

KIWI CAPITAL FUNDING LIMITED

PROSPECTUS

for

**an offer of
Perpetual Capital Notes
of up to \$150 million**

17 April 2015

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 17 April 2015. It is an important document and should be read in its entirety.

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Warning Statement¹

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

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

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

Perpetual Capital Notes are not guaranteed by Kiwibank, the Government, or any other person.

If Kiwibank experiences severe financial difficulties, the Kiwibank Perpetual Bonds held by KCFL may be converted into ordinary shares in Kiwibank or written off. If the Kiwibank Perpetual Bonds held by KCFL are converted into ordinary shares in Kiwibank, the returns on your Perpetual 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 Perpetual Capital Notes is likely to fall if the Kiwibank Perpetual Bonds held by KCFL are converted. If the Kiwibank Perpetual Bonds held by KCFL are written off you will lose all of your investment in Perpetual Capital Notes.

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

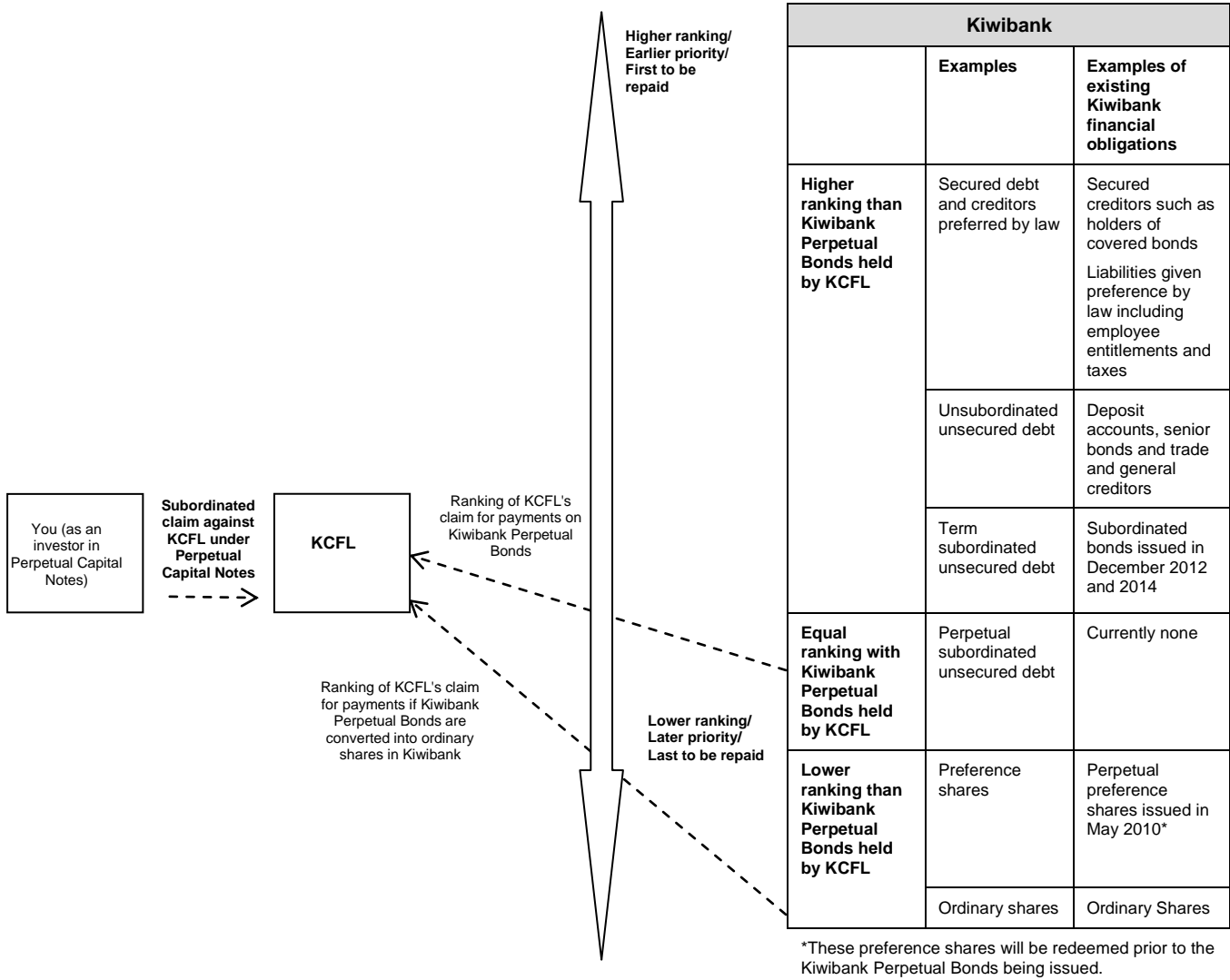
Neither you, nor KCFL as the holder of the Kiwibank Perpetual Bonds, will have any choice as to whether a conversion or write off of the Kiwibank Perpetual Bonds occurs, and you may not have a chance to sell your Perpetual Capital Notes before the conversion or write off of the Kiwibank Perpetual Bonds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

The Perpetual Capital Notes are perpetual subordinated obligations of KCFL. This means that your claim in a liquidation of KCFL will rank after the claims of KCFL's term subordinated creditors, general unsecured creditors and any other higher ranking claims. KCFL has existing term subordinated creditors, being investors in the capital notes it issued in June 2014. 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 Perpetual 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 Perpetual Bonds held by KCFL are perpetual subordinated obligations of Kiwibank. This means KCFL's claim in a liquidation of Kiwibank will rank after the claims of Kiwibank's term subordinated creditors, general unsecured creditors (including depositors) and any other higher ranking claims.

¹ 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 Perpetual 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 17 April 2015 and relates to an offer ("**Offer**") of Perpetual Capital Notes by KCFL of up to \$150 million.

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

Securities Act

The Securities Act applies to the Offer. 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 Perpetual 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 Perpetual 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). Perpetual 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 Perpetual 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 Perpetual Capital Notes

Application has been made to NZX for permission to quote Perpetual 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, Perpetual Capital Notes have not yet been approved for quotation and NZX accepts no responsibility for any statement in this Prospectus. NZX is a licensed market operator and the NZX Debt Market is a licensed market under the Financial Markets Conduct Act 2013.

NZX has approved, under Listing Rule 11.1.5, the inclusion of provisions in the Trust Deed allowing KCFL to refuse a transfer of Perpetual Capital Notes if the transfer is not in multiples of 1,000 Perpetual Capital Notes or would result in the transferee or transferor holding less than the Minimum Holding of Perpetual Capital Notes (5,000 Perpetual Capital Notes).

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

NZX Debt Market Ticker Code

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

Offer process

All Perpetual 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 Perpetual Capital Notes.

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

Brokerage

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

Scaling

The Joint Lead Managers, 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 22 May 2015).

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 will be refunded (without interest) as soon as reasonably practicable and, in any event, within five Business Days of the Issue Date.

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

Early bird interest

KCFL will pay interest on application moneys for applications that are accepted at 4.50% per annum (less any applicable withholding taxes). This interest will be paid within 5 Business Days of the Issue Date, and will be calculated for the period from the date on which those application moneys are banked until (but excluding) the Issue Date.

No cooling-off

There is no cooling-off period in relation to Perpetual 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:	1 May 2015
Opening Date:	4 May 2015
Closing Time:	5.00pm on 22 May 2015
Issue Date:	27 May 2015
Expected date of quotation on the NZX Debt Market:	28 May 2015
Expected date of commencement of trading on the NZX Debt Market:	28 May 2015
First Interest Payment Date:	27 August 2015
Subsequent Interest Payment Dates:	each 27 February, 27 May, 27 August and 27 November*
Reset Dates:	27 May 2020 and every 5 years thereafter
First Call Date:	27 May 2022**

* If the Perpetual Capital Notes are repaid (see Section 4.9), the day on which they are repaid will also be an Interest Payment Date.

**If the Scheduled Call Conditions are not satisfied on this date, the Scheduled Call Date will not be the First Call Date and will be deferred to the first Interest Payment Date after that date on which the Scheduled Call Conditions are satisfied.

KCFL may vary the timetable, including by extending the Closing Time or withdrawing the Offer at any time before Perpetual Capital Notes are issued. If the Closing Time is extended, the Issue Date and all subsequent dates will also be adjusted accordingly.

If the Offer is withdrawn before the issue of Perpetual 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 Trigger Event occurs you may not receive payments on your Perpetual Capital Notes, including payments of interest on the scheduled dates set out above, or at all.

3. STATUTORY AND OTHER INFORMATION

In accordance with Clause 6 of Schedule 4 to the Financial Markets Conduct Act 2013 and 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 Perpetual 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 Perpetual 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

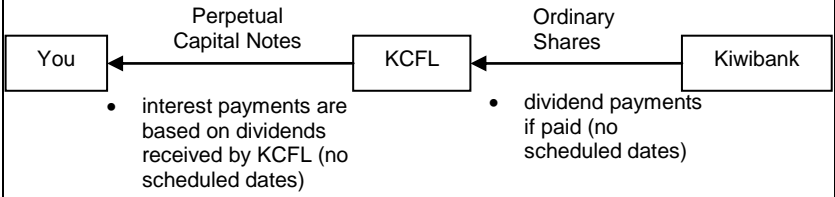
KCFL's registered office may change from time to time. KCFL's current registered office may be viewed on www.business.govt.nz/companies.

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

Key Information

The Offer	<p>KCFL is offering for subscription up to \$150 million of Perpetual Capital Notes.</p> <p>The Issue Price of Perpetual Capital Notes is \$1.00 per Perpetual Capital Note. The minimum aggregate Issue Price of Perpetual 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 Perpetual Capital Notes you can subscribe for. Payment of the application amount in respect of the Perpetual 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.</p>	
What are Perpetual Capital Notes?	<p>Perpetual Capital Notes are perpetual, non-cumulative, unsecured, subordinated, loss absorbing debt securities issued by KCFL.</p>	
About KCFL and Kiwibank	<p>Both KCFL and Kiwibank are wholly owned subsidiaries of Kiwi Group Holdings Limited ("KGHL"). KGHL itself is a wholly owned subsidiary of New Zealand Post Limited ("New Zealand Post"). KCFL has been established solely for the purpose of issuing debt securities (such as your Perpetual Capital Notes) and using the proceeds to subscribe for regulatory capital instruments issued by Kiwibank (such as the Kiwibank Perpetual Bonds to be held by KCFL).</p> <p>Kiwibank is a registered bank under the RBNZ Act. Kiwibank offers a range of personal and business transactional banking, savings account, term deposit, home loan, credit card and business loan products. More information on Kiwibank is contained in this Prospectus and the Investment Statement and also is available at www.kiwibank.co.nz/about-us/investor-centre/.</p> <p>KGHL is a non-operating holding company. KGHL owns (through its subsidiaries) 4 operating businesses: banking provided by Kiwibank; insurance provided by Kiwi Insurance Limited; wealth provided by Kiwi</p>	<p>See Sections 6, 7 and 8</p>

	Wealth Management Limited; and the distribution of home loans by The New Zealand Home Loan Company Limited.	
Use of funds	<p>KCFL will use the proceeds of the Perpetual Capital Notes to invest in Kiwibank Perpetual Bonds. Kiwibank will use the proceeds of the Kiwibank Perpetual Bonds issued to KCFL to help meet its regulatory capital requirements. The Kiwibank Perpetual Bonds held by KCFL are expected to count as Additional Tier 1 Capital for Kiwibank under the RBNZ's prudential standards.</p> <p>You can find more information on these capital requirements and Kiwibank's capital position in Section 7. Section 7 also explains how Kiwibank's capital position is enhanced by New Zealand Post's uncalled capital facility with the Crown.</p>	See Sections 7 and 8
Relationship between your Perpetual Capital Notes and the Kiwibank Perpetual Bonds held by KCFL	<p>It is important that you understand the difference between your Perpetual Capital Notes and the Kiwibank Perpetual Bonds held by KCFL. You invest in Perpetual Capital Notes. KCFL uses the proceeds it receives from the Perpetual Capital Notes to invest in the Kiwibank Perpetual Bonds. KCFL's ability to make payments to you on your Perpetual Capital Notes is entirely dependent on KCFL receiving payments from Kiwibank on KCFL's investment in the Kiwibank Perpetual Bonds. You do not and will not hold any Kiwibank Perpetual Bonds (only KCFL does).</p> <p>The Kiwibank Perpetual Bonds held by KCFL may be required to Convert into Ordinary Shares in Kiwibank if a 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 Perpetual Capital Notes are not convertible in any circumstances, but the returns on them will change if the Kiwibank Perpetual Bonds held by KCFL are Converted into Ordinary Shares.</p>	See Sections 4.2 to 4.5 and 4.7 to 4.12
Trigger Events	<p>There are two Trigger Events that can apply to the Kiwibank Perpetual Bonds:</p> <ul style="list-style-type: none"> • a Common Equity Capital Trigger Event; and • a Non-Viability Trigger Event. <p>A Common Equity Capital Trigger Event will occur if the amount of common equity capital held by the Kiwibank Group is less than 5.125% of risk-weighted assets. Information about the capital requirements specified by the RBNZ and Kiwibank's capital position is contained in Section 7.</p> <p>A Non-Viability Trigger Event will occur if the RBNZ directs Kiwibank to convert Kiwibank Perpetual Bonds held by KCFL into Ordinary Shares or write off Kiwibank Perpetual Bonds or if a statutory manager is appointed to Kiwibank and decides Kiwibank must convert Kiwibank Perpetual Bonds held by KCFL into Ordinary Shares or write off Kiwibank Perpetual Bonds. The RBNZ direction can only be given, or a statutory manager can only be appointed, in limited circumstances where Kiwibank encounters severe financial difficulty.</p>	See Section 4.2
How returns are paid on your Perpetual Capital Notes	<p>The returns on your Perpetual Capital Notes will change if a Trigger Event occurs.</p> <p><i>No Trigger Event occurs</i></p> <p>Your Perpetual Capital Notes have terms (such as being perpetual, the interest rate and interest payment dates) that match the terms of the Kiwibank Perpetual Bonds held by KCFL.</p> <div style="text-align: center;"> <pre> graph LR You[You] KCFL[KCFL] Kiwibank[Kiwibank] KCFL -- "Perpetual Capital Notes" --> You Kiwibank -- "Kiwibank Perpetual Bonds" --> KCFL </pre> <p>• quarterly fixed interest payments</p> <p>• quarterly fixed interest payments</p> </div>	See Sections 4.2 to 4.5 and 4.7 to 4.12

