

Kiwibank

Subordinated Notes Offer – Investor Presentation

Steve Jurkovich – Chief Executive

Tim Main - Treasurer

30 November 2020

Joint Lead Managers



FORSYTH BARR



JARDEN

Kiwi
bank.

Disclaimer

This presentation provides information in summary form only and is not intended to be complete. The information in this presentation has been obtained from sources which Kiwibank believes to be reliable and accurate at the date of preparation, but its accuracy, correctness and completeness cannot be guaranteed.

The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation by Kiwibank, the Arranger, the Joint Lead Managers or any of their respective directors, officers, employees, affiliates, agents or advisers to invest in the Subordinated Notes. Nothing in this presentation constitutes legal, financial, tax or other advice. The information in this presentation does not take into account the particular investment objectives, financial situation, taxation position or needs of any person. You should seek independent financial and taxation advice before deciding to invest.

The Subordinated Notes are riskier than a bank deposit and carry similar risks to shares but do not have the same opportunity for growth as shares. If Kiwibank experiences financial difficulty, the Subordinated Notes can be written off completely. This means you could lose all of your investment.

This presentation contains certain forward-looking statements in respect of Kiwibank. These forward-looking statements are based on estimates, projections and assumptions made by Kiwibank about circumstances and events that have not yet occurred. Although Kiwibank believes these estimates, projections and assumptions to be reasonable, they are inherently uncertain. Therefore, reliance should not be placed upon these estimates or forward-looking statements and they should not be regarded as a representation or warranty by Kiwibank or any of its directors, officers, employees or advisers or any other person that those forward-looking statements will be achieved or that the assumptions underlying the forward-looking statements will in fact be correct. It is likely that actual results will vary from those contemplated by these forward-looking statements and such variations may be material.

A limited disclosure document (**LDD**) has been prepared in respect of the offer. The LDD is available on the online Disclose Register maintained by the Companies Office (www.disclose-register.companiesoffice.govt.nz/ (offer number OFR13006)) or by contacting one of the Joint Lead Managers or your usual financial adviser. You should read the LDD before deciding whether to invest in the Subordinated Notes.

No action has been or will be taken by Kiwibank which would permit a public offering of the Subordinated Notes, or possession or distribution of this presentation, the LDD or any other offering material, in any country or jurisdiction where action for that purpose is required (other than New Zealand).

The Subordinated Notes may only be offered for sale or sold in conformity with all applicable laws and regulations in any jurisdiction in which they are offered, sold or delivered. No product disclosure statement, information memorandum, prospectus, circular, advertisement or other offering material in respect of any Subordinated Notes may be published, delivered or distributed in or from any country or jurisdiction except under circumstances which will result in compliance with all applicable laws and regulations.

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> Kiwibank has a strong purpose that is to make Kiwi better off. Our founding vision was for New Zealand to have a real, relevant and credible alternative to the offshore-owned banks that is fair and easy and that remains at the heart of who we are and why we exist.



Offer highlights

	Details
Issuer	Kiwibank Limited
Description of the Subordinated Notes	Unsecured subordinated loss absorbing notes
Offer amount	Up to \$275 million
Maturity	10 year notes maturing 11 December 2030
Optional Redemption Date	11 December 2025
Credit rating	The Subordinated Notes have been rated Baa3 by Moody's Investors Service
Quotation	Application to quote the Subordinated Notes on the NZX Debt Market has been made. NZX ticker code KWB010 has been reserved for the Subordinated Notes
Purpose	The Offer will raise Tier 2 Capital to help Kiwibank meet its regulatory capital requirements and manage its capital position. The proceeds of the Offer will be used for Kiwibank's general corporate purposes
Joint Lead Managers	Craigs Investment Partners, Forsyth Barr and Jarden

