this section of the Prospectus correspond to the clause numbers of Schedule 2 of the Securities Regulations.

#### 1. MAIN TERMS OF OFFER

KCFL is the issuer of Capital Notes. KCFL's full name is Kiwi Capital Funding Limited. As at the date of this Prospectus, 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](http://www.business.govt.nz/companies).

The securities being offered by KCFL under this Prospectus are unsecured, subordinated, cumulative, loss absorbing debt securities. The terms and conditions of Capital Notes are set out in the Trust Deed. Key information about Capital Notes is set out below. Further details of the terms of the Capital Notes are summarised in Section 4, "Details of the Capital Notes" of this Prospectus.

#### Key Information

<b>The Offer</b>	KCFL is offering for subscription up to \$100 million of Capital Notes. The Issue Price of Capital Notes is \$1.00 per Capital Note. The minimum aggregate Issue Price 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. Payment of the application amount in respect of the Capital Notes applied for must be made in accordance with the instructions contained under the heading "Applications and payment" in Section 1 of this Prospectus.	
<b>What are Capital Notes?</b>	Capital Notes are unsecured, subordinated, cumulative, loss absorbing debt securities issued by KCFL.	
<b>About KCFL and Kiwibank</b>	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). 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 Prospectus and the Investment Statement and also is available at <a href="http://www.kiwibank.co.nz/about-us/investor-centre/">www.kiwibank.co.nz/about-us/investor-centre/</a> .	See Sections 6, 7 and 8
<b>Use of funds</b>	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. 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.	See Sections 7 and 8

<p><b>Relationship between your Capital Notes and the Kiwibank Bonds held by KCFL</b></p>	<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 or write off Kiwibank Bonds held by KCFL into Ordinary Shares or if a statutory manager is appointed to Kiwibank and decides Kiwibank must convert or write off Kiwibank Bonds held by KCFL into Ordinary Shares. 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>	<p>See Sections 4.2 to 4.5 and 4.7 to 4.12</p>
<p><b>How returns are paid on your Capital Notes</b></p>	<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 data-bbox="422 929 1257 1120" data-label="Diagram"> <pre> graph LR     Kiwibank -- "Kiwibank Bonds" --&gt; KCFL     KCFL -- "Capital Notes" --&gt; You     subgraph KCFL_Inputs [Kiwibank Bonds]         K1[• semi-annual fixed interest payments]         K2[• principal repaid on maturity]     end     subgraph You_Inputs [Capital Notes]         Y1[• semi-annual fixed interest payments]         Y2[• principal repaid on maturity]     end     </pre> </div> <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, 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 data-bbox="414 1366 1257 1601" data-label="Diagram"> <pre> graph LR     Kiwibank -- "Ordinary Shares" --&gt; KCFL     KCFL -- "Capital Notes" --&gt; You     subgraph KCFL_Inputs [Ordinary Shares]         K1[• dividend payments if paid (no scheduled dates)]     end     subgraph You_Inputs [Capital Notes]         Y1[• interest payments are based on dividends received by KCFL (no scheduled dates)]         Y2[• no maturity date]     end     </pre> </div> <p>If the Kiwibank Bonds held by KCFL are Converted, your Capital Notes will only be repaid if there is a Share Sale or Capital Reduction in respect of the Ordinary Shares issued to KCFL on Conversion of those Kiwibank Bonds. See Section 4.10, "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>	<p>See Sections 4.2 to 4.5 and 4.7 to 4.12</p>

<b>Key terms of your Capital Notes</b>		
<b>Maturity Date</b>	15 July 2024. KCFL must pay the Principal Amount to you on this day. KCFL's obligation to repay your Capital Notes changes or will terminate if the Kiwibank Bonds held by KCFL are Converted or are Written Off - see "What happens if the Kiwibank Bonds held by KCFL are Converted or Written Off?".	See Sections 4.9 and 4.10
<b>Early repayment of the Principal Amount</b>	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.	See Sections 4.9 and 4.10
<b>Interest payments</b>	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. 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.  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).  KCFL's obligation to pay interest on your Capital Notes changes or will terminate if the Kiwibank Bonds held by KCFL are Converted or are Written Off - see "What happens if the Kiwibank Bonds held by KCFL are Converted or Written off?".	See Sections 4.5, 4.8 and 8
<b>Interest Rate</b>	<ul style="list-style-type: none"> <li>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 <a href="http://www.kiwibank.co.nz/about-us/investor-centre/">www.kiwibank.co.nz/about-us/investor-centre/</a> on or before the Opening Date.</li> <li>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.</li> </ul> <p>How interest on your Capital Notes is determined changes if the Kiwibank Bonds held by KCFL are Converted or are Written Off - see "What happens if the Kiwibank Bonds held by KCFL are Converted or Written off?".</p>	See Section 4.8
<b>Determination of the Margin and the 5 Year Swap Rate</b>	The Margin will be determined by KCFL and the Joint Arrangers on the Rate Set Date, and announced via NZX and at <a href="http://www.kiwibank.co.nz/about-us/investor-centre/">www.kiwibank.co.nz/about-us/investor-centre/</a> 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.	See Section 4.8
<b>What happens if the Kiwibank Bonds held by KCFL are Converted or Written Off?</b>	The returns on your Capital Notes are derived from the returns KCFL receives on the Kiwibank Bonds. This means that if all of the Kiwibank Bonds held by KCFL are Converted, the returns on your Capital Notes will change. In particular: <ul style="list-style-type: none"> <li>your Capital Notes will no longer have a maturity date (that is, your Capital Notes may not be repaid at all);</li> <li>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;</li> <li>your Capital Notes will only be repaid if and to the extent that KCFL receives the proceeds of a Capital Reduction or Share Sale in relation to the Ordinary Shares issued to KCFL on a Conversion of the Kiwibank Bonds held by KCFL; and</li> <li>KCFL has no liability to pay any accrued but unpaid interest on your Capital Notes as at the date of Conversion.</li> </ul>	See Sections 4.8.3, 4.8.4, 4.10, 4.12 and 8

	<p>If Kiwibank is required to Convert Kiwibank Bonds held by KCFL 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 or Written Off. In that case, the number of Capital Notes you hold will remain the same, but the returns on part only of each of your Capital Notes (equal to the proportion of the Kiwibank Bonds held by KCFL that are Converted or Written Off) will change or be written off to reflect the partial Conversion or Write Off.</p>	
<b>No guarantee or security of your Capital Notes</b>	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.	See Section 5.5, "No guarantee"
<b>Credit rating of your Capital Notes</b>	At the date of this Prospectus, 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 or Written Off if a Non-Viability Trigger Event occurs.	See Section 4.6
<b>Risks that KCFL doesn't meet its commitments</b>	<p>A description of the key risks that may affect your returns and repayment of your investment in Capital Notes is set out under the heading "Risk Factors" in Section 5. You should read that section in full before deciding to invest in Capital Notes. Those risks include:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• If a Non-Viability Trigger Event occurs, the Kiwibank Bonds held by KCFL will be either: <ul style="list-style-type: none"> <li>○ Converted, which will affect the returns on your Capital Notes, including that there will be no scheduled interest payments or maturity date; or</li> <li>○ 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.</li> </ul> </li> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> </ul>	See Section 5

### 3. DETAILS OF INCORPORATION OF THE ISSUER

KCFL was incorporated under the Companies Act 1993 on 17 March 2014. KCFL's registered number is 5034081.

The public file relating to KCFL's incorporation and registration is kept at the Companies Office, Business and Registries Branch, Ministry of Economic Development, and can be accessed on the Companies Office website at [www.business.govt.nz/companies](http://www.business.govt.nz/companies) (in case of certain archived documents, on payment of a prescribed fee).

### 4. GUARANTORS

The payment of interest on and repayment of your Capital Notes is not guaranteed by Kiwibank, any member of the Kiwibank Group 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.

### 5. NAMES, ADDRESSES AND OTHER INFORMATION

#### KCFL's directors

The directors of KCFL, and the city, town or district in which their principal residence is based as at the date of this Prospectus are:

Paul Robert Brock, Lower Hutt  
Graeme William Watt, Wellington

You can contact the directors at KCFL's registered office:

c/o Kiwi Capital Funding Limited  
Level 12  
New Zealand Post House  
7 Waterloo Quay  
Wellington 6011

Both of KCFL's directors are employees of Kiwibank, an associated person of KCFL. Paul Brock is the Chief Executive of Kiwibank and Graeme Watt is the Bank Chief Financial Officer of Kiwibank.

