



INTEREST RATE TRANSACTIONS

NGĀ KURUTETE PĀPĀTANGA HUAMONI

Product Disclosure Statement

Kiwibank Limited as issuer

Effective 19 August 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 Māia - Be Bold and uses the Niho Taniwha tohu. Niho Taniwha symbolises strength in leadership to navigating new pathways. It encourages us to represent our communities with courageous leadership, helping people participate and pursue their aspirations to thrive economically and culturally.

Contents

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1.	Key Information Summary	2
2.	Key Features of the Derivatives	3
3.	Risks of these Derivatives	13
4.	Fees	18
5.	How Kiwibank Treats Funds and Property Received From You	19
6.	About Kiwibank	19
7.	How to Complain	20
8.	Where You Can Find More Information	21
9.	How to Enter into a Client Agreement	21



Product Disclosure Statement

Effective 19 August 2022

This document replaces the Product Disclosure Statement dated 28 November 2018, the Supplementary Product Disclose Statement dated 6 May 2020 and the Secondary Supplementary Product Disclose Statement dated 13 July 2021 for the offer of Kiwibank's Interest Rate Transactions.

This document provides important information about interest rate derivative transactions to help you decide whether you want to enter into interest rate 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 below interest rate derivative transactions (“**Interest Rate Transactions**”) provided by Kiwibank Limited (“**Kiwibank**”):

a) interest rate swaps (“**Interest Rate Swaps**”).

Interest Rate Transactions are derivatives, which are contracts between you and Kiwibank that may require you and Kiwibank to make payments. The amounts to be paid or received under an Interest Rate Transaction will depend on the level of the underlying interest rate or rates agreed for the contract. Each contract will specify the terms on which those payments must be made.

Warning

Risk that you may owe money under the derivative

If the level of the underlying interest rate or rates that are relevant to your Interest Rate Transaction change, 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 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 Interest Rate Swaps. Under an Interest Rate Swap, one party agrees to pay a fixed rate payment (based on a specified notional principal amount) in exchange for receiving a floating rate payment from the other party.

The notional amount is an agreed principal or reference amount that's used for calculation purposes in Interest Rate Transactions. The notional amount isn't exchanged under an Interest Rate Transaction.

The floating rate is determined by reference to an underlying interest rate such as BKBM. BKBM is a reference interest rate derived from the interbank market, and is the floating rate typically used for NZD transactions.

Interest Rate Swaps may allow you to manage interest rate risk associated with your borrowings or investments, without affecting any obligations or benefits that you have under those borrowings or investments. Note that hedging interest 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

This PDS covers the following Interest Rate Transactions:

(a) Interest Rate Swaps.

Further details of this type of Interest Rate Transaction, including descriptions and examples, are set out below.

Key dates and commonly used terms

The date Kiwibank agrees to an Interest Rate Transaction is called the **"Trade Date"** and the agreed future dates for payments are called the **"Settlement Dates"**.

The terms "Floating Rate", "Fixed Rate", "notional amount" and "calculation periods" are commonly used in relation to Interest Rate Transactions. When used in this PDS, those terms have the meanings described below.

A **“Floating Rate”** is determined by reference to an interest rate derived from the inter-bank market (the **“reference rate”**) which will change from time to time (the dates on which the Floating Rate is updated are known as **“reset dates”**). For example, the Floating Rate that’s typically used for NZD transactions is **“BKBM”**. External factors that influence the inter-bank market interest rates include:

- > investment inflows/outflows;
- > economic and political circumstances;
- > market sentiment or expectations; and
- > monetary policy settings.

A **“Fixed Rate”** is an interest rate that’s set at a particular level for the purposes of the Interest Rate Transaction and incorporates a margin as described in section 4 of the PDS (Fees).

A **“notional amount”** means the principal amount specified in the terms of an Interest Rate Transaction to which a Fixed Rate or Floating Rate is applied to determine amounts payable by you or Kiwibank. The notional amount isn’t exchanged under an Interest Rate Transaction.

A **“calculation period”** means, in relation to an Interest Rate Transaction, each period during which a Floating or Fixed Rate is applied to a notional amount. Calculation periods, or the way they are to be determined, will be set out in the terms of the relevant Interest Rate Transaction.

Primary Uses of Interest Rate Transactions

Interest Rate Transactions may allow you to manage uncertainty created by movements in interest rates and are used by customers who pay or receive variable interest under loans or investments and want to manage their interest rate risk. Hedging interest rate risk also means that you may not receive the benefit of rate movements in your favour.