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1. About Kiwibank

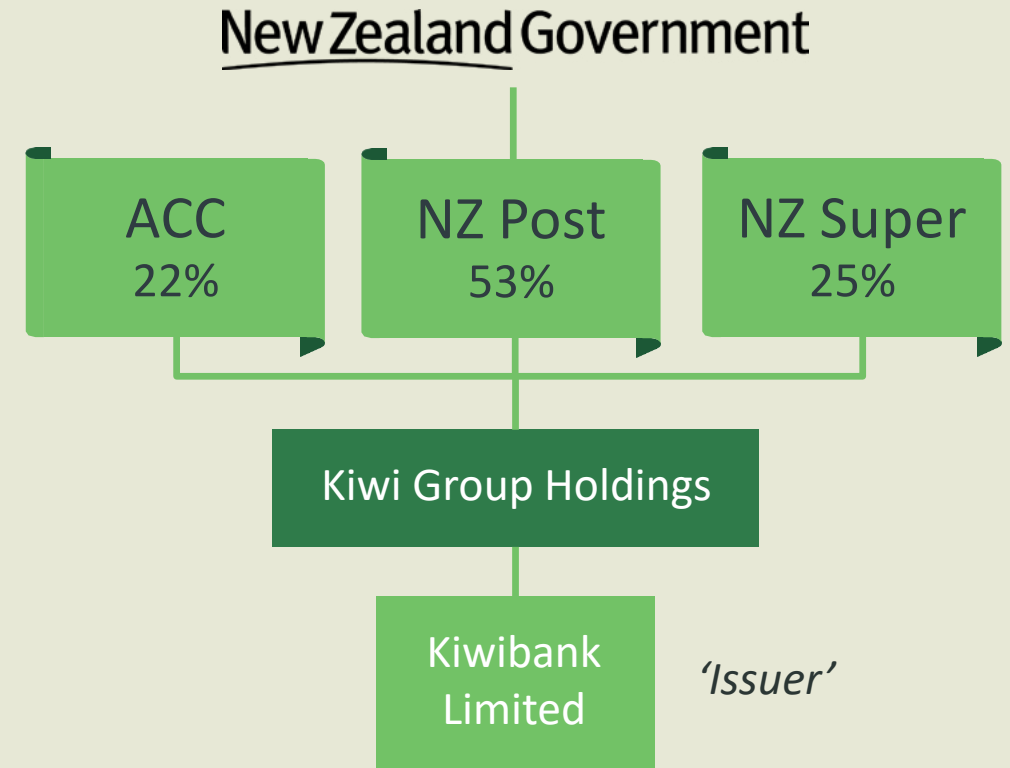
A wholly New Zealand-owned bank

Kiwibank is the largest New Zealand-owned bank with over a million customers.

Its purpose is to make both Kiwi and New Zealand better off.

Kiwibank offers a full range of simple, relevant personal banking products, including transactional and savings accounts, term deposits, mortgage and personal lending, along with credit cards and international services.

Kiwibank also provides business banking products to small-to-medium-sized enterprises (SME), including transactional and savings accounts, commercial lending, credit cards, asset finance and international and trade services.





The journey to
'better off'

Kiwi making
Kiwi better off

Kia tautoko tātou
i a tātou anō



Highlights of the year (to June 2020)

Financial



\$1.8B

NEW CUSTOMER
LENDING

1.9 x SYSTEM
GROWTH¹



\$2.4B

GROWTH IN CUSTOMER
DEPOSITS

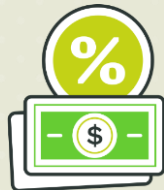
1.5 x SYSTEM
GROWTH¹



\$57M

PROFITS

STAYING IN
NEW ZEALAND



1.94%

NET INTEREST
MARGIN⁴

Social Impact



WON CANSTAR'S AWARD FOR
**MOST SATISFIED
CUSTOMERS^{2&3}**
IN HOME LOANS AND
CREDIT CARDS



51,078

PEOPLE DOWNLOADED
MENTEMIA
FOR FREE



6,361

FORMAL RECOVERY &
RESILIENCE SUPPORT
PACKAGES OFFERED FOR
COVID-19



4,586

NEW HOME
LOAN CUSTOMERS
HELPED INTO HOMES DURING THE
YEAR

¹ Percentage growth across NZ banks (e.g. if system deposit growth is 5% annually for NZ banks, 7.5% Kiwibank growth would represent 1.5 x system growth)

² Source: www.canstar.co.nz/star-rating-reports/msc-home-loans-provider-award/

³ Source: www.canstar.co.nz/star-rating-reports/satisfied-customers-credit-card-provider-award/

⁴ Net Interest Margin = net interest income / average interest earning assets

Highlights of the year (cont.)

Environmental Impact



↓ **26%**

DECREASE IN OUR
TOTAL CARBON
EMISSIONS*



↓ **30%**

DECREASE IN OUR
ELECTRICITY
USAGE*



215

DAYS OF SURVEILLANCE
WORK DONE BY DOC'S
CONSERVATION
DOGS



RELEASED OUR
RESPONSIBLE
BUSINESS
BANKING
POLICY

People and Culture



ACHIEVED
LIVING WAGE
ACCREDITATION



ACHIEVED
RAINBOW TICK
ACCREDITATION



↑ **37%**
OF OUR SENIOR LEADERS
ARE WOMEN



359
PEOPLE RECEIVED WELLBEING
TRAINING THROUGH OUR
GOODYARN &
RESILIENCE
WORKSHOPS

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*Compared to the baseline period (2018)

Financial performance (to June 2020)

Operating income

\$553m

(\$538m FY19)

Cost to income

77.4%

(69.7% FY19)

Net profit after tax

\$57m

(\$108m FY19)

Net interest margin

1.94%¹

(2.11% FY19)

Lending net growth

\$1.8b

(\$2.1b FY19)

Deposit net growth

\$2.4b

(\$2.1b FY19)

Key focus areas

- Growth in Operating Income was supported by above system growth in lending (9%) and deposits (13%) and a one-off gain on the sale of the Prezzy card business.
- NPAT was impacted by a high level of credit provisioning for COVID-19, rising operating costs, investment in technology and strategic transformation, and industry-wide increased risk and compliance investment.
- Aligned to our purpose of making Kiwi better off, Kiwibank has reduced product fees and interest rates on the Low Rate credit card and applied a 1% reduction to the variable lending rate.
- Return on Equity² of 3.0% for FY20 was down on FY19 (6.4%) as a result of lower operating profit.