None of the directors is employed by KCFL.

#### Promoters of the Offer

Kiwibank and each of its directors are promoters of Capital Notes.

The directors of Kiwibank, and the city, town or district in which their principal residence is based as at the date of this Prospectus are:

Michael John Cullen, Ohope  
Alison Rosemary Gerry, Queenstown  
Robert William Bentley Morrison, Wellington  
Brian Joseph Roche, Wellington  
Catherine Maria Savage, Wellington  
David Stephen Willis, Sydney, Australia

You can contact Kiwibank and its directors at Kiwibank's registered office:

Level 12  
New Zealand Post House  
7 Waterloo Quay  
Wellington 6011

### **Bankruptcy, etc.**

During the five years preceding the date of registration of this Prospectus, none of KCFL, KCFL's directors or any promoter of the Offer has been adjudged bankrupt or insolvent, convicted of a crime involving dishonesty, prohibited from acting as a director of a company, or placed in statutory management, voluntary administration or receivership.

### **Trustee, KCFL's legal advisers and Registrar**

The names and addresses of the Trustee, the Registrar and the legal advisers who have been involved in the preparation of this Prospectus can be found in the Directory in Section 11 of this Prospectus.

KCFL's auditor is PricewaterhouseCoopers, on behalf of the Auditor-General.

## **6. RESTRICTIONS ON DIRECTORS' POWERS**

KCFL's constitution does not impose any limitations on the powers of KCFL's directors.

## **7. DESCRIPTION OF ACTIVITIES OF THE BORROWING GROUP**

KCFL is the only member of the borrowing group. KCFL was incorporated for the purpose of issuing debt securities and using the proceeds to subscribe for regulatory capital instruments issued by Kiwibank. As at the date of this Prospectus, KCFL has not commenced business, acquired any assets or incurred any liabilities.

## **8. SUMMARY OF FINANCIAL STATEMENTS**

Financial statements for KCFL have not been prepared as KCFL has not commenced business, acquired an asset or incurred a liability prior to the date of this Prospectus. As a result, there is no summary of the financial statements of KCFL included, or referred to, in this Prospectus.

## **9. ACQUISITION OF BUSINESS OR SUBSIDIARY**

KCFL has not acquired a business and no person has become a subsidiary of KCFL in the two year period preceding the date of this Prospectus.

## **10. MATERIAL CONTRACTS**

During the two years preceding the date of this Prospectus, KCFL has entered into the following material contracts (not being contracts entered into in the course of KCFL's ordinary business):

- a master trust deed dated 30 April 2014 between KCFL and the Trustee, under which Capital Notes are constituted;
- a supplemental trust deed dated 30 April 2014 between KCFL and the Trustee, which sets out certain terms of the Capital Notes;

- a registrar and paying agency agreement dated 30 April 2014 between KCFL and the Registrar, under which the Registrar agrees to act as the registrar and paying agent in respect of the notes issued by KCFL, including Capital Notes; and
- an administration agreement dated 30 April 2014 between KCFL and Kiwibank under which Kiwibank agrees to provide certain administrative services for KCFL and to pay, on behalf of KCFL, KCFL's costs in connection with notes, including Capital Notes (but not including amounts payable to Holders under the terms of Capital Notes).

## 11. PENDING PROCEEDS

There are no legal proceedings or arbitrations that are pending at the date of this Prospectus that may have a material adverse effect on KCFL, being the sole member of the borrowing group.

## 12. ISSUE EXPENSES

Issue expenses associated with the Offer including accounting and auditing fees, legal fees, listing fees, registry expenses, ratings agency fees, financial advisory fees, arranger fees, lead manager fees, fees relating to advertising, printing and distribution of the Investment Statement, this Prospectus and other material related to the Offer, fees relating to incorporating KCFL and other preliminary fees, and brokerage fees are estimated to be \$2 million and will be paid by Kiwibank either directly, or on behalf of KCFL pursuant to the Administration Agreement. This estimate is based on an issue of \$100 million of Capital Notes.

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 4.15.2, "Prior ranking claims"), Kiwibank has agreed to pay these brokerage costs on behalf of KCFL.

## 13. RANKING OF SECURITIES

Your Capital Notes are unsecured obligations of KCFL. There are no securities secured by a mortgage or charge over any of KCFL's assets which rank in point of security ahead of, or equally with, your Capital Notes.

## 14. PROVISIONS OF TRUST DEED AND OTHER RESTRICTIONS ON BORROWING GROUP

### Overview

Capital Notes are issued under the Master Trust Deed and the Supplemental Trust Deed each dated 30 April 2014 and made between KCFL and the Trustee. The Master Trust Deed and the Supplemental Trust are, together, referred to in this Prospectus as the "**Trust Deed**".

The Master Trust Deed contains provisions that apply to Capital Notes and any series of other notes that are issued by KCFL under the Master Trust Deed. The Supplemental Trust Deed contains provisions (such as term, interest rate and interest payment dates) that apply only to Capital Notes. If there is any inconsistency between the Master Trust Deed and the Supplemental Trust Deed, the terms of the Supplemental Trust Deed prevail. The Master Trust Deed, as supplemented by the Supplemental Deed, contains the terms and conditions which apply to Capital Notes.

### Limitations on KCFL

KCFL agrees in the Master Trust Deed that it will not, without the approval by Extraordinary Resolution of the Holders:

- (a) **Deed Poll:** consent to any requested amendment or waiver of the Deed Poll that would require KCFL's consent unless KCFL's directors have resolved that the amendment will not be adverse to the interests of the Holders and have certified this to the Trustee;
- (b) **No transfer of Kiwibank Bonds:** transfer any of its rights, title and interest in, to and under, any of the Kiwibank Bonds held by KCFL;
- (c) **Capital Reduction or Share Sale:** accept any offer made by Kiwibank for a Capital Reduction, or a purchaser for a Share Sale, in respect of the Ordinary Shares issued to KCFL on Conversion of the Kiwibank Bonds held by KCFL, provided that if KCFL is instructed by Extraordinary Resolution to accept any such offer by holders of more than one series of notes issued under the Trust Deed, it must use its reasonable endeavours to accept such offer on an approximately pro rata basis or in a manner that is otherwise, in KCFL's opinion, fair and reasonable to the holders of each such series;
- (d) **No set-off:** create or permit to arise any right of set-off, netting or combination of accounts in respect of any amounts payable to it in relation to the Kiwibank Bonds held by KCFL (other than rights that arise solely by operation of law);
- (e) **No security:** create or permit to subsist any security whatsoever (unless arising by operation of law) upon the whole or any part of its assets, present or future;
- (f) **Not change business:** carry on any business other than subscribing for bonds issued by Kiwibank under the Deed Poll, holding those bonds and/or Ordinary Shares, issuing notes that relate to such bonds and activities ancillary thereto;
- (g) **No subsidiaries:** have any subsidiaries other than Kiwibank (to the extent that KCFL holds Ordinary Shares issued to it on Conversion of Kiwibank Bonds held by KCFL in accordance with the Deed Poll);
- (h) **No indebtedness:** incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness or of any obligation of any person, other than pursuant to the Trust Deed; or
- (i) **No amalgamation, etc:** amalgamate, consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person.

The Trust Deed does not impose limitations relating to any ratio of liabilities, or of any class of liabilities, to assets, or to any class of assets of KCFL.

### **Powers and duties of the Trustee**

The Trustee has the following powers and duties under the Master Trust Deed:

- (a) **Monitoring role:** The Trustee must exercise reasonable diligence to ascertain whether or not KCFL has breached the conditions of Capital Notes but, until it has received notice to the contrary from KCFL, KCFL's auditor or any Holder, is entitled to assume that no such breach has occurred. The Trustee must exercise reasonable diligence to ascertain whether or not KCFL's assets that are or may be available, are sufficient or likely to be sufficient to discharge the payment obligations of the Issuer in respect of Capital Notes as they become due.
- (b) **Applications to court:** The Trustee may, at any time, apply to the court for an order that its powers be exercised under the direction of the court or for directions or any other order in relation to the extent of or the carrying out of its powers as the Trustee sees fit and it may support or oppose any application to the court made by or at the instance of any Holder. The Trustee will be indemnified by KCFL against all expenses incurred in relation to any



such application or proceedings, provided that the Trustee must consult with KCFL prior to making any such application.

