



FOREIGN EXCHANGE TRANSACTIONS

NGĀ KURUTETE PŪTEA TĀWĀHI

Product Disclosure Statement

Kiwibank Limited as issuer

Effective 25 July 2022

As part of our identity, Kiwibank worked with multi-disciplinary Māori artist Tristan Marler (Manawa Tapu) to design a set of tohu (cultural motifs or symbols that represent attributes of our brand and of a thriving community.

Kia Manaaki - Show Heart and uses the Patiki tohu. Patiki communicates balance between people and environment to produce a thriving, resilient community that can manaaki, or care, for others.

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Effective 25 July 2022



Foreign Exchange Transactions Product Disclosure Statement

This document replaces the Product Disclosure Statement dated 1 May 2020, the Supplementary Product Disclosure Statement dated 6 May 2020 and the Secondary Supplementary Product Disclosure Statement dated 13 July 2021 for the offer of Kiwibank's Foreign Exchange Transactions.

This document provides important information about foreign exchange derivative transactions to help you decide whether you want to enter into foreign exchange derivative transactions.

There's other useful information about this offer at disclose-register.companiesoffice.govt.nz. Many derivatives are complex and high-risk financial products that aren't suitable for most retail investors. If you don't fully understand a derivative described in this document and the risks associated with it, you shouldn't enter into it. You can also seek advice from a financial adviser to help you make your decision. You should ask if that adviser has experience with these types of derivatives.

Kiwibank Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013.

1. Key Information

What is this?

This is a product disclosure statement (“PDS”) for the following foreign exchange derivative transactions

(“Foreign Exchange Transactions”) provided by Kiwibank Limited (“Kiwibank”):

- (a) forward exchange contracts (“FECs”) which settle more than 12 months after entry;
- (b) foreign exchange swaps (“FX Swaps”);
- (c) call options (“Call Options”);
- (d) put options (“Put Options”); and
- (e) foreign exchange collars (“FX Collars”).

Foreign Exchange Transactions are derivatives, which are contracts between you and Kiwibank that may require you and Kiwibank to make currency payments. The amounts to be paid or received under a Foreign Exchange Transaction will depend on the forward exchange rate agreed for the underlying currency pair of the contract. Each contract will specify the terms on which those payments must be made. Under Call Options, Put Options and FX Collars, amounts (other than premiums) will only be paid if options are exercised.

Warning

Risk that you may owe money under the derivative

If the exchange rate between the underlying currencies of a Foreign Exchange Transaction changes, you may suffer losses. In particular, unlike most other kinds of financial products, you may end up owing significant amounts of money. You should carefully read section 2 of the PDS (Key Features of the Derivatives) on how payments are calculated.

Risks arising from issuer’s creditworthiness

When you enter into derivatives with Kiwibank, you’re exposed to a risk that Kiwibank cannot make currency payments as required. You should carefully read section 3 of the PDS (Risks of these Derivatives) and consider Kiwibank’s creditworthiness.

About Kiwibank

Kiwibank is a registered bank that opened for business in 2002. Kiwibank offers a range of personal and business banking products. Kiwibank offers derivatives to customers through its Financial Markets department.

Kiwibank is wholly-owned by Kiwi Group Holdings Limited which in turn is jointly owned by New Zealand Post Limited, NZSF Tui Investments Limited (a wholly-owned subsidiary of the New Zealand Superannuation Fund) and Accident Compensation Corporation.

Which derivatives are covered by this PDS

This PDS covers the following Foreign Exchange Transactions: FECs which settle more than 12 months after entry, FX Swaps, Call Options, Put Options and FX Collars.

- > Under the FECs covered by this PDS, you agree to pay an agreed amount of one currency in exchange for Kiwibank paying you, or a person nominated by you, an agreed amount of another currency, with the payments to occur on an agreed future settlement date.

The FECs covered by this PDS are those for which settlement (the date you and Kiwibank pay the two (agreed currencies) is more than 12 months after the contract is entered into.

Kiwibank may also offer FECs for which settlement is 12 months, or less than 12 months, after the contract is entered into. Such FECs with Kiwibank aren't required to be offered under a product disclosure statement and aren't covered by this PDS.

However, if an FEC is extended so that settlement is more than 12 months after the contract is entered into (for instance, because you request and Kiwibank agrees to such extension), that FEC will be covered by this PDS. FECs don't contain a right of extension.

Under an FX Swap, you agree to pay agreed amounts of one currency in exchange for Kiwibank paying you, or a person nominated by you, agreed amounts of another currency, with the payments to occur on agreed future settlement dates.

- > If you enter a Call Option or Put Option as buyer of the option, you'll have the option to pay to Kiwibank an agreed amount of one currency in exchange for Kiwibank paying you, or a person nominated by you, an agreed amount of another currency, with, if you exercise the option, the payments to occur on an agreed future settlement date.

If you enter a Call Option or Put Option as seller of the option, Kiwibank will have the option to require you to pay to Kiwibank an agreed amount of one currency in exchange for Kiwibank paying you, or a person nominated by you, an agreed amount of another currency, with, if Kiwibank exercises the option, the payments to occur on an agreed future settlement date. Generally, Kiwibank will act as buyer of a Call Option or Put Option from a customer only on a case-by-case basis or when the option forms part of a FX Collar.

Premiums are payable under Call Options and Put Options. A "**premium**" is an amount paid for the right to exercise an option, and is payable regardless of whether the option is exercised. If you enter a Call Option or Put Option as buyer then the premium will be payable by you to Kiwibank. If you enter a Call Option or Put Option as seller then the premium will be payable by Kiwibank to you.

- > If you enter into a FX Collar, you'll have the option, and also a potential obligation if Kiwibank exercises its option, to pay to Kiwibank an agreed amount of one currency in exchange for Kiwibank paying you, or a person nominated by you, an agreed amount of another currency, with, if you or Kiwibank exercise the respective option, the payments to occur on an agreed future settlement date.

The amount of currency payable on the settlement date will be calculated at an agreed worst case rate (if you exercise your option) or an agreed best case rate (if Kiwibank exercises its option).