	<p>There may also be a return of principal as described below under the headings "Repayment of the Principal Amount" and "Scheduled Call".</p> <p><i>Trigger Event occurs</i></p> <p>If a Trigger Event occurs and the Kiwibank Perpetual Bonds held by KCFL are Converted, interest will only be paid to you on your Perpetual 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 Trigger Event.</p> <div style="text-align: center;">  <pre> graph LR You[You] KCFL[KCFL] Kiwibank[Kiwibank] Kiwibank -- "Ordinary Shares" --> KCFL KCFL -- "Perpetual Capital Notes" --> You </pre> </div> <ul style="list-style-type: none"> • interest payments are based on dividends received by KCFL (no scheduled dates) • dividend payments if paid (no scheduled dates) <p>If the Kiwibank Perpetual Bonds held by KCFL are Converted, your Perpetual Capital Notes will only be repaid if there is a Share Sale of, or Capital Reduction in respect of, the Ordinary Shares issued to KCFL on Conversion of those Kiwibank Perpetual Bonds. See Section 4.10, "Repayment of the Loss Absorbing Amount" for more detail.</p> <p>Amounts received by KCFL from Kiwibank on the Kiwibank Perpetual Bonds (or the Ordinary Shares into which they Convert) prior to KCFL's liquidation will be held on trust for you and other Holders of the Perpetual Capital Notes.</p> <p>If it is not possible for Kiwibank Perpetual Bonds held by KCFL to Convert into Ordinary Shares when required, then those Kiwibank Perpetual Bonds will be Written Off. If the Kiwibank Perpetual Bonds held by KCFL are Written Off in part or in whole, you will lose a corresponding amount of your investment in Perpetual Capital Notes.</p> <p>The Scheduled Call (described below) will not apply if any of the Kiwibank Perpetual Bonds are Converted or Written Off.</p>	
Key terms of your Perpetual Capital Notes		
No maturity	Your Perpetual Capital Notes are perpetual. This means that your Perpetual Capital Notes have no fixed maturity date and will remain on issue indefinitely unless repaid by KCFL, purchased by KGHL under the Scheduled Call or Written Off.	See Sections 4.9 and 4.10
Repayment of the Principal Amount	Some or all of your Perpetual Capital Notes may be repaid on a Reset Date (Reset Dates occur at 5 yearly intervals, commencing on 27 May 2020) 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 Perpetual Capital Notes be repaid for any reason.	See Sections 4.9 and 4.10
Scheduled Call	<p>All of your Perpetual Capital Notes will be purchased by KGHL on the Scheduled Call Date, if they are outstanding at that time. The Scheduled Call Date is the earlier of the First Call Date (27 May 2022) and the first Interest Payment Date thereafter on which the Scheduled Call Conditions are met.</p> <p>Your Perpetual Capital Notes will not be purchased by KGHL under the Scheduled Call unless the Scheduled Call Conditions are met. There is no certainty that the Scheduled Call Conditions will be met on the First Call Date, or on any other date. The Scheduled Call will cease to apply if any of the Kiwibank Perpetual Bonds are Converted or Written Off.</p>	See Section 4.13

Interest payments	<p>Interest on your Perpetual Capital Notes is scheduled to be paid quarterly in arrear on each Interest Payment Date. KCFL's obligation to pay interest on your Perpetual Capital Notes is subject to the condition that KCFL receives a Corresponding Payment of interest from Kiwibank on its investment in the Kiwibank Perpetual Bonds. Interest payments on the Kiwibank Perpetual Bonds are subject to Kiwibank's absolute discretion and the following payment conditions:</p> <ul style="list-style-type: none"> • Kiwibank and the Kiwibank Group being Solvent immediately after making the payment; and • Kiwibank being in compliance with the RBNZ's then current capital adequacy requirements in its conditions of registration immediately after making the payment (these requirements restrict distributions by Kiwibank in certain circumstance). <p>KCFL's obligation to pay interest on your Perpetual Capital Notes changes or will terminate if the Kiwibank Perpetual Bonds held by KCFL are Converted into Ordinary Shares or Written Off - see "What happens if the Kiwibank Perpetual Bonds held by KCFL are converted into Ordinary Shares or written off?".</p>	See Sections 4.5, 4.8 and 8
Non-cumulative	Interest payments are non-cumulative. This means that, if interest is not paid on your Perpetual Capital Notes on an Interest Payment Date because a Corresponding Payment of interest has not been made on the Kiwibank Perpetual Bonds, that interest will never be paid by KCFL to you and you have no right to receive it at all.	See Section 4.8.1
Restrictions on Kiwibank if interest is not paid	Kiwibank will be restricted in its ability to pay dividends on its Ordinary Shares, to undertake a capital reduction, and to make payments on capital instruments that rank equally with or junior to the Kiwibank Perpetual Bonds if interest is not paid on the Kiwibank Perpetual Bonds by Kiwibank on a scheduled interest payment date.	See Section 4.8.2
Interest Rate	<p>The Interest Rate is a fixed rate that is reset at 5-yearly intervals:</p> <ul style="list-style-type: none"> • The Interest Rate for the period from the Issue Date to the first Reset Date (27 May 2020) will be set on the Rate Set Date and announced by KCFL via NZX and at www.kiwibank.co.nz/about-us/investor-centre/ on or before the Opening Date. • The Interest Rate will be reset on the first Reset Date and at 5-yearly intervals thereafter (on each subsequent Reset Date) to be equal to the 5 Year Swap Rate as at the Reset Date plus the Margin. <p>How interest on your Perpetual Capital Notes is determined changes if the Kiwibank Perpetual Bonds held by KCFL are Converted or Written Off - see "What happens if the Kiwibank Perpetual Bonds held by KCFL are converted into Ordinary Shares or written off?".</p>	See Section 4.8
Determination of the Margin and the 5 Year Swap Rate	The Margin will be determined by KCFL and the Joint Lead Managers on the Rate Set Date, and announced via NZX and at www.kiwibank.co.nz/about-us/investor-centre/ on or before the Opening Date. The 5 Year Swap Rate to apply from a Reset Date will be determined by KCFL and announced via NZX on that date. The Margin will not change during the term of your Perpetual Capital Notes.	See Section 4.8
What happens if the Kiwibank Perpetual Bonds held by KCFL are converted into Ordinary Shares or written off?	The returns on your Perpetual Capital Notes are derived from the returns KCFL receives on its investment in Kiwibank Perpetual Bonds. This means that if all of the Kiwibank Perpetual Bonds held by KCFL are Converted into Ordinary Shares, the returns on your Perpetual Capital Notes will change. In particular:	

	<ul style="list-style-type: none"> interest will no longer be payable on scheduled dates and at a fixed rate. Interest on your Perpetual 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 Perpetual 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 Trigger Event; and your Perpetual Capital Notes will only be repaid if and to the extent that KCFL receives the proceeds of a Share Sale of, or Capital Reduction in respect of, the Ordinary Shares issued to KCFL on a conversion of the Kiwibank Perpetual Bonds held by KCFL. <p>If Kiwibank is required to Convert Kiwibank Perpetual Bonds held by KCFL but Conversion is not possible, the Kiwibank Perpetual Bonds held by KCFL that were required to Convert will be Written Off instead. If the Kiwibank Perpetual Bonds held by KCFL are Written Off in part or in whole, you will lose a corresponding amount of your investment in Perpetual Capital Notes.</p> <p><i>Partial Conversion or Write Off of the Kiwibank Perpetual Bonds held by KCFL</i></p> <p>It is possible that, if a Trigger Event occurs, some but not all of the Kiwibank Perpetual Bonds held by KCFL will be Converted or Written Off. In that case, the number of Perpetual Capital Notes you hold will remain the same, but the returns on a part only of each of your Perpetual Capital Notes (equal to the proportion of the Kiwibank Perpetual Bonds held by KCFL that are Converted or Written Off) will change or be Written Off to reflect the partial Conversion or Write Off of the Kiwibank Perpetual Bonds held by KCFL.</p> <p>The Scheduled Call (described above) will not apply if any of the Kiwibank Perpetual Bonds are Converted or Written Off.</p>	See Sections 4.8.3, 4.10, 4.12 and 8
No guarantee or security of your Perpetual Capital Notes	Your Perpetual Capital Notes are not guaranteed by Kiwibank, the Government or any other person. Your Perpetual Capital Notes are unsecured.	See Section 5.5, "No guarantee"
Credit rating of your Perpetual Capital Notes	At the date of this Prospectus, KCFL has obtained a rating of BB- from Standard & Poor's for your Perpetual 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 Perpetual Capital Notes are derived from the performance of the Kiwibank Perpetual Bonds held by KCFL, and those Kiwibank Perpetual Bonds are subordinated obligations of Kiwibank which have discretionary interest payments and may be Converted or Written Off if a Trigger Event occurs.	See Section 4.6
Risks that KCFL doesn't meet its commitments	<p>A description of the key risks that may affect your returns and repayment of your investment in Perpetual 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 Perpetual Capital Notes. Those risks include:</p> <ul style="list-style-type: none"> KCFL's ability to make payments on your Perpetual Capital Notes is entirely dependent on KCFL receiving payments from Kiwibank on the Kiwibank Perpetual Bonds it holds. Accordingly, if KCFL does not receive a Corresponding Payment from Kiwibank, KCFL will not be able to make payments to you on your Perpetual Capital Notes. If interest is not paid to you on an Interest Payment Date because KCFL has not received a Corresponding Payment from Kiwibank, that interest will not be paid to you on a later date and you have no right to receive it. 	See Section 5

	<ul style="list-style-type: none"> • If a Trigger Event occurs: <ul style="list-style-type: none"> ○ all or some of the Kiwibank Perpetual Bonds held by KCFL may be either: <ul style="list-style-type: none"> - Converted, which will affect the returns on your Perpetual Capital Notes, including that there will be no scheduled interest payments; or - Written Off, in which case your investment in Perpetual Capital Notes will lose all of its value, you will not have your capital repaid and you will not receive any compensation; and ○ the Scheduled Call will not apply. • Risks associated with Kiwibank's business may affect Kiwibank's ability to make payments on the Kiwibank Perpetual Bonds held by KCFL, the likelihood of a Trigger Event occurring, and the ability of KGHL to satisfy the Scheduled Call Conditions, any of which may affect the value of your Perpetual Capital Notes and the likelihood of you receiving the returns on your Perpetual Capital Notes on the scheduled dates. • The Scheduled Call is subject to the Scheduled Call Conditions and there is no certainty that they will be satisfied on the First Call Date (27 May 2022) or on any other date. • Risks that reflect the features of your Perpetual Capital Notes. For example, each of your Perpetual Capital Notes and the Kiwibank Perpetual Bonds held by KCFL are subordinated debt obligations of the relevant issuer and are not guaranteed by any person. The Perpetual Capital Notes are perpetual instruments and you have no right to be repaid. But nor can you prevent KCFL from repaying your Perpetual Capital Notes if the Kiwibank Perpetual Bonds held by KCFL are repaid by Kiwibank. In addition, the Interest Rate is a fixed interest rate that is reset at 5-yearly intervals (although the Margin will not change). • Market-related risks, such as the risk that the market for your Perpetual Capital Notes is not liquid or the risk that the market price of your Perpetual Capital Notes fluctuates, both of which mean you may be unable to sell your Perpetual Capital Notes at an acceptable price, or at all. 	
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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 (in case of certain archived documents, on payment of a prescribed fee).

4. GUARANTORS

The payment of interest on and repayment of your Perpetual Capital Notes is not guaranteed by Kiwibank, any member of the Kiwibank Group or any other person. Your Perpetual 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 Perpetual Bonds held by KCFL. Your Perpetual Capital Notes are issued by KCFL under the terms contained in the Trust Deed. You have no claim on KCFL in respect of your Perpetual Capital Notes except as provided in the Trust Deed. Your Perpetual 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
Gary Douglas Crawford, Lower Hutt

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 Gary Crawford is the Group Chief Financial Officer for KGHL and its subsidiaries, including Kiwibank.

None of the directors is employed by KCFL.

Promoters of the Offer

Kiwibank and each of its directors are promoters of Perpetual 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:

Carol Anne Campbell, Auckland
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
Lindsay Megan Wright, Hong Kong

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. In June 2014 KCFL issued \$100 million capital notes to the public and used the proceeds of that issue to subscribe for \$100 million tier 2 regulatory capital instruments issued by Kiwibank.

8. SUMMARY OF FINANCIAL STATEMENTS

These summary financial statements are in respect of KCFL, a profit oriented entity, for the period ended 30 June 2014 and the half year ended 31 December 2014. These summary financial statements have been prepared in accordance with FRS 43 *Summary Financial Statements* and have been approved by KCFL's board for issue on 17 April 2015.

The amounts included in these summary financial statements for the period ended 30 June 2014 have been taken from, and should be read in conjunction with, KCFL's full audited financial statements for the period from 17 March 2014 (incorporation date) to 30 June 2014, which were KCFL's first financial statements, and were authorised for issue by KCFL's board on 28 August 2014. The full financial statements for the period ended 30 June 2014 were audited and the auditor's report was not modified in any way.

The amounts included in these summary financial statements for the interim period ended 31 December 2014 have been taken from, and should be read in conjunction with, KCFL's unaudited interim financial statements for the period ended 31 December 2014, which were authorised for issue by KCFL's board on 19 February 2015.

The full audited financial statements for the period ended 30 June 2014 were prepared in accordance with Generally Accepted Accounting Practice in New Zealand and include an explicit and unreserved statement that they comply with New Zealand equivalents to International Financial Reporting Standards and International Financial Reporting Standards. The interim financial statements for the period ended 31 December 2014 were prepared in accordance with NZ IAS 34 *Interim financial reporting* and IAS 34 *Interim financial reporting*.

The summary financial statements cannot be expected to provide as complete an understanding as provided by the full or interim financial statements.

The summary financial statements are presented in New Zealand dollars and are rounded to the nearest thousand dollars.

The interim financial statements for the period ended 31 December 2014 and the full financial statements for the period ended 30 June 2014 are available from Kiwibank's website, <http://www.kiwibank.co.nz/about-us/investor-centre/kiwi-capital-funding.asp>, or free of charge upon request at KCFL's registered office.

Summary statement of profit or loss and other comprehensive income

Dollars in thousands	Six months ended 31 December 2014 Unaudited	Period ended 30 June 2014 Audited
Interest income - related party	3,303	456
Interest expense	(3,303)	(456)
Net profit after tax attributable to shareholders	-	-
Other comprehensive income that may subsequently be reclassified to profit or loss	-	-
Total comprehensive income for the period attributable to shareholders	-	-

Summary statement of changes in equity

Dollars in thousands	Six months ended 31 December 2014 Unaudited	Period ended 30 June 2014 Audited
	Accumulated Losses	Accumulated Losses
Opening Balance	-	-
Profit for the period	-	-
Other comprehensive income for the period	-	-
Total comprehensive income for the period	-	-
	Share Capital	Share Capital
Transactions with shareholders		
Issue of share capital	-	-
Closing balance	-	-

Summary balance sheet

Dollars in thousands	As at 31 December 2014 Unaudited	As at 30 June 2014 Audited
ASSETS		
Convertible subordinated bonds - non-current	106,357	100,919
LIABILITIES		
Capital Notes - non-current	106,357	100,919
EQUITY	-	-
Total equity and liabilities	106,357	100,919

Summary cash flow statement

Dollars in thousands	Six months ended 31 December 2014 Unaudited	Period ended 30 June 2014 Audited
Cash flows from operating activities		
Interest received	706	-
Interest paid	(706)	-
Cash flows from investing activities		
Purchase of convertible subordinated bonds	-	(100,000)
Cash flows from financing activities		
Proceeds from issue of Capital Notes	-	100,000
Increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of the period	-	-
Cash and cash equivalents at the end of the period	-	-

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, as amended by a supplemental trust deed dated 14 May 2014, between KCFL and the Trustee, under which debt securities (such as the Perpetual Capital Notes) are constituted;
- a supplemental trust deed dated 30 April 2014 between KCFL and the Trustee, which sets out certain terms of capital notes issued by KCFL in June 2014;
- a supplemental trust deed dated 16 April 2015 between KCFL and the Trustee, which sets out certain terms of the Perpetual Capital Notes;
- a scheduled call deed dated 16 April 2015 between KCFL and KGHM containing provisions relating to the Scheduled Call;
- 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 debt securities issued by KCFL, including Perpetual 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 debt securities, including Perpetual Capital Notes (but not including amounts payable to Holders under the terms of Perpetual Capital Notes).

