

Investment Statement

for an offer of
Subordinated Bonds
of up to \$150 million

5 November 2012

**Kiwi
bank.**

JOINT LEAD MANAGERS



**Kiwi
bank.**

CO-MANAGERS



 **FORSYTH BARR**

Investment statement

This document is an Investment Statement for the purpose of the Securities Act 1978, relating to an issue of subordinated bonds ('Subordinated Bonds') by Kiwibank Limited ('Kiwibank').

This Investment Statement is dated and has been prepared as at 5 November 2012. It is an important document and should be read in its entirety.

Important information

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

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

Choosing an investment

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

	Page
What sort of investment is this?	7
Who is involved in providing it for me?	9
How much do I pay?	10
What are the charges?	10
What returns will I get?	10
What are my risks?	12
Can the investment be altered?	16
How do I cash in my investment?	16
Who do I contact with inquiries about my investment?	17
Is there anyone to whom I can complain if I have problems with the investment?	17
What other information can I obtain about this investment?	17

The Financial Markets Authority regulates conduct in financial markets

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

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

Financial advisers can help you make investment decisions

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

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

When seeking or receiving financial advice, you should check –

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

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

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

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

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

Contents

1	Important notice
2	Key information
4	Letter to investors
5	Corporate profile
7	Answers to important questions
18	Glossary
20	Directory
21	Application instructions
23	Application form

Important notice

The purpose of this Investment Statement is to provide certain key information that is likely to assist a prudent but non-expert person to decide whether or not to subscribe for the Subordinated Bonds. Investors should note that other information is available in Kiwibank's latest Disclosure Statement & Annual Report and in the Deed Poll (under which the Subordinated Bonds are issued). Copies of Kiwibank's latest Disclosure Statement & Annual Report and the Deed Poll may be obtained free of charge from the Registrar (Link Market Services Limited) at Level 16, Brookfields House, 19 Victoria Street West, Auckland 1142, or from Kiwibank at Level 1, New Zealand Post House, 7 Waterloo Quay, Wellington, or by phoning (04) 473 1133. Copies of Kiwibank's latest Disclosure Statement & Annual Report may also be obtained from Kiwibank's website at www.kiwibank.co.nz.

This Investment Statement does not constitute an offer of Subordinated Bonds in any jurisdiction other than New Zealand. No action has been or will be taken by Kiwibank which would permit a public offering of the Subordinated Bonds, or possession or distribution of any offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand). Subordinated Bonds 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 Subordinated Bonds 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 Deed Poll each Holder indemnifies Kiwibank in respect of any loss incurred as a result of that Holder breaching the above selling restrictions.

As with any investment, Kiwibank recommends that you consult an independent financial adviser before you decide whether or not to invest.

Capitalised terms used in this Investment Statement have defined meanings which appear in the Glossary on page 18.

Key information

Kiwibank is issuing the Subordinated Bonds, which are interest-bearing subordinated debt securities that mature in 10 years. As described in the section entitled ‘What returns will I get?’ on page 10, they pay interest at a fixed rate. The interest rate for the first five years will be set and announced on the Rate Set Date (which is the Business Day prior to the Opening Date or such earlier date as is determined by Kiwibank). If Kiwibank has not redeemed the Subordinated Bonds after five years the interest rate will reset and be fixed for the remaining five years.

The Subordinated Bonds are subordinated, callable and loss absorbing in some circumstances. Kiwibank intends them to be recognised as ‘tier 2’ capital instruments by the Reserve Bank through to the Maturity Date. Each of these terms is expanded on in the section entitled ‘What sort of investment is this?’ on page 7.

The returns an investor in the Subordinated Bonds can expect are described in the section entitled ‘What returns will I get?’ on page 10. The key risks associated with the Subordinated Bonds are described in the section entitled ‘What are my risks?’ on page 12.

Kiwibank is a registered bank that is a wholly-owned subsidiary of New Zealand Post, a state enterprise under the State-Owned Enterprises Act 1986. It offers a range of personal and business transactional banking, savings accounts, term deposits, notice saver accounts, home loans, credit cards and revolving credit products. Further information about Kiwibank can be found in the section entitled ‘Corporate Profile’ on page 5, in the section entitled ‘Who is involved in providing it for me?’ on page 9 and in its latest Disclosure Statement & Annual Report. Information about where to obtain copies of these is set out in the section entitled ‘What other information can I obtain about this investment?’ on page 17.

The Subordinated Bonds are not guaranteed by any member of the Kiwibank Group, Kiwibank’s parent companies (including New Zealand Post), the Crown, or by any other person.

Important dates

Rate Set Date:	13 November 2012
Opening Date:	14 November 2012
Closing Date:	5 December 2012
Issue Date:	10 December 2012
First Interest Payment Date:	15 December 2012
Subsequent Interest Payment Dates:	15 June and 15 December
Rate Reset Date:	15 December 2017
First Call Date:	15 December 2017
Maturity Date:	15 December 2022

Kiwibank may, in its sole discretion, change the Opening Date, the Closing Date, the Rate Set Date or the Issue Date for the Subordinated Bonds. If the Issue Date changes there may also be consequential changes to the Interest Payments Dates, the Rate Reset Date, the First Call Date and the Maturity Date.

Credit rating of the Subordinated Bonds

At the date of this Investment Statement, Kiwibank has obtained a rating of BB+ from Standard & Poor’s for the Subordinated Bonds. This is lower than Kiwibank’s issuer credit rating of A+ (stable outlook) because of the subordinated nature and loss absorption features of the Subordinated Bonds.

Credit ratings are not a recommendation to buy, sell or hold the Subordinated Bonds, and the ratings may be subject to revision or withdrawal at any time by Standard & Poor’s. Any downward revision or withdrawal in one or both of the credit ratings may have an adverse effect on the market price of the Subordinated Bonds. More information about the credit ratings is set out in the section entitled ‘What sort of investment is this?’ on page 7.

Summary of the terms of the Subordinated Bonds

Interest rate

A description of the manner in which the interest rate will be calculated is set out in the section entitled ‘What returns will I get?’ on page 10. The interest rate is fixed for 5 years from the Issue Date, and then reset and fixed for a further 5 years through until the Maturity Date (unless the Subordinated Bonds are redeemed early).

Payment of interest

Interest will be calculated on the Principal Amount of each Subordinated Bond and will be payable in arrear in equal semi-annual instalments on each Interest Payment Date. However, the interest payable on the first Interest Payment Date will be a lesser amount because of the short period between the Issue Date and the first Interest Payment Date. Interest paid on the first Interest Payment Date will be paid to the original subscriber for the Subordinated Bond.

Maturity and early redemption

The Maturity Date of the Subordinated Bonds is 15 December 2022.

The Subordinated Bonds are callable, which means that Kiwibank may redeem the Subordinated Bonds on the First Call Date (15 December 2017) and on any Interest Payment Date thereafter. Kiwibank may also redeem the Subordinated Bonds at any time (including before the First Call Date) if a Regulatory Event or a Tax Event occurs. In brief:

- (a) A Regulatory Event would occur if Kiwibank determined that, because of a change in law or practice, it was unable to apply its expected regulatory capital treatment to the Subordinated Bonds, and that it was adversely affected as a result. A full definition of ‘Regulatory Event’ can be found in the ‘Glossary’ on page 18.

The requirements governing regulatory capital treatment are currently under review by the Reserve Bank, and a Regulatory Event could happen as a result of that review. However, the Reserve Bank issued a consultation draft of those requirements on 10 September 2012 and, based on that consultation draft and discussions with the Reserve Bank, Kiwibank does not anticipate the review causing a Regulatory Event.

(b) A Tax Event would occur if Kiwibank determined that, because of a change in law or practice affecting taxation, there would be more than a minimal increase in Kiwibank's costs in respect of the Subordinated Bonds. A full definition of 'Tax Event' can be found in the 'Glossary' on page 19.

For redemptions prior to the Maturity Date, Kiwibank must first obtain the Reserve Bank's consent. The Reserve Bank is not obliged to provide such consent.

More information on redemption is set out in the section entitled 'What returns will I get?' on page 10.

Certain payments only made if solvent

All payments of interest, and all repayments of principal prior to the Maturity Date, are subject to Kiwibank and the Kiwibank Group meeting the Solvency Test immediately after the payment is made. If Kiwibank is unable to make an interest payment, or to make a repayment of principal prior to the Maturity Date, without causing Kiwibank or the Kiwibank Group to fail the Solvency Test, then such payment is not due. That means that the failure to make such payment will not be a default.

Subordinated and unsecured

The Subordinated Bonds are unsecured and subordinated obligations of Kiwibank, meaning that if Kiwibank goes into liquidation the Holders of the Subordinated Bonds will not be entitled to any payment of principal or interest until all Senior Creditors of Kiwibank, including deposit holders, have been paid in full. The table below shows a summary comparison between how the Holders will be treated in a liquidation and how shareholders in Kiwibank and other creditors of Kiwibank will be treated.

Ranking Higher	Illustrative Examples	
↑	Secured debt	Secured creditors
	Creditors preferred by law	Liabilities preferred by law, including employee entitlements
	Unsubordinated and unsecured debt	Deposit accounts, senior bonds and trade and general creditors
	Subordinated bonds	The Subordinated Bonds
	Preference shares	Preference shares issued by Kiwibank
↓	Ordinary shares	Ordinary shares held by New Zealand Post
Lower		

Loss absorption

Under certain circumstances, if either the Reserve Bank or a Statutory Manager has concerns about the viability of Kiwibank, it may require Kiwibank to write down the Subordinated Bonds. If that happens, Holders will lose some or all of the principal and interest owing to them. This risk is described in more detail under the heading 'Loss Absorption' on page 7.

Any write down of the Subordinated Bonds under such circumstances will be permanent.

Deed Poll

The Subordinated Bonds are issued under, and subject to the terms and conditions contained in, the Deed Poll, and the other conditions specified in this Investment Statement and recorded in the Register in respect of the Subordinated Bonds.

Summary of the offer

The Offer is available to institutions and to members of the public who may participate in the Offer through selected financial intermediaries. Any Subordinated Bonds not reserved for allocation via financial intermediaries may be made available for a public pool.

Maximum amount

The aggregate Principal Amount of Subordinated Bonds offered is up to \$150 million. Kiwibank may, however, decide to close the Offer before it is fully subscribed.

There is no minimum amount.

Issue Price

\$1.00 per Subordinated Bond, which is also the Principal Amount.

Minimum application

The minimum application amount in respect of the Subordinated Bonds is \$5,000 and in multiples of \$1,000 thereafter.

Early bird interest

Kiwibank will pay interest on application moneys at the interest rate that will apply to the Subordinated Bonds when they are issued. Such interest will be paid on the first Interest Payment Date, and will be paid for the period from the date on which those application moneys are banked until (but excluding) the Issue Date. Consequently, on the first Interest Payment Date, each original subscriber will be paid an amount that is the same as it would have been if the Subordinated Bonds had been issued on the date their application moneys were banked.