Premiums are payable by both you and Kiwibank on FX Collars, but such premiums may net to zero (such a contract is referred to as a "zero premium FX Collar").

Under all Foreign Exchange Transactions the amounts of the two currencies to be paid, if any, will be calculated using an agreed exchange rate or rates.

Foreign Exchange Transactions may allow you to manage the uncertainty of movements in exchange rates. Foreign Exchange Transactions are often used by importers, exporters and customers who have loans, investments, expenses, cash flows or profits denominated in foreign currencies. Entering into a FEC, FX Swap or FX Collar, or entering into a Call Option or Put Option as buyer, are common ways of gaining certainty of an exchange rate by locking in an agreed rate for an agreed future date. Hedging exchange rate risk also means that you may not receive the benefit of rate movements in your favour.

2. Key Features of the Derivatives

Interest Rate Transactions

- (a) FECs which settle more than 12 months after entry;
- (b) FX Swaps;
- (c) Call Options;
- (d) Put Options;
- (e) FX Collars.

Further details of each type of Foreign Exchange Transaction, including descriptions and examples, are set out further below.

Key dates and commonly used terms

The date Kiwibank agrees to a Foreign Exchange Transaction is called the **“Trade Date”** and the agreed future date for payments is called the **“Settlement Date”**. In the case of a FX Swap, there will be two agreed Settlement Dates.

Under Call Options, Put Options and FX Collars, amounts (other than premiums) will only be paid on the Settlement Date if options are exercised.

The rights to exercise those options will expire at an agreed expiration time on the **“Expiry Date”**, which is usually two business days before the relevant Settlement Date.

The amounts of the two currencies to be paid on a Settlement Date will be calculated by Kiwibank using an agreed exchange rate (this will usually be a Forward Rate, but in the case of a FX Swap that includes a spot transaction, may be a Spot Rate, each as described below). Since the amounts of the two currencies are agreed at the time you enter into the contract with Kiwibank, any movement in the relevant exchange rate between the Trade

Date and a Settlement Date for a FEC or FX Swap will not affect the amounts of the currencies paid on that Settlement Date.

Under Call Options, Put Options and FX Collars, movements in the relevant exchange rate may affect whether or not an option is exercised. However if the option is exercised then payment amounts on settlement will be calculated by Kiwibank using the agreed exchange rate (or, in the case of a FX Collar, the agreed exchange rate for the relevant option that is being exercised) as referred to above.

An exchange rate is a rate used to calculate the price payable by you on an agreed date for exchanging the agreed currencies.

For example, if the agreed exchange rate of the New Zealand Dollar (NZD) and US Dollar (USD) is NZD/USD 0.6500 this means that for every 1 NZD you pay, you'll receive 0.6500 USD.

Alternatively this could be expressed as USD/NZD 1.5385. This means that for every 1 USD you pay, you'll receive 1.5385 NZD.

An exchange rate may be a Spot Rate or a Forward Rate.

A "**Spot Rate**" is used for foreign exchange contracts for delivery two business days after the date of the contract (the "**Spot Date**").

A Spot Rate is based on the relevant inter-bank market exchange rate and may also include a margin (as described in section 4 of the PDS (Fees)). The inter-bank market exchange rates are rates which fluctuate according to supply and demand factors.

External factors that influence the inter-bank market exchange rates include:

- > investment inflows/outflows;
- > economic and political circumstances;
- > market sentiment or expectations;
- > import/export of goods and services; and
- > monetary policy settings.

If the interaction of these factors increases the demand for a currency, then, all other things being equal, the price of that currency should increase. If the interaction of these factors decreases the demand for a currency, then, all other things being equal, the price of that currency should fall.

A "**Forward Rate**" is used for foreign exchange contracts for delivery on any day after the Spot Date. A Forward Rate isn't a market prediction of the exchange rate at a particular future date. Instead, the Forward Rate is determined by adjusting

the Spot Rate at the Trade Date by forward points (“**Forward Points**”). The Forward Points are calculated from the difference between the interest rates that can be earned in the respective countries of the currencies being exchanged. It compensates the buyer of the currency with the higher interest rates for extra interest that could have been earned if exchange had occurred earlier and the proceeds had been invested at the higher rate of interest.

The greater the difference between the interest rates of the two currencies, the larger the Forward Points are likely to be. Conversely, the lesser the difference the smaller the Forward Points are likely to be.

The Forward Rate may also include a margin as described in section 4 of the PDS (Fees).

The Forward Points can either subtract from or add to the Spot Rate depending on whether the interest rate applicable to the currency you’re buying or selling is higher or lower than the interest rate applicable to the other currency being exchanged. The Forward Points should result in the currency with the higher interest rate having Forward Rates that are less than the Spot Rate.

Primary Uses of Foreign Exchange Transactions

Foreign Exchange Transactions may allow you to manage uncertainty created by movements in exchange rates and are often used by importers, exporters and customers who have loans, investments, expenses, cash flows or profits denominated in foreign currencies. Hedging exchange rate risk also means that you may not receive the benefit of rate movements in your favour.

Entering a Call Option or Put Option as Seller can expose you to additional exchange rate uncertainty in that you’re exposed to unfavourable exchange rate movements but may not benefit from favourable exchange rate movements. Generally, Kiwibank will act as the Buyer of a Call Option or Put Option from a customer only on a case-by-case basis or when the option forms part of a FX Collar.

Amounts Payable

The amounts payable under a Foreign Exchange Transaction will be agreed with you on the Trade Date. You'll agree to pay an agreed amount of one currency in exchange for Kiwibank paying you, or a person nominated by you, an agreed amount of another currency, with the payments to occur on the Settlement Date. The amounts of the two currencies to be paid will be calculated by Kiwibank using an agreed Forward Rate.

If your Foreign Exchange Transaction is a Call Option, a Put Option or a FX Collar, amounts (other than premiums) may only become payable if agreed trigger rates are met and you or Kiwibank, as the case may be, exercise options to trade under the contract.