11. PENDING PROCEEDINGS

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, and brokerage fees are estimated to be \$3 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 \$150 million of Perpetual 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 Perpetual Capital Notes are perpetual, subordinated, 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 Perpetual Capital Notes.

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

Overview

Perpetual Capital Notes are issued under the Master Trust Deed dated 30 April 2014 (as amended on 14 May 2014) and the Supplemental Trust Deed dated 16 April 2015, and each 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 Perpetual 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 being perpetual, the interest rate and interest payment dates) that apply only to Perpetual 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 Perpetual 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 Perpetual Bonds:** transfer any of its rights, title and interest in, to and under, any of the Kiwibank Perpetual 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 Perpetual 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 Perpetual 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 Perpetual 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 Perpetual 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 KCFL in respect of Perpetual 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 Perpetual 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 Perpetual 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 Perpetual Capital Notes are construed and interpreted to recognise and take into account:

- (a) the characteristics of Perpetual 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 Perpetual Capital Notes and all of the terms of the Offer of the Perpetual 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

The financial statements for KCFL for the year ended 30 June 2014 comply with, and have been registered under, the Financial Reporting Act 1993.

An interim statement of financial position for KCFL for the half year ended 31 December 2014 that complies with the requirements of Clause 18 of Schedule 2 to the Securities Regulations is contained in Appendix B.

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. 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

Additional information about Kiwibank is contained or referred to in Kiwibank's latest interim and full year disclosure statements (which contain Kiwibank's most recent financial statement). You can obtain copies of these disclosure statements free of charge, on request, during normal business hours at Kiwibank's registered office at Level 12, New Zealand Post House, 7 Waterloo Quay, Wellington or at any of Kiwibank's branches and from www.kiwibank.co.nz/about-us/legal-docs/. Where you make the request at any branch, the disclosure statement will be provided, free of charge, within two working days.

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

21. DIRECTORS' STATEMENT

In the opinion of the directors, after due enquiry by them, none of the following has materially and adversely changed during the period between 30 June 2014 and 17 April 2015:

- (a) the trading or profitability of the borrowing group;
- (b) the value of its assets; or
- (c) the ability of the borrowing group to pay its liabilities due within the next 12 months.

22. AUDITOR'S REPORT

A copy of the auditor's report required by Clause 22 of Schedule 2 to the Securities Regulations is contained in Appendix C.

4. DETAILS OF THE PERPETUAL CAPITAL NOTES

The information set out in this section contains:

- an overview of Perpetual 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 Perpetual Capital Notes;
- a summary of the possible outcomes for your investment in Perpetual Capital Notes;
- a description of the interest that is payable (including after a Conversion);
- a description of when your Perpetual Capital Notes may be repaid (including after a Conversion);
- a description of what happens if Kiwibank Perpetual Bonds held by KCFL are Written Off;
- a description of the Scheduled Call;
- information about payments;
- the consequences of an insolvency of KCFL and limits on Holders' enforcement rights;
- the way in which the terms of your Perpetual Capital Notes and the Kiwibank Perpetual Bonds held by KCFL can be amended; and
- information about transferring your Perpetual Capital Notes.

4.1 Overview

Perpetual Capital Notes are perpetual, non-cumulative, unsecured, subordinated, loss absorbing debt securities issued by KCFL. KCFL will use 100% of the proceeds of the Offer to subscribe for Kiwibank Perpetual Bonds issued by Kiwibank that count as Additional Tier 1 Capital for Kiwibank. Perpetual Capital Notes have terms (such as being perpetual, the interest rate and interest payment dates) that match the terms of the Kiwibank Perpetual Bonds held by KCFL, unless the Kiwibank Perpetual Bonds held by KCFL are Converted.

Your Perpetual Capital Notes are expected to pay fixed interest quarterly in arrear. Your Perpetual Capital Notes may be repaid if certain conditions are satisfied, including Kiwibank choosing to repay the Kiwibank Perpetual Bonds held by KCFL, and the RBNZ providing its consent to the repayment. There is no certainty that any of these conditions will be satisfied.

All of your Perpetual Capital Notes will be purchased by KGHL on the Scheduled Call Date, if your Perpetual Capital Notes are outstanding at that time. The Scheduled Call Date will be the earlier of the First Call Date (27 May 2022) and the first Interest Payment Date thereafter on which the Scheduled Call Conditions are satisfied. Your Perpetual Capital Notes will not be purchased by KGHL under the Scheduled Call unless the Scheduled Call Conditions are met. There is no certainty that any of the Scheduled Call Conditions will be satisfied.

In the unlikely event that a Trigger Event occurs and the Kiwibank Perpetual Bonds held by KCFL are Converted, the returns paid to you on your Perpetual Capital Notes will be derived from the returns KCFL receives on the Ordinary Shares it will then hold. The Scheduled Call will not apply if any of the Kiwibank Perpetual Bonds are Converted or Written Off.

4.2 Loss absorbency

To qualify as Additional Tier 1 Capital for Kiwibank, the Kiwibank Perpetual Bonds held by KCFL are required to absorb losses if Kiwibank does not hold enough common equity tier 1 capital or suffers severe financial difficulty. The Kiwibank Perpetual Bonds held by KCFL meet this requirement. If a Trigger Event occurs, the Kiwibank Perpetual Bonds held by KCFL must be Converted into Ordinary Shares. However, if Conversion is not possible, the Kiwibank Perpetual Bonds held by KCFL will be Written Off. The Kiwibank Perpetual Bonds held by KCFL will not be Converted or Written Off in any other circumstances.

There are two Trigger Events: a Common Equity Capital Trigger Event and a Non-Viability Trigger Event.

Common Equity Capital Trigger Event

A Common Equity Capital Trigger Event occurs if Kiwibank determines, or the RBNZ has notified Kiwibank in writing that it believes, that the Common Equity Tier 1 Capital Ratio of the Kiwibank Group is less than 5.125%. The Common Equity Tier 1 Capital Ratio is the ratio of common equity tier 1 capital to risk-weighted assets. More information about the Common Equity Tier 1 Capital Ratio is contained in Section 7.

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 Perpetual 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 Perpetual 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 Perpetual Capital Notes

The returns on your Perpetual Capital Notes will change if the Kiwibank Perpetual Bonds held by KCFL are Converted into Ordinary Shares. If all of the Kiwibank Perpetual Bonds held by KCFL are Written Off, your Perpetual Capital Notes will be automatically and irrevocably written off, meaning

you will lose your investment. This is explained in Section 4.8.3, "Interest payments on the Loss Absorbing Amount", Section 4.10, "Repayment of the Loss Absorbing Amount") and Section 4.12, "What happens if Kiwibank Perpetual 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 Perpetual Capital Notes is entirely dependent on KCFL receiving payments from Kiwibank on the Kiwibank Perpetual 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 Perpetual Capital Notes (your rights to make a claim on KCFL are described under the heading "Limited enforcement rights of Holders of Perpetual Capital Notes" in Section 4.16);
- do not have any claim on Kiwibank, and your Perpetual 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 Perpetual Capital Notes are structured differently, with each of your Perpetual 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 Trigger Event.

The total return on your Perpetual 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 Trigger Event.

No Trigger Event occurs

For so long as the Kiwibank Perpetual Bonds held by KCFL have not been Converted or Written Off, the Principal Amount of each of your Perpetual Capital Notes will remain at \$1.00 and the Loss Absorbing Amount will remain zero. This is shown below, by reference to 10,000 Perpetual Capital Notes that have an aggregate Principal Amount of \$10,000 on the Issue Date, and which are repaid on a Reset Date following Kiwibank repaying the Kiwibank Perpetual Bonds.



A Trigger Event occurs

If a Trigger Event occurs, some or all of the Kiwibank Perpetual Bonds held by KCFL may be Converted or, if this is not possible, Written Off.

If a Trigger Event occurs and all of the Kiwibank Perpetual Bonds held by KCFL are Converted into Ordinary Shares, the number of Perpetual Capital Notes you hold will remain the same, but the Principal Amount of each of your Perpetual Capital Notes will reduce to zero and the Loss Absorbing Amount of each of your Perpetual Capital Notes will increase to \$1.00.

If a Trigger Event occurs and only some of the Kiwibank Perpetual Bonds held by KCFL are Converted, the number of Perpetual Capital Notes you hold will remain the same, but the Principal Amount of each of your Perpetual Capital Notes will reduce by the Reduction Amount, and the Loss Absorbing Amount of each of your Perpetual Capital Notes will increase by the Reduction Amount.

If a Trigger Event occurs and all of the Kiwibank Perpetual Bonds held by KCFL are written off, all of your Perpetual Capital Notes will be Written Off and you will lose your investment. If a Trigger Event occurs and only some of the Kiwibank Perpetual Bonds held by KCFL are Written Off, the number of Perpetual Capital Notes you hold will remain the same, but the Principal Amount of each of your Perpetual Capital Notes will reduce by the Reduction Amount and you will lose that amount of your investment. There is no increase in the Loss Absorbing Amount in these circumstances.

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

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

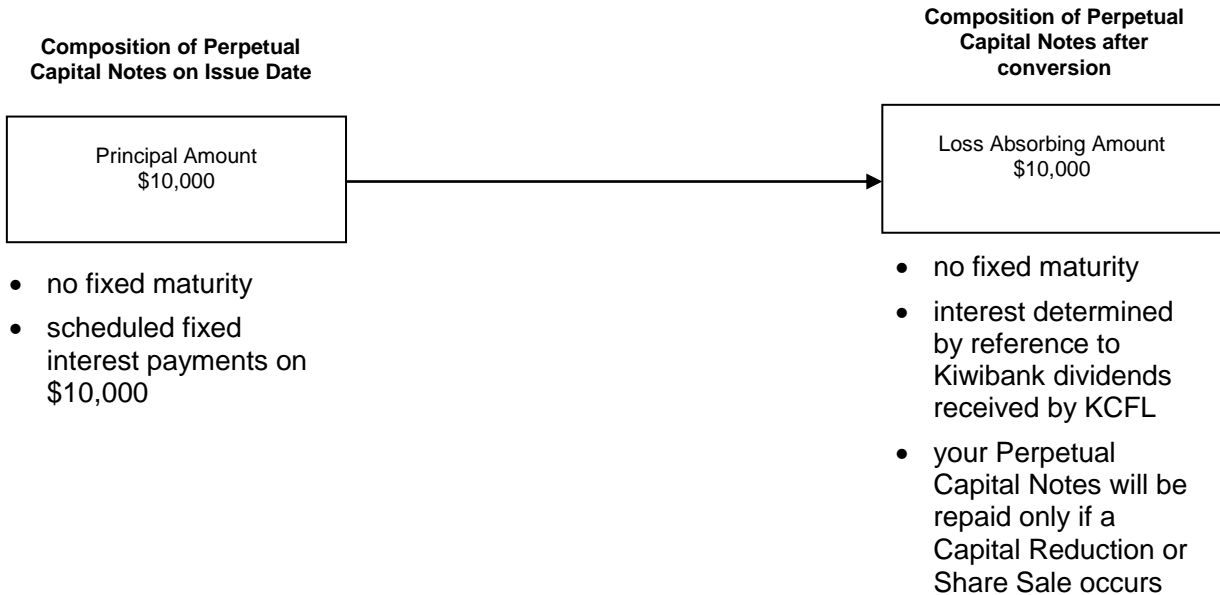
where "Loss Proportion" means the proportion (expressed as a percentage to two decimal places with five rounded up) of the Kiwibank Perpetual Bonds held by KCFL that have been Converted or Written Off (as applicable) in accordance with the Deed Poll.

If a Trigger Event occurs, not all of the Kiwibank Perpetual Bonds held by KCFL will need to be Converted or Written Off if Kiwibank (in consultation with the RBNZ) or the statutory manager of Kiwibank (as applicable) determines that:

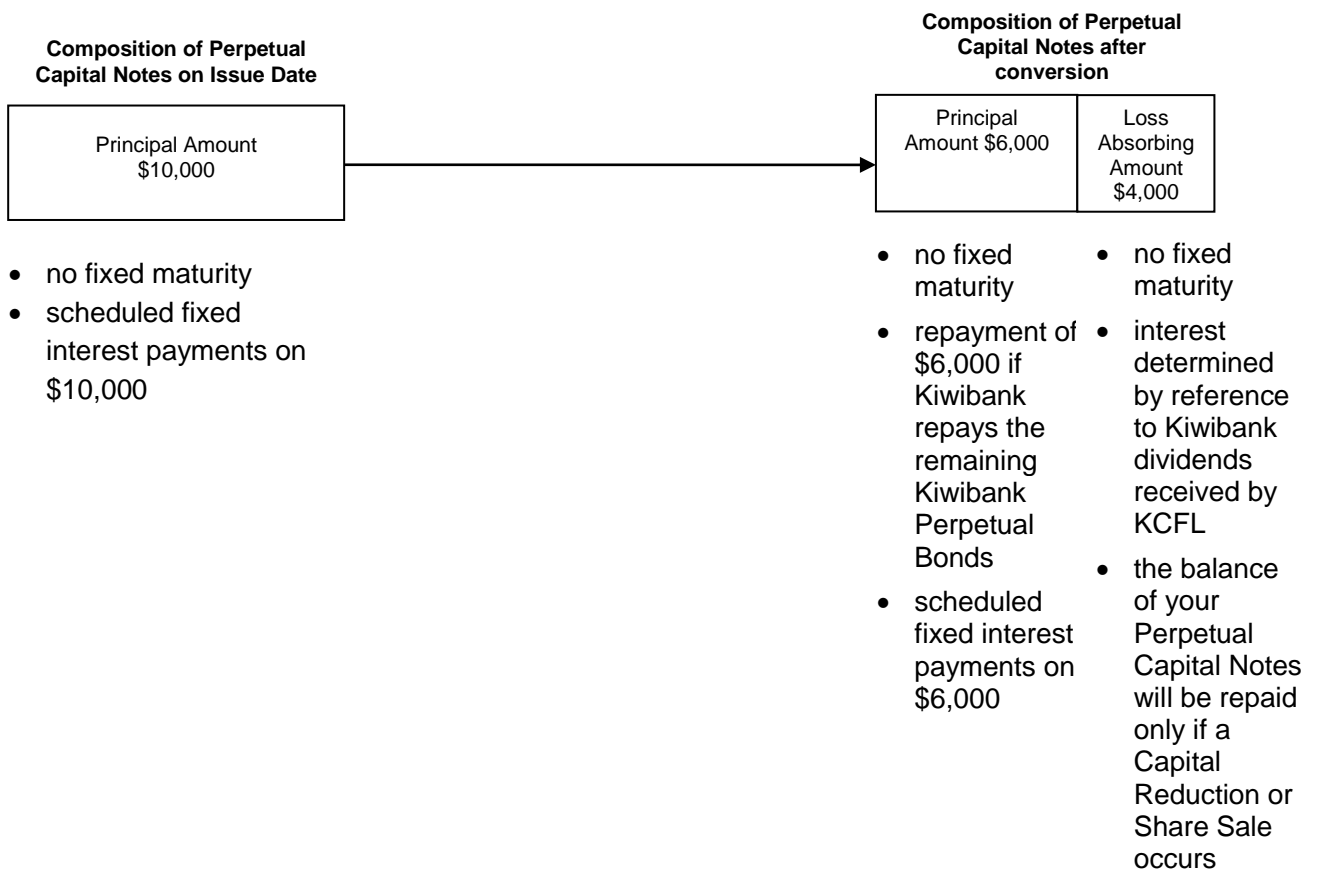
- in the case of a Common Equity Capital Trigger Event, Kiwibank's Common Equity Tier 1 Capital Ratio is able to be increased to at least 5.125% without converting or writing off all of the Kiwibank Perpetual Bonds; or
- in the case of a Non-Viability Trigger Event, Kiwibank will be viable following conversion or write off of only some of the Kiwibank Perpetual Bonds.