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

Minimum transfers and minimum holding

Subordinated Bonds can only be transferred in multiples of 1,000 bonds, and no transfer will be registered if the transfer will result in the transferor or transferee holding fewer than 5,000 Subordinated Bonds.

Letter to investors

Dear Investor,

Kiwibank is pleased to offer you an opportunity to subscribe for Subordinated Bonds to be issued by Kiwibank. Subordinated Bonds are unsecured, subordinated obligations of Kiwibank and are not guaranteed by New Zealand Post, the Crown, or by any other person.

The proceeds of this Offer will be used to provide Kiwibank with additional capital to meet its growth aspirations. The Subordinated Bonds have been assigned a rating of BB+ by Standard and Poor's.

Kiwibank has experienced considerable success in the ten years since it was launched, and now has over 800,000 customers and continues to add hundreds of customers a week. It is now the fifth largest New Zealand bank and the only one of those five that is wholly New Zealand owned.

Kiwibank operates through the New Zealand Post store network, which is geographically widely spread through New Zealand. Kiwibank's technological innovations have been internationally recognised with the introduction of text banking, mobile (cell phone) banking and making smart phones directly compatible with Kiwibank's internet services.

Kiwibank announced a net profit of \$80 million after tax for the year ended 30 June 2012. In the year to 30 June 2012 lending grew by \$945 million to \$12.4 billion and customer deposits grew by \$980 million to \$11.6 billion.

Kiwibank welcomes your participation in this Offer to invest in the growth of this New Zealand-owned bank. As with any investment, Kiwibank recommends that you consult an independent financial adviser before you decide whether or not to invest.

Yours sincerely



Robert Morrison
Chairman
Kiwibank Limited



Paul Brock
Chief Executive
Kiwibank Limited

Corporate profile

Background

Kiwibank is a wholly-owned subsidiary of New Zealand Post, a state enterprise under the State-Owned Enterprises Act 1986. New Zealand Post is the main postal services provider in New Zealand. Kiwibank opened for business early in 2002, with the vision of making a difference to the New Zealand banking industry. Kiwibank sought to prove that there was room for a New Zealand-owned bank to profitably provide better service, better products, lower fees and better interest rates to New Zealanders.

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 1,000 staff, most operating from its head office in Wellington.

Registration

On 29 November 2001, Kiwibank was registered as a bank under the Reserve Bank of New Zealand Act 1989. Kiwibank is required to comply with the conditions of registration as laid down by the Reserve Bank.

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 & Annual Report at www.kiwibank.co.nz/about-us/legal-docs.asp.

Principal activities

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

Distribution channels

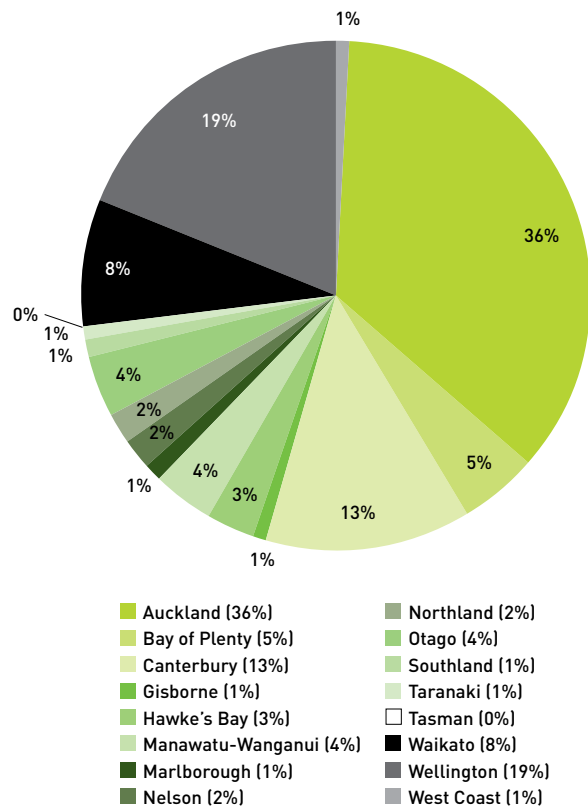
Customer access is gained via the wide coverage of main urban centres and rural New Zealand through the New Zealand Post network, a team of mobile mortgage specialists, and direct services through its Wellington headquarters. The retail network has the largest reach of any bank operating in New Zealand, servicing large cities and small communities alike.

Other distribution channels include a network of around 300 Kiwibank ATMs plus access agreements for the use of all ATMs operated by registered banks in New Zealand as well as telephone, mobile and internet banking. Kiwibank's mobile banking service is market-leading in New Zealand, enabling its customers to carry out their everyday banking needs as well as accessing the online relationship manager service. Home loans are also distributed through the New Zealand Home Loan franchise network throughout New Zealand.

Home loan market

Kiwibank's core business is the New Zealand home loan market and it's increasing its share in this area.

Mortgage lending enquiries are serviced by a team of over 30 specialist mobile mortgage managers nationwide, a direct lending team in Wellington and over 60 banking consultants in PostShops across the country. Reflecting its wide distribution network, Kiwibank's mortgage portfolio has broad geographic distribution as shown below (as at 30 June 2012).



For the majority of housing loan applications, Kiwibank has decentralised decision-making using automated application scoring systems. For the remainder of applications, decision-making is made centrally.

Business banking

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

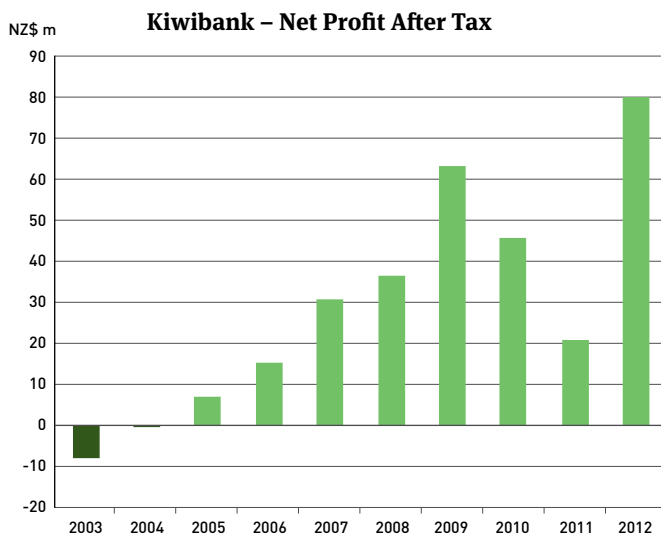
The business banking focus is on growing market share of small and medium-sized enterprises, utilising Kiwibank's relationship model to generate strong deposit and lending growth from both business and personal customer relationships.

Other activities

Kiwibank manages the payment services suite of products and services for both Kiwibank and New Zealand Post. This includes traditional banking payments including international, Visa pre-paid and debit products and New Zealand Post's agency business. The agency business provides over-the-counter payments for a number of private and public sector organisations. Kiwibank also has a team of experienced wealth advisers who are authorised financial advisers under the Financial Advisers Act 2008.

Financial performance

In the twelve months to 30 June 2012, Kiwibank announced an audited net profit of \$80 million after tax. The 2011 results were affected by the Christchurch earthquake.



Capital and funding

Kiwibank sources its funds primarily from customer deposits and as at 30 June 2012, those deposits stood at \$11.6 billion. Customer deposits account for 79% of the Bank's total liabilities.

As at 30 June 2012, Kiwibank's regulatory capital adequacy ratio (the ratio of capital to certain assets) was 11.1%, exceeding the 8% minimum required by the Reserve Bank. As at 30 June 2012, Kiwibank's capital principally comprised:

- (a) \$360 million of ordinary share capital contributed by New Zealand Post;
- (b) \$237 million of retained earnings;
- (c) \$150 million of perpetual non-cumulative preference shares;
and
- (d) \$60 million of subordinated bonds.

The Crown (being those ministers who hold shares in New Zealand Post on behalf of the Crown) has entered into a \$300 million uncalled capital facility with New Zealand Post where New Zealand Post can drawdown capital for contingent events concerning Kiwibank's conditions of registration and in relation to the Kiwibank Group maintaining Board approved levels of capital.

Answers to important questions

What sort of investment is this?

The Subordinated Bonds are interest-bearing, subordinated debt securities issued by Kiwibank. As described in the section entitled 'What returns will I get?' on page 10, they pay a fixed interest rate (with the interest rate reset after five years on the Rate Reset Date). The Principal Amount is due to be repaid at the end of their 10 year term. The Subordinated Bonds may be called earlier by Kiwibank. They are also loss absorbing in some circumstances.

Kiwibank intends to treat the Subordinated Bonds as 'tier 2' capital instruments. The Subordinated Bonds have been rated BB+ by Standard & Poor's. This is lower than Kiwibank's credit rating of A+ (stable outlook) because of the subordinated nature and loss absorption features of the Subordinated Bonds.

Subordinated and Unsecured

The Subordinated Bonds are unsecured, subordinated obligations of Kiwibank, meaning that if Kiwibank goes into liquidation the Holders of the Subordinated Bonds will not be entitled to any payment of principal or interest until all Senior Creditors of Kiwibank, including deposit holders, have been paid in full.

The subordination also means that Kiwibank is only entitled to make interest payments, and repay the Principal Amount before the Maturity Date, if Kiwibank and the Kiwibank Group are able to meet the Solvency Test immediately after the payment is made.

Holders are not entitled to take any enforcement action against Kiwibank unless Kiwibank:

- (a) defaults on the payment of any amount when due and remains in default for seven days; or
- (b) breaches an obligation under the Deed Poll (other than an obligation to make a payment).

If Holders do become entitled to take enforcement action in relation to the Subordinated Bonds, the only enforcement action they are entitled to take is to:

- (a) if Holders are entitled to take enforcement action because of a payment default, bring proceedings against Kiwibank to recover any amounts that are due for payment but unpaid and/or apply to have a liquidator appointed to Kiwibank;
- (b) if Holders are entitled to take enforcement action because of the breach of a non-payment obligation, apply for an order for specific performance by Kiwibank of that obligation.

If Kiwibank is placed in liquidation, Holders are entitled to prove in that liquidation for the Principal Amount and interest owed to them, including for amounts that were not due prior to the liquidation because Kiwibank and the Kiwibank Group were unable to meet the Solvency Test immediately after the payment was made.

Holders are not entitled to offset or net any claims Kiwibank may have against them against any amounts owing to them by Kiwibank in relation to the Subordinated Bonds.

The Subordinated Bonds will rank equally among themselves and at least equally with all other subordinated obligations of Kiwibank. This means that if there are insufficient funds to repay all of the Subordinated Bonds, each Holder will be repaid the same proportion of their debt as other Holders, and will be paid at least the same proportion of their debt as other subordinated creditors of Kiwibank.