If your Foreign Exchange Transaction is a Call Option, a Put Option or a FX Collar then premiums are payable. If you enter a Call Option or Put Option as Buyer then the premium will be payable by you to Kiwibank. If you enter a Call Option or Put Option as Seller then the premium will be payable by Kiwibank to you. Premiums are payable by both you and Kiwibank on FX Collars, but such premiums may net to zero (such a contract is referred to as a "zero premium FX Collar").

The premium (or net premium, in the case of a FX Collar) is payable in a single payment two business days after the Trade Date, unless you and Kiwibank agree otherwise. You may ask for the premium to be quoted to you in either of the exchange currencies. The premium may include a margin as described in section 4 of the PDS (Fees).

Term

The term of a Foreign Exchange Transaction will be agreed with you on the Trade Date.

The FECs covered by this PDS are those for which settlement is more than 12 months after the contract is entered into.

Description and Examples of the Foreign Exchange Transactions

A brief description and examples of the Foreign Exchange Transactions are set out below.

Each example below provides an example of one situation only and doesn't reflect the specific circumstances or the obligations that may arise under a Foreign Exchange Transaction entered into by you.

In particular, the exchange rates and premiums described are examples only and aren't intended to be indicative of future rates or premiums.

Description: FECs

Under a FEC, you agree to pay an agreed amount of one currency in exchange for Kiwibank paying you, or a person nominated by you, an agreed amount of another currency, with the payments to occur on an agreed future date.

This PDS covers FECs for which settlement is more than 12 months after the contract is entered into.

Example: FECs

For example, you're an importer and will be importing USD250,000 of goods with payment due in 13 months. You'll buy the USD with New Zealand dollars, but are concerned that the NZD/USD exchange rate could move against you and increase the NZD price of the imported goods.

You enter into a FEC to buy USD250,000 in 13 months with a Forward Rate of 0.6345.

The Forward Rate is calculated by:

- > taking the NZD/USD Spot Rate, for example 0.6500; and
- > adjusting it by the Forward Points, which in this example would be -0.0155 (this is a discount when the applicable NZD interest rates are higher than the applicable USD interest rates).

On the Settlement Date:

- > Kiwibank agrees to pay you USD250,000; and
- > you agree to pay Kiwibank an amount of NZD calculated by applying the Forward Rate to the USD amount (i.e. $USD250,000/0.6345 = \$394,011.03$).

Without the FEC, if the NZD/USD Spot Rate in 13 months was:

- > 0.6000, your USD would have cost NZD416,666.67, NZD22,655.64 more than under the FEC;
- > 0.7000, your USD would have cost NZD357,142.86, NZD36,868.17 less than under the FEC.

Description: FX Swaps

Under a FX Swap Kiwibank and you agree to complete two exchanges of currencies as follows:

- > on the first Settlement Date, you pay Kiwibank an agreed amount of currency (for example, NZD) in exchange for Kiwibank paying you, or a person nominated by you, an agreed amount of a second currency (for example, USD); and
- > on the second Settlement Date, you pay Kiwibank an agreed amount of the second currency (in this example, USD) in exchange for Kiwibank paying you, or a person nominated by you, an agreed amount of the first currency (in this example, NZD).

The amount of the currencies exchanged on each Settlement Date will depend on the agreed exchange rate applicable to that Settlement Date.

Example: FX Swaps

For example, you're a manufacturer and have purchased equipment costing USD250,000 from overseas which you must pay for in two days' time. However, in 30 days' time, you're expecting to receive a payment of USD250,000 for goods you've exported. You wish to enter into a FX Swap to make certain your New Zealand dollar cash flows occurring on these different dates.

You enter into a FX Swap to:

- > buy USD250,000 at the Spot Rate;
- > sell USD250,000 in 30 days with a Forward Rate of 0.6485.

The Forward Rate is calculated by:

- > taking the NZD/USD Spot Rate, for example 0.6500; and
- > adjusting it by the Forward Points, which in this example would be -0.0015 (this is a discount when the applicable NZD interest rates are higher than the applicable USD interest rates).

Under the FX Swap:

- > on the Spot Date, Kiwibank pays you USD250,000 and you pay Kiwibank an amount of NZD calculated by applying the Spot Rate to the USD amount (i.e. $\text{USD}250,000/0.6500 = \$384,615.38$); and
- > in 30 days' time, Kiwibank pays you an amount of NZD calculated by applying the Forward Rate to the USD amount (i.e. $\text{USD}250,000/0.6485 = \$385,505.01$) and you pay Kiwibank USD250,000.

Description: Call Options

A Call Option is an agreement that gives one party (the **"Buyer"**) the right, but not the obligation, to buy a specified amount of one currency in exchange for another currency at an agreed exchange rate (the **"Strike Rate"**) on the Settlement Date. This right expires at an agreed expiration time on the Expiry Date. The Buyer pays a premium to the other party (the **"Seller"**) for the Call Option. The premium is payable to the Seller whether or not the Buyer exercises the Call Option.

For a Call Option, Kiwibank and you'll agree the Strike Rate, the Expiry Date, the expiration time, the Settlement Date and the premium. Available expiration times are restricted and your Financial Markets dealer will advise you of your choices. The Expiry Date is usually two business days before the Settlement Date. If you're the Buyer and you wish to exercise your Call Option you must do so prior to the expiration time on the Expiry Date, by notifying Kiwibank. If you don't do so, then your option will lapse. If you exercise your right, the exchange of currencies will occur on the Settlement Date.

If you're the Buyer, the Strike Rate is your worst case exchange rate (excluding premium). The more favourable the Strike Rate is to you, the higher the premium payable. As you move your Strike Rate to a less favourable exchange rate in order to reduce your premium, you'll generally be lessening the effectiveness of your Call Option in providing you with protection against adverse exchange rate movements.

If at the expiration time on the Expiry Date:

- > it's more favourable for the Buyer to transact at the prevailing Spot Rate than the Strike Rate, the Buyer will let the Call Option expire without exercising its right to

exchange at the Strike Rate. If you're the Buyer, you may then enter the market and transact at the prevailing Spot Rate; or

- > it's more favourable for the Buyer to transact at the Strike Rate than at the prevailing Spot Rate, the Buyer will exercise the Call Option and exchange with the Seller the agreed amounts of the currencies at the Strike Rate (settlement taking place on the Settlement Date).