The potential adjustments to the Principal Amount and Loss Absorbing Amount of your Perpetual Capital Notes are shown below for three different scenarios, by reference to a holding of 10,000 Perpetual Capital Notes that have an aggregate Principal Amount of \$10,000 on the Issue Date.

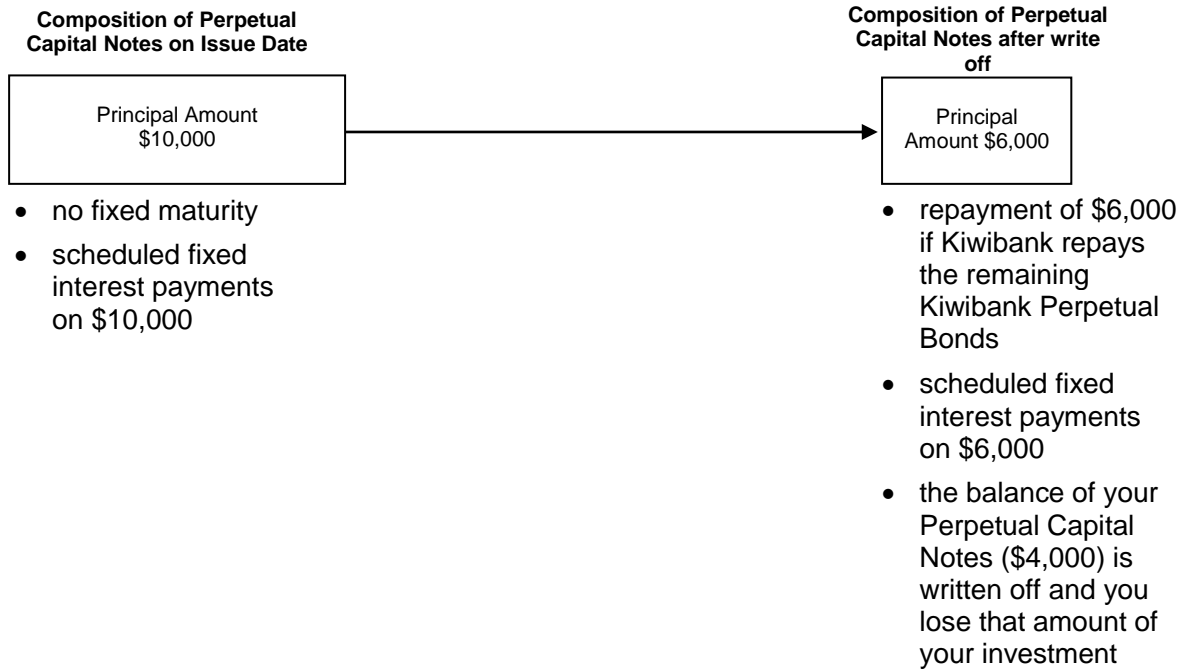
Scenario 1: 100% of the Kiwibank Perpetual Bonds held by KCFL are converted into Ordinary Shares (also held by KCFL)



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



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



Each of the adjustments described above occurs automatically whenever a Conversion or Write Off of the Kiwibank Perpetual Bonds held by KCFL occurs and is irreversible.

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

The Loss Absorbing Amount of each of your Perpetual 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 Perpetual 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 Perpetual Bonds held by KCFL.

In those circumstances, the Loss Absorbing Amount of each of your Perpetual 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 Perpetual 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 Perpetual Capital Notes.

The Loss Absorbing Amount of your Perpetual 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 Perpetual Capital Notes 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 Perpetual Capital Notes on a particular date, that KCFL has received:
- (i) an interest payment from Kiwibank on that date in respect of the Kiwibank Perpetual 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 Perpetual Bonds held by KCFL; and
- (b) the obligation of KCFL to repay principal on your Perpetual 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 Perpetual 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 Perpetual Bonds held by KCFL.

Each Corresponding Payment received by KCFL prior to KCFL's liquidation will be held on trust by KCFL for the benefit of you and the other Holders until paid by KCFL to you and the other Holders.

KCFL will not receive a Corresponding Payment if Kiwibank does not satisfy the conditions to it making payments on the Kiwibank Perpetual Bonds

The obligation of Kiwibank to pay interest on the Kiwibank Perpetual Bonds held by KCFL is subject to Kiwibank's absolute discretion and to Kiwibank meeting the following payment conditions:

- that Kiwibank and the Kiwibank Group will be Solvent immediately after the payment is made; and
- that Kiwibank is in compliance with the RBNZ's then current capital adequacy requirements in its conditions of registration immediately after the payment is made (these requirements

restrict distributions by Kiwibank in certain circumstances; for instance, the amount of earnings able to be distributed (by way of dividends, share buy-backs and payments on Additional Tier 1 capital instruments) becomes increasingly restricted the further Kiwibank's Common Equity Tier 1 Capital Ratio falls below 7.00%).

Kiwibank may, with the consent of the RBNZ, elect to repay the Kiwibank Perpetual Bonds in certain circumstances. Even if the RBNZ gives its consent, the repayment of the Kiwibank Perpetual Bonds is still conditional upon Kiwibank and the Kiwibank Group being Solvent immediately after the payment is made.

If any of these conditions are not able to be satisfied, KCFL will not receive the Corresponding Payment from Kiwibank.

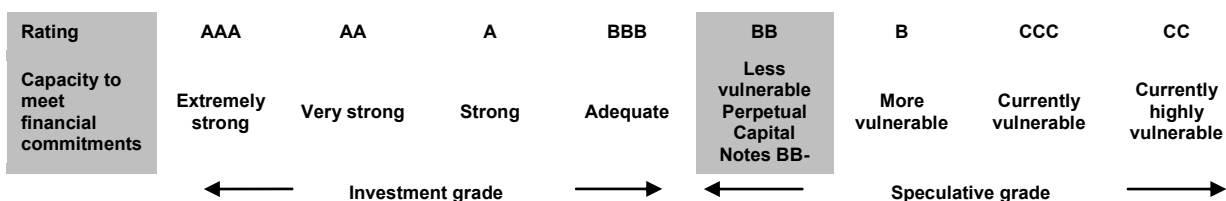
4.6 Credit rating of your Perpetual Capital Notes

At the date of this Prospectus your Perpetual 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 Perpetual Capital Notes are derived from the performance of the Kiwibank Perpetual Bonds held by KCFL, which are subordinated obligations of Kiwibank having discretionary interest payments and may be Converted into Ordinary Shares or Written Off if a Trigger Event occurs.

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 Perpetual Capital Notes) is an independent opinion of the capability and willingness of an entity to repay the debt under that security. A rating is not a guarantee that the securities being offered are a safe investment or that any or all amounts payable under that security will be repaid.

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

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



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

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

Credit ratings are not a recommendation to buy, sell or hold Perpetual 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, the payment of interest on the Kiwibank Perpetual Bonds held by KCFL is subject to Kiwibank's absolute discretion and certain payment conditions being met) 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 Perpetual Bonds held by KCFL). The potential outcomes are discussed in more detail in Sections 4.8 to 4.13.

Event				What value will you receive from KCFL in relation to your Perpetual Capital Notes?
	When?	RBNZ approval needed?	Do other conditions apply?	
Kiwibank makes a scheduled interest payment to KCFL on Kiwibank Perpetual Bonds held by KCFL	Quarterly on each Interest Payment Date	No	Yes, subject to Kiwibank's absolute discretion and certain payment conditions	KCFL must pay you interest on your Perpetual Capital Notes
Kiwibank does not make a scheduled interest payment to KCFL on Kiwibank Perpetual Bonds held by KCFL	Quarterly on each Interest Payment Date	No	No	No interest is payable to you by KCFL and that interest will never be paid to you
Kiwibank repays the Kiwibank Perpetual Bonds held by KCFL on a Reset Date	Each Reset Date	Yes	Yes, including Solvency	KCFL must repay your Perpetual Capital Notes
Kiwibank does not repay the Kiwibank Perpetual Bonds held by KCFL on a Reset Date	Each Reset Date	No	No	No change to your Perpetual Capital Notes except that the Interest Rate will be reset. (Kiwibank is not obliged to repay the Kiwibank Perpetual Bonds held by KCFL on a Reset Date so you should not expect your Perpetual Capital Notes to be repaid on any of those dates)
Kiwibank repays Kiwibank Perpetual 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 Perpetual Capital Notes

Event				What value will you receive from KCFL in relation to your Perpetual Capital Notes?
	When?	RBNZ approval needed?	Do other conditions apply?	
The Scheduled Call Conditions are met	The First Call Date (27 May 2022) or on an Interest Payment Date thereafter	Yes, if Kiwibank funds the payment of the Call Price by providing a loan directly or indirectly to KGHL	Yes, relating to KGHL's ability to pay the Call Price and Solvency	KGHL will purchase your Perpetual Capital Notes for the Call Price (\$1.00 per Perpetual Capital Note)
The Scheduled Call Conditions are not met	The First Call Date (27 May 2022) and each Interest Payment Date thereafter	No	No	No change. You continue to hold your Perpetual Capital Notes. (KGHL is not obliged to purchase your Perpetual Capital Notes unless the Scheduled Call Conditions are met)
Potential outcomes following a Trigger Event				
Conversion of Kiwibank Perpetual Bonds held by KCFL into Ordinary Shares in Kiwibank	If a Trigger Event occurs	No	No	The returns on your Perpetual Capital Notes will change. As described below, returns will only be paid if and to the extent Kiwibank pays a dividend to KCFL or there is a sale of, or capital reduction involving, the Ordinary Shares issued to KCFL. The Scheduled Call will not apply
Following Conversion of the Kiwibank Perpetual 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 Perpetual Capital Notes, the amount of which is determined by reference to the dividends received by KCFL
Following Conversion of the Kiwibank Perpetual Bonds held by KCFL there is a sale of, or capital reduction involving, the Ordinary Shares held by KCFL	No scheduled date	No	Yes, for example, a share buy back must be completed in accordance with the Companies Act 1993	KCFL must pay you a proportion of the proceeds it receives (equal to the proportion of the Perpetual Capital Notes you hold) less applicable tax and other expenses

Event				What value will you receive from KCFL in relation to your Perpetual Capital Notes?
	When?	RBNZ approval needed?	Do other conditions apply?	
Write Off of Kiwibank Perpetual Bonds held by KCFL in part or in whole	If a Trigger Event occurs and Conversion is not possible	No	No	A corresponding amount of each of your Perpetual Capital Notes will be automatically and irrevocably written off, meaning you will lose that amount of your investment. The Scheduled Call will not apply
The First Call Date falls on or after the date on which the Kiwibank Perpetual Bonds held by KCFL are converted or written off	First Call Date	No	No	No change. You continue to hold your Perpetual Capital Notes. The Scheduled Call terminates when the Kiwibank Perpetual Bonds are Converted or Written Off

If a Trigger Event occurs, it is possible only some, but not all, of the Kiwibank Perpetual 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 Perpetual Capital Notes - see Section 4.4 "The principal on which returns are determined may vary".

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

If the Kiwibank Perpetual Bonds held by KCFL are Written Off in part or in whole, you will lose a corresponding amount of your investment in Perpetual 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 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 Perpetual Bonds held by KCFL are Converted following a 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 Perpetual Capital Notes is scheduled to be paid on the Principal Amount of each of your Perpetual Capital Notes quarterly in arrear on each Interest Payment Date. **KCFL's obligation to pay interest on your Perpetual Capital Notes is conditional on KCFL receiving a Corresponding Payment from Kiwibank.** KCFL may not receive a Corresponding Payment,

meaning interest on your Perpetual Capital Notes may not always be paid when expected on scheduled Interest Payment Dates.

If interest is not paid when scheduled because KCFL has not received a Corresponding Payment, that interest will not be paid on a later date and it will never be paid to you. 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 and you will have no right to take action against KCFL, KGHL or any member of the Kiwibank Group in respect of that non-payment. See section 4.5 "What does receipt of a Corresponding Payment mean?" for a description of the conditions that Kiwibank must meet before it is able to pay interest on the Kiwibank Perpetual Bonds

The Interest Rate on your Perpetual Capital Notes is a fixed rate that is reset at 5-yearly intervals. The Interest Rate for the period from the Issue Date to the first Reset Date (27 May 2020) will be set on the Rate Set Date and announced by KCFL via NZX and at www.kiwibank.co.nz/about-us/investor-centre/ on or before the Opening Date. The Interest Rate will be reset on the first Reset Date and at 5-yearly intervals thereafter (on each subsequent Reset Date) to 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 Lead Managers and announced via NZX and at www.kiwibank.co.nz/about-us/investor-centre/ on or before the Opening Date. On each Reset Date, the Margin is added to the 5 Year Swap Rate as at that date to determine the interest rate that will apply for the period from that Reset Date to the next Reset Date. The Margin will not change during the term of your Perpetual Capital Notes.

4.8.2 Restrictions on the payment of dividends by Kiwibank

If for any reason an interest payment on the Kiwibank Perpetual Bonds has not been paid in full on an Interest Payment Date, Kiwibank must not, without approval of an extraordinary resolution of the holders of the Kiwibank Perpetual Bonds:

- (a) resolve to pay or pay any dividend on its Ordinary Shares;
- (b) undertake any capital reduction; or
- (c) make any payments on other capital instruments that rank equally with or junior to the Kiwibank Perpetual Bonds (unless the payment is made in respect of capital instruments that rank equally with the Kiwibank Perpetual Bonds and a pro rata payment is made in respect of the Kiwibank Perpetual Bonds at the same time).

These restrictions will apply until:

- (a) Kiwibank pays the interest payments in full on two subsequent consecutive Interest Payment Dates; and
- (b) either:

- (i) the interest payments on your Perpetual Capital Notes are paid in full on those dates; or
- (ii) there are no Perpetual Capital Notes outstanding.