- (c) **Waiver:** Subject to any direction given by Extraordinary Resolution of Holders or affected class of Holders, the Trustee may at any time by written notice to KCFL waive, in whole or in part, for a specified period or indefinitely and on such terms and conditions (if any) as it deems expedient, any breach or anticipated breach by KCFL of any conditions of Capital Notes provided the Trustee is satisfied that the interests of the Holders will not be materially prejudiced thereby. Any such waiver will bind all Holders of Capital Notes and, if the Trustee so requires, must be notified by KCFL to those Holders as soon as practicable.
- (d) **Material breach:** If any breach of the Trust Deed occurs or any circumstances occur which may result in such a breach which the Trustee reasonably considers may be materially prejudicial to the interests of any Holders, the Trustee is entitled in its absolute discretion to require KCFL to report to the Holders the circumstances and the nature of the breach or circumstances and any other information concerning KCFL which the Trustee has received in relation to the Trust Deed and which it reasonably considers to be material to those Holders, and invite those Holders to indicate to the Trustee their preferences as to any exercise or non-exercise of its powers under the Trust Deed. If KCFL fails to give that report within 30 days of the date on which the Trustee gave notice to KCFL requiring it to give the report, the Trustee is entitled to do so itself.
- (e) **Represent Holders:** The Trustee may, either of its own volition or pursuant to any directions or in accordance with any policy given or indicated by any meeting of Holders, represent and act on behalf of those Holders in any matter concerning them generally.
- (f) **Attend general meetings:** Any representative of the Trustee, being a person authorised to act for this purpose by any director, general manager or secretary of the Trustee, is entitled to attend any general meeting of KCFL or meeting of holders of notes issued under the Trust Deed, and to be heard at any such meeting which he or she attends on any part of the business of the meeting which concerns the Trustee as such or the Holders.
- (g) **Power to engage expert:** The Trustee may engage from time to time an expert (for example, an auditor, investigating accountant, valuer or actuary) if it considers, on reasonable grounds, that it requires the assistance of the expert to assist the Trustee to:
  - (i) determine KCFL's financial position; or
  - (ii) review KCFL's business, operation, management systems or governance.

Where the Trustee engages an expert, KCFL must provide reasonable assistance to the expert to allow the expert to provide the assistance, and the fees and expenses of the expert, which must be reasonable in the circumstances, will be paid by KCFL.

However, the Trustee is not responsible for monitoring:

- (a) KCFL's application of subscription moneys; or
- (b) (subject to the Trustee's compliance with its obligations under the Securities Regulations) KCFL's compliance with the Listing Rules and is entitled to assume KCFL is complying with the Listing Rules unless otherwise notified by KCFL or NZX. (In the event of non-compliance with the Listing Rules, the Trustee may have regard to NZX's response to the non-compliance when determining what actions (if any) the Trustee will take.)

The powers and duties of the Trustee in respect of Capital Notes are construed and interpreted to recognise and take into account:

- (a) the characteristics of Capital Notes as direct, unsecured, subordinated, debt obligations of KCFL;
- (b) the limitations on the rights of the Holders and the Trustee on behalf of the Holders in respect of any breach of the Trust Deed by KCFL; and
- (c) the limitations of the rights of the Trustee to make any directions or otherwise interfere in the conduct of KCFL's business,

and the duties of the Trustee, including the duties set out in clause 1 of schedule 15 to the Securities Regulations, are to the extent permitted by law limited and construed by reference to those characteristics and limitations. All Holders are deemed to have agreed to and accept and are bound by the foregoing limitations.

### **Meetings**

The Master Trust Deed contains provisions for meetings of Holders. Meetings may be convened by KCFL or the Trustee, and are required to be convened on the request of holders holding not less than 10% of the aggregate "**voting amount**" (that is, the aggregate of the Principal Amount and Loss Absorbing Amount) of all series of notes outstanding under the Master Trust Deed. At least 14 days' notice of each meeting is required to be given.

The meetings are held in the city in which KCFL's registered office is situated (currently Wellington), or at such other place as the Trustee agrees. Each Holder is entitled to attend in person or by proxy and vote at the meeting. The quorum required for passing an Extraordinary Resolution is two or more holders holding or representing a majority of the voting amount of all notes issued under the Trust Deed. The quorum for any other business is two or more holders holding or representing at least 10% of the voting amount of all notes issued under the Master Trust Deed. An Extraordinary Resolution of Holders binds all holders of all series and the Trustee.

If, within 15 minutes after the time appointed for a meeting of holders of notes issued under the Master Trust Deed, a quorum is not present:

- (a) in the case of a meeting convened at the request of holders of notes issued under the Master Trust Deed, the meeting is dissolved; and
- (b) in any other case, the meeting will stand adjourned to the day and time (not being less than 14 days thereafter) and place appointed by the chairman of the meeting and at such adjourned meeting the holders present in person or by representative will be a quorum for the transaction of business including the passing of Extraordinary Resolutions.

### **Trustee's statement**

The Trustee's statement for this Prospectus is set out in Appendix A.

## **15. OTHER TERMS OF OFFER AND SECURITIES**

All the terms of the Capital Notes and all of the terms of the Offer of the Capital Notes are set out in this Prospectus, except for those implied by law or set out in a document that is registered with a public official, available for public inspection and referred to in this Prospectus.

## **16-18 REQUIREMENTS IN RESPECT OF FINANCIAL STATEMENTS**

Clauses 16 to 18 of Schedule 2 to the Securities Regulations relate to the requirements in respect of financial statements that comply with, and have been registered under, the Financial Reporting Act 1993. KCFL has not commenced business, acquired an asset or incurred a liability prior to the date of this Prospectus and therefore historical financial statements of KCFL have not been prepared.

**19. PLACES OF INSPECTION OF DOCUMENTS**

KCFL's constitution and the material contracts referred to in paragraph 10 above in this section of this Prospectus are filed with the Companies Office, Business and Registries Branch, Ministry of Economic Development, and can be accessed on the Companies Office website at [www.business.govt.nz/companies](http://www.business.govt.nz/companies). Copies of the publicly-filed documents may also be obtained (in the case of certain archived documents, on payment of a prescribed fee) by telephoning the Companies Office on 0508 266 726, or inspected free of charge at KCFL's registered office during normal business hours.

**20. OTHER MATERIAL MATTERS**

There are no material matters relating to the offer of Capital Notes other than those set out in this Prospectus.

**21. DIRECTORS' STATEMENT**

As no financial statements for KCFL have been prepared or included, or referred to, in this Prospectus, this requirement is not applicable.

**22. AUDITOR'S REPORT**

As no financial statements or prospective financial information for KCFL has been included, or referred to, in this Prospectus, this requirement is not applicable.

## 4. DETAILS OF THE CAPITAL NOTES

The information set out in this section contains:

- an overview of Capital Notes;
- explanations of some important concepts for understanding what returns you will receive:
  - loss absorbency;
  - that you have no claim against Kiwibank and no rights as shareholders;
  - how the principal on which returns are determined may vary; and
  - what receipt of a Corresponding Payment means;
- information about the credit rating of your Capital Notes;
- a summary of the possible outcomes for your investment in Capital Notes;
- a description of the interest that is payable (including after a Conversion);
- a description of your rights to repayment (including after a Conversion);
- a description of what happens if Kiwibank Bonds held by KCFL are Written Off;
- information about payments and what happens if KCFL does not repay the Capital Notes on the Maturity Date;
- the consequences of an insolvency of KCFL and limits on Holders' enforcement rights;
- the way in which the terms of your Capital Notes and the Kiwibank Bonds held by KCFL can be amended; and
- information about transferring your Capital Notes.

### 4.1 Overview

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.

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.

## 4.2 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*

A Non-Viability Trigger Event means the earlier of:

- (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, including the Kiwibank Bonds held by KCFL; 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, including the Kiwibank Bonds held by KCFL.

The grounds on which a direction may be given by the RBNZ are that the RBNZ has reasonable grounds to believe:

- (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.

### *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 Section 4.8.4, "Interest payments on the Loss Absorbing Amount", Section 4.10, "Repayment of the Loss Absorbing Amount") and Section 4.12, "What happens if Kiwibank Bonds held by KCFL are Written Off?".

## 4.3 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 4.16);
- 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.