If you're the Seller, you receive the premium, but you'll be required by Kiwibank to exchange at the Strike Rate if that is more favourable to Kiwibank than the prevailing Spot Rate. If you're an importer and you're offsetting your currency exposure under an underlying contractual arrangement, you remain exposed to the exchange rate falling below the Strike Price but will not benefit from the exchange rate moving above the Strike Price.

Example: Call Options

For example, you're an exporter and will be receiving a payment of USD250,000 in six months' time which you wish to convert into NZD. The NZD/USD six month Forward Rate is 0.6430.

You buy a six month NZD/USD Call Option from Kiwibank with a Strike Rate of 0.6430. Premium cost is NZD15,000 on USD250,000. The premium is payable by you two business days after the Trade Date.

- > If at the expiration time on the Expiry Date the NZD/USD Spot Rate is at or below the Strike Rate you'll allow the Call Option to lapse. You may then enter the market and sell USD250,000 for NZD at the prevailing Spot Rate. If you do that, then, excluding premium, 0.6430 is your worst case exchange rate.
- > If at the expiration time on the Expiry Date the NZD/USD Spot Rate is above the Strike Rate you'll exercise your Call Option. On the Settlement Date, Kiwibank pays you an amount of NZD calculated by applying the Strike Rate to the USD amount (i.e. $\text{USD}250,000 / 0.6430 = \text{NZD}388,802.49$) and you pay Kiwibank USD250,000. Excluding premium, 0.6430 is your worst case exchange rate.

Description: Put Options

A Put Option is an agreement that gives one party (the “**Buyer**”) the right, but not the obligation, to sell a specified amount of one currency in exchange for another currency at an agreed exchange rate (the “**Strike Rate**”) on the Settlement Date. This right expires at an agreed expiration time on the Expiry Date. The Buyer pays a premium to the other party (the “**Seller**”) for the Put Option. The premium is payable to the Seller whether or not the Buyer exercises the Put Option.

For a Put Option, Kiwibank and you’ll agree the Strike Rate, the Expiry Date, the expiration time, the Settlement Date and the premium. Available expiration times are restricted and your Financial Markets dealer will advise you of your choices. The Expiry Date is usually two business days before the Settlement Date.

If you’re the Buyer and you wish to exercise your Put Option you must do so prior to the expiration time on the Expiry Date, by notifying Kiwibank. If you don’t do so, then your option will lapse. If you exercise your right, the exchange of currencies will occur on the Settlement Date.

If you’re the Buyer, the Strike Rate is your worst case exchange rate (excluding premium). The more favourable the Strike Rate is to you, the higher the premium payable. As you move your Strike Rate to a less favourable exchange rate in order to reduce your premium, you’ll generally be lessening the effectiveness of your Put Option in providing you with protection against adverse exchange rate movements.

If at the expiration time on the Expiry Date:

- > it’s more favourable for the Buyer to transact at the prevailing Spot Rate than the Strike Rate, the Buyer will let the Put Option expire without exercising its right to exchange at the Strike Rate. If you’re the Buyer, you may then enter the market and transact at the prevailing Spot Rate; or
- > it’s more favourable for the Buyer to transact at the Strike Rate than at the prevailing Spot Rate, the Buyer will exercise the Put Option and exchange with the Seller the agreed amounts of the currencies at the Strike Rate (settlement taking place on the Settlement Date).

If you're the Seller, you receive the premium, but you'll be required by Kiwibank to exchange at the Strike Rate if that is more favourable to Kiwibank than the prevailing Spot Rate. If you're an exporter and you're offsetting your currency exposure under an underlying contractual arrangement, you remain exposed to the exchange rate rising above the Strike Price but will not benefit from the exchange rate moving below the Strike Price.

Example: Put Options

For example, you're an importer and will be making a payment of USD250,000 in six months' time which you wish to provide for by exchanging NZD. The NZD/USD six month Forward Rate is 0.6405.

You buy a six month NZD/USD Put Option from Kiwibank with a Strike Rate of 0.6405.

Premium cost is NZD15,000 on USD250,000. The premium is payable by you two business days after the Trade Date.

- > If at the expiration time on the Expiry Date the NZD/USD Spot Rate is at or above the Strike Rate you'll allow the Put Option to lapse. You may then enter the market and buy USD250,000 for NZD at the prevailing Spot Rate. If you do that, then, excluding premium, 0.6405 is your worst case exchange rate.
- > If at the expiration time on the Expiry Date the NZD/USD Spot Rate is below the Strike Rate you'll exercise your Put Option. On the Settlement Date, you pay Kiwibank an amount of NZD calculated by applying the Strike Rate to the USD amount (i.e. $\text{USD}250,000 / 0.6405 = \text{NZD}390,320.06$) and Kiwibank pays you USD250,000. Excluding premium, 0.6405 is your worst case exchange rate.

Description: FX Collars

Under a FX Collar you may:

- > buy a Put Option and sell a Call Option; or
- > buy a Call Option and sell a Put Option.

A net premium may be payable by you or Kiwibank under the FX Collar, but this may net to zero.

Under a FX Collar you'll have: protection against exchange rates going through a known worst case rate (the "**Worst Case Rate**"); an obligation to trade at a known best case rate (the "**Best Case Rate**"); and the ability to take advantage of exchange rate movements favourable to you to a known best case rate.

For a FX Collar Kiwibank and you'll agree applicable Strike Rates (including the Worst Case Rate and the Best Case Rate), the Expiry Dates, the expiration times, the Settlement Dates and the premiums (which may net to zero for a zero premium FX Collar). Available expiration times are restricted and your Financial Markets dealer will advise you of your choices. Each Expiry Date is usually two business days before the relevant Settlement Date.