Not guaranteed

The Subordinated Bonds are not guaranteed by any member of the Kiwibank Group, Kiwibank's parent companies (including New Zealand Post), the Crown, or by any other person. The New Zealand Post Deed Poll Guarantee dated 22 November 2001 (as amended from time to time) that applies to certain other payment obligations of Kiwibank does not apply to the Subordinated Bonds or any other subordinated bonds. This means that if Kiwibank is not able to make payments in relation to the Subordinated Bonds, no third party is required to make those payments.

Loss absorption

If a Write-down Event occurs, the Principal Amount of, and any accrued but unpaid interest on, the Subordinated Bonds may be reduced, and could potentially be reduced to zero.

What is a Write-down Event?

A Write-down Event occurs when the following conditions are met:

- (a) Kiwibank is placed in Statutory Management under the Reserve Bank Act and the Statutory Manager decides; or
- (b) the Reserve Bank has given a direction (a 'Write-down Direction') to Kiwibank,

that Kiwibank must write down the principal and/or other amounts owing in relation to some or all of its capital instruments.

The circumstances that may lead to a Write-down Direction by the Reserve Bank are listed in sections 113(1)(a) to 113(1)(e) of the Reserve Bank Act, and are that:

- (a) Kiwibank or an Associated Person is insolvent or is likely to become insolvent; or
- (b) Kiwibank or an Associated Person is about to suspend payment or is unable to meet its obligations as and when they fall due; or
- (c) the affairs of Kiwibank or an Associated Person are being conducted in a manner prejudicial to the soundness of the financial system; or
- (d) the circumstances of Kiwibank or an Associated Person 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.

There is no express constraint on a Statutory Manager's decision to trigger a Write-down Event.

How write down amounts following a Write-down Event are determined

Following a Write-down Event, Kiwibank will determine how much it will write down the principal amounts owing in relation to each of its capital instruments (including the Subordinated Bonds). Kiwibank's determination will need to comply with, and be sufficient to meet, the requirements of the Write-Down Direction or Statutory Manager decision (as applicable), all other applicable laws, regulations or directives that apply to Kiwibank and the terms of each of its capital instruments. To the extent that it is able to within these constraints, Kiwibank will write down amounts in accordance with the following principles:

- (a) 'Tier 1' capital instruments should be written down first.
- (b) The principal amounts of 'tier 2' capital instruments (including the Subordinated Bonds) should be written down second, on a pro-rata basis.

The Subordinated Bonds are expected to be recognised as 'tier 2' capital instruments. However, at the time of their issue, they will be the only capital instruments issued by Kiwibank that are able to be written down. Consequently, until other capital instruments are issued by Kiwibank, Holders will bear the full effect of any write down. New Reserve Bank requirements that are scheduled to come into force on 1 January 2013 mean that all new capital instruments issued by Kiwibank will be required to allow write downs.

An explanation of what capital instruments are (including the concepts of 'tier 1' and 'tier 2' capital instruments) is set out in the section entitled 'Capital instruments' below.

Reserve Bank rules currently being reviewed

The rules by which Write-down Events are governed have not yet been finalised by the Reserve Bank. A consultation draft of those requirements was issued by the Reserve Bank on 10 September 2012. Based on that consultation draft and discussions with the Reserve Bank, Kiwibank anticipates that it will be able to write down amounts in accordance with the principles set out above.

Effect of write downs of the Subordinated Bonds

If the Principal Amount of the Subordinated Bonds is reduced, the amount that Holders are entitled to be repaid will be reduced accordingly. Interest that has accrued against that part of the Principal Amount that has been written off will, to the extent it is unpaid, be written off at the same time as the Principal Amount is reduced. In addition, because interest is calculated against the Principal Amount, the amount of interest that accrues after the reduction in the Principal Amount will also reduce.

Any reductions in the Principal Amount or interest will be permanent regardless of any future changes in Kiwibank's financial condition or any other thing, and, accordingly:

- (a) the amounts written off will not be reinstated;
- (b) Holders will have no future claim against Kiwibank for those amounts; and
- (c) Holders will not be entitled to prove for such amounts in any liquidation of Kiwibank.

More than one Write-down Event may occur

It is possible for more than one Write-down Event to occur.

Callable

The Subordinated Bonds are callable, which means they may be redeemed by Kiwibank before the Maturity Date. Kiwibank may redeem the Subordinated Bonds on the First Call Date (15 December 2017) and any subsequent Interest Payment Date. Kiwibank may also redeem the Subordinated Bonds at any time if there is a Regulatory Event or a Tax Event.

For redemptions prior to the Maturity Date, Kiwibank must obtain the Reserve Bank's consent, which it is not obliged to provide. For all redemptions before the Maturity Date, Kiwibank and the Kiwibank Group must be able to meet the Solvency Test immediately following the payment.

The Reserve Bank has indicated that, unless Kiwibank will hold regulatory capital well above the required minimum after repayment, it will not consent to a call unless the Subordinated Bonds are replaced with another paid up capital instrument. Any such replacement capital instrument will need to have at least the same capacity as the Subordinated Bonds for holders to bear losses before Senior Creditors are affected. It will also need to be issued on terms that are sustainable for the income capacity of the Kiwibank Group. A further explanation about regulatory capital is contained in the section entitled 'Capital instruments' that follows this section.

The return that is paid if there is a redemption prior to the Maturity Date is described in the section entitled 'What returns will I get?' on page 10 .

Capital instruments

The Reserve Bank sets rules under which banks in New Zealand must hold a minimum amount of 'regulatory capital', which is expressed as a proportion of the assets of the bank. In this context, securities that form part of the regulatory capital ('capital instruments') are those that, in certain circumstances, can absorb losses that the bank suffers before those losses affect the bank's senior unsecured creditors (and, in particular, its depositors). In this sense these capital instruments provide a protective buffer to the senior unsecured creditors. Depending on the specific terms of a capital instrument, the loss absorption can occur whilst the bank is operating or only upon a liquidation of the bank.

The Reserve Bank currently requires that Kiwibank maintains a total capital ratio of at least 8%. Regulatory capital comprises 'tier 1' capital (typically ordinary shares and perpetual preference shares) and 'tier 2' capital (typically subordinated debt). The characteristics of the Subordinated Bonds, as described under the headings 'Loss absorption' and 'Subordinated and Unsecured' above, mean these Subordinated Bonds are expected to qualify as 'tier 2' capital. The amount of regulatory capital that Kiwibank is able to recognise on account of the Subordinated Bonds reduces over the last four years of the Subordinated Bonds by 20% per year. Because of these reducing benefits, it is possible that Kiwibank will call the Subordinated Bonds from the First Call Date. However Kiwibank has no obligation to make such a call and in any case would need the consent of the Reserve Bank to do so. The Reserve Bank is also under no obligation to provide such consent.

The Reserve Bank occasionally changes its rules about the characteristics that are required for instruments to qualify as capital instruments, and is currently consulting on new requirements to implement the latest recommendations by the Basel Committee on Banking Supervision (known as 'Basel III'). The Reserve Bank has indicated that those new requirements will apply from 1 January 2013.

A draft of the new requirements was released on 10 September 2012. Kiwibank expects that the Subordinated Bonds will meet the requirements for 'tier 2' capital instruments when the new requirements are finalised.

It is possible that some of the requirements in the 10 September draft will not be included in the final version. There may, as a result, be some terms of the Subordinated Bonds that are no longer required. If this is the case, and Kiwibank receives independent advice confirming that removing any such terms would be favourable to Holders, it will seek to implement those changes.

It is also possible that once the new requirements are finalised, or following a future rule change, the Subordinated Bonds will no longer fully qualify as 'tier 2' capital instruments. If that happens then Kiwibank may determine that a Regulatory Event has occurred and redeem the Subordinated Bonds before their Maturity Date.

More information on Kiwibank's regulatory capital position is available under the heading 'Capital and funding' on page 6.

Credit rating

Kiwibank currently has an issuer credit rating of A+ (stable outlook) from Standard & Poor's. This A+ rating was assigned by Standard & Poor's on 30 October 2012. According to Standard & Poor's, an obligor rated 'A' has a strong capacity to meet its financial commitments although may be susceptible to adverse changes in circumstances or in economic conditions. The addition of the plus (+) sign shows the relative standing of this credit rating within the A issuer rating category.

Reflecting their subordination and loss absorption features, Standard & Poor's has assigned a lower credit rating of BB+ to the Subordinated Bonds. Standard & Poor's regards obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. 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.

Further information about the ratings criteria used by Standard & Poor's can be found in Kiwibank's latest Disclosure Statement & Annual Report and on the Standard & Poor's website (www.standardandpoors.com/aboutcreditratings).

A copy of Standard & Poor's most recent report on Kiwibank is available at:
www.kiwibank.co.nz/about-us/investor-centre/credit-rating.asp.

The credit ratings of Kiwibank or the Subordinated Bonds are not a recommendation to buy, sell or hold securities issued by Kiwibank (including the Subordinated Bonds).

Registered Bonds

The Subordinated Bonds will be issued in registered form. This means that ownership of a Subordinated Bond will be determined solely by who is entered on the Register in relation to that Subordinated Bond. The Register will be used for the purpose of determining entitlements to interest payments on each Interest Payment Date, and for repayment of the Principal Amount of the Subordinated Bonds on the Maturity Date or a Call Date.

Both Kiwibank and the Registrar are entitled to rely on the Register as the sole and conclusive record of all Subordinated Bonds and for the identity of the Holders of those Subordinated Bonds. Neither Kiwibank nor the Registrar shall be liable to any Holder for relying on the Register or for accepting in good faith as valid any detail recorded in the Register subsequently found to be forged, irregular or not authentic.

Who is involved in providing it for me?

Issuer

Kiwibank is the issuer of the Subordinated Bonds. Kiwibank's registered office is:

Level 12, New Zealand Post House
7 Waterloo Quay
WELLINGTON

Kiwibank's website address is www.kiwibank.co.nz.

Kiwibank's directors are:

Robert William Bentley Morrison
Michael John Cullen
Alison Rosemary Gerry
Murray Ian David Gribben
Grant Andrew Paterson
Brian Joseph Roche
Catherine Maria Savage
David Stephen Willis

In addition, Mark David Yeoman is an alternate director for Brian Roche.

Kiwibank's address and directors may change after the date of this Investment Statement. After the date of this Investment Statement, Kiwibank's address and the names of the directors may be obtained from the website www.kiwibank.co.nz.

Activities of Kiwibank

Kiwibank has carried on the business of banking in New Zealand since early 2002.

A more detailed description of the principal business activities carried on by Kiwibank is set out on pages 5 to 6 under the heading 'Corporate profile'.

No Trustee

Kiwibank is exempt under the Securities Act 1978 from the obligation to appoint a trustee in respect of the Subordinated Bonds. Accordingly, no trustee is appointed to represent Holders in respect of the Subordinated Bonds.

Registrar

The Registrar of the Subordinated Bonds is:

Link Market Services Limited (LINK)
Level 16, Brookfields House, 19 Victoria Street West
PO Box 91976
Auckland 1142
www.linkmarketservices.co.nz

How much do I pay?