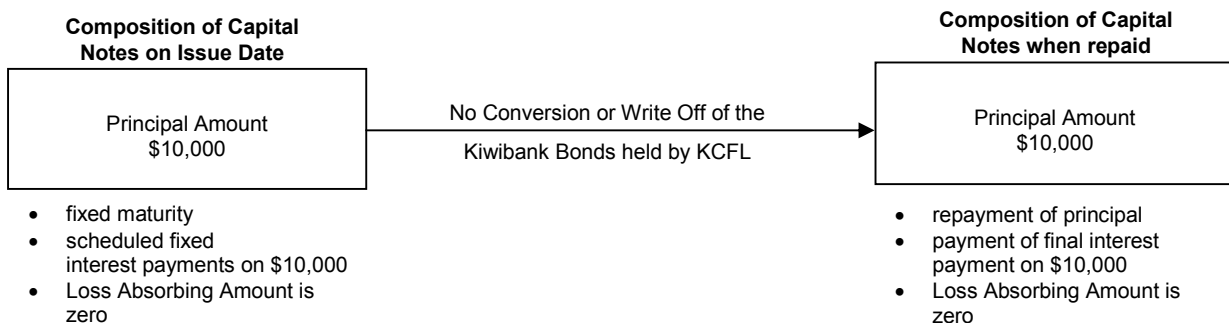
#### 4.4 The principal on which returns are determined may vary

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 4.8 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 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.



If a Non-Viability Trigger Event occurs, Kiwibank Bonds held by KCFL may be Converted or, if Conversion is not possible, Written Off. If a Non-Viability Trigger Event occurs, not all of the Kiwibank Bonds held by KCFL will need to be Converted 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 or Written Off.

If a Non-Viability Trigger Event occurs and all of the Kiwibank Bonds held by KCFL are Converted, 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, 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 Reduction Amount, and the Loss Absorbing Amount of each of your Capital Notes will increase by the Reduction 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 Reduction Amount 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.

The Reduction Amount for each of your Capital Notes is calculated in accordance with the following formula:

$$\text{Reduction Amount} = \text{Principal Amount (immediately prior to Conversion or Write Off)} \times \text{Loss Proportion}$$

where "Loss Proportion" means the proportion (expressed as a percentage to two decimal places with five rounded up) of the Kiwibank Bonds held by KCFL that have been Converted or Written Off (as applicable) in accordance with the Deed Poll.

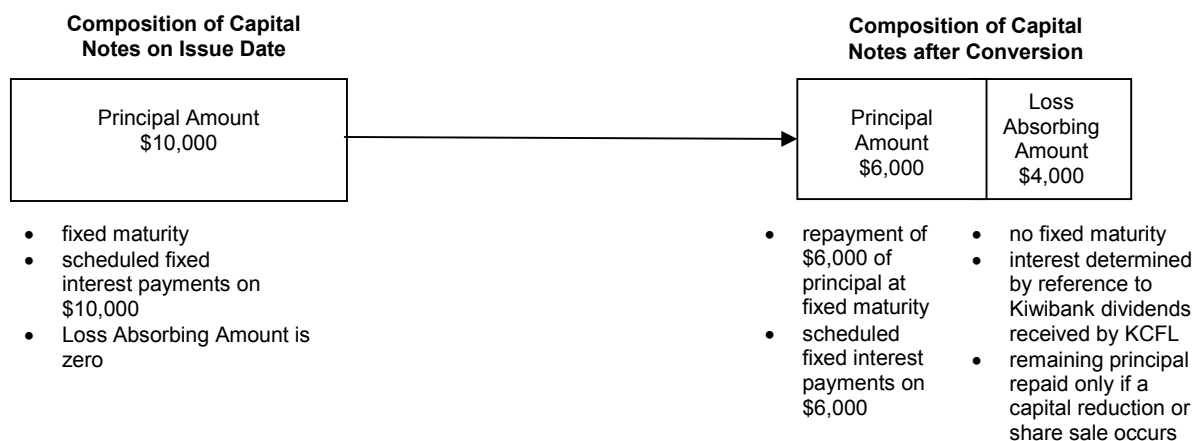
More detail on the Conversion and Write Off processes is set out in Section 8, "The Kiwibank Bonds held by KCFL".

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.

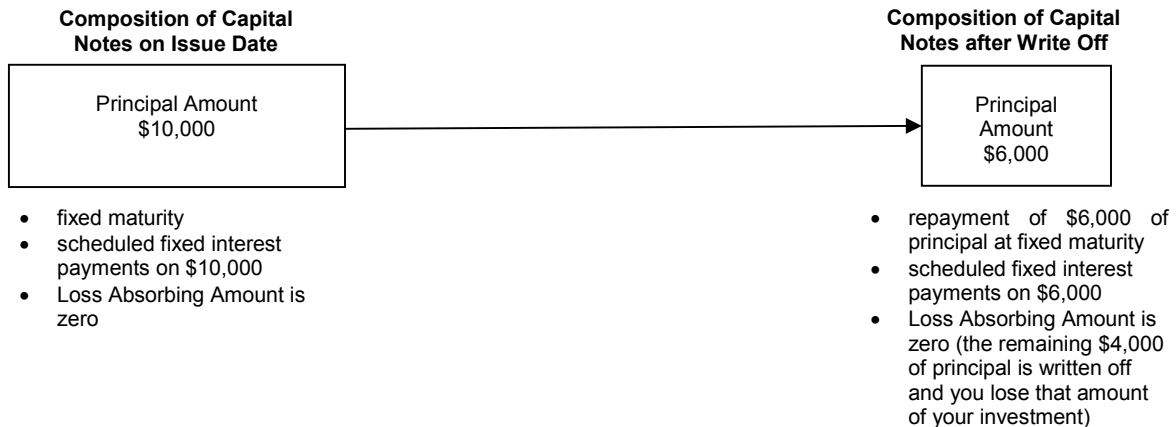
**Scenario 1: 100% of the Kiwibank Bonds held by KCFL are Converted**



**Scenario 2: 40% of the Kiwibank Bonds held by KCFL are Converted**



### Scenario 3: 40% of the Kiwibank Bonds held by KCFL are Written Off



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.

If there has been a Conversion of Kiwibank Bonds held by KCFL (that is, both the Principal Amount and the Loss Absorbing Amount of your Capital Notes is greater than zero), the Principal Amount of each of your Capital Notes will be reduced when the Principal Amount is repaid. Your Capital Notes will then be made up of Loss Absorbing Amount only.

The Loss Absorbing Amount of each of your Capital Notes will also be adjusted if:

- (a) a Capital Reduction or a Share Sale occurs in relation to the Ordinary Shares issued to KCFL on Conversion of the Kiwibank Bonds held by KCFL; or
- (b) KCFL is placed in liquidation and the liquidator sells Ordinary Shares issued to KCFL on Conversion of the Kiwibank Bonds held by KCFL.

In those circumstances, the Loss Absorbing Amount of each of your Capital Notes will be adjusted to be equal to the amount calculated in accordance with the following formula:

$$\frac{P \times S}{N}$$

where:

"P" means the aggregate proceeds per share:

- (i) paid by Kiwibank or the purchaser to KCFL in relation to the Ordinary Shares held by KCFL subject to the Capital Reduction or Share Sale; or
- (ii) paid by the purchaser to the liquidator of KCFL in relation to the Ordinary Shares held by KCFL subject to a sale in the liquidation of KCFL,

in each case less the amount of any tax or expenses payable by KCFL (or by the consolidated group of which KCFL is a member) in connection with the Capital Reduction, Share Sale or payment of the Loss Absorbing Payment Amount or payable by the liquidator of KCFL in connection with the sale of the Ordinary Shares or the related distribution.



"S" means the aggregate number of Ordinary Shares issued to KCFL on Conversion of the Kiwibank Bonds held by KCFL and which are held by KCFL immediately prior to the Capital Reduction or Share Sale or sale in the liquidation.

"N" means the aggregate number of Capital Notes.

The Loss Absorbing Amount of your Capital Notes will then be reduced by the amount of the Loss Absorbing Payment Amount or the amount of the payment by the liquidator, as the case may, upon payment of that amount to you.

#### **4.5 What does receipt of a Corresponding Payment mean?**

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. Receipt of a Corresponding Payment (and similar expressions) means, in relation to:

- (a) the obligation of KCFL to pay interest on your Capital Notes on a particular date, that KCFL has received:
  - (i) an interest payment from Kiwibank on that date in respect of the Kiwibank Bonds held by KCFL; and/or
  - (ii) a dividend from Kiwibank on that date in respect of the Ordinary Shares issued to KCFL on Conversion of the Kiwibank Bonds held by KCFL; and
- (b) the obligation of KCFL to repay principal on your Capital Notes on a particular date, that KCFL has received:
  - (i) the payment of the amount on that date in respect of the repayment of the Kiwibank Bonds held by KCFL; or
  - (ii) the proceeds of a Capital Reduction or Share Sale on that date in respect of the Ordinary Shares issued to KCFL on Conversion of the Kiwibank Bonds held by KCFL.