If at the expiration time on the Expiry Date:

- > it's more favourable for you to transact at the Worst Case Rate than the prevailing Spot Rate, you'll exercise your right to exchange with Kiwibank the agreed amounts of the currencies at the Worst Case Rate; or
- > it's more favourable for Kiwibank to transact at the Best Case Rate than at the prevailing Spot Rate, you'll have an obligation to exchange with Kiwibank the agreed amounts of the currencies at the Best Case Rate; or
- > the prevailing Spot Rate is between the Worst Case Rate and the Best Case Rate, you'll have the option, but not an obligation, to exchange with Kiwibank the agreed amounts of the currencies at the Spot Rate,

in each case with settlement taking place on the Settlement Date.

Example: FX Collars

For example, you're an importer and will be making a USD payment in six months' time. You want to sell NZD250,000 to buy USD. The NZD/USD Spot Rate is 0.6500 and the NZD/USD six month Forward Rate is 0.6405.

You don't want to trade at a worse rate than 0.6300 so you enter into a six month FX Collar with Kiwibank with a Worst Case Rate of 0.6300 and a Best Case Rate of 0.6600.

You've decided to enter into a FX Collar (as buyer of a Put Option and seller of a Call Option) to minimise the premium payable for your option. In this example, zero premium is payable.

- > If at the expiration time on the Expiry Date the NZD/USD Spot Rate is at or below the Worst Case Rate you'll exercise your right (as buyer of the Put Option) to buy USD at 0.6300. On the Settlement Date, Kiwibank pays you an amount of USD calculated by applying the Worst Case Rate to the NZD amount (i.e. $\text{NZD}250,000 \times 0.6300 = \text{USD}157,500$) and you pay Kiwibank NZD250,000. 0.6300 is your worst case exchange rate.
- > If at the expiration time on the Expiry Date the NZD/USD Spot Rate is above the Best Case Rate you'll be obliged (as seller of the Call Option) to buy USD at 0.6600. On the Settlement Date, Kiwibank pays you an amount of USD calculated by applying the Best Case Rate to the NZD amount (i.e. $\text{NZD}250,000 \times 0.6600 = \text{USD}165,000$) and you pay Kiwibank NZD250,000. 0.6600 is your best case exchange rate.
- > If at the expiration time on the Expiry Date the NZD/USD Spot Rate is above the Worst Case Rate and below the Best Case Rate you may, if you so decide, enter the market and buy NZD250,000 of USD at the prevailing Spot Rate. If you do that, then 0.6300 will be your worst case exchange rate and 0.6600 your best case exchange rate.

Client Agreement

Before entering into a Foreign Exchange Transaction you'll be required to enter into a client agreement with Kiwibank in relation to derivatives and other Financial Markets products, including Foreign Exchange Transactions ("**Client Agreement**").

The Client Agreement governs your dealing relationship with Kiwibank in relation to Foreign Exchange Transactions and other Financial Markets products, and sets out general terms and conditions applying to them. You should read the Client Agreement carefully before entering into any Foreign Exchange Transactions.

Before entering into a Client Agreement, Kiwibank will also assess your suitability for an investment in that Foreign Exchange Transaction and your financial position to determine whether or not you satisfy Kiwibank's internal suitability and credit requirements.

Kiwibank will advise you of the outcome of this review, and any credit or other conditions of approval, as soon as possible. These conditions of approval may include a request for security for your obligations.

See section 9 of the PDS (How to Enter into a Client Agreement).

Entry into Foreign Exchange Transactions

The terms of a specific Foreign Exchange Transaction may be agreed verbally (by phone or in person) or in writing. Once you and Kiwibank have reached agreement, both you and Kiwibank are bound by the agreed terms. Conversations with our dealing room and operations departments are recorded. This is standard market practice. Kiwibank does this to make sure that it has a complete record of what has been agreed. Recorded conversations are reviewed when there's a dispute and for staff monitoring purposes.

Shortly after entering into a Foreign Exchange Transaction, Kiwibank will send you a confirmation (either electronically or in hard copy) outlining the details of the Foreign Exchange Transaction ("**Confirmation**"). It's extremely important that you check the Confirmation to make sure that it accurately records the terms agreed by you and Kiwibank. In the case of any discrepancy, you'll need to raise the matter with your Financial Markets dealer immediately.

Within one business day of receiving a Confirmation, you must immediately notify Kiwibank if there's an error in the Confirmation. If you don't notify Kiwibank of any error within one business day, then you're acknowledging that the details of the Foreign Exchange Transaction are correct, and the Foreign Exchange Transaction will be valid and binding.

Variation

Amendments to Client Agreement

Under your Client Agreement with Kiwibank, Kiwibank has a right to amend the Client Agreement by giving 30 days' written notice.

Variation of Foreign Exchange Transactions

Generally, neither you nor Kiwibank has the right to vary a Foreign Exchange Transaction after it has been entered into, except as provided in the particular terms of the Foreign Exchange Transaction or if both parties agree.

If you wish to vary a Foreign Exchange Transaction, for example, by:

- > extending or cancelling the Foreign Exchange Transaction wholly or partly; or
- > wholly or partly settling prior to the agreed Settlement Date,

you must contact your Financial Markets dealer. Kiwibank has complete discretion to accept or refuse your request, and any agreed varied terms may involve varied exchange rates and increased margin.

When a revised Foreign Exchange Transaction has been agreed you'll receive an additional Confirmation outlining the varied terms. If a FEC is extended so that settlement is more than 12 months after the contract is entered into, that FEC will be covered by this PDS.

Payments on variation of a Foreign Exchange Transaction

If your request to vary a Foreign Exchange Transaction is accepted, you must accept any varied exchange rates, increased margins and other costs of varying the Foreign Exchange Transaction and agree to any replacement or amended Foreign Exchange Transaction.

Termination

Generally, neither you nor Kiwibank has the right to terminate a Foreign Exchange Transaction after it has been entered into, except for cancellation in the circumstances provided for in the Client Agreement or otherwise as provided in the particular terms of the Foreign Exchange Transaction, or if both parties agree.