4.8.3 Interest payments on the Loss Absorbing Amount

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

If a Trigger Event occurs and some or all of the Kiwibank Perpetual Bonds held by KCFL are Converted, you will be entitled to interest payments on the Loss Absorbing Amount.

Interest Payment 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 Perpetual 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 Perpetual 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 Perpetual Bonds held by KCFL; and

"N" means the total number of Perpetual 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 Optional repayment of the Principal Amount

Your Perpetual Capital Notes are perpetual instruments with no fixed maturity date. Despite this, KCFL must repay your Perpetual Capital Notes in certain circumstances, as described below.

KCFL is only obliged to repay your Perpetual Capital Notes if:

- (a) Kiwibank has exercised a repayment option in respect of the Kiwibank Perpetual Bonds held by KCFL; and
- (b) the RBNZ has consented to the repayment of the Kiwibank Perpetual Bonds held by KCFL; and
- (c) all other pre-conditions to the exercise of the repayment option by Kiwibank have been satisfied; and

- (d) KCFL has received a Corresponding Payment from Kiwibank.

Kiwibank is under no obligation to repay the Kiwibank Perpetual Bonds. There is no certainty that Kiwibank will elect to exercise a repayment option or that Kiwibank will be able to satisfy the pre-conditions to the exercise of the option. In particular, there is no certainty that the consent of the RBNZ would be provided.

Repayment option

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

- (a) on a Reset Date (Reset Dates occur at 5-yearly intervals, commencing on 27 May 2020); 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 Perpetual Bonds held by KCFL, provided such event is not minor and could not have been anticipated when the Kiwibank Perpetual 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 Perpetual Bonds held by KCFL or the Perpetual Capital Notes and that would result in more than a minimal increase in Kiwibank's costs in respect of the Kiwibank Perpetual Bonds held by KCFL or KCFL's costs in respect of the Perpetual Capital Notes, provided such event is not minor and could not have been anticipated when the Kiwibank Perpetual Bonds held by KCFL were issued.

4.10 Repayment of the Loss Absorbing Amount

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

If, following a Conversion of all or some of the Kiwibank Perpetual 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 Perpetual 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 Perpetual 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 Perpetual 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 Perpetual Capital Notes or pay a Loss Absorbing Payment Amount to you, specifying either:

- (a) that Kiwibank has exercised a repayment option in respect of the Kiwibank Perpetual Bonds held by KCFL, the date on which you will be repaid, 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 Perpetual Bonds held by KCFL are Written Off?

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

- (a) those Kiwibank Perpetual 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 Trigger Event occurred, KCFL's rights in relation to those Kiwibank Perpetual Bonds held by KCFL are immediately and irrevocably terminated and written off;
- (c) the Principal Amount of your Perpetual Capital Notes will reduce to zero (if all Kiwibank Perpetual Bonds are Written Off) or by an amount equal to the Reduction Amount (if only some of the Kiwibank Perpetual Bonds are Written Off) which will either mean you will lose all of your investment (if all Kiwibank Perpetual Bonds are Written Off) or the amount payable to you if your Perpetual Capital Notes are repaid will be less than the amount you paid for your Perpetual Capital Notes (if only some of the Kiwibank Perpetual Bonds are Written Off); and
- (d) if only some of the Kiwibank Perpetual Bonds are Written Off, future interest payments on your Perpetual Capital Notes will be determined by reference to the reduced Principal Amount, meaning the amount of future interest payments will also be reduced.

4.13 Scheduled Call

The Scheduled Call Date is the earlier of the First Call Date (27 May 2022) and the first Interest Payment Date thereafter on which the Scheduled Call Conditions are met.

All of your Perpetual Capital Notes will be purchased by KGHL on the Scheduled Call Date, if they are outstanding at that time.

Your Perpetual Capital Notes will not be purchased by KGHL under the Scheduled Call unless the Scheduled Call Conditions are met. The Scheduled Call Conditions are that:

- KGHL is satisfied, in its sole discretion, that it has sufficient funds to pay the Call Price (being \$1.00 per Perpetual Capital Note) of all of the Perpetual Capital Notes outstanding at that time;
- if payment of the aggregate Call Price of the Perpetual Capital Notes is to be funded by Kiwibank providing a loan directly or indirectly to KGHL, the RBNZ has given its consent to Kiwibank to that funding being provided; and
- KGHL is satisfied, in its sole discretion, that it will be Solvent immediately after paying the Call Price for each Perpetual Capital Note.

With effect from the Scheduled Call Date:

- each Perpetual Capital Note will be immediately and irrevocably transferred to KGHL free of any encumbrance; and
- the Call Price (being \$1.00 per Perpetual Capital Note) for each Perpetual Capital Note that is transferred to KGHL free of any encumbrance shall be paid to the Holder of the Perpetual Capital Note.

The transfer of Perpetual Capital Notes under the Scheduled Call will occur automatically on the Scheduled Call Date without any act or consent of the Holders of Perpetual Capital Notes or any other person being required. Upon the transfer of your Perpetual Capital Notes to KGHL you will cease to have any rights under those Perpetual Capital Notes. However, the transfer of a Perpetual Capital Note under the Scheduled Call will not affect your entitlement (if any) to interest on the Perpetual Capital Note on the Interest Payment Date that falls on the same day as the Scheduled Call Date.

KGHL is entitled to designate another person (not being a member of the Kiwibank Group) as the entity that will purchase the Perpetual Capital Notes under the Scheduled Call. There are no plans to do this at present. If it does occur, the Perpetual Capital Notes will be transferred to the designated purchaser on the Scheduled Call Date instead of KGHL and the designated purchaser must pay the Call Price, although KGHL will still be responsible for ensuring that the Call Price is paid when required.

KCFL will notify Holders of Perpetual Capital Notes via NZX promptly upon becoming aware of whether or not the Scheduled Call Conditions will be satisfied. Notification by KCFL regarding whether or not the Scheduled Call Conditions are satisfied will be final and binding.

The Scheduled Call will cease to apply if any of the Kiwibank Perpetual Bonds are Converted or Written Off.

Kiwibank is under no obligation to make funds available directly or indirectly to KGHL for the purpose of paying the Call Price. Kiwibank must not provide a loan directly or indirectly to KGHL for the purpose of funding the payment of the Call Price unless the consent of the RBNZ is obtained and the Kiwibank Perpetual Bonds are repaid on or shortly after the Scheduled Call Date. There is no

certainty that, if Kiwibank wished to provide a loan to KCFL for these purposes, the RBNZ's consent would be provided.

You irrevocably acknowledge that you have no remedies against, and have no rights to compensation from:

- KCFL on account of a failure by KGHL to pay the Call Price on the Scheduled Call Date; or
- Kiwibank or any other member of the Kiwibank Group on account of a failure by KGHL to pay the Call Price on the Scheduled Call Date.

If the terms of the Scheduled Call Deed require the Trustee's consent be obtained to an amendment to that deed, the Trustee may only give its consent if the amendment has been approved by the Extraordinary Resolution of Holders.

4.14 Payments

Payments on each Perpetual Capital Note will be made to the person registered as the Holder of the Perpetual Capital Note as at the Record Date for the payment. Payments will be made 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.

4.15 Consequences of insolvency

4.15.1 Status of your Perpetual Capital Notes

If KCFL becomes insolvent for any reason, you may be unable to recover from KCFL all or some of your investment in Perpetual Capital Notes. Therefore, you may not receive the returns described in Sections 4.8 to 4.10.

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

- (a) the Principal Amount of each of your Perpetual Capital Notes will rank:
 - (i) after the claims of all secured creditors, unsecured unsubordinated creditors and term subordinated creditors of KCFL;
 - (ii) equally with claims of other Holders for payment of the Principal Amount of Perpetual Capital Notes and with holders of other securities that rank or are expressed to rank equally with claims for payment of the Principal Amount of Perpetual Capital Notes with respect to priority of payment in a liquidation; and
 - (iii) ahead of claims of KCFL's shareholders; and
- (b) the Loss Absorbing Amount of each of your Perpetual 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's 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 Perpetual 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 issued \$100 million capital notes in June 2014. The holders of those capital notes are term subordinated creditors whose claims rank ahead of your claims under the Perpetual Capital Notes (other than any funds held on trust for you, as described above) with respect to the payment of principal and interest.

KCFL will owe amounts to certain creditors in connection with your Perpetual Capital Notes, for example, brokerage relating to subscriptions for Perpetual 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 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 other moneys payable in respect of, each of your Perpetual 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 Perpetual 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, you will be entitled to prove in the liquidation for the amounts owing on your Perpetual Capital Notes (and the Principal Amount and Loss Absorbing Amount of each of your Perpetual Capital Notes will, for those purposes, be immediately due and payable), although payment of those amounts is subordinated as described in section 4.15.1, "Status of your Perpetual Capital Notes".

4.15.4 Waiver

In relation to amounts payable under your Perpetual 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 term subordinated creditors and general unsecured 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 Perpetual 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 Perpetual Capital Notes

Holders of Perpetual Capital Notes may not take any enforcement action in relation to:

- (a) a failure by KCFL to pay an amount on its scheduled payment date to you, except to the extent KCFL has received a Corresponding Payment; or
- (b) a breach by KCFL of any other obligation under the Trust Deed, except to apply for an order for specific performance by KCFL of the relevant obligation.

In particular, holders of Perpetual Capital Notes are not entitled to:

- (a) bring proceedings against KCFL to recover any amounts that were not paid on the scheduled payment date for those amounts, except to the extent KCFL has received a Corresponding Payment;
- (b) apply for an order for specific performance by KCFL of any obligation to make a payment unless the order being sought relates to a payment in respect of which KCFL has received the Corresponding Payment; or
- (c) apply to have a liquidator appointed in relation to KCFL.

Under no circumstances may a Holder of Perpetual Capital Notes seek to have any obligations of KCFL accelerated.

It is not a default by KCFL if it withholds or refuses 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 Perpetual 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 Perpetual 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 Perpetual Capital Notes

No provision of the Trust Deed may be cancelled, varied or amended by you, KCFL or any other person while any Perpetual 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 Perpetual Bonds held by KCFL

An amendment to the Deed Poll, which sets out the terms of the Kiwibank Perpetual Bonds held by KCFL, could affect your Perpetual 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 Perpetual 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 Perpetual Capital Notes

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

You should not attempt to sell Perpetual Capital Notes until you know whether, and how many, Perpetual 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 Perpetual Capital Notes before receiving a statement recording the number of Perpetual Capital Notes (if any) allotted to you.

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

Application has been made to NZX for permission to quote Perpetual Capital Notes on the NZX Debt Market. To be eligible to trade your Perpetual 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 the Registrar on 09 375 5998 from 28 May 2015. You will also receive a CSN from the Registrar when you receive your "Holding Statement" (which is expected to be sent on 28 May 2015). If you do not have a FIN, it is expected that you will be sent one as a separate communication by the Registrar on 28 May 2015. If you have a broker and have not received a FIN by the date you want to trade your Perpetual Capital Notes, your broker can arrange to obtain your FIN from the Registrar. Your broker may be charged 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 Perpetual 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 Perpetual 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 Perpetual Capital Notes is, in aggregate, less than the Minimum Holding, KCFL may require you to sell those Perpetual Capital Notes, in accordance with the Trust Deed.

You will likely have to pay brokerage at applicable rates on any transfer of Perpetual 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 Perpetual 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 Perpetual Capital Notes.

The selection of risks has been based on an assessment as at the date of this Prospectus 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 Perpetual 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 Perpetual Bonds held by KCFL when due. KCFL's obligation to make any payments on your Perpetual 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 Perpetual Bonds, KCFL is not obliged to make the corresponding payment to you on your Perpetual Capital Notes. This will occur, for instance, if Kiwibank does not pay interest on the Kiwibank Perpetual Bonds on a scheduled interest payment date. Interest payments on the Kiwibank Perpetual Bonds are subject to Kiwibank's absolute discretion and the following payment conditions:

- Kiwibank and the Kiwibank Group being Solvent immediately after making the payment; and
- Kiwibank being in compliance with the RBNZ's then current capital adequacy requirements in its conditions of registration immediately after making the payment (these requirements restrict distributions by Kiwibank in certain circumstance).

Interest payments on your Perpetual Capital Notes are non-cumulative. This means that if interest is not paid to you on a scheduled Interest Payment Date because KCFL has not received a Corresponding Payment, that interest will not be paid to you on a later date and it will never be paid to you. You have no right to take action against KCFL, KGHL or any member of the Kiwibank Group if KCFL does not pay you interest on an Interest Payment Date because KCFL has not received a Corresponding Payment from Kiwibank.

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 Perpetual 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, "Perpetual Capital Notes are subordinated obligations of KCFL"). As a member of the New Zealand Post 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 Perpetual Bonds held by KCFL following a Trigger Event

If all of the Kiwibank Perpetual Bonds held by KCFL are Converted, the returns on your Perpetual Capital Notes will change and there will be no scheduled interest payments. The returns on your Perpetual Capital Notes after the Conversion will reflect the returns received by KCFL on the Ordinary Shares issued to KCFL on Conversion of the Kiwibank Perpetual 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 Perpetual Capital Notes following Conversion will be derived from dividends paid by Kiwibank to KCFL on the Ordinary Shares then held by KCFL. In addition, KCFL has no obligation to repay the Loss Absorbing Amount unless there is a Share Sale (including by a liquidator of KCFL) of, or Capital Reduction in respect of, the Ordinary Shares issued to KCFL on Conversion of the Kiwibank Perpetual 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 Perpetual 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 Trigger Event that resulted in the Conversion of the Kiwibank Perpetual 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. If Kiwibank did have funds available to pay a dividend, the dividend would not be paid solely to KCFL, but would be paid to KCFL and Kiwibank's other shareholders (currently KGHL). Similarly, in these circumstances if KCFL wished to sell the Ordinary Shares held by it, it may be difficult for KCFL to find a purchaser for those Ordinary Shares at an acceptable price, or at all, or for Kiwibank to be able, if it wished, to offer to buy back Ordinary Shares or do a Capital Reduction. These matters may adversely affect the price at which you can sell your Perpetual Capital Notes or whether you can sell them at all if insufficient liquidity exists in the market for Perpetual Capital Notes.

If, following a Trigger Event, Conversion of the Kiwibank Perpetual Bonds held by KCFL is not possible within 5 Business Days after the Trigger Event occurred, the Kiwibank Perpetual Bonds held by KCFL required to be Converted will not be Converted into Ordinary Shares, but instead, will be Written Off. If Write Off occurs, all rights (including to interest payments) in respect of the Kiwibank Perpetual Bonds held by KCFL will be terminated. As the returns on your Perpetual Capital Notes are derived from the returns on the Kiwibank Perpetual Bonds held by KCFL, if the Kiwibank Perpetual Bonds held by KCFL are Written Off in part or in whole, you will lose a corresponding amount of your investment in Perpetual Capital Notes, you will not have that amount of your capital repaid, and you will not receive any compensation.

In addition, the Scheduled Call will not apply if the Kiwibank Perpetual Bonds are Converted into Ordinary Shares or Written Off.