Source: Kiwibank as at 30 June 2020

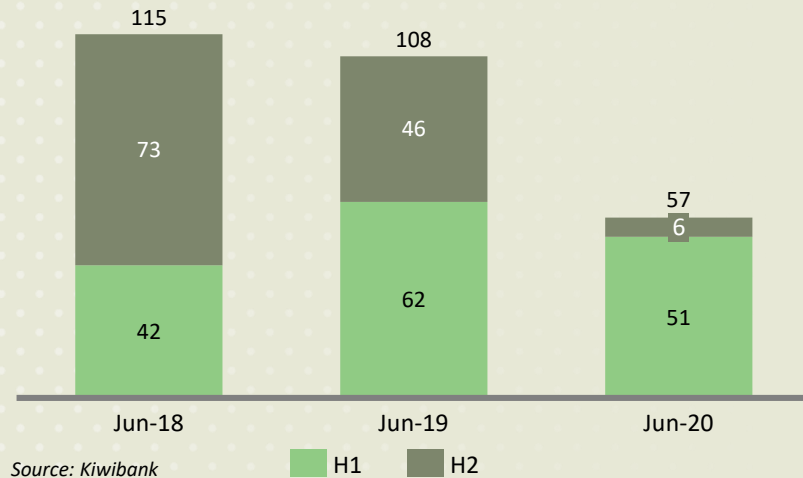
¹ Net Interest Margin = net interest income / average interest earning assets

² Return on Equity = (net profit after tax less distributions to holders of perpetual capital securities) / average equity

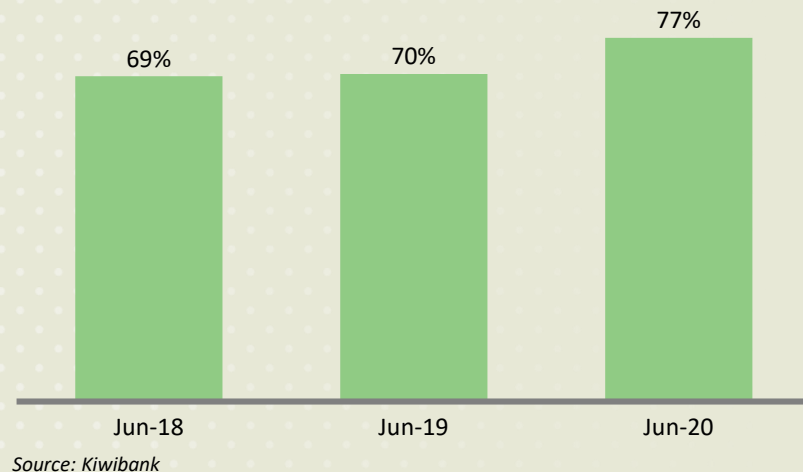
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Drivers of results (to June 2020)

Reported Net Profit after Tax (\$m)



Cost to Income Ratio

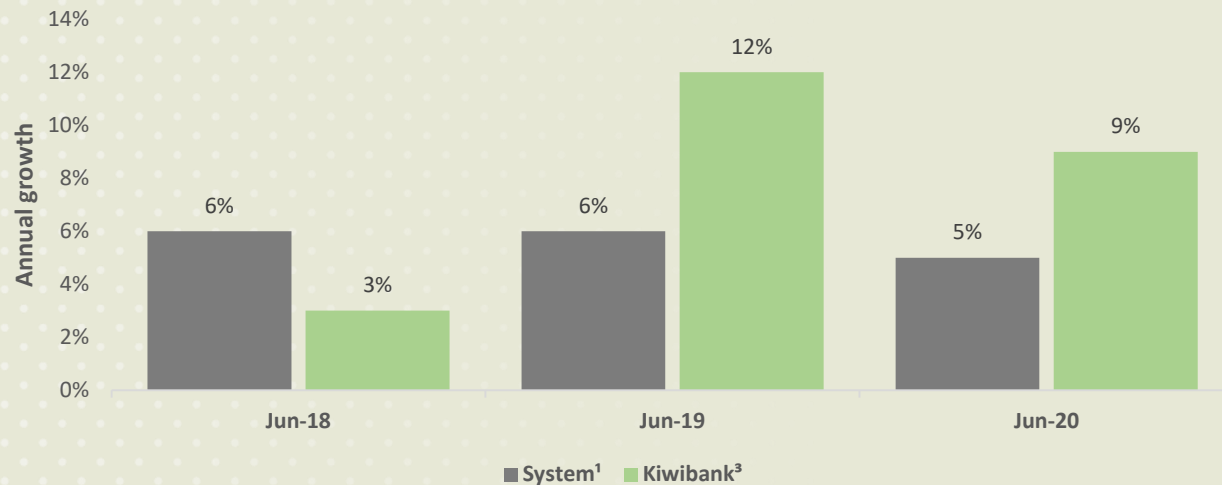


Key focus areas

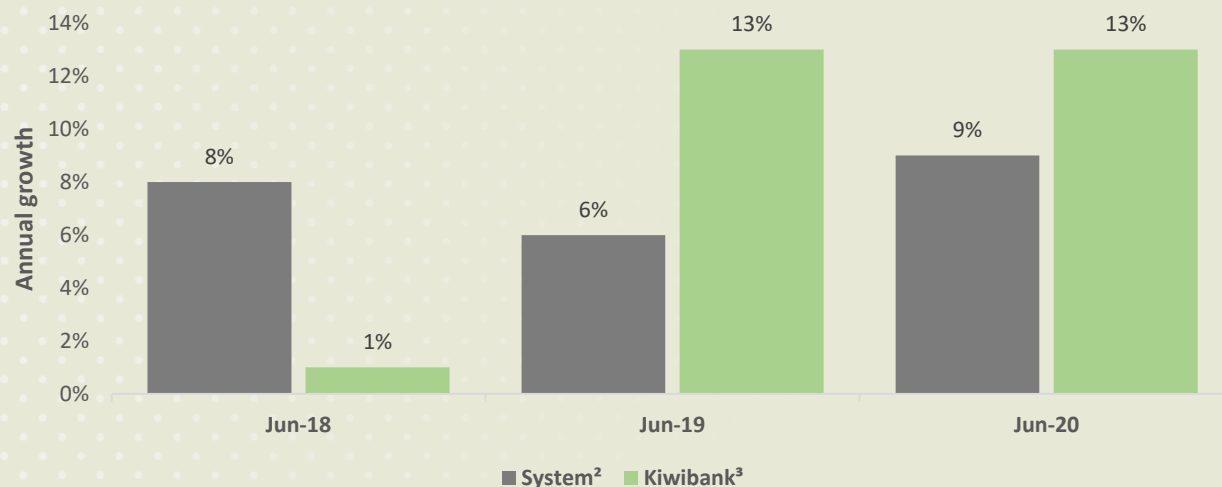
- NPAT was impacted by a high level of change in FY20 (strategic transformation, separation from NZ Post and additional regulatory activity). Whilst a proportion of these were expected, the major impact of COVID-19 credit provisions was not anticipated.
- The lower interest rate environment has resulted in a decrease in Net Interest Margin. Conversely Net Interest Income increased on FY19 due to higher lending volumes.
- Other operating income was lower due to a reduced product suite and change in the composition of credit and debit card spend through COVID-19.