Cancellation under your Client Agreement

Under your Client Agreement Kiwibank has rights to cancel any or all Foreign Exchange Transactions between you and Kiwibank if a default or termination event set out in that agreement occurs.

The types of default set out in the Client Agreement include:

- > default in payment on the due date of any amount owing under a Foreign Exchange Transaction;
- > your failure to comply with any obligation under a Foreign Exchange Transaction or your Client Agreement;
- > any representation, warranty, statement made or information provided by you or on your behalf in connection with a Foreign Exchange Transaction or your Client Agreement being untrue, incomplete or inaccurate, in any material respect;
- > any of your debts (whether or not a debt owing to Kiwibank) exceeding \$5,000 not being paid when due, or being declared or becoming capable of becoming declared due;
- > any event occurring that, in Kiwibank's opinion, may materially adversely affect your business, assets or financial condition, or your ability or willingness to comply with any obligations under a Foreign Exchange Transaction or the Client Agreement, or Kiwibank's ability to recover any amount payable, or to enforce any obligation, under a Foreign Exchange Transaction or the Client Agreement.

The types of termination event set out in the Client Agreement include:

- > it being unlawful or impossible for Kiwibank to receive any payment or delivery, or to perform any obligations under, a Foreign Exchange Transaction or the Client Agreement;
- > the costs to Kiwibank of any Foreign Exchange Transaction increasing as a result of any event or matter that arises or occurs after the date the Foreign Exchange Transaction was entered into; or

- > it being impracticable for Kiwibank to receive any payment under, or to perform any obligations under, a Foreign Exchange Transaction or the Client Agreement for reasons beyond Kiwibank's reasonable control.

You should read clause 11 of the Financial Markets terms and conditions included in the Client Agreement for further types of default and termination events.

Cancellation by agreement

You may request to cancel a Foreign Exchange Transaction by contacting your Financial Markets Dealer, as discussed under "Variation" above. Kiwibank has complete discretion to accept or refuse your request.

Payments on Cancellation

If a Foreign Exchange Transaction is cancelled under your Client Agreement as described above, the value of the cancelled Foreign Exchange Transaction will be determined by Kiwibank as at the cancellation date. The value of the cancelled Foreign Exchange Transaction will be determined by Kiwibank, in its absolute discretion, as the mark-to-market value of the cancelled Foreign Exchange Transaction, in accordance with the Client Agreement.

If you cancel a Foreign Exchange Transaction by agreement, you must accept any costs of cancellation agreed with Kiwibank.

The "**mark-to-market value**" of a Foreign Exchange Transaction is its current market value determined by working out:

- > what a person would pay Kiwibank (expressed as a positive number); or
- > what Kiwibank would have to pay another person (expressed as a negative number),

at any one time, for that other person to take over the customer's rights and obligations in respect of that Foreign Exchange Transaction.

The values of all Foreign Exchange Transactions cancelled on a cancellation date will be aggregated and a net amount will be payable by either you to Kiwibank or Kiwibank to you, as the case may be.

The information set out above is only a summary of the amounts payable on cancellation of a Foreign Exchange Transaction. You should refer to the Client Agreement for full details of the consequences of cancellation, including the basis on which the value of cancelled Foreign Exchange Transactions and the net amount payable are determined.

Fees

The payments that will or may be due under a Foreign Exchange Transaction are as described in this PDS. There are no other fees or charges for entering into a Foreign Exchange Transaction.

Please see section 4 of the PDS (Fees) for further details.

No Transfer

You aren't entitled to sell or transfer a Foreign Exchange Transaction to another person unless Kiwibank agrees. In Kiwibank's opinion, there's no established market for such sales or transfers.

Governing Law

The Foreign Exchange Transactions and each Client Agreement will be governed by New Zealand law. Accordingly, future judicial decisions and changes to New Zealand law or administrative practices may affect the interpretation of the Foreign Exchange Transactions.

3. Risks of these Derivatives

Product Risks

A Foreign Exchange Transaction is only suitable for you if you understand the effect that changes in market exchange rates (whether favourable or unfavourable) can have on the value of your Foreign Exchange Transaction.

There are risks associated with all derivatives. The significant risks associated with the Foreign Exchange Transactions, and entry into a Client Agreement, are set out below.

Opportunity cost

Exchange rates and other market rates can move unpredictably. If you've entered into a Foreign Exchange Transaction to make certain your currency or other market-related costs under an underlying contractual arrangement, you won't not receive the benefit of favourable market movements during the term of your Foreign Exchange Transaction. If:

- > the exchange rate or other market rate specified in your Foreign Exchange Transaction moves in a way that would have been favourable to you had you not entered into the Foreign Exchange Transaction; or
- > you pay a premium for your Foreign Exchange Transaction but the exchange rate or other market rate specified in your Foreign Exchange Transaction doesn't move in a way that produces an outcome favourable to you under the Foreign Exchange Transaction,

the amount or value of payments you make to Kiwibank will be greater than the amount or value of payments you receive from Kiwibank.

Hedging mismatches

In order to make certain your currency or other market-related costs under an underlying contractual arrangement, the terms of your Foreign Exchange Transaction (such as Settlement Dates, term, principal amount of the foreign currency, as applicable) must match the terms of your underlying contractual arrangement. For example, if your underlying contractual arrangement is denominated in a foreign currency and its payment date isn't the same as the Settlement Date you may be exposed to exchange rate movements in the period between

the payment date and the Settlement Date and you may have a cashflow mismatch (for example, you may be obliged to pay amounts under the Foreign Exchange Transaction before you've received amounts payable to you under your underlying contractual arrangements).

No right of early termination

Foreign Exchange Transactions are completely independent of any underlying hedging or other contractual arrangements that you may have. If those change and you no longer need a Foreign Exchange Transaction, or you wish to amend the Foreign Exchange Transaction for any reason, you must still meet your Foreign Exchange Transaction obligations unless Kiwibank agrees to terminate or vary the Foreign Exchange Transaction, which Kiwibank isn't obliged to do.

If Kiwibank doesn't agree to terminate or vary the Foreign Exchange Transaction, you may incur losses as a result of a mismatch with your underlying contractual arrangements or otherwise.