5.4 Risks associated with Kiwibank's business which may affect the Kiwibank Perpetual Bonds held by KCFL or KGHL's ability to satisfy the Scheduled Call Conditions, which in turn may affect your Perpetual Capital Notes

If the financial performance or position of Kiwibank declines, or if market participants anticipate that it may decline, an investment in Perpetual Capital Notes could decline in value even if Kiwibank Perpetual Bonds held by KCFL have not been Converted. Accordingly, when you evaluate whether to invest in Perpetual 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 six 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. 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 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 capital, 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

Since 2007, 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. This significant change programme commenced in 2014 and will continue until around 2017. There will be a high level of investment during this period which will be actively managed to minimise the risk of unplanned costs or operational risk.

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

Kiwibank maintains its capital position, in part, through issuing capital instruments to the market. Access to capital markets will always be subject to the conditions prevailing at the relevant time.

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 charged to New Zealand customers. In November 2013 the group issued proceedings against Kiwibank. The potential outcome of the proceedings cannot be determined with any certainty at this stage.

The RBNZ has raised some concerns with Kiwibank regarding Kiwibank's compliance with the Anti-Money Laundering and Countering Financing of Terrorism Act 2009. Kiwibank is addressing all of

the concerns raised by the RBNZ and is continuing discussions with the RBNZ regarding any further steps that may be taken. This will not materially impact on Kiwibank's financial performance.

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.

Pursuing capital and structural options could have a material adverse effect on Kiwibank

New Zealand Post's shareholders expect the New Zealand Post Group to maintain an efficient and effective capital structure, and have had an ongoing interest in the structural options available to the New Zealand Post Group with respect to its various lines of business. Related to this, Kiwibank and New Zealand Post regularly examine a range of strategic opportunities, including alternative funding and capital options, with a view to determining whether those opportunities will enhance Kiwibank's financial performance and position.

Options may in the future be considered regarding the structure of the New Zealand Post Group and its operating subsidiaries, including arrangements or relationships with third parties.

Any option that is pursued could, for a variety of reasons, turn out to have a material adverse effect on Kiwibank.

Kiwibank and New Zealand Post currently both utilise the New Zealand Post Group's physical retail distribution network. As both Kiwibank and New Zealand Post's Mail & Logistics business develop their respective overall distribution strategies, the structure of, level of investment in, and cost of operating, the overall physical network needs to be optimised and addressed. A failure to address this in a timely manner, or in a way that meets the needs of both businesses, risks ongoing or additional costs for Kiwibank.

5.5 Risks associated with your Perpetual Capital Notes specifically

Perpetual Capital Notes are subordinated obligations of KCFL

Your Perpetual 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 until all prior ranking creditors of KCFL have been paid in full. Further information about the subordination of your Perpetual 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 Perpetual Capital Notes. However, if the Kiwibank Perpetual 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 Perpetual Bonds held by it. KCFL's claim for this amount is a deeply subordinated claim and ranks behind the claims of all other creditors of Kiwibank, other than claims that are expressed to rank equally with the Kiwibank Perpetual Bonds (presently none). If there is a shortfall of funds available to pay claims ranking senior to and equally with Kiwibank Perpetual Bonds held by KCFL, KCFL will not be able to pay amounts owing to you on your Perpetual Capital Notes.

KCFL's claim in a liquidation of Kiwibank will be adversely affected if a Trigger Event occurs. If Kiwibank Perpetual 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 Perpetual 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 Perpetual Capital Notes.

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

There is a significant risk that you will lose all or some of your investment should Kiwibank become insolvent.

Changes in interest rates

The Interest Rate is a fixed rate that is reset at 5-yearly intervals by adding a fixed Margin to the then applicable 5 Year Swap Rate. There is a risk that the resetting of the Interest Rate will result in its reduction compared to the interest rate that applied during the prior 5-year period.

You have no right to request repayment of your Perpetual Capital Notes

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

No guarantee

The payment of interest and repayment of your Perpetual Capital Notes is not guaranteed by Kiwibank, the Government or any other person. 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 Perpetual Bonds held by KCFL. Your Perpetual Capital Notes are issued by KCFL under the terms contained in the Trust Deed. You have no claim on KCFL in respect of your Perpetual Capital Notes except as provided in the Trust Deed. Your Perpetual Capital Notes are unsecured.

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

The RBNZ has issued a notice of non-objection to Kiwibank that the Kiwibank Perpetual Bonds held by KCFL will constitute Additional Tier 1 Capital for the purposes of Kiwibank's regulatory capital requirements. However, if the RBNZ subsequently determines that all of the Kiwibank Perpetual Bonds held by KCFL are not or will not qualify as Additional Tier 1 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 Perpetual Bonds were issued to KCFL. A Regulatory Event will allow Kiwibank to repay the Kiwibank Perpetual Bonds held by KCFL at its option (subject to the RBNZ's prior written approval) - see Section 4.9, "Optional repayment of the Principal Amount". If the Kiwibank Perpetual Bonds held by KCFL are repaid, KCFL will apply the amount received from Kiwibank to repay your Perpetual Capital Notes.

KCFL may repay your Perpetual Capital Notes 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 Perpetual Bonds held by KCFL or your Perpetual Capital Notes (provided such event is not minor or could not have been anticipated when the Kiwibank Perpetual Bonds were issued to KCFL) Kiwibank is entitled to repay the Kiwibank Perpetual Bonds held by KCFL at its option (subject to the

RBNZ's prior written approval) – see Section 4.9, "Optional repayment of the Principal Amount". If the Kiwibank Perpetual Bonds held by KCFL are repaid, KCFL will apply the amount received from Kiwibank to repay your Perpetual Capital Notes.

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

The terms of your Perpetual 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 Perpetual Capital Notes.

In addition, Kiwibank may, provided regulatory consents are obtained in certain circumstances, amend the terms of the Kiwibank Perpetual 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 Perpetual Bonds held by KCFL."

The Scheduled Call is subject to conditions that may never be met

The Scheduled Call Date is the earlier of the First Call Date (27 May 2022) and the first Interest Payment Date thereafter on which the Scheduled Call Conditions are satisfied. Your Perpetual Capital Notes will not be purchased by KGHL under the Scheduled Call unless the Scheduled Call Conditions are met. The Scheduled Call Conditions are described in Section 4.9, "The Scheduled Call".

The Scheduled Call Conditions will not be satisfied if KGHL, in its sole discretion, is not satisfied that it has sufficient funds available to pay the aggregate Call Price of the Perpetual Capital Notes. KGHL is a non-operating holding company. This means it is entirely reliant on obtaining funds from one or more of the following sources:

- its shareholder, New Zealand Post, through capital contributions or loans;
- its operating subsidiaries, Kiwibank, Kiwi Insurance Limited, Kiwi Wealth Management Limited and The New Zealand Home Loan Company Limited, through dividends, capital returns or loans; or
- unrelated parties, such as banks, making loans to it.

Neither KGHL's shareholder nor any of its operating subsidiaries has made any commitment to provide it with funding for this purpose, and investors should not expect that any of them will do so in the future. As a state-owned enterprise, the ability of New Zealand Post to provide funding to KGHL for any purpose will also be influenced by changes in Government policy. There is no certainty that KGHL's subsidiaries will pay any dividends or other capital returns will be paid in the future. KGHL is under no obligation to obtain funding that will enable it to pay the aggregate Call Price. KGHL is not obliged to obtain funding from banks or other third parties, and there is no certainty that it could obtain this funding on suitable terms, if it attempted to do so.

Kiwibank has announced that its intention is to be capital self-sufficient by generating sufficient profit to meet its on-going capital needs. Consistent with this, Kiwibank has commenced paying dividends to its shareholder, KGHL.

If payment of the aggregate Call Price for the Perpetual Capital Notes is to be funded by Kiwibank providing a loan directly or indirectly to KGHL, the RBNZ must provide its consent to Kiwibank to that funding being provided and the Kiwibank Perpetual Bonds must be repaid on or shortly after the Scheduled Call Date. There is no certainty that, if Kiwibank wished to provide a loan to KGHL for

these purposes, the RBNZ's consent will be given. If the RBNZ's consent is required but is not obtained, the Scheduled Call Conditions will not be satisfied.

The Scheduled Call Conditions will not be satisfied if KGHL, in its sole discretion, is not satisfied it will be Solvent immediately after paying the aggregate Call Price for the Perpetual Capital Notes.

5.6 Liquidity

There may be no liquid market for your Perpetual Capital Notes. The market for your Perpetual Capital Notes may be less liquid than the market for comparable securities issued by Kiwibank or other entities. If you wish to sell your Perpetual 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 Perpetual Capital Notes.

5.7 Financial market conditions

The market price of your Perpetual 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 Perpetual Capital Notes may trade at a market price below the price you paid for your Perpetual Capital Notes.

The market price of your Perpetual Capital Notes may be affected by changes in interest rates and credit spreads. Increases in interest rates or Kiwibank's credit spread may adversely affect the market price of your Perpetual Capital Notes because the return on your Perpetual Capital Notes will become less attractive compared to returns that are available from other investments.

5.8 Changes to the credit rating of your Perpetual 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 Perpetual Capital Notes.

5.9 Future issues or redemptions of securities by KCFL and Kiwibank

Your Perpetual Capital Notes and the Kiwibank Perpetual 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 Perpetual Capital Notes or the Kiwibank Perpetual Bonds held by KCFL;
- have the same or different dividend, interest or distribution rates as, respectively, your Perpetual Capital Notes or the Kiwibank Perpetual Bonds held by KCFL;
- have payment tests and distribution restrictions or other covenants which affect your Perpetual Capital Notes and/or the Kiwibank Perpetual 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 Perpetual Capital Notes or the Kiwibank Perpetual Bonds held by KCFL, as the case may be.

Kiwibank may incur further indebtedness and may issue further securities including further Additional Tier 1 Capital securities before, during or after the issue of Kiwibank Perpetual 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 Perpetual 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 Perpetual Capital Notes or of the likelihood of Kiwibank making payments on the Kiwibank Perpetual Bonds held by KCFL, thereby enabling KCFL to make payments on your Perpetual Capital Notes.

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

Kiwibank may redeem or otherwise repay existing securities, including existing equal or junior ranking securities before, during or after the issue of the Kiwibank Perpetual Bonds held by KCFL. KCFL's investment in Kiwibank Perpetual 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 Perpetual 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 Perpetual Capital Notes, you may be unable to do so at an acceptable price, or at all.

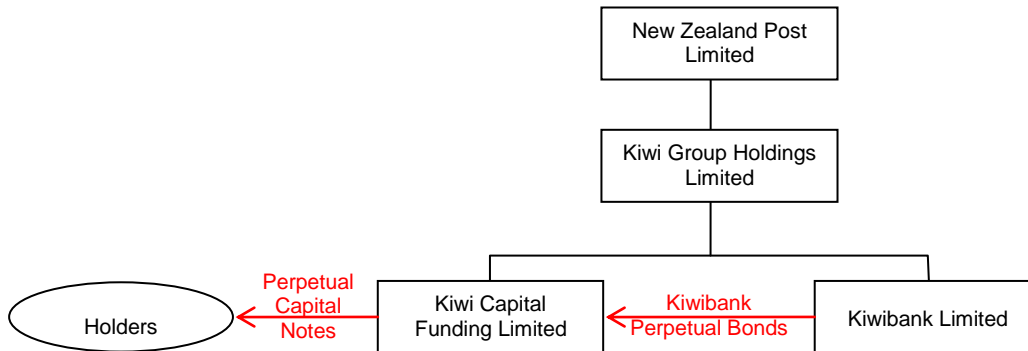
5.10 More information

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

6. ABOUT KCFL AND KIWIBANK

6.1 The companies involved in the Offer

Both KCFL and Kiwibank are wholly owned subsidiaries of KGHL. KGHL is a wholly owned subsidiary of New Zealand Post. New Zealand Post is a state enterprise under the State-Owned Enterprises Act 1986, wholly owned by the Government. 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, KGHL, the Government or any other person guarantees your Perpetual 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 Perpetual Capital Notes in Kiwibank Perpetual Bonds issued by Kiwibank.

6.3 Kiwibank

Although KCFL is the issuer of your Perpetual Capital Notes, the returns on your Perpetual Capital Notes are derived from the performance of the Kiwibank Perpetual 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 1,300 staff.

6.3.2 Registration

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

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

6.3.3 Principal activities

Kiwibank offers a range of personal and business transactional banking, savings account, term deposit, home loan and business loan products, along with credit card, pre-paid and debit products. Additional products include domestic and international payments, 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 was 11.6% at the end of 2014, up from 10.6% at the end of 2013.

6.3.4 Distribution channels

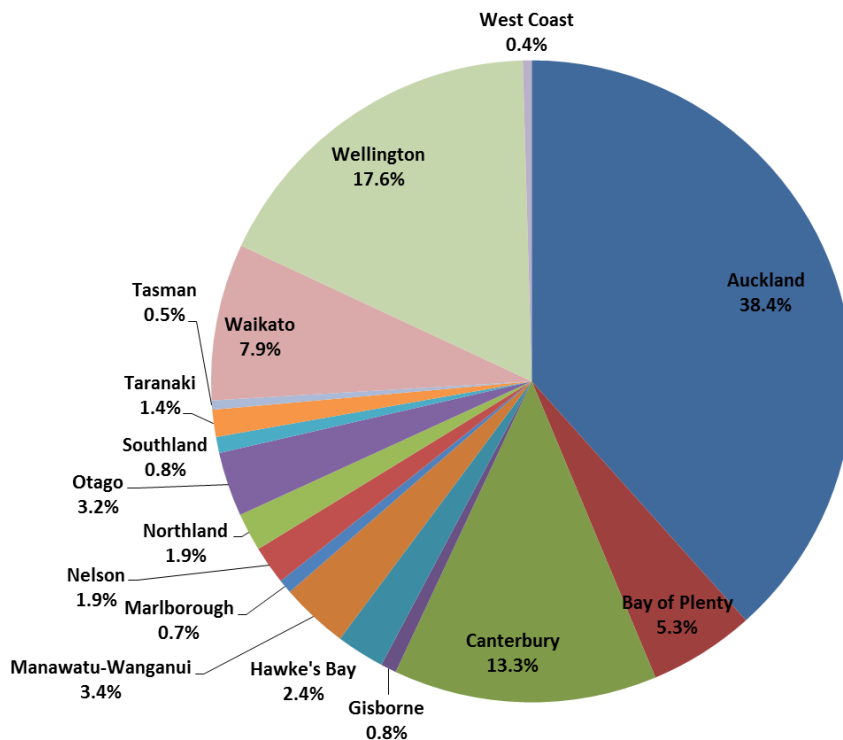
Customer access is gained via the coverage of main urban centres and rural New Zealand through the New Zealand Post store network, a team of Kiwibank mobile mortgage specialists, and direct services through its Wellington headquarters. Other distribution channels include call centres, a network of around 243 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 2014.

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 the branch network across the country. Reflecting its wide distribution network, Kiwibank's mortgage portfolio has broad geographic distribution as shown below (as at 31 December 2014).

Mortgage Portfolio Geographic Distribution



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.