Minimum investment

The Issue Price of each Subordinated Bond is the Principal Amount of that Subordinated Bond (being \$1.00) and is payable on or before the Issue Date. You may apply for as many Subordinated Bonds as you wish, provided you meet the minimum application amount of \$5,000 (and multiples of \$1,000 thereafter). There is no maximum limit on the Principal Amount of Subordinated Bonds you may apply for.

Applications and payments

For instructions on how to apply for Subordinated Bonds and how to pay for them, please refer to the section 'Application Instructions' on page 21.

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

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

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

Where an applicant's payment for Subordinated Bonds is dishonoured, any Subordinated Bonds issued to that applicant will be forfeited, and Kiwibank may pursue the defaulting applicant for damages suffered by Kiwibank.

No cooling-off

There is no cooling-off period in relation to the Subordinated Bonds. Consequently, once an application has been lodged, it cannot be withdrawn, unless Kiwibank determines otherwise in its sole discretion.

What are the charges?

Applicants pay no fees or charges to Kiwibank in respect of their initial investment in the Subordinated Bonds (other than the Issue Price of the Subordinated Bonds). However, you may have to pay a brokerage fee or commission and other applicable fees to any financial intermediary you received a firm allocation from, or any person who recommends the investment to you or who arranges the application for you.

Kiwibank 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.

What returns will I get?

Overview

The information set out in this section should be read in conjunction with the information set out in the section 'What are my risks?' on page 12. Certain events could reduce or eliminate the returns intended to be derived from holding the Subordinated Bonds.

Nature of the returns

The returns you receive will be in the nature of interest payments and the repayment of the Principal Amount on the Maturity Date, or the relevant Call Date if called early. If you sell the Subordinated Bonds you will receive the market price for the Subordinated Bonds at that time.

The key factors that determine the returns to a Holder's investment are:

- the interest rate applicable to the Subordinated Bonds;
- whether the Subordinated Bonds are repaid on the Maturity Date or called earlier;
- whether the Principal Amount of the Subordinated Bonds has been reduced due to loss absorption as described under the heading 'Loss absorption' on page 7;
- whether scheduled payments of interest or principal are unable to be made because either Kiwibank or the Kiwibank Group would not meet the Solvency Test immediately after the payment was made;
- any applicable taxes; and
- fluctuations in the price of Subordinated Bonds if sold on a secondary market, as described on page 13 under the heading 'What are my risks?'.

It is not possible to quantify as at the date of this Investment Statement the exact amount of returns Holders will receive, and therefore no such amount can be promised by Kiwibank.

Interest

Interest is payable in two equal instalments each year (each on an Interest Payment Date) up to, and including, the Maturity Date (or Call Date if applicable), except that the interest payable on the first Interest Payment Date will be a lesser amount because of the short period between the Issue Date and the first Interest Payment Date. The interest paid on the first Interest Payment Date will be the interest that accrues at the interest rate for the period from the Issue Date to (but excluding) the first Interest Payment Date, which will be calculated on the basis of a 365 day year.

The interest rate for the period from the Issue Date until the First Call Date will be a rate that is set and announced on the Rate Set Date (which is the Business Day prior to the Opening Date or such earlier date as is determined by Kiwibank). If the Subordinated Bonds are not called on or before the First Call Date, the interest rate will reset on that date to be equal to the Swap Rate on the Rate Reset Date plus the Margin. The interest rate to apply will be announced on the Rate Reset Date.

The Margin will be set by Kiwibank in conjunction with the Arranger prior to the opening of the Offer.

Early bird interest

Kiwibank will pay interest on application moneys at the interest rate that will apply to the Subordinated Bonds when they are issued. Such interest will be paid on the first Interest Payment Date, and will be paid for the period from the date on which those application moneys are banked until (but excluding) the Issue Date. Consequently, on the first Interest Payment Date, each original subscriber will be paid an amount that is the same as it would have been if the Subordinated Bonds had been issued on the date their application moneys were banked.

Principal repayment

Subject to the loss absorbency provisions (described below and on page 7 under the heading ‘Loss absorption’) and the subordination provisions (described on page 7 under the heading ‘Subordinated and Unsecured’), Kiwibank will be liable to pay the Principal Amount of the Subordinated Bonds to Holders.

Holders are entitled to repayment of the Principal Amount of the Subordinated Bonds on the Maturity Date.

Kiwibank may elect to call the Subordinated Bonds on the First Call Date, each Interest Payment Date thereafter, or at any time if a Regulatory Event or a Tax Event occurs. If Kiwibank decides to call the Subordinated Bonds, it will provide Holders with at least 10 Business Days’ irrevocable written notice. If the Subordinated Bonds are called on the First Call Date or because of a Regulatory Event or Tax Event, Holders are entitled to repayment of the Principal Amount of the Subordinated Bonds. In all other cases Holders are entitled to the greater of:

- (a) the Market Value of the Subordinated Bonds (as a clean price, i.e. excluding accrued interest); and
- (b) the Principal Amount of the Subordinated Bonds.

Kiwibank may only call the Subordinated Bonds with the Reserve Bank’s consent. The Reserve Bank is not obliged to provide such consent. A short discussion of issues that the Reserve Bank has indicated it will consider when deciding whether to grant consent is set out under the heading ‘Callable’ on page 8.

Certain payments only made if solvent

All payments of interest, and all repayments of principal prior to the Maturity Date, are subject to Kiwibank and the Kiwibank Group meeting the Solvency Test immediately after the payment is made. If Kiwibank is unable to make an interest payment, or to make a repayment of principal prior to the Maturity Date, without causing Kiwibank or the Kiwibank Group to fail the Solvency Test, then such payment is not due. That means that the failure to make such payment will not be a default.

Loss absorption

The loss absorbency characteristics of the Subordinated Bonds (as described on page 7 under the heading ‘Loss absorption’) could also potentially affect the return on the Subordinated Bonds. In particular, if the Principal Amount of the Subordinated Bonds is written down then all subsequent entitlements to interest payments will be reduced accordingly.

Taxation

The return on the Subordinated Bonds will be affected by taxes. If a law requires Kiwibank to deduct an amount in respect of taxes from a payment under a Subordinated Bond, such that the Holder would not actually receive on the due date the full amount provided for under the Subordinated Bond, then Kiwibank will deduct the amount and pay it to the relevant authority. Kiwibank is not obliged to pay any additional amounts to the Holder in relation to any such deduction.

Under the Deed Poll, each Holder indemnifies Kiwibank in respect of any tax which Kiwibank or the Registrar becomes liable to pay on behalf of that Holder. Kiwibank may deduct any indemnity payment from future amounts payable.

The information below does not constitute taxation advice to any Holder. The information is believed by Kiwibank to be correct as at the date of this Investment Statement. Taxation laws are subject to change, and such changes may materially affect your tax position with respect to an investment in the Subordinated Bonds. You should seek qualified, independent financial and taxation advice before deciding to invest. In particular, you should consult your tax adviser in relation to your specific circumstances.

New Zealand taxation implications for New Zealand tax resident Holders

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 Tax Act) in New Zealand (‘Resident Holder’), resident withholding tax (‘RWT’) will be deducted 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.

As at the date of this Investment Statement, if you are an individual Resident Holder who is subject to RWT and have provided your IRD number to the Registrar, you can elect for RWT to be deducted at a rate of 10.5%, 17.5%, 30% or 33% (although it should be noted that the 10.5% rate is generally only available if you have a reasonable expectation at the time of making the election that your income for the income year will be \$14,000 or less). Where you do not supply your IRD number to the Registrar or have not elected a RWT rate, RWT will be deducted at a rate of 33% from all interest payments.

As at the date of this Investment Statement, a company Resident Holder (other than a Maori authority or trustee) that has provided its IRD number to the Registrar can elect to have RWT deducted at 28% or 33%. If an IRD number has been supplied to the Registrar but no election has been made, RWT will be deducted at the rate of 28%. If an IRD number has not been supplied to the Registrar, RWT will be deducted at a rate of 33%.

RWT will not be deducted by Kiwibank in respect of interest derived by a Holder who: (a) holds a valid RWT exemption certificate (as defined by the Tax Act); and (b) has provided a copy of that certificate to the Registrar at least five Business Days before the Record Date for the relevant payment.

Special RWT considerations apply for Holders that are trustees of a testamentary trust, corporate trustees, Maori authorities, or joint holders.

You should notify the Registrar of any changes to your elected RWT deduction rate as a result of changes to your particular circumstances.

Financial arrangements rules

RWT is not a final tax. For Resident Holders (except for Resident Holders who are not New Zealand tax residents and do not acquire the Subordinated Bonds for the purpose of the business which they carry on through a New Zealand fixed establishment), their tax liability is ultimately calculated in accordance with the ‘financial arrangements rules’ in the Tax Act.

For such Resident Holders, income or expenditure arising in relation to the Subordinated Bonds will be spread over the life of the Subordinated Bonds using an applicable method under the financial arrangements rules. The redemption or transfer of the Subordinated Bonds will require such Resident Holders to perform a base price adjustment for the purposes of the financial arrangements rules, which may give rise to taxable income. A Write-down Event may give rise to an obligation to perform an adjustment (by way of a base price adjustment or pursuant to a relevant determination issued for the purposes of the Tax Act) for the purposes of the financial arrangements rules, as a consequence of which a tax deduction may be available in limited circumstances. Where a loss arises as a result of a redemption or transfer of a Subordinated Bond (whether as a consequence of market conditions, prevailing market rates, a Write-down Event, or otherwise), a tax deduction may be available in limited circumstances.

New Zealand taxation implications for non-New Zealand tax resident Holders

If at any time a Subordinated Bond is held by a Holder who is not a New Zealand tax resident and not engaged in business through a fixed establishment (as defined in the Tax Act) in New Zealand ('Non-resident Holder'), and Kiwibank is lawfully able to apply the approved issuer levy ('AIL') (as defined in section 86F of the Stamp and Cheque Duties Act 1971) at a rate of zero percent in respect of any payment of interest (or deemed interest) to a Non-resident Holder, Kiwibank will pay or credit the full interest amount payable to that Non-resident Holder without deduction. If Kiwibank is not lawfully able to apply AIL to such a payment of interest (or deemed interest), it will deduct non-resident withholding tax ('NRWT') at the applicable NRWT rate.

In respect of a Non-resident Holder that holds the Subordinated Bond jointly with a Resident Holder, NRWT will instead be deducted at the applicable RWT rate.

Kiwibank is entitled to rely upon information given by a Holder to the Registrar as to the Holder's tax residency and activities in New Zealand when making any withholding for RWT, NRWT or payment of AIL or as otherwise required.

Although the financial arrangements rules do not apply to Non-resident Holders and Resident Holders who are not New Zealand tax residents and do not acquire the Subordinated Bonds for the purpose of the business which they carry on through a New Zealand fixed establishment, those categories of Holders may potentially be subject to New Zealand tax on any gains on the transfer of the Subordinated Bonds, and any Write-down Event may also have New Zealand tax consequences.