You're bound by the agreed terms of a Foreign Exchange Transaction from the time that you and Kiwibank have reached agreement on its terms, whether verbally (by phone or in person) or in writing. "Entry into Foreign Exchange Transactions" in section 2 of the PDS (Key Features of the Derivatives) describes how the terms of a Foreign Exchange Transaction are agreed between you and Kiwibank.

No underlying contractual arrangements

As noted under "Opportunity cost" above, exchange rates and other market rates can move unpredictably. If you don't have an underlying contractual arrangement to which your Foreign Exchange Transaction relates, your risks associated with exchange rates and other market rate movements may be much greater. In these circumstances, your losses may be unlimited.

Strike rates

If your Foreign Exchange Transaction has a strike rate feature, then the amounts payable by or to you may change significantly if the relevant exchange rate goes through the strike rate.

In those cases, a small change in the relevant exchange rate may lead to a large change in the value of the Foreign Exchange Transaction.

Consequences of a failure to make a payment

If you fail to make a payment when due under a Foreign Exchange Transaction, you may be in default and Kiwibank may exercise its rights under your Client Agreement, including rights of cancellation. There are also other defaults and termination events that could occur and may result in cancellation of a Foreign Exchange Transaction. Please see "Termination" in section 2 of the PDS (Key Features of the Derivatives) for further details.

Cancellation of a Foreign Exchange Transaction may affect your hedging position and expose you to volatility and potential losses related to foreign exchange rates or otherwise. You may also be required to pay the mark-to-market value of a cancelled Foreign Exchange Transaction to Kiwibank. You should read under "Termination" in section 2 of the PDS (Key Features of the Derivatives) and refer to your Client Agreement for full details of Kiwibank's rights.

In addition, failure to make a payment when due under a Foreign Exchange Transaction may have consequences under other documents, including other contractual arrangements. For example, it may cause an event of default to occur under your other contractual arrangements or have consequences under any security interests or guarantees that you've granted. You should review your other contractual arrangements, including any security interests or guarantees that you've granted in order to identify and understand these consequences.

Consequences of altering the terms of a derivative

Kiwibank isn't obliged to agree to any variation to the terms of a Foreign Exchange Transaction, and any agreed varied terms may involve varied exchange rates and increased margin. If Kiwibank does agree to a variation of the terms of a Foreign Exchange Transaction, you must accept any varied exchange rates, increased margins and other costs of varying the Foreign Exchange Transaction and agree to any replacement or amended Foreign Exchange Transaction. Please see "Variation" in section 2 of the PDS (Key Features of the Derivatives) for further details.

Conflicts of interest

Kiwibank regularly trades for its own account and with a number of different customers, which trading may be in conflict with your interests under the Foreign Exchange Transaction you've entered into with us. Kiwibank isn't required to prioritise your interests when dealing in Foreign Exchange Transactions with you.

Issuer risks

When you enter into a Foreign Exchange Transaction with Kiwibank, you're exposed to a risk that Kiwibank cannot make currency payments as required. This may occur if Kiwibank becomes insolvent, is placed in receivership, liquidation or statutory management or is otherwise unable to and/or fails to make any payment in time or at all.

You'll be an unsecured creditor (ranking equally with other unsecured creditors but behind secured and preferred creditors) for any amounts owed to you by Kiwibank. If Kiwibank's assets aren't sufficient to satisfy claims ranking ahead of and equally with your claim, you may lose some or all of the value of your Foreign Exchange Transactions.

If Kiwibank fails to make currency payments as required, this may lead to you failing to meet your obligations under any underlying hedging or other contractual arrangements, or incurring increased costs to meet those obligations.

Information about Kiwibank, including its financial statements, is published for each half and full financial year of Kiwibank in disclosure statements required under the Reserve Bank of New Zealand Act 1989. Kiwibank's disclosure statements are available at Kiwibank.co.nz/about-us/legal-docs.

Kiwibank has been rated by Moody's Investors Service and Fitch Ratings. A credit rating is an independent opinion of the capability and willingness of an entity to meet its financial obligations (in other words, its creditworthiness). It isn't a guarantee that the issuer will be able to meet its obligations under derivatives.

Kiwibank's credit rating from Moody's Investors Service is **A1 (outlook stable)**.

Moody's Investors Service gives credit ratings from Aaa to C, and appends numerical modifiers 1, 2 and 3 to each generic rating

classification from Aa to Caa. The modifier 3 indicates a ranking in the lower end of that generic rating category.

Kiwibank's foreign currency long-term issuer default credit rating from Fitch Ratings is **AA- (outlook positive)**.

Fitch Ratings gives credit ratings from AAA to C. The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.

One or more other independent credit rating agencies may assign credit ratings to Kiwibank. The ratings may not reflect the potential impact of all risks and other factors that may affect Kiwibank. A credit rating isn't a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Risks when entering or settling the derivatives

Operational risk

Operational risk arises through your reliance on Kiwibank systems and processes to price, settle and deliver your transactions efficiently and accurately. In the event of a breakdown of Kiwibank's systems or processes you may incur loss as a result of delays in the execution and settlement of your transactions.

Failure to return a signed copy of the Confirmation

Shortly after entering into a Foreign Exchange Transaction, Kiwibank will send you a Confirmation as described under "Entry into Foreign Exchange Transactions" in section 2 of the PDS (Key Features of the Derivatives).

If you don't return a signed copy of the Confirmation to Kiwibank within one business day of the Confirmation being sent, Kiwibank may, in its complete discretion, cancel the Foreign Exchange Transaction.

Cancellation of a Foreign Exchange Transaction may affect your hedging position and expose you to volatility and potential losses related to foreign exchange rates or otherwise.



4. Fees

The payments that will or may be due under a Foreign Exchange Transaction are as described in this PDS.

There are no other fees or charges for entering into a Foreign Exchange Transaction.