For example, Interest Rate Swaps can remove the uncertainty created by movements in interest rates. This is because Interest Rate Swaps can have the economic effect of changing a floating rate exposure into a fixed rate exposure (for example, for use by a floating rate borrower concerned about rising interest rates) or changing a fixed rate exposure into a floating rate exposure (for example, for use by a fixed rate borrower concerned about falling interest rates).

Amounts Payable

The amounts payable under an Interest Rate Transaction will be agreed with you on the Trade Date. You and Kiwibank will agree to make payments on agreed Settlement Dates. The amounts to be paid will be calculated by Kiwibank using the agreed rates, notional amounts and calculation periods.

Term

The term of an Interest Rate Transaction will be agreed with you on the Trade Date.

Description and Examples of the Interest Rate Transactions

A brief description of an Interest Rate Swap is set out below.

The example below provides an example of one situation only and doesn't reflect the specific circumstances or the obligations that may arise under an Interest Rate Swap entered into by you. In particular, the interest rates described are examples only and aren't intended to be indicative of future rates.

Description: Interest Rate Swaps

When you enter into an Interest Rate Swap, you and Kiwibank will agree the notional amount, Fixed Rate, Settlement Dates, and the method for determining the Floating Rate payments (including the reference rate, reset dates and calculation periods).

If the terms of the Interest Rate Swap provide that you and Kiwibank both make payments on each Settlement Date:

- > one party ("A") agrees to pay the other party ("B") an amount calculated by applying the Fixed Rate to the notional amount for the relevant calculation period;
- > B agrees to pay A an amount calculated by applying the Floating Rate to the notional amount for the relevant calculation period; and
- > the parties' obligations will be settled on a net basis (that's, the party with the greater payment obligation will simply pay an amount equal to the difference between the two payment obligations).

It's important to remember that an Interest Rate Swap is completely independent of any underlying contractual arrangement, such as a loan. Accordingly, for the Interest Rate Swap to create an effective hedge, the terms of the Interest Rate Swap (such as the notional amount, Floating Rate and Settlement Dates) should match the terms of your underlying contractual arrangement (such as the principal amount, base rate used to determine your interest rate and interest payment dates). Alternatively, an Interest Rate Swap can be used to hedge only part of your exposure in respect of your underlying contractual arrangement (for example, the notional amount may be less than the principal amount of your loan).



Example: Interest Rate Swaps

For example, you're a borrower with a two year NZD2,000,000 floating rate loan under which interest is payable quarterly. The interest rate is based on BKBM and is reset at the start of each quarter. You're concerned that interest rates may rise and you would like to have certainty as to your interest costs under the loan.

You and Kiwibank enter into a two year Interest Rate Swap with a notional amount of NZD2,000,000, where you pay a Fixed Rate of 2.70%, you receive BKBM as the Floating Rate, there are quarterly reset dates (at the start of each quarter) and net settlement takes place each quarter.

If, in respect of a calculation period, BKBM is 3.00%, i.e. higher than Fixed Rate, on the relevant Settlement Date (and assuming there are 90 days in the calculation period):

- (a) You owe Kiwibank an amount calculated by applying the Fixed Rate of 2.70% to NZD2,000,000 for the relevant calculation period (i.e. 90/365)

$$= \$2,000,000 \times 0.027 \times 90/365$$

$$= \$13,315.07$$

- (b) Kiwibank owes you an amount calculated by applying the Floating Rate of 3.00% to NZD2,000,000 for the relevant calculation period (i.e. 90/365)

$$= \$2,000,000 \times 0.03 \times 90/365$$

$$= \$14,794.52$$

- (c) Your and Kiwibank's obligations are settled on a net basis. In this example Kiwibank has the greater obligation, so Kiwibank pays you the difference between the amounts payable in (a) and (b) above:
 $\$14,794.52 - \$13,315.07 = \$1,479.45$.

The net effect is that, while the base rate applicable to your loan (i.e. BKBM) has increased to 3.00% for that quarter, and your interest payments on your loan have increased as a result, the amount received from Kiwibank under the Interest Rate Swap offsets that increase. Overall (and ignoring any tax or accounting effects), the economic effect is the same as if the base rate applicable to your loan for that quarter had been 2.70%.