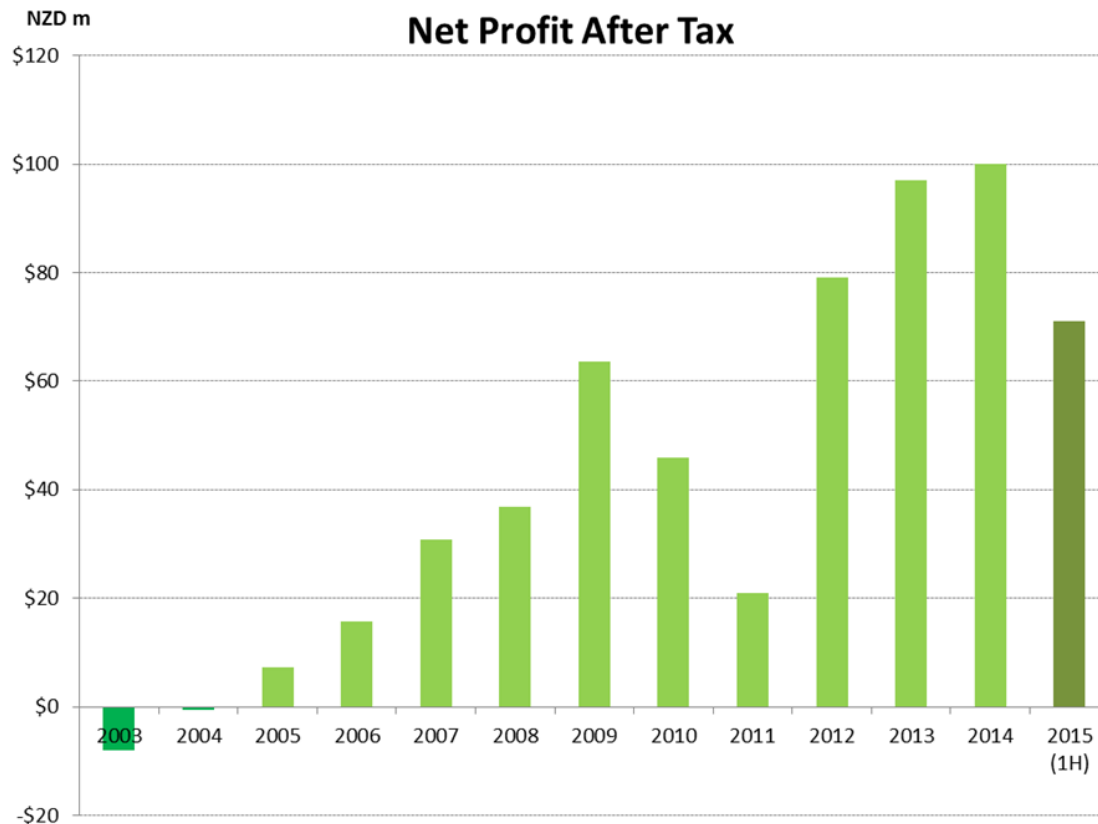
6.3.7 Other activities

Kiwibank also manages an agency business and the delivery of Travelex and Western Union services in branch under the New Zealand Post brand. The agency business includes over-the-counter payments and identity services including RealMe. Kiwibank is the issuer of New Zealand Post distributed prepaid cards. Kiwibank also distributes wealth management products. This includes Kiwi Wealth Kiwisaver issued by Kiwi Wealth Limited, a related company of Kiwibank. Kiwibank is not an issuer or promoter of those products.

6.3.8 Financial performance

In the twelve months to 30 June 2014, Kiwibank announced an audited net profit of \$100 million after tax, a 3% improvement over the \$97 million after tax net profit reported for the year ended 30 June

2013. In the six months to 31 December 2014, Kiwibank announced an unaudited net profit of \$71 million after tax, a 36% improvement over the \$52 million after tax net profit reported for the six months to 31 December 2013. This record performance was underpinned by increased total lending, improved interest margin and containment of costs.



6.3.9 Directors and management

Kiwibank's directors are listed in Section 3 "Statutory and other information". 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.

6.4 KGHL

KGHL is a wholly-owned subsidiary of New Zealand Post. KGHL itself is a non-operating holding company that owns Kiwibank, Kiwi Insurance Limited, Kiwi Wealth Management Limited and The New Zealand Home Loan Company Limited. KGHL also owns all of the shares in KCFL. Kiwi Insurance Limited is a licenced insurer and provides a range of insurance products to the public in New Zealand. Kiwi Wealth Management Limited, through its subsidiaries, provides a range of investment and wealth products to the public in New Zealand. The New Zealand Home Loan Company Limited distributes home loans in New Zealand.

KCFL has arranged for KGHL to provide the Scheduled Call. More information on the Scheduled Call is contained in Section 4.13. KGHL's obligations under the Scheduled Call are subject to the Scheduled Call Conditions, including that KGHL is satisfied, in its sole discretion, that it has sufficient

funds available to pay the aggregate Call Price (being \$1.00 per Perpetual Capital Note) at the relevant time. There is no certainty that KGHL will be able to satisfy this condition (or the other Scheduled Call Conditions) on the First Call Date (27 May 2022) or at all. See "*The Scheduled Call is subject to conditions that may never be met*" in Section 5.5.

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 Perpetual Bonds held by KCFL, including the terms relating to Conversion of those Kiwibank Perpetual Bonds into Ordinary Shares and Write Off, are required in order for the Kiwibank Perpetual Bonds held by KCFL to constitute Additional Tier 1 Capital for Kiwibank.

7.1 Prudential regulation

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

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

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

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

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

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

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

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

- a Common Equity Tier 1 Capital Ratio of 4.5%;
- a Tier 1 Capital Ratio of 6.0% (Common Equity Tier 1 and Additional Tier 1); 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 Perpetual Bonds held by KCFL will constitute Additional Tier 1 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.

If the Kiwibank Group's Capital Ratios fall within the RBNZ's capital buffer range (currently being Total Capital Ratio of 10.5% or less; Tier 1 Capital Ratio of 8.5% or less; Common Equity Tier 1 Capital Ratio of 7% or less):

- KCFL will immediately notify NZX;
- distributions to Kiwibank's ordinary and preference shareholders may be restricted;
- a condition to Kiwibank paying interest on the Kiwibank Perpetual Bonds may not be satisfied, so interest may not be paid on the Kiwibank Perpetual Bonds or the Perpetual Capital Notes; and
- Kiwibank will submit a capital plan to restore the buffer ratio to the RBNZ for approval.

7.2 The Kiwibank Group's capital management strategy

Adequacy, efficiency and flexibility are the core components of the Kiwibank Group's capital management strategy. The Kiwibank Group'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 the minimum capital level for the Kiwibank Group, Kiwibank's board considers the regulatory capital requirements, the risk position of the Kiwibank Group's balance sheet, the capital position of Kiwibank's major competitors and market expectations.

As at 31 December 2014, the Kiwibank Group's capital principally comprised:

- (a) \$400 million of ordinary share capital contributed by New Zealand Post;
- (b) \$507 million of retained earnings;
- (c) \$117 million from the issuance of perpetual non-cumulative preference shares; and
- (d) \$208 million from the issuance of subordinated bonds.

The Kiwibank Group's capital position is further enhanced by an uncalled capital facility that the Crown has entered into with New Zealand Post. The \$300 million uncalled capital facility is available to New Zealand Post 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, which are set above the regulatory minimum levels.

7.3 The Kiwibank Group's capital adequacy position

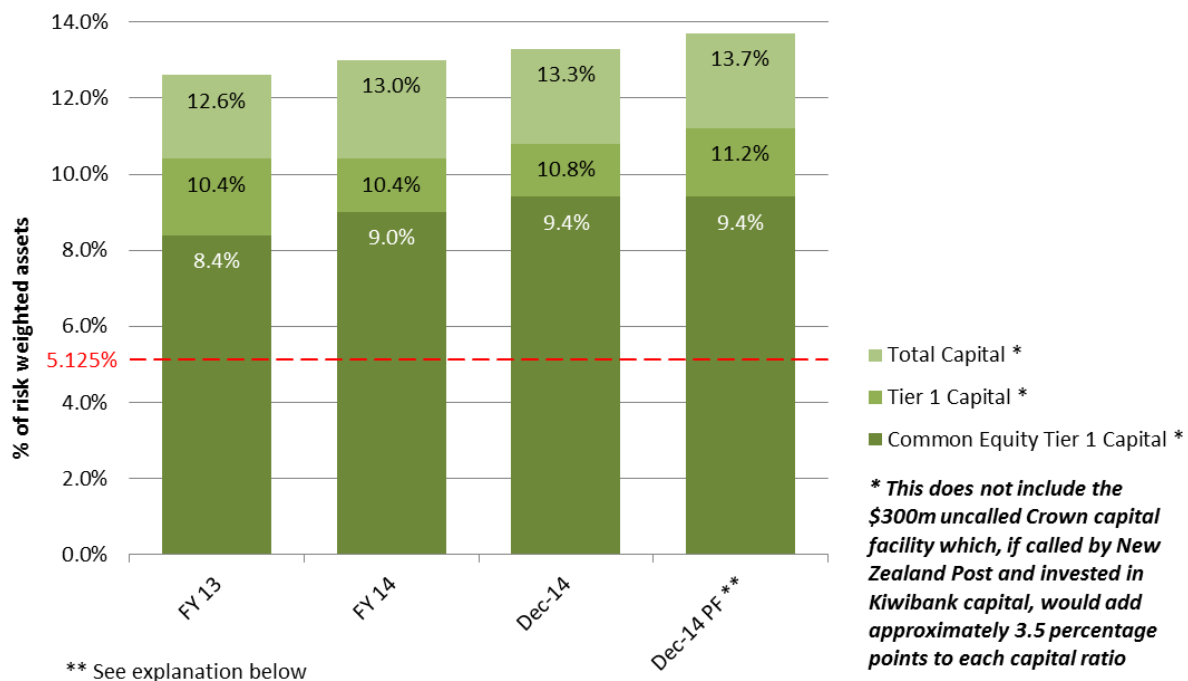
The Kiwibank Group's capital adequacy position for its most recent half year and annual reporting periods is set out below, showing an increase in capital over this period:

	Common Equity Tier 1 Capital Ratio	Minimum Common Equity Tier 1 Capital Ratio ¹	Tier 1 Capital ratio	Minimum Tier 1 Capital ratio ¹	Total Capital ratio	Minimum Total Capital ratio ¹
Dec 2014	9.4%	4.5%	10.8%	6.0%	13.3%	8.0%
Jun 2014	9.0%	4.5%	10.4%	6.0%	13.0%	8.0%
Jun 2013	8.4%	4.5%	10.4%	6.0%	12.6%	8.0%

¹ These are minimum ratios set by the RBNZ. 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.

Kiwibank has announced that its intention is for the Kiwibank Group to be capital self-sufficient by generating sufficient profit to meet its on-going capital needs. Consistent with this, Kiwibank has commenced paying dividends to its shareholder, KGHL.

Regulatory Capital Ratios



Assuming that the net proceeds raised by the issue of Perpetual Capital Notes are \$150 million, the perpetual non-cumulative preference shares are called on 4 May 2015 and using the method of calculation required by the RBNZ's banking standards, this would have increased each of the Kiwibank Group's 31 December 2014 Tier 1 Capital Ratio and Total Capital Ratio by approximately 0.4% to 11.2% and 13.7% respectively (see Dec-14 PF column above). The Kiwibank Group's

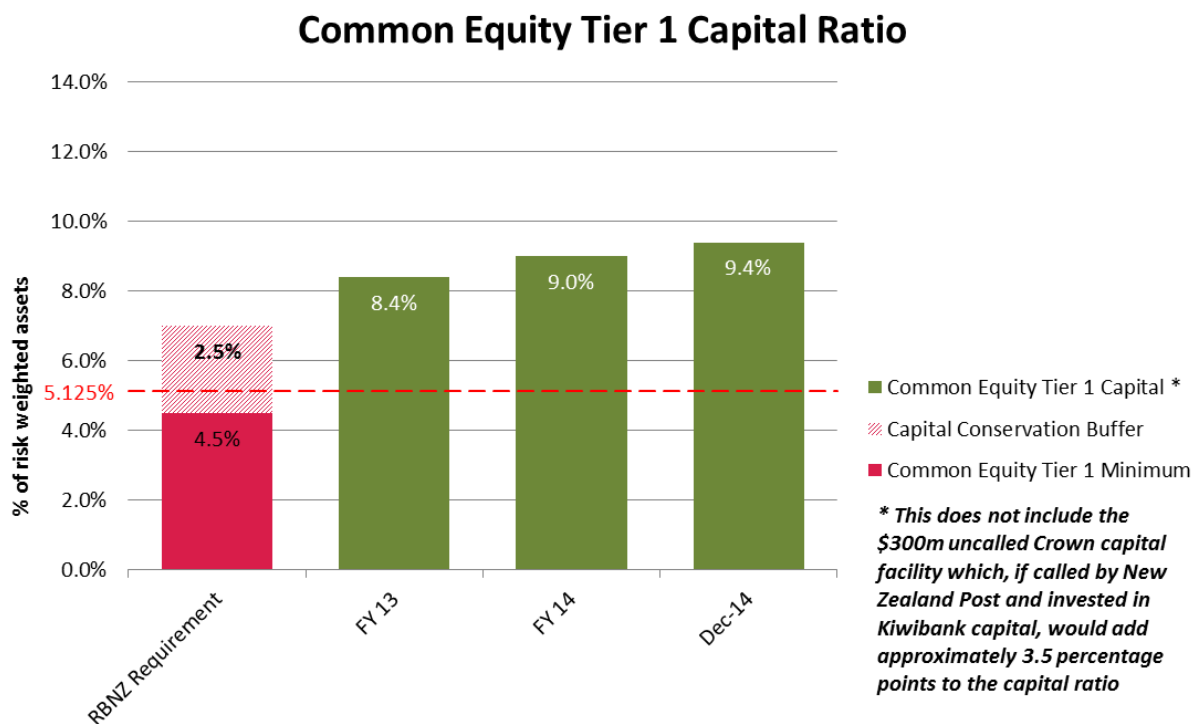
capital adequacy ratios will also be impacted by organic capital growth, changes in provisions and risk-weighted assets growth since 31 December 2014.

7.4 The Kiwibank Group's Common Equity Tier 1 Capital Ratio

The Common Equity Tier 1 Capital Ratio is the ratio of Common Equity Tier 1 Capital to risk-weighted assets.

A Common Equity Capital Trigger Event will occur if the amount of Common Equity Tier 1 Capital held by the Kiwibank Group is less than the amount necessary to meet a capital ratio specified by the RBNZ, that ratio being 5.125% of risk-weighted assets.

The chart below highlights the Kiwibank Group's historic Common Equity Tier 1 Capital Ratio compared to RBNZ requirements, for its most recent half year and annual reporting periods:



7.5 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 2014, those deposits stood at \$13.3 billion, which currently makes up 82% of all funding. Other sources of wholesale funding include bonds issued in New Zealand and overseas.

8. THE KIWIBANK PERPETUAL BONDS HELD BY KCFL

KCFL will invest 100% of the proceeds of the Perpetual Capital Notes in Kiwibank Perpetual Bonds. KCFL's ability to make payments on your Perpetual Capital Notes is entirely dependent on KCFL receiving payments from Kiwibank on the Kiwibank Perpetual Bonds it holds. The Perpetual Capital Notes to be issued by KCFL have terms (such as being perpetual, the interest rate and interest payment dates) that match the terms of the Kiwibank Perpetual Bonds unless the Kiwibank Perpetual Bonds held by KCFL are Converted or Written Off.