Drivers of results (cont.)

Lending Growth (%)



Deposit Growth (%)



Key focus areas

- Kiwibank has outperformed the market over FY19 and FY20 in both lending and deposit growth.
- Strong growth in net lending assets in FY20 of \$1.8b (9%) has been further supported by the “Buy NZ” national campaign following COVID-19.
- Growth of \$2.4b (13%) in customer deposits over FY20 was 1.5x system growth.
- Supporting Small and Medium Businesses (SMEs) remains a core focus. Kiwibank has grown lending to this segment 36% compared to FY19.
- Residential mortgages have grown 7% compared to FY19.

¹ Source: www.rbnz.govt.nz/statistics/c5

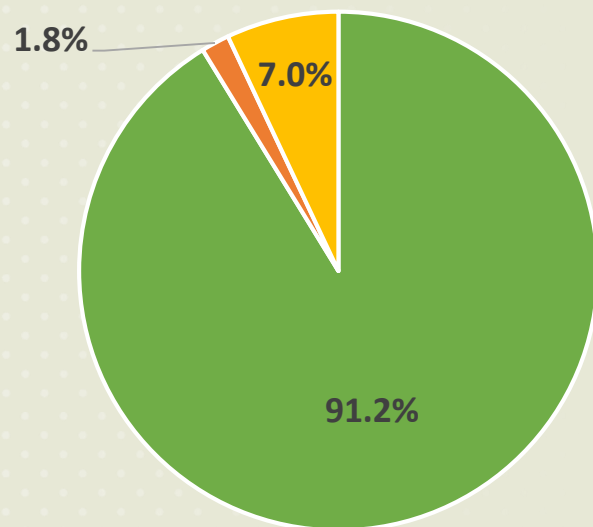
² Source: www.rbnz.govt.nz/statistics/s40-banks-liabilities-deposits-by-sector

³ Source: Kiwibank

Lending portfolio

Lending Category	30 June 2020 (NZ\$b)
Residential mortgage loans	\$20.3
Retail unsecured lending	\$0.4
Business exposures	\$1.6
Net Loans and Advances	\$22.2

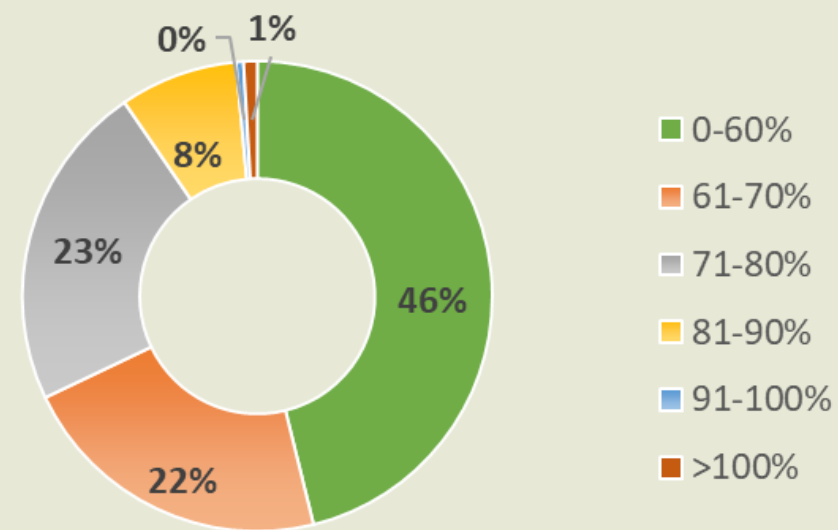
Net Loans and Advances - June 2020



■ Residential mortgages
 ■ Retail unsecured
 ■ Business exposures

Source: Kiwibank

Residential Mortgages - LVR Split



Source: Kiwibank

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A strong first quarter in FY21

Net lending growth¹

\$686m

(\$336m PCP²)