Kiwibank covers its costs and makes profit by adjusting the relevant exchange rates, premiums or other quoted market prices or rates by a margin. In effect, you pay for the Foreign Exchange Transaction by accepting the terms of the Foreign Exchange Transaction quoted to you by Kiwibank. The margin covers Kiwibank's internal transaction costs, compensation for risk and profit margin. The size of the margin varies from customer to customer and from transaction to transaction and is influenced by a number of factors, including:

- > the terms of the Foreign Exchange Transaction, including the term, size and complexity of the transaction, where a longer term, smaller size or more complex transaction may increase margins;
- > a customer's frequency of trading, where more frequent trading may reduce margins;
- > market volatility and liquidity, where high volatility and less liquidity may increase margins;
- > the currency pair, where less liquidity in the pair may increase margins; and
- > the time zone traded in, where trading on public holidays or weekends may increase margins.

Costs may also arise on cancellation or variation of a Foreign Exchange Transaction, as described under "Variation" and "Termination" in section 2 of the PDS (Key Features of the Derivatives).

As part of its business, Kiwibank regularly trades for its own account and the accounts of other customers in the financial markets, which may affect the market rates to which the margin is applied.

5. How Kiwibank Treats Funds and Property Received From You

Any money received by Kiwibank under the Foreign Exchange Transactions will be received on Kiwibank's own account. You aren't required to pay any money, or provide Kiwibank as collateral under the Foreign Exchange Transactions.

6. About Kiwibank

Kiwibank is a registered bank that opened for business in 2002.

Kiwibank offers a range of personal and business transactional banking, savings account, term deposit, home loan and business finance products, along with credit card, pre-paid and debit products. Additional products include domestic and international payments, insurance and personal loans.

Kiwibank offers derivatives to customers through its Financial Markets department to assist customers with foreign exchange and interest rate management.

Information about Kiwibank, including its financial statements, is published for each half and full financial year of Kiwibank in disclosure statements required under the Reserve Bank of New Zealand Act 1989. Kiwibank's disclosure statements are available at kiwibank.co.nz/about-us/legal-docs. Kiwibank may be contacted at:

Communications Manager

Kiwibank Limited

Level 9, 20 Customhouse Quay

Wellington 6011

Tel: (04) 473 113

Email: financialmarkets@kiwibank.co.nz

7. How to Complain

Complaints about Foreign Exchange Transactions can be directed to Kiwibank at:

Communications Manager
Kiwibank Limited
Level 9, 20 Customhouse Quay
Wellington 6011
Tel: (04) 473 1133
Email: financialmarkets@kiwibank.co.nz

Kiwibank is also a member of the Banking Ombudsman Scheme, which is an approved dispute resolution scheme. If you aren't satisfied with our response to any complaint about Foreign Exchange Transactions, then you may direct your complaint to the scheme at:

Banking Ombudsman
Freepost 218002
PO Box 25327
Wellington 6146
Tel: 0800 805 950
Email: help@bankomb.org.nz

The Banking Ombudsman Scheme will not charge a fee to any complainant to investigate or resolve a complaint.

Complaints may also be directed to the Financial Markets Authority through its website at fma.govt.nz.

8. Where You Can Find More Information

Further information relating to Kiwibank and the Foreign Exchange Transactions is available on the offer register at disclose-register.companiesoffice.govt.nz. A copy of information on the offer register is available on request to the Registrar of Financial Service Providers.

Further information about Kiwibank is contained in Kiwibank's most recent disclosure statement (which includes Kiwibank's most recent financial statements). You can obtain a copy of Kiwibank's most recent disclosure statement, and other information about Kiwibank, free of charge on request, during normal business hours at Kiwibank's office at Level 9, 20 Customhouse Quay, Wellington, at any of Kiwibank's branches, and at kiwibank.co.nz/about-us/legal-docs. Where you make the request at any branch, the disclosure statement will be provided, free of charge, within two working days.

On request to your Financial Markets dealer, we will provide you free of charge with a statement detailing the Foreign Exchange Transactions that you currently hold with Kiwibank.



9. How to Enter into a Client Agreement

If you want to enter into derivatives or other Financial Markets products, including Foreign Exchange Transactions, you may contact Kiwibank at any Business Banking Centre or by calling 0800 113 315 to advise us of your requirements.

Before entering into a derivative, including a Foreign Exchange Transaction, Kiwibank will, based in part on information you provide, assess your suitability for an investment in that derivative and your financial position to determine whether or not you satisfy Kiwibank's internal suitability and credit requirements. Kiwibank will advise you of the outcome of this review, and any credit or other conditions of approval, as soon as possible. These conditions of approval may include a request for security for your obligations.

If Kiwibank is willing to accept you as a Financial Markets customer, you're required to enter into Kiwibank's standard Client Agreement, which we will send to you, and provide such other information and documentation to Kiwibank as Kiwibank may require.

The Client Agreement is a master agreement that governs your relationship with Kiwibank in relation to all derivatives and other Financial Markets products, including the Foreign Exchange Transactions, and sets out terms and conditions applying to them. The terms of a specific Foreign Exchange Transaction are agreed as described under "Entry into Foreign Exchange Transactions" in section 2 of the PDS (Key Features of the Derivatives). The Client Agreement is important and you should read it carefully before entering into any Foreign Exchange Transactions. It covers a number of important terms including how transactions are executed, the respective rights and obligations of you and Kiwibank, default and termination events and rights of termination.

You should obtain independent legal advice if you don't understand any aspect of the Client Agreement.

Kiwibank's standard Client Agreement is made up of Kiwibank's latest:

- > Financial Markets terms and conditions;
- > Financial Markets products schedules for foreign exchange and interest rate derivative transactions, and (if applicable) for wholesale term and call deposits. Kiwibank may determine to accept you as a Financial Markets customer in relation to some only of the products covered by these schedules.

Copies of the latest versions of these documents may be obtained from the offer register at disclose-register.companiesoffice.govt.nz.

The information and documentation that you provide to Kiwibank will help us assess your suitability and financial position.

After you've sent us all the information and documentation that we require and entered into a Client Agreement, you'll be able to request that we enter into Foreign Exchange Transactions.





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