Payments

Interest paid on the first Interest Payment Date will be paid to the original subscriber for the Subordinated Bond. After that, payments in respect of a Subordinated Bond will be made to the person registered as the Holder of the Subordinated Bond as at the Record Date for the payment. Payments will only be made to the bank account nominated by the Holder on the Application Form or such other bank account as the Holder may advise the Registrar in writing provided such notice is given before the Record Date for the payment.

If a payment date is not a Business Day, payment will be made on the next day 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.

Non-payment

Each Subordinated Bond will cease to bear interest from its Maturity Date unless payment of the Principal Amount is improperly delayed, withheld or refused. In such event, interest will continue to accrue (after as well as before any judgment) up to but excluding the date on which payment in full of the Principal Amount is made.

Person legally liable to pay returns

The person legally liable to pay principal and interest on the Subordinated Bonds is Kiwibank. The Subordinated Bonds are not guaranteed by any member of the Kiwibank Group, Kiwibank's parent companies (including New Zealand Post), the Crown, or by any other person. This means that if Kiwibank is not able to make payments in relation to the Subordinated Bonds, no third party is required to make those payments.

What are my risks?

Any investment in the Subordinated Bonds will involve risks, including those described in this section. These factors may affect:

- the ability or obligation of Kiwibank to repay a Holder's initial investment (the Principal Amount);
- the Principal Amount if the Reserve Bank or a Statutory Manager directs Kiwibank to reduce it;
- the ability of Kiwibank to pay ongoing interest; and/or
- the liquidity and market value of the Subordinated Bonds, and therefore the returns you receive.

Prospective investors should note that the risk factors set out below may not be exhaustive, and should consider these risk factors in conjunction with other information disclosed in this Investment Statement and Kiwibank's latest Disclosure Statement & Annual Report. Additional risks not currently known to Kiwibank, or that Kiwibank considers not to be principal risks at the date of this Investment Statement, may also have a material adverse effect on a Holder's investment in the Subordinated Bonds.

Risks related to the Subordinated Bonds

The following factors may affect the returns you receive on the Subordinated Bonds:

- If a Write-down Event occurs, the Principal Amount of, and any accrued but unpaid interest on, the Subordinated Bonds may be reduced, and could potentially be reduced to zero. A Write-down Event is an event relating to the insolvency of Kiwibank (or an Associated Person), concerns of the Reserve Bank about Kiwibank's (or an Associated Person's) circumstances affecting the stability of the financial system, or concerns of the Reserve Bank about how prudently Kiwibank is being run. It is described in more detail under the heading 'Loss absorption' on page 7. If the Principal Amount of the Subordinated Bonds is reduced, the amount that Holders are entitled to be repaid will be reduced accordingly. Interest that has accrued against that part of the Principal Amount that has been written off will, to the extent it is unpaid, be written off at the same time as the

Principal Amount is reduced. In addition, because interest is calculated against the Principal Amount, the amount of interest that accrues after the reduction in the Principal Amount will also reduce. Any such reductions will not be reinstated under any circumstances, and it is possible for more than one Write-down Event to occur.

- The Subordinated Bonds are subordinated obligations of Kiwibank, meaning that if Kiwibank goes into liquidation the Holders of the Subordinated Bonds will not be entitled to any payment of principal or interest until all Senior Creditors of Kiwibank, including deposit holders, have been paid in full.
- All payments of interest, and all repayments of principal prior to the Maturity Date, are subject to Kiwibank and the Kiwibank Group meeting the Solvency Test immediately after the payment is made.
- Holders are not entitled to take any enforcement action against Kiwibank unless Kiwibank defaults on the payment of an amount when due and remains in default for a seven day period or Kiwibank breaches a non-payment obligation under the Deed Poll. If Holders become entitled to take enforcement action because of a payment default, the only enforcement action they are entitled to take is to bring proceedings against Kiwibank to recover any amounts that are due for payment but unpaid and/or apply to have a liquidator appointed to Kiwibank. If Holders become entitled to take enforcement action because of the breach of a non-payment obligation, the only enforcement action they are entitled to take is to apply for an order for specific performance by Kiwibank of that obligation.
- Kiwibank may call the Subordinated Bonds early. The timing or occurrence of any such call may not accord with the preference of Holders and may also be disadvantageous in light of market conditions or individual circumstances. If you acquire the Subordinated Bonds in the secondary market it is possible the amount you would receive on a call could be lower than the price you paid for the Subordinated Bonds.
- Kiwibank is not required to call the Subordinated Bonds on the First Call Date, so Holders should not assume that it will. Further, it is only entitled to call the Subordinated Bonds if the Reserve Bank consents (which it is not obliged to do).
- The interest rate for the second five year period resets on the Rate Reset Date to the Swap Rate on that date plus the Margin. Swap Rates are volatile and today's Swap Rate is no indication of what the Swap Rate will be in five years' time. The interest rate on the Subordinated Bonds may be lower in the second five year period than in the first.
- If you sell your Subordinated Bonds before maturity (as described in the section 'How do I cash in my investment?' on page 16, the price that you obtain for those Subordinated Bonds may be less than the amount you paid to purchase them. This is because changes in market interest rates or other market factors can affect the market value of your Subordinated Bonds.

- The price at which Holders are able to sell their Subordinated Bonds may also be affected by a deterioration, whether real or perceived, in Kiwibank's creditworthiness (including because of a downgrade of its issuer credit rating, the credit rating of the Subordinated Bonds, or of New Zealand Post or other related companies). This may arise in the circumstances described below under the heading 'Risks relating to Kiwibank's business'.
- As of the date of this investment statement, Kiwibank does not intend to list or quote the Subordinated Bonds on a registered market or stock exchange. There may therefore be no liquid market for the Subordinated Bonds, or the market for Subordinated Bonds may be less liquid than the market for comparable securities issued by Kiwibank or other entities. Holders who wish to sell their Subordinated Bonds may be unable to do so at an acceptable price, or at all, if insufficient liquidity exists in the market for the Subordinated Bonds.

Risks relating to Kiwibank's business

Kiwibank's business activities as a financial intermediary and financial markets participant mean that it is exposed to certain risks, including credit, market, operational and business risks. Kiwibank has management policies and strategies to manage and mitigate risk and Kiwibank considers that these policies and strategies are appropriate for its circumstances. However, failure to properly manage these risks (whether through inadequate policies, or failure to properly implement and execute those policies) may adversely affect Kiwibank's financial performance and condition.

Credit risk

Credit risk principally relates to the risk of loss arising from non-payment of principal or interest on money lent by Kiwibank to its customers, typically as home loans, personal lending or business lending solutions.

Although Kiwibank has clearly defined credit policies and frameworks for the approval and management of credit risk, adverse changes in the credit quality of Kiwibank's borrowers and counterparties or a general deterioration in the economic conditions in New Zealand or globally, could affect the recoverability and value of its assets and require an increase in the allowance for impairment losses on credit exposures and other provisions of Kiwibank.

In assessing whether to extend credit or enter into other transactions with customers and counterparties, Kiwibank relies on information furnished by or on behalf of customers and counterparties, including financial statements and other financial information. Kiwibank also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. Kiwibank's financial condition or results of operations could be negatively affected to the extent information or financial statements relied on are inaccurate or materially misleading.

Due to the potential for loss arising from the failure of customers or counterparties to meet their contractual obligations, Kiwibank holds provisions to cover credit impairment. The amount of these provisions is determined by assessing, based on current information, the extent of impairment inherent within the current lending portfolio. However, if the information upon which the assessment is made proves to be inaccurate, the provisions made for credit impairment may be insufficient, which could have a material adverse effect on Kiwibank's financial performance.

Market risk

Market risk relates to the risk of loss arising from changes in interest rates, foreign exchange rates, equity prices and indices prices of commodities, debt securities and other financial contracts, including derivatives. Losses arising from these risks may have a material adverse effect on Kiwibank.

The most significant market risks Kiwibank faces are interest rate, foreign exchange and bond price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realised between lending and borrowing. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the investment and trading portfolios of Kiwibank.

Kiwibank has implemented risk management policies and procedures to mitigate and control these and other market risks to which it is exposed. However, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the financial performance and business operations of Kiwibank.

Operational risk

Kiwibank's business is dependent on its ability to process a very large number of transactions efficiently and accurately. Operational risk and losses can result from theft, fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and business rules, equipment failures, natural disasters or the failure of external systems, for example, those of suppliers or counterparties. Although Kiwibank has in place risk controls and risk mitigation procedures, it is not possible to implement systems and procedures which eliminate all operational risks.

Funding and liquidity risk

The inability of Kiwibank to anticipate and provide for unforeseen decreases or changes in funding and capital sources could affect its ability to meet its payment obligations when they fall due and to raise sufficient capital.

The Reserve Bank is able to influence the supply of money and credit in New Zealand. Reserve Bank policies determine in large part the cost of funds to Kiwibank for lending and investing and the return earned on those loans and investments. Both of these affect the net interest margin, and can materially affect the value of financial instruments held, such as debt securities and hedging instruments. The policies of the Reserve Bank can also affect Kiwibank's borrowers, potentially increasing the risk that they may fail to repay their loans.

The global financial crisis highlighted the necessity for banks, including Kiwibank, to maintain both a variety of funding sources and a stock of high quality liquid assets. Kiwibank participates in the institutional wholesale money and debt capital markets both in New Zealand and overseas in order to supplement its main source of funding, the New Zealand retail deposit market. Like many central banking entities around the world, the Reserve Bank has introduced rules in relation to liquidity management to which Kiwibank is subject. However, another prolonged dislocation of the international funding markets may well have an impact upon the funding mix and associated costs to registered banks in New Zealand, including Kiwibank.

Counterparty risk

Kiwibank has developed relationships with many counterparties since commencing operations in order to diversify its financial risks across a range of providers spread domestically, and in some cases, offshore. Exposures to individual, sector and geographies is strictly monitored and controlled. However, the nature of Kiwibank's operations leads to significant exposure to the performance and subsistence of the New Zealand banking sector.

Competition in the banking industry

Kiwibank faces competition from both existing financial service providers and new entrants. Customers are able to choose from a number of providers in all of the areas of financial services provided by Kiwibank, including the residential lending market. Risks that may affect Kiwibank's ability to obtain new customers and retain existing customers, thereby affecting the profitability of Kiwibank, include, but are not limited to, the relative position of Kiwibank against its competitors in the:

- pricing and performance of products and services;
- convenience and ease of access to products and services;
- level and efficiency of service provided; and
- ability to develop new products and services to meet the changing needs of customers.

The effect of the competitive market conditions in which Kiwibank operates may have a material adverse effect on financial performance and position. For example, increasing competition for customers can lead to a compression in the net interest margin, or increased advertising and related expenses to attract and retain customers.