Deposit growth¹

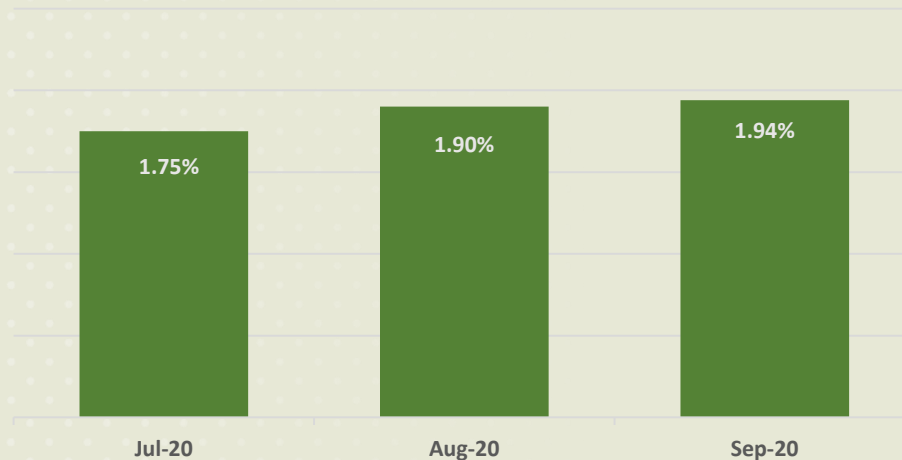
\$515m

(\$527m PCP²)

Highlights

- Strong asset growth in September quarter.
- Retail lending driven by first home buyers, investors and NZers returning from overseas.
- Net Interest Margin is beginning to benefit from lower term deposit repricing and a growing proportion of floating rate retail lending.

Net Interest Margin³ - FY21



Source: Kiwibank

¹ Source: Kiwibank as at 30 September 2020

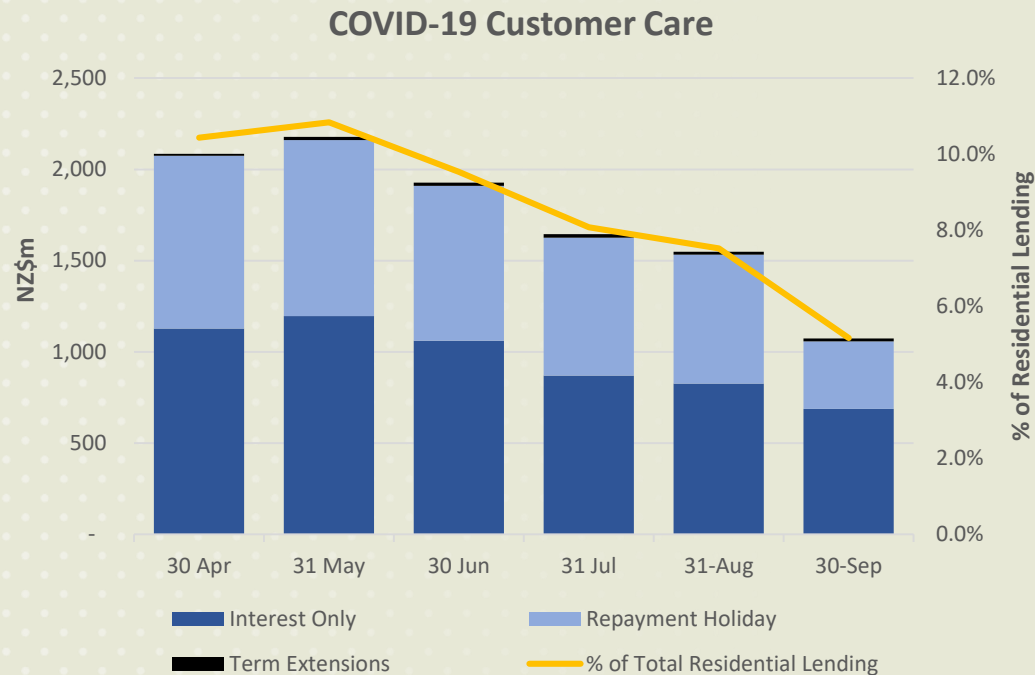
² Prior Comparative Period

³ Net Interest Margin = net interest income / average interest earning assets

COVID-19 – Kiwibank Response

Key focus areas

- Kiwibank's Relief and Resilience programme provided support to more than 8,000 personal and business banking customers for loans totalling more than \$2 billion.
- Supporting businesses by moving from paying suppliers monthly to paying accounts weekly.
- We continue to take a competitive position in the fixed home loan market and introduced a significant reset to variable home loan rates with a one percentage point drop.
- The temporary closure of bank branches during lockdown and redeployment of our people into areas where they could continue to support our customers.
- Supporting our Kiwibank people as they supported our customers, by making a commitment not to reduce jobs, hours or pay.