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

Issuer	Kiwibank
Subscriber	KCFL
Status	Perpetual, subordinated, unsecured, convertible bonds that are expected to count as Additional Tier 1 Capital for Kiwibank.
Issue date	27 May 2015
Issue amount	The amount of Kiwibank Perpetual Bonds to be issued to KCFL will be equal to the total amount of Perpetual Capital Notes issued.
Repayment	Kiwibank may, but is not obliged to, repay the Kiwibank Perpetual Bonds on 27 May 2020, each Reset Date after 27 May 2020, or if a Tax Event or Regulatory Event occurs. Repayment in all cases is subject to specified conditions being satisfied (including RBNZ consent). See Section 4.9, "Optional repayment of the Principal Amount".
Interest payments	<p>Interest on the Kiwibank Perpetual Bonds held by KCFL is scheduled to be paid quarterly in arrear on each interest payment date. The interest payment dates on the Kiwibank Perpetual Bonds held by KCFL are the same as the Interest Payment Dates on the Principal Amount of your Perpetual Capital Notes. The payment of interest on an interest payment date is subject to Kiwibank's absolute discretion and the following payment conditions:</p> <ul style="list-style-type: none"> that Kiwibank and the Kiwibank Group would be Solvent after the payment is made; and that Kiwibank would be in compliance with the capital adequacy requirements in its conditions of registration after the payment is made. <p>See Section 4.5, "What does receipt of a Corresponding Payment mean?"</p> <p>Interest payments are non-cumulative. This means that if Kiwibank does not pay interest to KCFL on an Interest Payment Date, Kiwibank will not pay that interest on a later date and KCFL has no right to receive it at all or to take action against Kiwibank in respect of that interest.</p>
Restrictions on Kiwibank if interest is not paid	Kiwibank will be restricted in its ability to pay dividends on its Ordinary Shares, to undertake a capital reduction, and to make payments on capital instruments that rank equally with or junior to the Kiwibank Perpetual Bonds if interest is not paid on the Kiwibank Perpetual Bonds by Kiwibank on a scheduled interest payment date.
Interest rate	The interest rate on the Kiwibank Perpetual Bonds held by KCFL will be the same as the interest rate on the Principal Amount of your Perpetual Capital Notes. See Section 4.8.1, "Interest payments on the Principal Amount".
Loss absorbency	<p>The Kiwibank Perpetual Bonds held by KCFL are expected to count as Additional Tier 1 Capital for Kiwibank under the RBNZ's prudential standards. To qualify as Additional Tier 1 Capital, the Kiwibank Perpetual Bonds held by KCFL must be able to absorb losses by either converting into common equity of Kiwibank or being written off if Kiwibank does not hold enough Common Equity Tier 1 Capital or suffers severe financial difficulty.</p> <p>The Kiwibank Perpetual Bonds held by KCFL may be required to be Converted (or Written Off if Conversion is not possible) if a Trigger Event occurs. The Trigger</p>

	Events are a Common Equity Capital Trigger Event or a Non-Viability Trigger Event.
Common Equity Capital Trigger Event	A Common Equity Capital Trigger Event means Kiwibank determines, or the RBNZ has notified Kiwibank in writing that it believes, that the Common Equity Tier 1 Capital Ratio of the Kiwibank Group is less than 5.125%. The Common Equity Capital Ratio is the ratio of Common Equity Tier 1 Capital to risk-weighted assets.
Non-Viability Trigger Event	<p>A Non-Viability Trigger Event means the earlier of:</p> <p>(a) a direction given, by notice in writing, to Kiwibank by the RBNZ under section 113 of the RBNZ Act, on the basis that the financial position of Kiwibank is such that it meets any of the grounds in subsections 113(1)(a)-(e) of the RBNZ Act, requiring Kiwibank to exercise its right of conversion or write off of its capital instruments; or</p> <p>(b) Kiwibank being made subject to statutory management by an Order in Council issued pursuant to section 117 of the RBNZ Act and the statutory manager deciding that Kiwibank exercise its right of conversion or write off of Kiwibank's capital instruments.</p> <p>The grounds on which a direction may be given by the RBNZ are that the RBNZ has reasonable grounds to believe:</p> <p>(a) Kiwibank is insolvent or is likely to become insolvent;</p> <p>(b) Kiwibank is about to suspend payment or is unable to meet its obligations as and when they fall due;</p> <p>(c) the affairs of Kiwibank are being conducted in a manner prejudicial to the soundness of the financial system;</p> <p>(d) the circumstances of Kiwibank are such as to be prejudicial to the soundness of the financial system; or</p> <p>(e) the business of Kiwibank has not been, or is not being, conducted in a prudent manner.</p>
Conversion	<p>If Kiwibank is required to Convert some or all of the Kiwibank Perpetual 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 Perpetual Bonds being Converted 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 Perpetual Bonds are Converted but it must be sufficient to satisfy the RBNZ or the statutory manager of Kiwibank that the Kiwibank Group's Common Equity Tier 1 Capital Ratio is able to be increased to at least 5.125% or that Kiwibank is viable (as applicable) without further Conversion or Write Off. If Kiwibank has more than one loss absorbing capital instrument on issue, Kiwibank will, to the extent that it is able, convert or write off:</p> <p>(a) first, any Tier 1 Capital instruments that have loss absorbing terms whose terms require or permit them to be converted or written off before the Kiwibank Perpetual Bonds; and</p> <p>(b) second, if the conversion or write off of those Tier 1 Capital instruments having loss absorbing terms is insufficient, any other Tier 1 Capital instruments having loss absorbing terms (including the Kiwibank Perpetual Bonds held by KCFL),</p> <p>on an approximately pro rata basis. The Kiwibank Perpetual Bonds will be Converted or Written Off before any Tier 2 capital instruments are converted or written off.</p>

Write off if Conversion is not possible	If, following a Trigger Event, Conversion of the Kiwibank Perpetual Bonds held by KCFL is not possible within five Business Days of the date on which the Trigger Event occurred those Kiwibank Perpetual Bonds will not be Converted, but instead will be Written Off. Conversion will not be possible if Kiwibank is prevented from converting any Kiwibank Perpetual 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).
No guarantee	The Kiwibank Perpetual Bonds held by KCFL are not guaranteed by the Government or any other person.
No rights as shareholders	In no circumstances will investors in Perpetual Capital Notes become holders of Kiwibank Perpetual Bonds or shareholders in Kiwibank.
Documentation	The Kiwibank Perpetual Bonds held by KCFL will be issued on the terms set out in the Deed Poll dated 30 April 2014 (as amended on 14 May 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.

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 Perpetual 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 Perpetual 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 Perpetual 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 Perpetual 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 Perpetual 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 Perpetual 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 2015 to 31 March 2016) will be \$14,000 or less, or if you are holding Perpetual Capital Notes as trustee of certain testamentary trusts. If you are an individual or hold Perpetual 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

If at any time you hold a Perpetual 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 Perpetual Capital Notes qualify for the zero percent rate of AIL under section 861B 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 Perpetual 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 repayment by KCFL) of your Perpetual 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 Perpetual Capital Notes.

Application of FATCA

FATCA is a US tax reporting and withholding regime aimed at identifying assets of US persons held outside of the US, including by requiring certain foreign financial institutions to report those assets to the United States Internal Revenue Service ("**IRS**") and, in some cases, withholding amounts from payments. To comply with FATCA, KCFL (or, if Perpetual Capital Notes are held through another financial institution, such other financial institution) may be required (pursuant to an agreement with the IRS or otherwise under applicable law) to request certain information from Holders or beneficial owners of Perpetual Capital Notes, which may in turn be provided to the IRS. Under current law relating to FATCA (including the agreement with the IRS) KCFL should not be required to withhold any amount on account of FATCA from payments in relation to Perpetual Capital Notes.

If KCFL or any other person is required to withhold amounts under or in connection with FATCA from any payments made in relation to Perpetual Capital Notes, holders and beneficial owners of Perpetual 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. Future guidance may affect the application of FATCA to KCFL, Holders or beneficial owners of Perpetual Capital Notes.

10. GLOSSARY

"**5 Year Swap Rate**" means, on a Reset Date:

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

"**Additional Tier 1 Capital**" is described in Section 7.1, "Prudential Regulation".

"**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.

"**Call Price**" means \$1.00 per Perpetual Capital Note.

"**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".

"**Common Equity Capital Trigger Event**" is described in Section 4.2, "Loss absorbency".

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

"**Conversion**" means the conversion of the Kiwibank Perpetual 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 Perpetual Bonds will be issued to KCFL (as amended on 14 May 2014).

"**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).

"First Call Date" means 27 May 2022.

"Holder" means, in relation to a Perpetual Capital Note at any time, the person whose name is recorded in the Register as the holder of the Perpetual 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 Perpetual Bonds held by KCFL are Converted into Ordinary Shares, each date on which Kiwibank pays a dividend on the Ordinary Shares to KCFL.

"Interest Rate" means:

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

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

"KCFL" means Kiwi Capital Funding Limited.

"KGHL" means Kiwi Group Holdings Limited.

"Kiwibank" means Kiwibank Limited.

"Kiwibank Perpetual Bonds" means the perpetual, convertible, non-cumulative, unsecured, subordinated 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 Perpetual Capital Note:

- (a) if there has not been any Conversion of the Kiwibank Perpetual Bonds held by KCFL, zero; and
- (b) following a Conversion of Kiwibank Perpetual 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 there is a Share Sale (including by a liquidator of KCFL) of, or Capital Reduction in respect of, the Ordinary Shares issued to KCFL on Conversion of Kiwibank Perpetual

Bonds held by KCFL, an amount that reflects the aggregate value of the Ordinary Shares issued to KCFL on Conversion of those Kiwibank Perpetual Bonds and held by KCFL immediately prior to the Share Sale or Capital Reduction divided by the total amount of Perpetual Capital Notes held by you and other Holders (where the value of the Ordinary Shares is determined by reference to the net proceeds of the Share Sale or Capital Reduction),

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

"Loss Absorbing Payment Amount" is described in Section 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/ 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 (as amended on 14 May 2014).

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

"New Zealand Post" means New Zealand Post Limited.

"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 Perpetual Capital Notes made in this Prospectus.

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

"Ordinary Shares" means ordinary shares issued by Kiwibank.

"Perpetual Capital Notes" means the perpetual, non-cumulative, unsecured, subordinated, loss absorbing debt securities offered by KCFL under this Prospectus.

"Principal Amount" means, in relation to each Perpetual Capital Note:

- (a) at any time prior to Conversion of Kiwibank Perpetual Bonds held by KCFL or Write Off of Kiwibank Perpetual Bonds held by KCFL, an amount equal to \$1.00; and
- (b) at any time thereafter, the amount adjusted to reflect the proportion of Kiwibank Perpetual 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 Perpetual 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 Perpetual Capital Note, the close of business on the 10th calendar day before the due date for that payment or, if that day is not a Business Day, the preceding Business Day.

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

"Register" means the register of Perpetual 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, "Optional repayment of the Principal Amount".

"Reset Date" means each "Reset Date" specified in Section 2, "Important Dates".

"Scheduled Call" means the purchase of all of the Perpetual Capital Notes by KGHL (or another designated purchaser) for the Call Price on the Scheduled Call Date. The Scheduled Call is described in Section 4.13, "The Scheduled Call".

"Scheduled Call Conditions" means the conditions to the Schedule Call. The Scheduled Call Conditions are described in Section 4.13, "The Scheduled Call".

"Scheduled Call Date" means the earlier of the First Call Date and the first Interest Payment Date thereafter on which the Scheduled Call Conditions are satisfied.

"Scheduled Call Deed" means the deed dated 16 April 2015 entered into by KCFL and KGHL in respect of the Scheduled Call.

"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 Perpetual Bonds, other than by way of a Capital Reduction.

"Solvent" means:

- (a) in relation to Kiwibank or KGHL, Kiwibank or KGHL, as the case may be, satisfying the solvency test contained in section 4 of the Companies Act 1993; and
- (b) in relation to the Kiwibank Group, satisfying the solvency test contained in section 4 of the Companies Act 1993, applied to the Kiwibank Group as if the Kiwibank Group was a single entity and taking due account of the ability and willingness of the members of the Kiwibank Group to meet the debts of the other members of the Kiwibank Group,

and **"Solvency"** has corresponding meanings.

"Supplemental Trust Deed" means the deed dated 16 April 2015 between KCFL and the Trustee.

"Tax Event" is defined in Section 4.9, "Optional repayment of the Principal Amount".

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

"Trigger Event" means a Common Equity Capital Trigger Event or a Non-Viability Trigger Event.

"**Trust Deed**" means the master trust deed dated 30 April 2014 entered into by KCFL and the Trustee (as amended on 14 May 2014), together with a supplemental trust deed dated 16 April 2015 entered into by KCFL and the Trustee, under which Perpetual 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 Perpetual Bonds held by KCFL are Written Off?" and "**Write Off**" has a corresponding meaning.

11. DIRECTORY

<p>KCFL Kiwi Capital Funding Limited Level 12, New Zealand Post House 7 Waterloo Quay Wellington 6011</p>	<p>Kiwibank Kiwibank Limited Level 12, New Zealand Post House 7 Waterloo Quay Wellington 6011</p>
<p>Joint Lead Managers</p> <p>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>Forsyth Barr Limited Level 9, Forsyth Barr House The Octagon Dunedin 9016</p> <p>Macquarie Capital (New Zealand) Limited Level 17, Lumley Centre 88 Shortland Street Auckland 1010</p>	<p>Organising Participant Craigs Investment Partners Limited Craigs Investment Partners House 158 Cameron Road Tauranga 3110 <i>or</i> PO Box 13155 Tauranga 3141</p> <p>Trustee The New Zealand Guardian Trust Company Limited Level 14, 191 Queen Street Auckland Central Auckland 1010</p> <p>Legal advisers to KCFL and Kiwibank Russell McVeagh Level 24, Vodafone on the Quay 157 Lambton Quay Wellington 6143 <i>or</i> PO Box 10-214 Wellington 6011</p>
<p>Registrar Link Market Services Limited Level 7, Zurich House 21 Queen Street Auckland 1010 <i>or</i> PO Box 91976 Auckland 1142</p>	<p>Legal advisers to the Trustee Buddle Findlay PwC Tower 188 Quay Street Auckland 1010 <i>or</i> PO Box 1433 Auckland 1140</p>

APPENDIX A - TRUSTEE'S STATEMENT

APPENDIX B - INTERIM FINANCIAL STATEMENTS

APPENDIX C - AUDITOR'S REPORT

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

Gary Douglas Crawford

KIWIBANK LIMITED by:

Signature of director

Signature of director

DIRECTORS OF KIWIBANK LIMITED

Carol Anne Campbell

Michael John Cullen

Alison Rosemary Gerry

Robert William Bentley Morrison

Brian Joseph Roche

Catherine Maria Savage

David Stephen Willis

Lindsay Megan Wright