Impact of regulatory changes

Kiwibank is subject to financial service laws, regulations, administrative actions and policies in the locations in which it operates. Changes in supervisions and regulation could materially affect Kiwibank's business, the products and services offered or the value of its assets. Although Kiwibank works closely with the Reserve Bank and other regulators and continually monitors the situation, future changes in regulations, fiscal or other policies can be unpredictable and are beyond the control of Kiwibank.

The rules relating to the regulatory capital Kiwibank must hold are changed periodically. Such changes may mean that Kiwibank is required to hold more regulatory capital, or replace some of its existing regulatory capital with regulatory capital instruments with different characteristics. Growth in Kiwibank's business is also likely to lead to Kiwibank needing to hold more regulatory capital. An explanation of what regulatory capital is can be found under the heading 'Capital instruments' on page 8.

Kiwibank is also exposed to the risk of future changes to the tax environment which could affect the operation of Kiwibank.

Domestic economy

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

New Zealand real estate market

One of Kiwibank's principal business activities is mortgage lending. Consequently, it has a contingent exposure (i.e., in the event of borrower default Kiwibank may have to realise the underlying real property taken as collateral for the loan) to the New Zealand real estate market.

House prices remain a key determinant of overall asset quality. The New Zealand real estate market is complex and is influenced by many economic, demographic, social and legal factors. The emergence of (i) the weather-tight house (leaky building) problem on the quality New Zealand housing stocks, and (ii) proposed tax law changes that may impact on residential property investors, add to the complexity of analysing the risks inherent in this market.

A decrease in property valuations in New Zealand could decrease the amount of new lending Kiwibank is able to write or increase the losses that Kiwibank may experience from existing loans, which, in either case, could materially impact its financial condition and results.

Information technology

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 includes 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, 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 regularly requirements, failure of information security controls or a decrease in Kiwibank's ability to enhance services to customers. Kiwibank is currently looking to replace its core information technology systems, so a major implementation project is likely to be carried out during the term of the Subordinated Bonds.

Consequences of insolvency

If Kiwibank or the Kiwibank Group becomes insolvent for any reason, or is placed in voluntary administration, receivership, liquidation or Statutory Management, or is otherwise not able to meet its debts as they fall due, Holders may be unable to recover from Kiwibank all or any of the Principal Amount of the Subordinated Bonds, or may not receive timely, or any, interest payments on the Subordinated Bonds. Holders may not, therefore, receive the returns described in the section "What returns will I get?" on page 10.

If Kiwibank becomes insolvent a Write-down Event may occur, which would mean the Principal Amount of, and any accrued but unpaid interest on, the Subordinated Bonds could be reduced, and could potentially be reduced to zero. If the Principal Amount of the Subordinated Bonds is reduced, the amount that Holders are entitled to be repaid will be reduced accordingly. Interest that has accrued against that part of the Principal Amount that has been written off will, to the extent it is unpaid, be written off at the same time as the Principal Amount is reduced. In addition, because interest is calculated against the Principal Amount, the amount of interest that accrues after the reduction in the Principal Amount will also reduce. Such a reduction in a Holder's entitlements would also reduce the amount the Holder could claim for in a liquidation of Kiwibank. Write-down Events are described in more detail under the heading 'Loss absorption' on page 7.

All payments of interest, and all repayments of principal prior to the Maturity Date, are subject to Kiwibank and the Kiwibank Group meeting the Solvency Test immediately after the payment is made.

The Subordinated Bonds are unsecured, subordinated debt obligations. This means that if Kiwibank goes into liquidation or is dissolved (other than for the purposes of a solvent reconstruction or amalgamation), Holders of the Subordinated Bonds will not be entitled to any payment of the Principal Amount of, or accrued interest on, their Subordinated Bonds until all prior ranking creditors of Kiwibank have been paid in full. This means that repayment of your Principal Amount and payment of your interest will rank after the claims of:

- persons to whom preferential payments must be made, including creditors of Kiwibank preferred by law such as employees and the Inland Revenue Department; and
- Senior Creditors (including deposit holders).

Claims of the Holders will thereafter rank at least equally with the claims of all other unsecured, subordinated creditors of Kiwibank and ahead of Kiwibank's shareholders.

Holders will not, in any circumstances, be liable to pay money to any person as a result of the insolvency of Kiwibank.

Can the investment be altered?

Once Kiwibank has accepted your application, the amount that you must pay for the Subordinated Bonds or the other terms and conditions of the Subordinated Bonds can only be altered by means of an alteration to the Deed Poll.

The Deed Poll may be altered:

- (a) without the consent of any Holder where such amendment is of a minor or technical nature or will not be of any prejudice to the Holders or is expressed to be inapplicable to any Subordinated Bonds then outstanding or is made to comply with applicable law; or
- (b) if the amendment is approved by Holders of all instruments issued under the Deed Poll (or a class of Holders, if applicable) by an Extraordinary Resolution at a meeting of Holders (whether convened by Kiwibank or Holders),

and provided any necessary regulatory consents to the amendment are obtained.

An Extraordinary Resolution is a resolution passed at a meeting of Holders of all instruments issued under the Deed Poll (or a relevant class of Holders) duly convened and held in accordance with the rules and procedures for meetings of Holders. Those rules are set out in schedule 2 to the Deed Poll. For an Extraordinary Resolution to pass, not less than 75 per cent of the persons voting at the meeting must vote in favour of the resolution or if a poll is duly demanded, then not less than 75 per cent of the votes cast on such a poll, must be in favour of the resolution. An Extraordinary Resolution is binding on all Holders (or, if for a class of Holders, on all Holders of the relevant class), whether or not they were present at such meeting.

Where an amendment requiring approval of the Holders of instruments issued under the Deed Poll relates to or arises from any general change in the constitution, affairs or business of Kiwibank, such approval shall not be required to be dealt with by way of separate meetings of each such class of Holders.

A 'class' of instruments means a category of debt instruments issued under the Deed Poll which in the reasonable opinion of Kiwibank at any particular time, for any particular purpose, constitutes a separate class of instruments. Under the Deed Poll, Kiwibank may rely on, and the Holders shall be bound by, a legal opinion from a leading law firm in New Zealand to the effect that a resolution affects one class only or, if it affects more than one class of instruments, does not give rise to a conflict of interest, for the purposes of determining the meeting or meetings which need to be held.

How do I cash in my investment?

Redemption of Subordinated Bonds

Holders have no ability to require Kiwibank to redeem the Subordinated Bonds before their Maturity Date. Holders will, on the Maturity Date (and subject to the subordination provisions) be repaid the Principal Amount of, and accrued interest on, the Subordinated Bonds on the Maturity Date, unless the Subordinated Bonds are called early.

If Kiwibank decides to call the Subordinated Bonds early it will provide Holders with at least 10 Business Days' irrevocable written notice and subject to the subordination provisions that apply to the Subordinated Bonds (summarised in the section 'What sort of investment is this?' on page 7). If the Subordinated Bonds are called on the First Call Date or because of a Regulatory Event or Tax Event, Holders will be entitled to repayment of the Principal Amount of the Subordinated Bonds. In all other cases Holders are entitled to the greater of:

- (a) the Market Value of the Subordinated Bonds (as a clean price, i.e. excluding accrued interest); and
- (b) the Principal Amount of the Subordinated Bonds.

In all cases, Holders will also be entitled to be paid any interest that has accrued up to but remains unpaid on the relevant Call Date.

Sale or Transfer of Subordinated Bonds

Holders are entitled to sell or transfer their Subordinated Bonds at any time subject to the terms of the Deed Poll and applicable securities laws and regulations. Whilst Kiwibank has no intention at the date of this Investment Statement to have the Subordinated Bonds listed and quoted on the NZDX, in the opinion of Kiwibank, there will be an established secondary market for the sale of Subordinated Bonds. However, Kiwibank gives no assurances as to the characteristics of that market.

Brokerage at applicable rates is likely to be payable by a Holder on any transfer of Subordinated Bonds effected through a financial intermediary.

Kiwibank and the Registrar will be 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 Kiwibank or the Registrar had actual notice of such forgery or defect at the time of registration of such instrument of transfer.

Applicants should not attempt to sell Subordinated Bonds until they know whether, and how many, Subordinated Bonds have been allotted to them. Neither Kiwibank, the Joint Lead Managers, the Co-managers nor any of their respective directors or employees or any other person accepts any liability or responsibility should any applicant for Subordinated Bonds attempt to sell or otherwise deal with any Subordinated Bonds before receiving a statement recording the number of Subordinated Bonds (if any) allotted to them.

Minimum Holding and Transfers

A Holder may transfer part of its interest in a Subordinated Bond in multiples of 1,000 bonds. However, no transfer of Subordinated Bonds or any part of a Holder's interest in a Subordinated Bond will be registered if the transfer would result in the transferor or the transferee holding or continuing to hold less than the Minimum Holding (5,000) of Subordinated Bonds.

Kiwibank is entitled to give notice to any Holder holding less than the Minimum Holding of Subordinated Bonds that it is going to exercise a power of sale in relation to those Subordinated Bonds. Following delivery of such a notice, Kiwibank may arrange the sale of those Subordinated Bonds on behalf of the Holder in accordance with the Deed Poll. Kiwibank shall account to the Holder for the net proceeds of the sale of those Subordinated Bonds.

Who do I contact with inquiries about my investment?

Any inquiries about the Subordinated Bonds can be directed to:

The Registrar
Link Market Services Limited (LINK)
Level 16, Brookfields House
19 Victoria Street West
PO Box 91976
Auckland 1142
DX Box: CP23524
Telephone: (09) 375 5998
Fax: (09) 375 5990
www.linkmarketservices.co.nz
Email: enquiries@linkmarketservices.co.nz

or

The Issuer
Communications Manager
Kiwibank Limited
Level 7 New Zealand Post House
7 Waterloo Quay
Wellington
or
Private Bag 39888
Wellington Mail Centre
Lower Hutt 5045
Telephone: (04) 473 1133
Fax: (04) 462 7941

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

Any complaints about the Subordinated Bonds can be directed to:

The Registrar
Link Market Services Limited (LINK)
Level 16, Brookfields House, 19 Victoria Street West
PO Box 91976 Auckland 1142
DX Box: CP23524
Telephone: (09) 375 5998
Fax: (09) 375 5990
www.linkmarketservices.co.nz
Email: enquiries@linkmarketservices.co.nz

or

The Issuer
Communications Manager
Kiwibank Limited
Level 7 New Zealand Post House
7 Waterloo Quay
Wellington
or
Private Bag 39888
Wellington Mail Centre
Lower Hutt 5045
Telephone: (04) 473 1133
Fax: (04) 462 7941

If you are not satisfied with the response you receive, you may direct your complaint to the Banking Ombudsman at the following address:

PO Box 10573
The Terrace
Wellington
Telephone: 0800 80 59 50

What other information can I obtain about this investment?