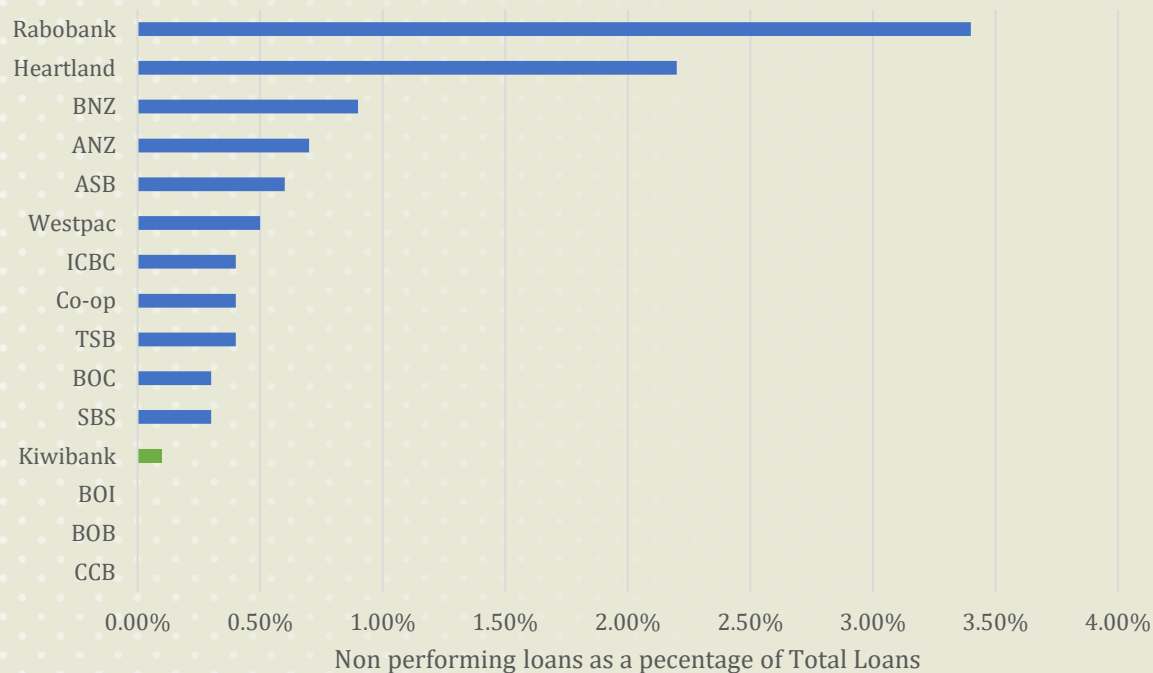


Source: Kiwibank

- Customers seeking mortgage relief peaked in May

Asset quality

Non-performing loan ratio



Source: RBNZ Financial Strength Dashboard – September 2020

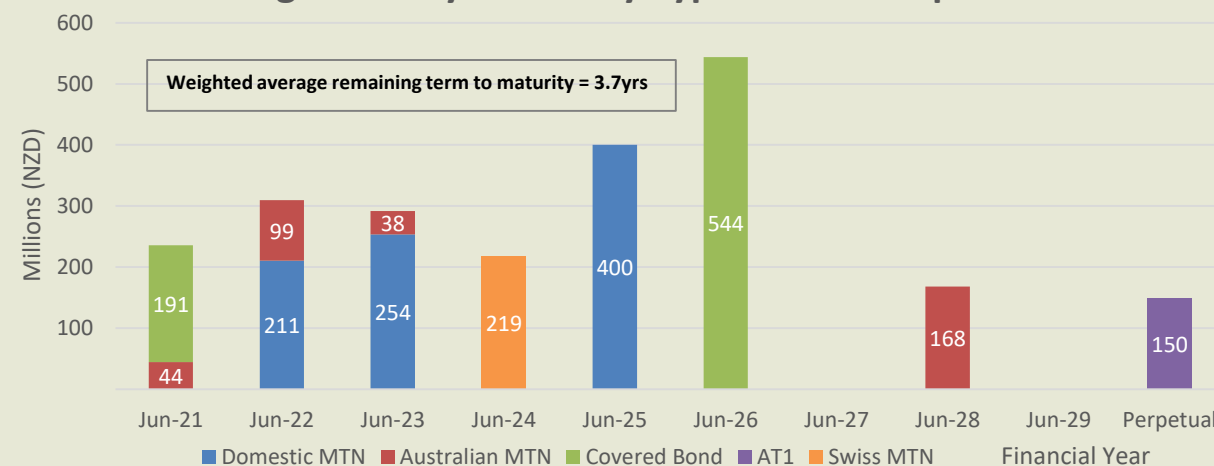
- Kiwibank's non-performing loan ratio is currently among the lowest in the industry.
- This reflects the high quality of the lending portfolio together with active management of deteriorating customers.

Funding mix

Credit Ratings

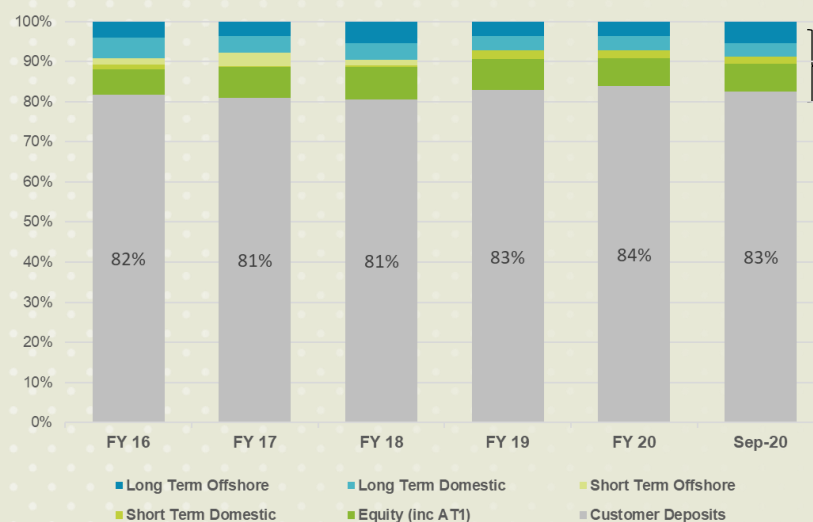
	Long-term	Short-term	Outlook
Fitch	AA	F1+	Stable
Moody's	A1	P-1	Stable
Standard & Poor's	A	A-1	Stable