If, in respect of a calculation period, BKBM is 2.50%, i.e. lower than Fixed Rate, on the relevant Settlement Date:

- (a) You owe Kiwibank an amount calculated by applying the Fixed Rate of 2.70% to NZD2,000,000 for the relevant calculation period (i.e. 90/365)

$$= \$2,000,000 \times 0.0270 \times 90/365$$

$$= \$13,315.07$$

- (b) Kiwibank owes you an amount calculated by applying the Floating Rate of 2.50% to NZD2,000,000 for the relevant calculation period (i.e. 90/365)

$$= \$2,000,000 \times 0.0250 \times 90/365$$

$$= \$12,328.77$$

- (c) Your and Kiwibank's obligations are settled on a net basis. In this example you have the greater obligation, so you pay Kiwibank the difference between the amounts payable in (a) and (b) above: $\$13,315.07 - \$12,328.77 = \$986.30$.

The net effect is that, while the base rate applicable to your loan (i.e. BKBM) has reduced to 2.50% for that quarter, and your interest payments on your loan have decreased as a result, the amount paid to Kiwibank under the Interest Rate Swap means that you don't receive the benefit of that decrease. Overall (and ignoring any tax or accounting effects), the economic effect is the same as if the base rate applicable to your loan for that quarter had been 2.70%.



Client Agreement

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

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

Before entering into a Client Agreement, Kiwibank will also assess your suitability for an investment in that Interest Rate 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 Interest Rate Transactions

The terms of a specific Interest Rate 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 an Interest Rate Transaction, Kiwibank will send you a confirmation (either electronically or in hard copy) outlining the details of the Interest Rate 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 either:

- (a) immediately notify Kiwibank that there's an error in the Confirmation; or
- (b) sign a copy of the Confirmation and return it to Kiwibank to acknowledge that it's correct.

The Interest Rate Transaction will be valid and binding even if these steps aren't completed. However, if a signed copy of the Confirmation isn't returned within one business day of the Confirmation being sent, Kiwibank may, in its complete discretion, cancel the Interest Rate Transaction. The valuation and payment provisions described under "Payments on Cancellation" below will apply to such a cancelled Interest Rate Transaction.

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 Interest Rate Transactions

Generally, neither you nor Kiwibank has the right to vary an Interest Rate Transaction after it's been entered into, except as provided in the particular terms of the Interest Rate Transaction or if both parties agree.

If you wish to vary an Interest Rate Transaction, for example, by:

- > extending or cancelling the Interest Rate 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 Fixed Rates and increased margin.

When a revised Interest Rate Transaction has been agreed you'll receive an additional Confirmation outlining the varied terms.

Payments on variation of an Interest Rate Transaction

If your request is accepted, you must accept any varied Fixed Rates, increased margins and other costs of varying the Interest Rate Transactions and agree to any replacement or amended Interest Rate Transaction.



Termination

Generally, neither you nor Kiwibank has the right to terminate an Interest Rate Transaction after it's 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 Interest Rate Transaction, or if both parties agree.

Cancellation under your Client Agreement

Under your Client Agreement Kiwibank has rights to cancel any or all Interest Rate 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 an Interest Rate Transaction;
- > your failure to comply with any obligation under an Interest Rate Transaction or your Client Agreement;
- > any representation, warranty, statement made or information provided by you or on your behalf in connection with an Interest Rate 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 an Interest Rate Transaction or the Client Agreement, or Kiwibank's ability to recover any amount payable, or to enforce any obligation, under an Interest Rate 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, an Interest Rate Transaction or the Client Agreement;
- > the costs to Kiwibank of any Interest Rate Transaction increasing as a result of any event or matter that arises or occurs after the date the Interest Rate Transaction was entered into; or

- > it being impracticable for Kiwibank to receive any payment under, or to perform any obligations under, an Interest Rate 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 on a break date or by agreement

You and Kiwibank may agree that a break date is to apply to an Interest Rate Transaction, which will be specified in the Confirmation. In that case, Kiwibank has the right (but not the obligation) to cancel that Interest Rate Transaction on the break date or dates agreed with you, on giving not less than 15 business days' notice in accordance with the Client Agreement.

In addition, you may request to cancel an Interest Rate 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 an Interest Rate Transaction is cancelled under your Client Agreement or on a break date as described above, the value of the cancelled Interest Rate Transaction will be determined by Kiwibank as at the cancellation date. The value of the cancelled Interest Rate Transaction will be determined by Kiwibank, in its absolute discretion, as the mark-to-market value of the cancelled Interest Rate Transaction, in accordance with the Client Agreement.