Disclosure statements, Annual Report and Deed Poll

Additional information about Kiwibank is contained or referred to in Kiwibank's latest Disclosure Statement & Annual Report. Additional information about the Subordinated Bonds is contained in the Deed Poll.

You may obtain the Deed Poll, Kiwibank's latest Disclosure Statement & Annual Report and further copies of this Investment Statement free of charge, on request, during normal business hours at Kiwibank's office at:

Kiwibank Limited
Level 1, New Zealand Post House
7 Waterloo Quay
Wellington

or

Private Bag 39888
Wellington Mail Centre
Lower Hutt 5045
Telephone: (04) 473 1133

or from

Link Market Services Limited (LINK)
Level 16, Brookfields House, 19 Victoria Street West
PO Box 91976
Auckland 1142
DX Box: CP23524
Telephone: (09) 375 5998
Fax: (09) 375 5990
www.linkmarketservices.co.nz
Email: enquiries@linkmarketservices.co.nz

These documents can also be obtained free of charge from Kiwibank's website – www.kiwibank.co.nz, and Kiwibank's latest Disclosure Statement & Annual Report can be obtained free of charge from any branch of Kiwibank.

Kiwibank's latest Disclosure Statement & Annual Report is also filed on a public register at the Companies Office of the Ministry of Business, Innovation and Employment and is available for public inspection during normal business hours or may be inspected on the Ministry of Business, Innovation and Employment's website – www.business.govt.nz/companies.

Glossary

\$ means the lawful currency of New Zealand.

AIL means approved issuer levy (as defined in section 86F of the Stamp and Cheque Duties Act 1971).

Application Form means the application form attached to this Investment Statement.

Arranger means Craigs Investment Partners Limited.

Associated Person means a person defined as an associated person in section 2 of the Reserve Bank Act, which can be summarised in the context of the Subordinated Bonds as follows:

- (a) a person that directly or indirectly controls the management of Kiwibank;
- (b) a person that has a direct or indirect qualifying interest in 20% or more of the voting or non-voting securities issued by Kiwibank;
- (c) a person that Kiwibank directly or indirectly controls the management of; or
- (d) a person in relation to which Kiwibank has a direct or indirect qualifying interest in 20% or more of the voting or non-voting securities issued by that person.

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

Call Date means the date on which Kiwibank calls the Subordinated Bonds, as further described on page 8, and includes the First Call Date and each Interest Payment Date after the First Call Date.

Closing Date means 5 December 2012, unless changed by Kiwibank in its discretion.

Co-Managers mean ANZ Bank New Zealand Limited and Forsyth Barr Limited.

Deed Poll means the deed poll dated 1 November 2012 made by Kiwibank constituting, among other things, the Subordinated Bonds.

First Call Date means 15 December 2017.

Holder has the meaning given to that term in the Deed Poll.

Interest Payment Date means 15 June and 15 December in each year during the term of the Subordinated Bonds commencing on 15 December 2012.

Investment Statement means this investment statement dated 5 November 2012.

Issue Date means 10 December 2012.

Issue Price means \$1.00.

Joint Lead Managers means Craigs Investment Partners Limited and Kiwibank.

Kiwibank Group means Kiwibank and its subsidiaries (as that term is defined in the Companies Act 1993), as specified in its latest published statement of financial position.

Margin means the margin determined by Kiwibank in consultation with the Arranger on or before the Rate Set Date.

Market Value means the market value, as determined by an independent valuer under the Deed Poll.

Maturity Date means 15 December 2022.

Minimum Holding means 5,000 Subordinated Bonds.

New Zealand Post means New Zealand Post Limited.

Non-resident Holder is defined on page 12.

NRWT means non-resident withholding tax and has the meaning given to it in the Tax Act.

NZDX means the debt securities market operated by the New Zealand Exchange Limited or any person or authority who may in the future assume and perform the functions of the New Zealand Exchange Limited.

Offer means the offer of Subordinated Bonds under this Investment Statement.

Opening Date means 14 November 2012, unless changed by Kiwibank in its discretion.

Principal Amount means \$1.00 per Subordinated Bond.

Rate Reset Date means 15 December 2017.

Rate Set Date means 13 November 2012, unless changed by Kiwibank in its discretion.

Record Date means in relation to a payment, the tenth day before the due date for that payment or, if that day is not a Business Day, the immediately preceding Business Day.

Reference Banks has the meaning given to that term in the Deed Poll.

Register means the register of Subordinated Bonds maintained by the Registrar pursuant to the registry customer agreement between Kiwibank and the Registrar dated 19 February 2007.

Registrar means Link Market Services Limited.

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

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

that adversely affects, or will at a time before the Maturity Date adversely affect, Kiwibank in relation to its regulatory capital treatment of the Subordinated Bonds.

Reserve Bank means the Reserve Bank of New Zealand established under the Reserve Bank Act.

Reserve Bank Act means the Reserve Bank of New Zealand Act 1989.

Resident Holder is defined on page 11.

RWT means resident withholding tax and has the meaning given to it in the Tax Act.

Senior Creditors means all creditors of Kiwibank in respect of obligations other than Subordinated Debt.

Solvency Test has the same meaning as in section 4 of the Companies Act 1993 except that, when applied to the Kiwibank Group, it shall be applied as if the whole Kiwibank Group was a single company, and due account will be taken of the ability and willingness of the members of the Kiwibank Group to meet the debts of other members of the Kiwibank Group.

Standard & Poor's means Standard & Poor's (Australia) Pty Limited.

Statutory Management means, in relation to Kiwibank, that it has been declared, on the recommendation of the Reserve Bank under the Reserve Bank Act, to be in "statutory management", which will mean, among other things, that a Statutory Manager assumes control of Kiwibank.

Statutory Manager means a person appointed as "statutory manager" on the recommendation of the Reserve Bank under the Reserve Bank Act to take over control of Kiwibank in Statutory Management.

Subordinated Bonds means the unsecured, subordinated bonds constituted by the Deed Poll, and offered for sale pursuant to this Investment Statement.

Subordinated Debt has the meaning given to that term in the Deed Poll and includes the Subordinated Bonds.

Swap Rate, for a given date, means a rate, expressed on a percentage basis, being:

- (a) the average of the bid and offered swap rates (rounded if necessary to the nearest three decimal places with five being rounded up) displayed on Reuters Page FISSWAP or its successor page at or about 11.00am on that date for an interest rate swap commencing on the First Call Date and finishing on the Maturity Date; or
- (b) if that rate is not available, the average (rounded if necessary to the nearest three decimal places with five being rounded up) of the mean bid and offered interest swap rates for an interest rate swap with the same term commencing on the relevant date quoted by four Reference Banks.

Tax Act means the Income Tax Act 2007.

Tax Event means, in relation to the Subordinated Bonds, 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, or proposed change, in New Zealand law, regulation or directive or changed interpretation or administration,

that affects taxation and that would result in more than a minimal increase in Kiwibank's costs in respect of the Subordinated Bonds.

Write-down Event means:

- (a) Kiwibank has been declared to be subject to Statutory Management under section 117 of the RBNZ Act; or
- (b) the Reserve Bank has given a direction (a 'Write-down Direction') to Kiwibank on the basis that it has reasonable grounds to believe that one or more of the circumstances listed in sections 113(1)(a) to 113(1)(e) of the Reserve Bank Act exist in relation to Kiwibank or, where contemplated by the relevant section, an Associated Person of the Bank,

and a Statutory Manager decides or the Write-down Direction directs (as applicable) that Kiwibank write down the principal amount of a class of its capital instruments that includes the Subordinated Bonds, by a required aggregate amount.

Directory

Issuer and Joint Lead Manager

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

or

Private Bag 39888
Wellington Mail Centre
Lower Hutt 5045
Telephone: (04) 473 1133

Arranger, Bookrunner and Joint Lead Manager

Craigs Investment Partners Limited
Craigs Investment Partner House
158 Cameron Road
PO Box 13 155
Tauranga 3141
Freephone: 0800 226 263
www.craigsip.com

Co-Managers

ANZ Bank New Zealand Limited
Level 7, 1 Victoria Street
PO Box 540
Wellington 6140
Freephone: 0800 269 476
www.anz.co.nz/ipo

Forsyth Barr Limited
Level 9, Forsyth Barr House
The Octagon
Dunedin 9016
Freephone: 0800 367 227
www.forbar.co.nz

Legal Advisers to the Issuer

Buddle Findlay
State Insurance Tower
1 Willis Street
PO Box 2694
Wellington 6011
Telephone: (04) 499 4242

Registrar

Link Market Services Limited (LINK)
Level 16, Brookfields House, 19 Victoria Street West
PO Box 91976
Auckland 1142
DX Box: CP23524
Telephone: (09) 375 5998 Fax: (09) 375 5990
Email: enquiries@linkmarketservices.co.nz
www.linkmarketservices.co.nz

Application instructions

Applications to subscribe for Subordinated Bonds must be made on the Application Form contained in this Investment Statement.

Investor details

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

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

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

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

Application details

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

Signing and dating

Read the Application Form carefully and sign and date the form.

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

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

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

Joint applicants must each sign the Application Form.

Payment

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

Investors must pay for the Subordinated Bonds applied for by direct debit (option 1), by a cheque delivered with the Application Form prior to the Closing Time (see below) (option 2), through the NZClear System (option 3) or by another payment method approved by the Joint Lead Managers.

Option 1 (Direct Debit)

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

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

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

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

Option 2 (Cheque)

Cheques must be drawn on a New Zealand registered bank and must be made in NZ Dollars. Cheques must be made payable to “Kiwibank Subordinated Bond Offer”, crossed “Not Transferable” and **must not be post-dated as cheques will be banked on the day of receipt.** If an applicant’s cheque is dishonoured, Kiwibank may cancel that applicant’s allotment of Bonds and pursue any other remedies available to it at law.

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

Option 3 (NZClear)

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

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

Closing time

This Offer will close at 5.00pm on 5 December 2012 (the 'Closing Time'). Applicants should remember that the Closing Time may be changed at the sole discretion of Kiwibank. Changes will be advised by announcement.

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

Delivery

Applications received cannot be revoked or withdrawn.

If you received a firm allocation from a financial intermediary, completed Application Forms should be sent with payment to that financial intermediary in time to enable it to be forwarded to and received by the Registrar before the Closing Time.

In all other cases, completed Application Forms, together with payment for the Subordinated Bonds applied for, should be sent to the Registrar at the following address:

Link Market Services Limited (LINK)
Level 16, Brookfields House, 19 Victoria Street West
PO Box 91976
Auckland 1142
DX Box: CP23524

Alternatively, completed Application Forms together with payment may be lodged with any of the Joint Lead Managers or the Co-Managers in time to enable such applications to be forwarded to, and received by, the Registrar before the Closing Time.

Personal information rights

Personal information provided by you will be held by Kiwibank and the Registrar at their respective addresses shown on page 20 or at such other place as is notified upon request. This information will be used for the purpose of managing your investment. You have a right to access and correct any personal information about you under the Privacy Act 1993. You can also access your information on the Link Market Services website: www.linkmarketservices.co.nz. You will be required to enter your holder number and FIN.