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 4.16.

*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.

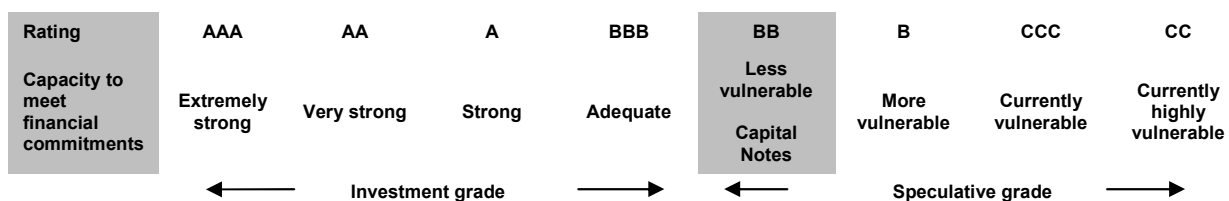
#### 4.6 Credit rating of your Capital Notes

At the date of this Prospectus 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 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](http://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.

#### 4.7 Possible outcomes for investors

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 Sections 4.8 to 4.14 below.

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 <b>does not</b> 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 <b>does not</b> 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 Event				What value will you receive from KCFL in relation to your Capital Notes?
	When?	RBNZ approval needed?	Do other conditions apply?	
Kiwibank <b>does not</b> 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
<b>Potential outcomes following a Non-Viability Trigger Event</b>				
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 Share Sale or Capital Reduction of the Ordinary Shares issued to KCFL
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 Share Sale or Capital Reduction of 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 or, if Conversion is not possible, Written Off. In those circumstances, more than one of the potential outcomes may apply to your Capital Notes.

## 4.8 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 4.4, "The principal on which returns are determined may vary". 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 or a Write Off.

If Kiwibank Bonds held by KCFL are Converted 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.

### 4.8.1 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/](http://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/](http://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.

### 4.8.2 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.

#### **4.8.3 Effect of a Conversion on accrued interest**

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

#### **4.8.4 Interest payments on the Loss Absorbing Amount**

**(This only applies if the Kiwibank Bonds held by KCFL have been Converted.)**

If a Non-Viability Trigger Event occurs and some or all of the Kiwibank Bonds held by KCFL are Converted, 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. 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 directors. This means that you will not receive interest payments in respect of the Loss Absorbing Amount on the Interest Payment Dates specified in Section 2, "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 in accordance with the following formula:

$$\text{Interest amount} = \frac{D}{N},$$

where:

"D" means the aggregate of the dividends (as defined in the Companies Act) paid by Kiwibank to KCFL on the Interest Payment Date in respect of the Ordinary Shares issued to KCFL on the Conversion of the Kiwibank Bonds held by KCFL; and

"N" means the total number of Capital Notes held by you and the other Holders.

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

#### **4.9 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, the amount required to repay each of your Capital Notes will be the greater of the Principal Amount and the Market Value, described below.

### *Market Value determination*

If the Market Value of the Capital Notes is required to be determined, it will be determined as follows:

- (a) KCFL must appoint an "**Independent Valuer**" as soon as practicable after it becomes aware that Kiwibank has exercised the related early repayment option.
- (b) The Independent Valuer must be instructed by KCFL to determine the market value of each Capital Note (adjusted to exclude the value of any accrued interest) as at the date 10 Business Days before the notice of early repayment is sent to Holders (the "**Note Valuation Date**"), and the amount so determined by the Independent Valuer will be the Market Value.
- (c) If the Capital Notes have traded on the NZX Debt Market on at least five of the 10 days prior to (but excluding) the Note Valuation Date on which the NZX Debt Market was open for trading (such 10 days period, the "**Valuation Period**"), the Independent Valuer must determine the market value by:
  - (i) determining the aggregate price paid for all Capital Notes traded on the NZX Debt Market in the Valuation Period (adjusted to exclude the value of any accrued interest in relation to the Capital Notes); and
  - (ii) dividing that aggregate price by the total number of the Capital Notes traded in that Valuation Period.

The "**Independent Valuer**" must be an entity that:

- (a) KCFL, in consultation with Kiwibank, believes has the expertise to determine the market value of the Capital Notes; and
- (b) is independent of KCFL and Kiwibank.

#### **4.9.1 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.

#### **4.9.2 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.

**"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.

**"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.

#### **4.10 Repayment of the Loss Absorbing Amount**

**(This only applies if the Kiwibank Bonds held by KCFL have been Converted.)**

If, following a Conversion of all or some of the Kiwibank Bonds held by KCFL, a Capital Reduction or Share Sale occurs in relation to the Ordinary Shares issued to KCFL on Conversion, KCFL must pay to you the Loss Absorbing Payment Amount in respect of each of your Capital Notes. The Loss Absorbing Payment Amount is calculated in respect of a particular day in accordance with the following formula:

$$\text{Loss Absorbing Payment Amount} = \frac{P}{N},$$

where:



"P" means the aggregate proceeds paid by Kiwibank or the purchaser (as applicable) to KCFL on that day in respect of a Capital Reduction or Share Sale in relation to Ordinary Shares issued to KCFL on Conversion of the Kiwibank Bonds held by KCFL, less the amount of any tax or expenses payable by KCFL (or by the consolidated group of which KCFL is a member) in connection with the Capital Reduction, Share Sale or payment of the Loss Absorbing Payment Amount; and

"N" means the aggregate number of Capital Notes.

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, or an offer from a purchaser for a Share Sale, without approval by an Extraordinary Resolution of Holders.

#### **4.11 Notice to Holders**

KCFL will give you notice promptly upon becoming aware that it is required to repay your Capital Notes or pay a Loss Absorbing Payment Amount to you, specifying either:

- (a) that Kiwibank has exercised an early repayment option in respect of the Kiwibank Bonds held by KCFL, the date of the Early Repayment Date, and the amount of the repayment; or
- (b) that a Capital Reduction or Share Sale has occurred in relation to all or part of the Ordinary Shares issued to KCFL on Conversion, the date on which the payment to you will be made, and the amount of the Loss Absorbing Payment Amount to be repaid.

#### **4.12 What happens if Kiwibank Bonds held by KCFL are Written Off?**

If Kiwibank Bonds held by KCFL are "Written Off":

- (a) those Kiwibank Bonds held by KCFL will not, and will never, be Converted;
- (b) on and from the sixth Business Day after the date on which the Non-Viability Trigger Event occurred, KCFL's rights in relation to those Kiwibank Bonds held by KCFL are immediately and irrevocably terminated and written off;
- (c) the Principal Amount of your Capital Notes will reduce by an amount equal to the proportion of Kiwibank Bonds held by KCFL that are written off so the amount payable to you on the Maturity Date will be less than the amount you paid for your Capital Notes; and
- (d) none of the interest that has accrued on your Capital Notes as at the date of the Write Off but has not been paid is payable to you (the corresponding interest on the Kiwibank Bonds held by KCFL will have been written off) and, as future interest payments on your Capital Notes will be determined by reference to the reduced Principal Amount, the amount of future interest payments will also be reduced.

#### **4.13 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.

#### **4.14 Non-payment on the Maturity Date**

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

#### **4.15 Consequences of insolvency**

##### **4.15.1 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 Sections 4.8 to 4.10.

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.

##### **4.15.2 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.

#### **4.15.3 Contingent debt**

In the event of a liquidation of KCFL, you may only prove for:

- (a) the Principal Amount of, or interest or other moneys payable in respect of, each of your Capital Notes as a debt which is subject to and contingent upon prior payment of prior ranking creditors in full; and
- (b) the Loss Absorbing Amount of each of your Capital Notes as a debt which is subject to and contingent upon prior payment in full of each other creditor of KCFL (other than any other Holder claiming for payment of a Loss Absorbing Amount).

In the event of a liquidation of KCFL, the Principal Amount and Loss Absorbing Amount of each of your Capital Notes, and any accrued but unpaid interest on the Principal Amount will, for those purposes, be immediately due and payable.