If you cancel an Interest Rate Transaction by agreement, you must accept any costs of cancellation agreed with Kiwibank.

The "**mark-to-market value**" of an Interest Rate 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 Interest Rate Transaction.



The values of all Interest Rate 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 an Interest Rate 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 Interest Rate Transactions and the net amount payable are determined.

Fees

The payments that will or may be due under an Interest Rate Transaction are as described in this PDS. There are no other fees or charges for entering into an Interest Rate Transaction. Please see section 4 of the PDS (Fees) for further details.

No Transfer

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

Governing Law

The Interest Rate 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 Interest Rate Transactions.

3. Risks of these Derivatives

Product Risks

An Interest Rate Transaction is only suitable for you if you understand the effect that changes in market interest rates (whether favourable or unfavourable) can have on the value of your Interest Rate Transaction.

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

Opportunity cost

Interest rates and other market rates can move unpredictably. If you've entered into an Interest Rate Transaction to make certain your interest or other market-related costs or benefits under an underlying contractual arrangement, you'll not receive the benefit of favourable market movements during the term of your Interest Rate Transaction.

If the interest rate or rates specified in your Interest Rate Transaction moves in a way that would have been favourable to you had you not entered into the Interest Rate 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 interest or other market-related costs or benefits under an underlying contractual arrangement, the terms of your Interest Rate Transaction (such as Settlement Dates, term, notional amount and Floating Rate, as applicable) must match the terms of your underlying contractual arrangement.

For example, if you pay interest under your underlying contractual arrangement and the method for determining the Floating Rate payments for your Interest Rate Transaction (including the reference rate, reset dates and calculation periods) isn't the same as the method used for determining the interest rate payments under your contractual arrangement (or your contractual arrangement changes), the amounts payable to you under the Interest Rate Transaction may not offset the interest payable by you under the contractual arrangement.

No right of early termination

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



If Kiwibank doesn't agree to terminate or vary the Interest Rate 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 an Interest Rate Transaction from the time that you and Kiwibank have reached agreement on its terms, whether verbally (by phone or in person) or in writing.

No underlying contractual arrangements

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

Consequences of a failure to make a payment and break dates

If you fail to make a payment when due under an Interest Rate 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 an Interest Rate Transaction. Further, if your Interest Rate Transaction includes a break date, Kiwibank may also cancel the Interest Rate Transaction at its discretion on the break date. Please see "Termination" in section 2 of the PDS (Key Features of the Derivatives) for further details.

Cancellation of an Interest Rate Transaction may affect your hedging position and expose you to volatility and potential losses related to interest rates or otherwise. You may also be required to pay the mark-to-market value of a cancelled Interest Rate 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 an Interest Rate 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 an Interest Rate 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 an Interest Rate Transaction, you must accept any varied Fixed Rates, increased margins and other costs of varying the Interest Rate Transaction and agree to any replacement or amended Interest Rate 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 Interest Rate Transaction you've entered into with us. Kiwibank isn't required to prioritise your interests when dealing in Interest Rate Transactions with you.

Issuer risks

When you enter into an Interest Rate Transaction with Kiwibank, you're exposed to a risk that Kiwibank cannot make 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 Interest Rate Transactions.

If Kiwibank fails to make 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 local currency long-term issuer default credit rating from Fitch Ratings is **AA (outlook stable)**.

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 an Interest Rate Transaction, Kiwibank will send you a Confirmation as described under “Entry into Interest Rate 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 Interest Rate Transaction.

Cancellation of an Interest Rate Transaction may affect your hedging position and expose you to volatility and potential losses related to interest rates or otherwise.

4. Fees

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

Kiwibank covers its costs and makes profit by adjusting the relevant interest rates or other quoted market prices or rates by a margin. In effect, you pay for the Interest Rate Transaction by accepting the terms of the Interest Rate 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 Interest Rate 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; 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 an Interest Rate 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 Interest Rate Transactions will be received on Kiwibank’s own account. You aren’t required to pay any money, or provide any property, to Kiwibank as collateral under the Interest Rate 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 Interest Rate 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 Interest Rate 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 Interest Rate 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 Interest Rate 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 Interest Rate 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 an Interest Rate 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 Interest Rate Transactions, and sets out terms and conditions applying to them. The terms of a specific Interest Rate Transaction are agreed as described under “Entry into Interest Rate 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 Interest Rate 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; and
- > 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 Interest Rate Transactions.





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