Term Funding Maturity Profile by Type as at 30 Sep 20



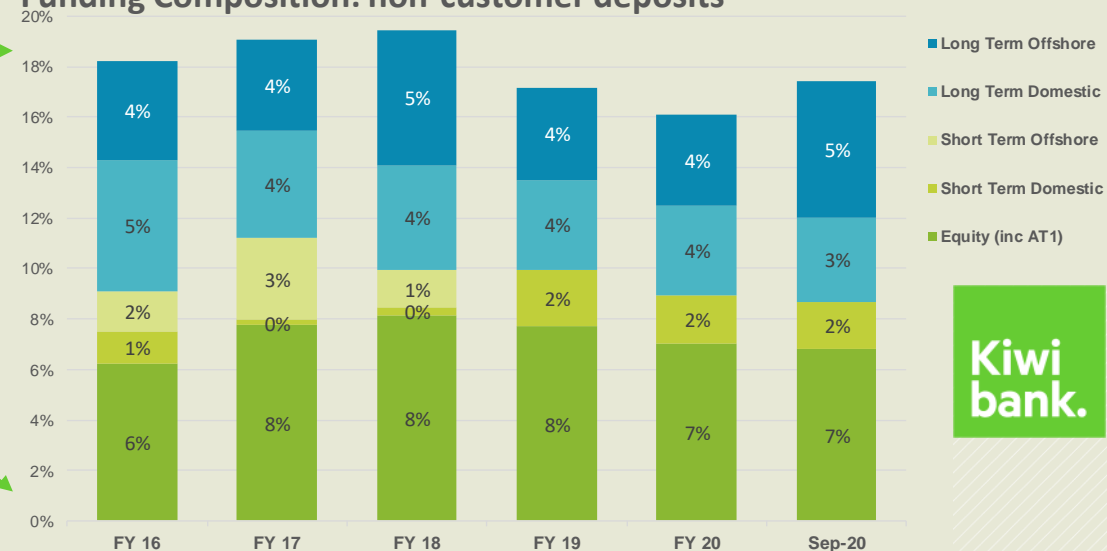
Source: Kiwibank as at 30 Sept 2020

Funding Composition



Source: Kiwibank as at 30 Sept 2020

Funding Composition: non-customer deposits

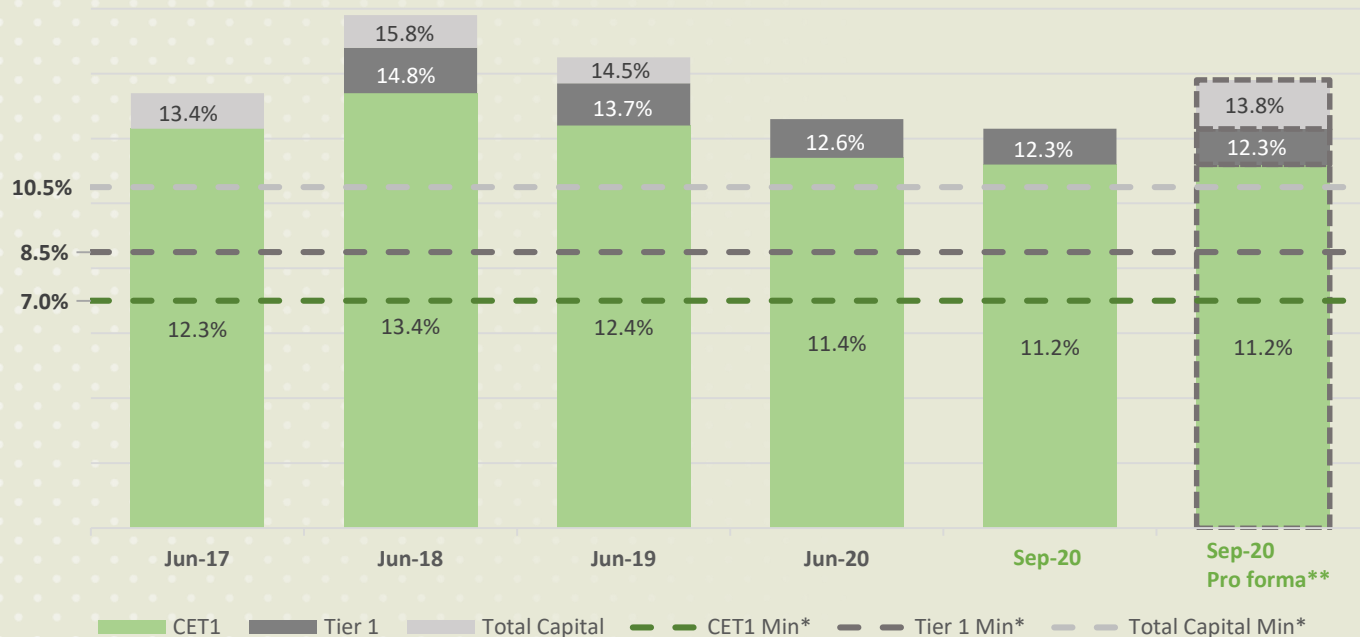


Source: Kiwibank as at 30 Sept 2020



Capital

Regulatory Capital Ratios



* includes 2.5% capital conservation buffer

** assuming that the net proceeds raised by the issue of Subordinated Notes are \$275m, and using the method of calculation required by the RBNZ's banking standards, this will increase the Kiwibank Group's 30 September 2020 Total Capital Ratio by approximately 1.5%. The Kiwibank Group's capital adequacy ratios will also be impacted by organic capital growth, changes in provisions and risk weighted assets growth since 30 September 2020

Source: Kiwibank

Key focus areas

- June 2020 CET1 capital ratio of 11.4% is down on last year driven by strong balance sheet growth and COVID-19 related provisioning.
- Capital ratios comfortably above RBNZ minimum requirements.
- In response to the COVID-19 crisis, the RBNZ has prohibited banks from redeeming capital instruments and paying ordinary dividends. As a result, Kiwibank did not redeem the AT1 instrument in May 2020. Distributions may continue to be paid on AT1 instruments.
- Implementation of higher RBNZ capital ratios delayed from July 2020 to July 2022.
- Successfully raising \$275m in this offer will increase total capital by \$198m (72% being the proportion of the Subordinated Notes expected to be recognised as Tier 2 Capital by the RBNZ) less transaction costs.