#### **4.15.4 Waiver**

In relation to amounts payable under your Capital Notes, you waive to the fullest extent permitted by law any right to prove in a liquidation of KCFL as a creditor ranking for payment equally with senior creditors or, in relation to the Loss Absorbing Amount, as a creditor ranking for payment equally with any other creditor of KCFL (other than any other Holder claiming for payment of a Loss Absorbing Amount).

#### **4.15.5 No set-off**

You may not set-off against any amounts due in respect of your Capital Notes any amount you hold to the credit of KCFL, nor any deposits with, advances to or debts of KCFL, nor any other amount owing by you to KCFL on any account whatsoever.

#### **4.16 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.

#### **4.17 Trust**

You will hold any payment you receive, whether voluntarily or in any other circumstances, from or on account of KCFL (including by way of credit, set-off or otherwise howsoever) or from any liquidator, receiver, manager or statutory manager of KCFL in respect of your Capital Notes in breach of the subordination provisions described above in trust for and to the creditors of KCFL, to be paid in order of the creditors' ranking on the liquidation of KCFL.

#### **4.18 Acknowledgement by Holders**

You irrevocably acknowledge that:

- (a) you will be bound by any adjustment to the Principal Amount and the Loss Absorbing Amount made in accordance with the Trust Deed (as described in Section 4.4, "The principal on which returns are determined may vary") 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.

#### **4.19 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:

##### *(a) Amendment without consent*

The Trust Deed may be amended without your consent where:

- (i) 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
- (ii) the Trustee is of the reasonable opinion that the amendment will not adversely affect the interests of affected Holders; or
- (iii) 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.

(b) *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.

**4.20 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:

- (a) with the consent of the all 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
- (b) 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.

**4.21 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. RISK FACTORS

### 5.1 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.

### 5.2 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 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 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 5.5 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.

### **5.3 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, the return 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 are 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 Share Sale, or Capital Reduction or KCFL is placed in liquidation and the liquidator sells the Ordinary Shares issued to KCFL on Conversion of the Kiwibank Bonds held by KCFL. If there is a Share Sale or Capital Reduction, 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 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 undertake 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 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, 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.

### **5.4 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. 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*

Global credit and equity markets, particularly in the United States and Europe, have experienced extreme volatility, disruption and decreased liquidity for more than five years, reaching unprecedented levels of disruption from September 2008. These challenging market conditions have resulted in periods of less liquidity, greater volatility, widening of credit spreads and a lack of price transparency in markets generally.



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.

Kiwibank continues to monitor industry and company specific developments and the state of the global and New Zealand economy; however, it is difficult to predict how long these conditions will persist and which markets, products or other businesses will be affected, and these factors may continue to adversely impact Kiwibank's results or operations.

*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. This risk principally arises in relation to Kiwibank lending to its customers but may also arise, for example for Kiwibank, from: (a) entering into swap or other derivative contracts under which counterparties have obligations to make payments to Kiwibank, and (b) executing trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries.

*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, particularly its ability to issue longer-dated securities in domestic or international markets 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. As such, Kiwibank may be forced to delay funding transactions, issue shorter tenors than it prefers, or pay penal interest rates, thereby increasing Kiwibank's interest expense, decreasing its profitability and significantly reducing its financial flexibility, all of 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. Additional cost has resulted from, among other things, holding additional capital and undertaking wholesale long-term funding to replace short-term funding to more closely match Kiwibank's long-term asset profile, which are comprised predominantly of home mortgages.

In October 2013, the RBNZ introduced more prudential policy in the form of restrictions on low deposit loans. This policy could impact on the amount of low deposit loans Kiwibank is able to write and, therefore, Kiwibank's profitability.

*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. Such operational risks may include theft and fraud, improper business practices, client suitability and servicing risks, product complexity and pricing risk or improper recording, evaluating or accounting for transactions, breach of security and physical protection systems, or breaches of its internal policies and regulations.

While Kiwibank employs a range of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As such, Kiwibank may, in the course of its activities, incur losses.

There can be no assurance that the risk management processes and strategies that Kiwibank has developed in response to current market conditions will adequately anticipate additional market stress or unforeseen circumstances.

*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. Most daily operations are computer-based and information technology systems are essential to maintaining effective communications with customers. The exposure to systems risks include the complete or partial failure of information technology systems or data centre infrastructure, the inadequacy of internal third-party information technology systems due to, among other things, failure to keep pace with industry developments and the capacity of the existing systems to effectively accommodate planned

growth and integrate existing and future acquisitions and alliances. 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. These issues include appropriately dealing with potential conflicts of interest, legal and regulatory requirements, ethical issues, money laundering laws, trade sanctions legislation, privacy laws, information security policies, sales and trading practices, and conduct by companies in which Kiwibank holds strategic investments. 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.

### **5.5 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 4.15.2, "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 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 4.9.2, "Repayment of the Principal Amount before the Maturity Date". 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 4.9.2, "Repayment of the Principal Amount before the Maturity Date". 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 4.19, 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 4.20, "Amendment to the terms of the Kiwibank Bonds held by KCFL".

## **5.6 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.

## **5.7 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.

## **5.8 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.

## **5.9 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 Section 9, "New Zealand taxation". 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.

## **5.10 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 Prospectus, including recently issued proposed regulations. Future guidance may affect the application of FATCA to KCFL, Holders or beneficial owners of Capital Notes.

### 5.11 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. Accordingly, KCFL and/or Kiwibank may in the future issue securities that:

- rank for interest or payments of principal or capital (including on the liquidation of KCFL or of Kiwibank, as relevant) equal with, behind or ahead of, respectively, your Capital Notes or the Kiwibank Bonds held by KCFL;
- have the same or different dividend, interest or distribution rates as, respectively, your Capital Notes or the Kiwibank Bonds held by KCFL;
- have payment tests and distribution restrictions or other covenants which affect your Capital Notes and/or the Kiwibank Bonds held by KCFL (including by restricting circumstances in which interest payments can be paid on those securities and when those securities can be redeemed); or
- have the same or different terms and conditions as your Capital Notes or the Kiwibank Bonds held by KCFL, as the case may be.

Kiwibank may incur further indebtedness and may issue further securities including further Tier 2 Capital securities before, during or after the issue of Kiwibank Bonds to KCFL. For example, as part of its ongoing capital management programme, Kiwibank continually considers the issuance of Tier 1 and Tier 2 Capital securities.

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, "Capital and funding for banks, including Kiwibank").

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 those 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 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).

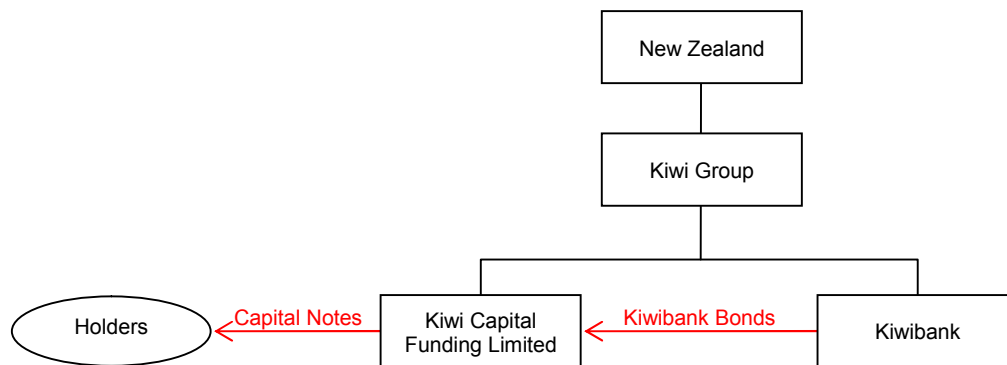
No prediction can be made as to the effect, if any, which the future redemption or repayment by Kiwibank of existing securities may have on the market price or liquidity of your Capital Notes or on Kiwibank's financial position or performance.

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.