BROKER STAMP	Broker code
	Advisor code

Application form

This Application Form is issued with the Investment Statement prepared as at 5 November 2012, issued by Kiwibank Limited (Kiwibank). Please complete this Application Form and return it to, or lodge it with, an appropriate person as specified in the section 'Application Instructions' on page 21 of the Investment Statement. Before completing this Application Form, applicants should read the Investment Statement to which this application relates.

1. Application details & information Please print in block letters

<input type="text"/> First name(s) <input type="text"/> Last name <input type="text"/> First name(s) <input type="text"/> Last name <input type="text"/> First name(s) <input type="text"/> Last name	Company or Designated Account name <input type="text"/> Postal address <input type="text"/> <input type="text"/> <input type="text"/> Postal code Telephone number <input type="text"/> Mobile [] <input type="text"/> Business hours []
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2. Application amount and payment

Your Application Form must be received by Link Market Services Limited (Link) by 5.00pm on the Closing Date (5 December 2012). Applications must be for a minimum of \$5,000 and, thereafter, in multiples of \$1,000.

Amount of Subordinated Bonds applied for:

\$

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

- OPTION 1 – Direct debit** Please direct debit my bank account stated below for the amount of Subordinated Bonds applied for above (or any lesser amount as determined by the Issuer). By ticking this box and signing this Application Form, I agree that Link is authorised to direct debit my account for the full amount of Subordinated Bonds applied for (or any lesser amount as determined by the Issuer). All future interest paid by the Issuer will also be credited to this account unless Link is advised otherwise in writing.

NEW ZEALAND DOLLAR BANK ACCOUNT DETAILS FOR DIRECT DEBIT

Name of Bank
 Account Name

Bank	Branch	Account number	Suffix
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

- OPTION 2 – Cheque** Please find attached my payment by cheque. I have supplied my bank account details below for the purpose of direct crediting any future interest paid by the Issuer.

- OPTION 3 – NZClear System** Payment will be made by NZClear as arranged with Link (Authorised Investors Only).

NZ Clear mnemonic

New Zealand Dollar Bank Account Details for Future Payments:

Name of Bank
 Account Name

Bank	Branch	Account number	Suffix
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

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

Name of NZX Participant where Cash Management Account held:

Cash Management Account Client Account Number:

3. Common Shareholder Number (CSN)

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

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

4. IRD number and resident withholding tax rate

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

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

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

- 10.5% 17.5% 30% 33%

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

Country of residence for tax purposes: If not a New Zealand tax resident, are you engaged in business in New Zealand through a fixed establishment in New Zealand? Yes / No (delete one)

5. Electronic Correspondence & Reporting

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

Email

6. Agreement of terms

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

All applicants on the Application Form must sign.

My signature

Date

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

My signature

Date

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

My signature

Date

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

7. Certificate of non-revocation of agency

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

I, Full name

of Place & country of residence

Occupation

hereby certify that:

1. By the agency agreement dated D | D | M | M | Y | Y | Y | Y

(date of instrument creating the power of agency),

Full name

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

of Place & country of residence

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

Appointed me

His/her/its name

agent;

2. That I have executed the application for Subordinated Bonds printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

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

Signature of agent

Date

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

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

8. Certificate of non-revocation of power of attorney

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

I, Full name

of Place & country of residence

Occupation

hereby certify that:

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

(date of instrument creating the power of attorney),

Full name

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

of Place & country of residence

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

Appointed me

His/her/its name

attorney;

2. That I have executed the application for Subordinated Bonds printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

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

Signature of attorney

Date

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

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

9. Terms and conditions of application

- By signing (or authorising an attorney or agent to sign) this Application Form:
 - the applicant acknowledges that this form was distributed with the Investment Statement; and
 - the applicant acknowledges that he/she/it has read and understood the statements made in the Investment Statement relating to the Privacy Act 1993 in the section of the Investment Statement entitled 'Application Instructions'.
- Applicants must pay for the Subordinated Bonds applied for by a personal cheque or direct debit. Please read the direct debit section in the application instructions carefully. If the application is for Subordinated Bonds of an aggregate Principal Amount of \$500,000 or more, payment must be by bank cheque or any other method approved by the Joint Lead Managers. Payment via the NZ Clear system may only be made by approved applicants and must be by prior arrangement with the Registry. Personal Cheques must be in New Zealand dollars and drawn on a New Zealand branch of a financial institution and submitted with the completed Application Form. Cheques must be made payable to 'Kiwibank Subordinated Bond Offer', crossed 'Not Transferable' and must not be post-dated. If an Applicant's cheque or direct debit is dishonoured, the Issuer will cancel that applicant's allotment of Subordinated Bonds and may pursue any other remedies available to it at law.
- An application received by the Registrar cannot be withdrawn or revoked by the applicant.
- The Issuer reserves the right to decline any application, in whole or in part, without giving any reason. The Issuer may decide not to accept any applications whatsoever.
- Money received in respect of applications that are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be mailed to unsuccessful applicants within seven days of the Issue Date. Interest will not be paid on application money refunded to applicants.
- Allotment statements for the Subordinated Bonds will be dispatched to successful applicants as soon as practicable after allotment, but in any event within seven days of the Issue Date.
- Applications must conform with the application instructions in the section of the Investment Statement entitled 'Application Instructions' on page 21.
- A joint application must be signed by all applicants. Only the address of the first named of the joint applicants will be recorded on the Register and all interest payments, notices, and other correspondence will be sent to that address.
- Applications lodged by individuals must be signed personally or by their attorney or agent. If this Application Form is signed by an attorney, the attorney must complete the certificate of non-revocation of power of attorney set out above. If this Application Form is signed by an agent, the agent must complete the certificate of non-revocation of agency set out above.
- Terms defined in the Investment Statement have the same meaning in this Application Form.
- This Application Form, the Offer and any contract arising out of its acceptance are governed by New Zealand law. Under the Financial Transactions Reporting Act 1996, investors may be required to produce evidence of their identity.

BROKER STAMP	Broker code
	Advisor code

Application form

This Application Form is issued with the Investment Statement prepared as at 5 November 2012, issued by Kiwibank Limited (Kiwibank). Please complete this Application Form and return it to, or lodge it with, an appropriate person as specified in the section 'Application Instructions' on page 21 of the Investment Statement. Before completing this Application Form, applicants should read the Investment Statement to which this application relates.

1. Application details & information Please print in block letters

<input type="text"/> First name(s) <input type="text"/> Last name <input type="text"/> First name(s) <input type="text"/> Last name <input type="text"/> First name(s) <input type="text"/> Last name	Company or Designated Account name <input type="text"/> Postal address <input type="text"/> <input type="text"/> Postal code <input type="text"/> Telephone number Mobile [<input type="text"/>] Business hours [<input type="text"/>]
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2. Application amount and payment

Your Application Form must be received by Link Market Services Limited (Link) by 5.00pm on the Closing Date (5 December 2012). Applications must be for a minimum of \$5,000 and, thereafter, in multiples of \$1,000.

Amount of Subordinated Bonds applied for:
 \$

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

OPTION 1 – Direct debit Please direct debit my bank account stated below for the amount of Subordinated Bonds applied for above (or any lesser amount as determined by the Issuer). By ticking this box and signing this Application Form, I agree that Link is authorised to direct debit my account for the full amount of Subordinated Bonds applied for (or any lesser amount as determined by the Issuer). All future interest paid by the Issuer will also be credited to this account unless Link is advised otherwise in writing.

NEW ZEALAND DOLLAR BANK ACCOUNT DETAILS FOR DIRECT DEBIT

Name of Bank
 Account Name

Bank	Branch	Account number	Suffix
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

OPTION 2 – Cheque Please find attached my payment by cheque. I have supplied my bank account details below for the purpose of direct crediting any future interest paid by the Issuer.

OPTION 3 – NZClear System Payment will be made by NZClear as arranged with Link (Authorised Investors Only).
 NZ Clear mnemonic

New Zealand Dollar Bank Account Details for Future Payments:

Name of Bank
 Account Name

Bank	Branch	Account number	Suffix
<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

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

Name of NZX Participant where Cash Management Account held:

Cash Management Account Client Account Number:

3. Common Shareholder Number (CSN)

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

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

4. IRD number and resident withholding tax rate

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

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

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

10.5% 17.5% 30% 33%

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

Country of residence for tax purposes: If not a New Zealand tax resident, are you engaged in business in New Zealand through a fixed establishment in New Zealand? Yes / No (delete one)

5. Electronic Correspondence & Reporting

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

Email

6. Agreement of terms

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

All applicants on the Application Form must sign.

My signature

Date

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

My signature

Date

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

My signature

Date

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

7. Certificate of non-revocation of agency

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

I, Full name

of Place & country of residence

Occupation

hereby certify that:

1. By the agency agreement dated D | D | M | M | Y | Y | Y | Y

(date of instrument creating the power of agency),

Full name

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

of Place & country of residence

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

Appointed me

His/her/its name

agent;

2. That I have executed the application for Subordinated Bonds printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

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

Signature of agent

Date

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

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

8. Certificate of non-revocation of power of attorney

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

I, Full name

of Place & country of residence

Occupation

hereby certify that:

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

(date of instrument creating the power of attorney),

Full name

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

of Place & country of residence

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

Appointed me

His/her/its name

attorney;

2. That I have executed the application for Subordinated Bonds printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

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

Signature of attorney

Date

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

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

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- Applicants must pay for the Subordinated Bonds applied for by a personal cheque or direct debit. Please read the direct debit section in the application instructions carefully. If the application is for Subordinated Bonds of an aggregate Principal Amount of \$500,000 or more, payment must be by bank cheque or any other method approved by the Joint Lead Managers. Payment via the NZ Clear system may only be made by approved applicants and must be by prior arrangement with the Registry. Personal Cheques must be in New Zealand dollars and drawn on a New Zealand branch of a financial institution and submitted with the completed Application Form. Cheques must be made payable to 'Kiwibank Subordinated Bond Offer', crossed 'Not Transferable' and must not be post-dated. If an Applicant's cheque or direct debit is dishonoured, the Issuer will cancel that applicant's allotment of Subordinated Bonds and may pursue any other remedies available to it at law.
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- The Issuer reserves the right to decline any application, in whole or in part, without giving any reason. The Issuer may decide not to accept any applications whatsoever.
- Money received in respect of applications that are declined in whole or in part will be refunded in whole or in part (as the case may be). Refunds will be mailed to unsuccessful applicants within seven days of the Issue Date. Interest will not be paid on application money refunded to applicants.
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- Applications lodged by individuals must be signed personally or by their attorney or agent. If this Application Form is signed by an attorney, the attorney must complete the certificate of non-revocation of power of attorney set out above. If this Application Form is signed by an agent, the agent must complete the certificate of non-revocation of agency set out above.
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