## 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](http://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.

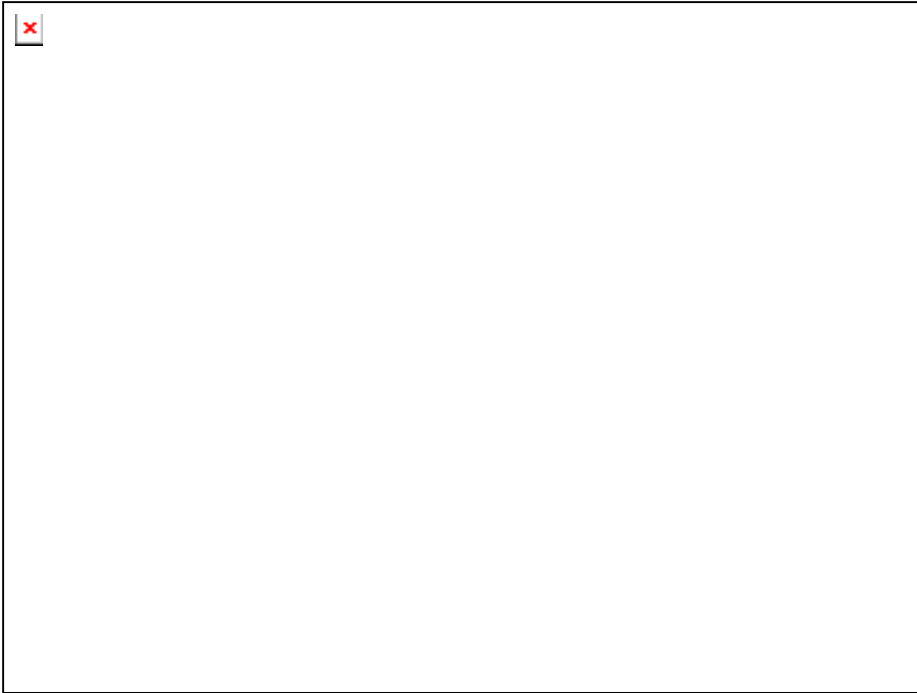
### **6.3.4 Distribution channels**

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.

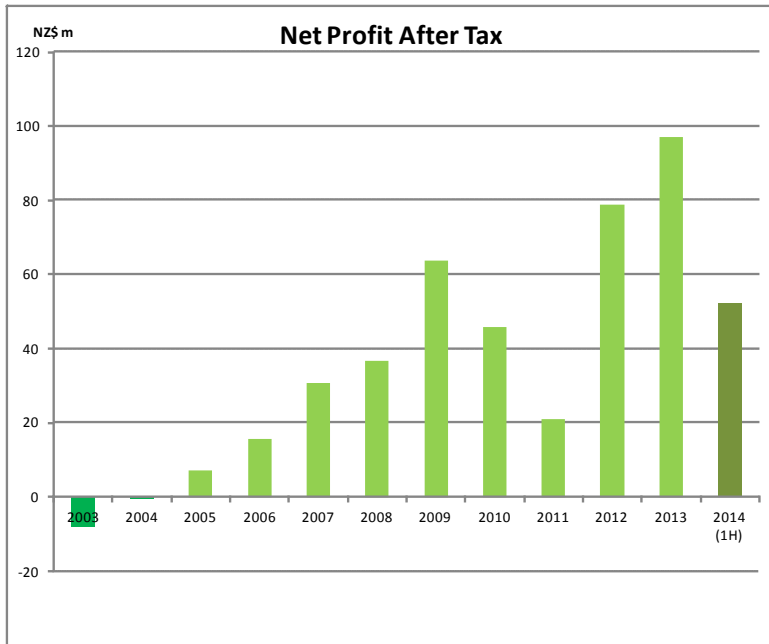
The business banking focus is on growing Kiwibank's market share in the small to medium-sized business market, utilising Kiwibank's relationship model to generate strong deposit and lending growth from both business and personal customer relationships.

#### **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 on page 11, under the heading "Promoters of the Offer". 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](http://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 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/](http://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%.

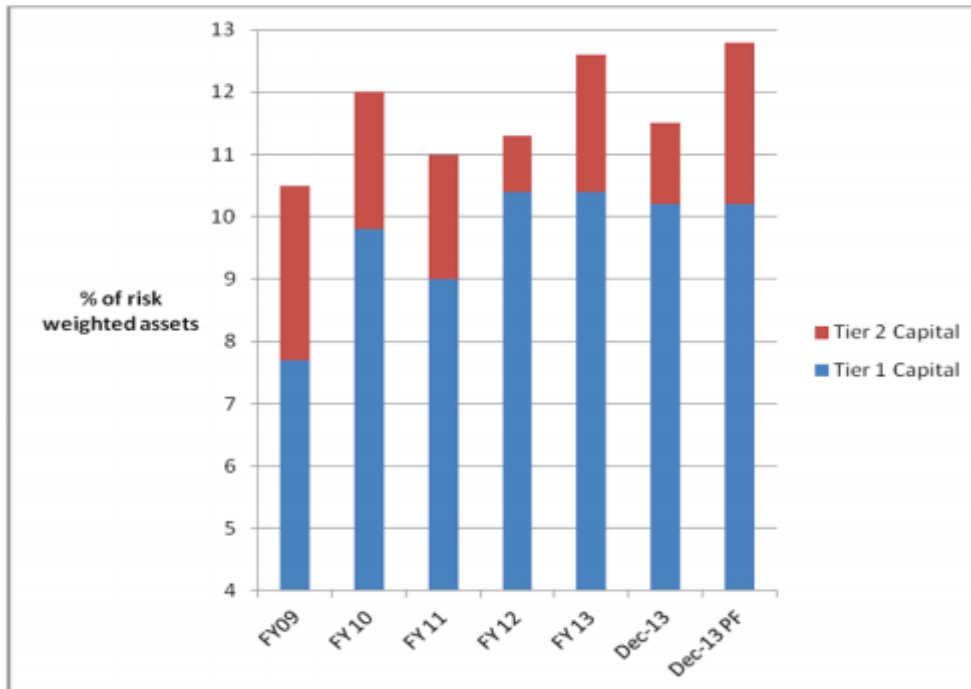
RBNZ has issued a notice of non-objection to Kiwibank that the Kiwibank Bonds held by KCFL will constitute Tier 2 Capital for the purposes of Kiwibank's regulatory capital requirements.

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 <sup>1</sup>	Total Capital ratio	Minimum Total Capital ratio <sup>1</sup>
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%.<sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> 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.

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

<b>Issuer</b>	Kiwibank
<b>Subscriber</b>	KCFL
<b>Status</b>	Subordinated convertible bonds that are expected to count as Tier 2 Capital for Kiwibank.
<b>Issue date</b>	6 June 2014
<b>Issue amount</b>	The amount of Kiwibank Bonds held by KCFL issued will be equal to the total amount of Capital Notes issued.
<b>Maturity date</b>	15 July 2024
<b>Early repayment</b>	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 4.9.2, "Repayment of the Principal Amount before the Maturity Date".
<b>Interest payments</b>	<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 4.5, "What does receipt of a Corresponding Payment mean?"</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>
<b>Interest rate</b>	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 4.8.1, "Interest payments on the Principal Amount".
<b>Loss Absorbency</b>	<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 is not possible) if a Non-Viability Trigger Event occurs. A Non-Viability Trigger Event can occur if Kiwibank experiences severe financial difficulty. The Non-Viability Trigger Events are described in Section 4.2, "Loss absorbency".</p>

<b>Conversion</b>	<p>If Kiwibank is required to Convert some or all of the Kiwibank Bonds held by KCFL, 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> <ul style="list-style-type: none"> <li>(a) first, any Tier 1 Capital instruments that have loss absorbing terms; and</li> <li>(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),</li> </ul> <p>on an approximately pro rata basis.</p>
<b>Write Off if Conversion is not possible</b>	<p>If, following a Non-Viability Trigger Event, Conversion of the Kiwibank Bonds held by KCFL 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, 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>
<b>No guarantee</b>	<p>The Kiwibank Bonds held by KCFL are not guaranteed by New Zealand Post Limited or any other person.</p>
<b>No rights as shareholders</b>	<p>In no circumstances will investors in Capital Notes become holders of Kiwibank Bonds or shareholders in Kiwibank.</p>
<b>Documentation</b>	<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 of the Investment Statement.</p>



## 9. NEW ZEALAND TAXATION

### Important Notice

This section of the Prospectus provides an overview of the New Zealand tax consequences for Holders. 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 Prospectus. 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.

### 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.

### 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.

## 10. 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 Reuter 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 4.15.2, "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 Prospectus.

"**Capital Reduction**" means a reorganisation or restructure of the capital of Kiwibank which results in the reduction on the number of Ordinary Shares on issue, and includes an acquisition by Kiwibank in accordance with the Companies Act.

"**Closing Time**" means the "Closing Time" specified in Section 2, "Important Dates".

"**Companies Act**" means the Companies Act 1993.

"**Conversion**" means the conversion of the Kiwibank Bonds into Ordinary Shares in accordance with the Deed Poll and "**Convert**", "**Converted**" and "**Converting**" have corresponding meanings.

"**Corresponding Payment**" has the meaning given to that term in Section 4.5, "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 2, "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, 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/](http://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.

**"Investment Statement"** means the investment statement for the Offer.

**"Issue Date"** means the "Issue Date" specified in Section 2, "Important Dates".

**"Issue Price"** means \$1.00 per Capital Note.

**"Joint Arrangers"** means Deutsche Craigs Limited and Kiwibank.

**"Joint Lead Managers"** means the joint lead managers specified in the Directory in Section 11.

**"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, zero; and
- (b) following a Conversion of Kiwibank Bonds held by KCFL, 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 a Capital Reduction or Share sale occurs or KCFL is placed in liquidation and the liquidator sells 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 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 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 4.10, "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/](http://www.kiwibank.co.nz/about-us/investor-centre/) on or before the Opening Date.

**"Master Trust Deed"** means the deed dated 30 April 2014 entered into by KCFL and the Trustee, relating to the issuance of regulatory capital instruments by Kiwibank.

**"Maturity Date"** means the "Maturity Date" specified in Section 2, "Important Dates".

**"Minimum Holding"** means 5,000 Capital Notes.

**"Non-Viability Trigger Event"** has the meaning given to that term in Section 4.2, "Loss absorbency".

**"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 Prospectus.

**"Opening Date"** means the "Opening Date" specified in Section 2, "Important Dates".

**"Optional Repayment Date"** means each "Optional Repayment Date" specified in Section 2, "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 or Write Off of Kiwibank Bonds held by KCFL, an amount equal to the Issue Price; and
- (b) at any time thereafter, the amount adjusted to reflect the proportion of Kiwibank Bonds held by KCFL that have been Converted or Written Off as described in Section 4.4, "The principal on which returns are determined may vary",

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

**"Rate Set Date"** means the "Rate Set Date" specified in Section 2, "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 10<sup>th</sup> calendar day before the due date for that payment or, if that day is not a Business Day, the preceding Business Day.

**"Reduction Amount"** is described in Section 4.4, "The principal on which returns are determined may vary".

**"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"** is defined in Section 4.9.2, "Repayment of the Principal Amount before the Maturity Date".

**"Reset Date"** means the "Reset Date" in Section 2, "Important Dates".

**"Securities Act"** means the Securities Act 1978.

**"Securities Regulations"** means the Securities Regulations 2009.

**"Share Sale"** means a sale by KCFL of Ordinary Shares issued to KCFL on Conversion of the Kiwibank Bonds, other than by way of a Capital Reduction.

**"Solvent"** means satisfying the solvency test contained in section 4 of the Companies Act, 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.

**"Supplemental Trust Deed"** means the deed dated 30 April 2014 entered into by KCFL and the Trustee, which is supplemental to the Master Trust Deed.

**"Tax Event"** is defined in Section 4.9.2, "Repayment of the Principal Amount before the Maturity Date".

**"Tier 2 Capital"** is described in Section 7.1, "Prudential regulation".

**"Trust Deed"** means the Master Trust Deed, together with the Supplemental Trust Deed, under which Capital Notes will be issued.

**"Trustee"** means The New Zealand Guardian Trust Company Limited.

**"Written Off"** has the meaning given to that term in Section 4.12, "What happens if Kiwibank Bonds held by KCFL are Written Off?" and **"Write Off"** has a corresponding meaning.

## 11. DIRECTORY

<p><b>KCFL</b> Kiwi Capital Funding Limited Level 12, New Zealand Post House 7 Waterloo Quay Wellington 6011</p>	<p><b>Kiwibank</b> Kiwibank Limited Level 12, New Zealand Post House 7 Waterloo Quay Wellington 6011</p>
<p><b>Joint Arrangers and Joint Lead Managers</b> Deutsche Craigs Limited Level 36, Vero Centre 48 Shortland Street Auckland 1010 <i>or</i> PO Box 1196 Auckland 1140</p> <p>Kiwibank Limited Level 12, New Zealand Post House 7 Waterloo Quay Wellington 6011</p>	<p><b>Joint Lead Manager</b> Forsyth Barr Limited Level 9, Forsyth Barr House The Octagon Dunedin 9106 <i>or</i> Private Bag 1999 Dunedin 9054</p> <p><b>Organising Participant</b> Craigs Investment Partners Limited Craigs Investment Partners House 158 Cameron Road Tauranga 3110 <i>or</i> PO Box 13155 Tauranga 3141</p>
<p><b>Registrar</b> Link Market Services Limited Level 7, Zurich House 21 Queen Street Auckland 1010 <i>or</i> PO Box 91976 Auckland 1142</p>	<p><b>Trustee</b> The New Zealand Guardian Trust Company Limited Level 7, Vero Centre 48 Shortland Street Auckland 1010</p> <p>(The Trustee's registered office may change from time to time. The Trustee's current registered office may be viewed on <a href="http://www.business.govt.nz/companies">www.business.govt.nz/companies</a>.)</p>
<p><b>Legal advisers to KCFL and Kiwibank</b> Russell McVeagh Level 24, Vodafone on the Quay 157 Lambton Quay Wellington 6143 <i>or</i> PO Box 10-214 Wellington 6011</p>	<p><b>Legal advisers to the Trustee</b> Buddle Findlay PwC Tower 188 Quay Street Auckland 1010 <i>or</i> PO Box 1433 Auckland 1140</p>

## APPENDIX A - TRUSTEE'S STATEMENT

2 May 2014

**TO: THE INVESTORS UNDER THIS PROSPECTUS OF KIWI CAPITAL FUNDING LIMITED**

Dear Investor

Clause 14(3) of Schedule 2 to the Securities Regulations 2009 requires us to confirm that the offer of the securities (**Capital Notes**) by Kiwi Capital Funding Ltd (**KCFL**) set out in the prospectus dated on or about 2 May 2014 (**Prospectus**) complies with any relevant provisions of:

- a) the Master Trust Deed between KCFL and The New Zealand Guardian Trust Company Limited (**Trustee**) dated 30 April 2014; and
- b) the Supplemental Trust Deed between KCFL and the Trustee dated 30 April 2014,

(together, the **Trust Documents**).

The relevant provisions of the Trust Documents are those which:

- a) entitle KCFL to constitute and issue under the Trust Documents the Capital Notes offered under the Prospectus; and
- b) impose any restrictions on the right of KCFL to offer the Capital Notes,

and are described in the "*Provisions of Trust Deed and other restrictions on Borrowing Group*" section on pages 13 to 16 of the Prospectus.

The Trustee's statement does not refer to any financial information, or to any material contained in the Prospectus, which does not relate to the Trust Documents.

The Trustee confirms that the offer of Capital Notes set out in the Prospectus complies with any relevant provisions of the Trust Documents. We have given this confirmation on the basis set out above.

The inclusion of this Trustee's statement in the Prospectus should not be taken to imply that the Trustee has responsibility for the material in the Prospectus other than the Trustee's statement.

The Trustee does not guarantee or provide any assurance as to the repayment of the Capital Notes offered or the payment of interest thereon or any other aspect of the Capital Notes.

Signed for and on behalf of the Trustee  
The New Zealand Guardian Trust Company Limited

Mark Jephson  
**Senior Relationship Manager - Corporate Client Services**

**Corporate Client Services**

Level 7, 48 Shortland Street, Auckland 1010  
PO Box 1934, Auckland 1140, New Zealand  
Telephone: (09) 909 5136, Facsimile: (09) 969 3732  
Email: ct-auckland@nzgt.co.nz

[www.guardiantrust.co.nz](http://www.guardiantrust.co.nz)



## EXECUTION

This Prospectus has been signed by each director of KCFL (or by his agent authorised in writing), by Kiwibank Limited and by each director of Kiwibank Limited (or by his or her agent authorised in writing).

### DIRECTORS OF KIWI CAPITAL FUNDING LIMITED

\_\_\_\_\_  
Paul Robert Brock

\_\_\_\_\_  
Graeme William Watt

### KIWIBANK LIMITED by:

\_\_\_\_\_  
Signature of director

\_\_\_\_\_  
Signature of director

### DIRECTORS OF KIWIBANK LIMITED

\_\_\_\_\_  
Michael John Cullen

\_\_\_\_\_  
Alison Rosemary Gerry

\_\_\_\_\_  
Robert William Bentley Morrison

\_\_\_\_\_  
Brian Joseph Roche

\_\_\_\_\_  
Catherine Maria Savage

\_\_\_\_\_  
David Stephen Willis