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2. Subordinated Notes Overview

Key terms of the Subordinated Notes

Issuer	Kiwibank Limited
Description of the Subordinated Notes	Unsecured subordinated loss absorbing notes, ranked below all senior debt obligations including deposits
Maturity	10 year notes maturing 11 December 2030
Optional Redemption Date	11 December 2025
Interest rate	The Interest Rate will be fixed for the first five years, after which it will be reset for the remaining five years to be equal to the five year swap rate plus the Margin, but will not be less than 0%
Interest payments	Quarterly
Early redemption	<p>Kiwibank may, subject to certain conditions, choose to repay the Subordinated Notes early:</p> <ul style="list-style-type: none"> • on the Optional Redemption Date or on any Scheduled Interest Payment Date after that date; or • on an earlier Scheduled Interest Payment Date if a Tax Event or a Regulatory Event has occurred
Solvency Condition	The payment of interest on each Scheduled Interest Payment Date is subject to Kiwibank satisfying the Solvency Condition on the Scheduled Interest Payment Date
Write Off	If a Non-Viability Trigger Event occurs before the Transition Date, all or some of the Subordinated Notes will be Written Off
Credit rating	The Subordinated Notes have been rated Baa3 by Moody's Investors Service

Loss absorption on Non-Viability

- If a Non-Viability Trigger Event occurs before the Transition Date, all or some of the Subordinated Notes will be written off
 - a Non-Viability Trigger Event cannot occur after the Transition Date.
- The Transition Date is 1 July 2021 or such later date on which the changes to the eligibility criteria for Tier 2 Capital in the Reserve Bank's prudential standards take effect.
- A Non-Viability Trigger Event occurs if:
 - the RBNZ gives a direction under section 113 of the Reserve Bank Act that Kiwibank must write-off the Subordinated Notes (see next slide); or
 - Kiwibank is placed into statutory management and the Statutory Manager decides that Kiwibank must write-off the Notes.
- If some but not all of a class of capital instruments that includes the Subordinated Notes is required to be converted into common equity or written off, Kiwibank must first convert or write off such number of its 2015 Additional Tier 1 capital instruments as is sufficient to meet that requirement.

Section 113 of the Reserve Bank Act

- The grounds on which the RBNZ could give a direction to write-off Subordinated Notes under section 113 would not be met unless Kiwibank experiences severe financial difficulty. Those grounds are:
 - Actual or likely insolvency
 - The suspension of or inability to meet payment obligations
 - Affairs of Kiwibank being conducted in a manner prejudicial to the financial system
 - Circumstances of Kiwibank being prejudicial to the soundness of the financial system
 - Business of Kiwibank not being conducted in a prudent manner
- “the guiding principle for the Reserve Bank will be that such a direction [for either conversion or write off] will be issued when the Reserve Bank determines that, without conversion or write-off, the registered bank would become non-viable.”
Reserve Bank, BS1 Statement of Principles, April 2020

Changes to Tier 2 eligibility criteria

- Kiwibank is seeking to issue Tier 2 Capital to boost its regulatory capital.
- Under the RBNZ's current rules, to qualify as Tier 2 Capital, an instrument must have the ability to absorb losses, either by conversion into ordinary equity or write off.
- The RBNZ has conducted a comprehensive review of its capital framework for banks.
- One of the key decisions is to change the eligibility criteria for Tier 2 Capital to remove the ability for those instruments to include contractual features that give rise to conversion or write-off at the point of non-viability.
- The new eligibility criteria for Tier 2 Capital are expected to come into effect on 1 July 2021 (the Transition Date).
- Kiwibank is not expecting any other changes to the eligibility criteria for Tier 2 instruments, but there may be additional changes to the criteria that Kiwibank is unable to anticipate.
- Kiwibank may amend terms of the Subordinated Notes without Holder consent if, subject to certain limitations, it is necessary or expedient for the purpose of enabling the Subordinated Notes to continue to qualify as Tier 2 Capital with effect from the Transition Date.
 - Note: any amendments to the terms of the Subordinated Notes cannot change payment dates, reduce amounts payable to Holders, remove express rights of Holders or impose new obligations on Holders.



Interest payments

- Interest will be paid quarterly in arrear in equal payments on 11 March, 11 June, 11 September and 11 December in each year, with the first Scheduled Interest Payment Date being 11 March 2021.
- The Interest Rate will be fixed for the first five years, after which it will be reset for the remaining five years to be equal to the five year swap rate plus the Margin, but will not be less than 0%.
- The first Interest Rate and the Margin for the period from 11 December 2020 to 10 December 2025 will be determined following the Bookbuild on the Rate Set Date (4 December 2020).
- Interest payments on the Subordinated Notes are subject to Kiwibank satisfying the Solvency Condition.

Early redemption

- Kiwibank may, subject to the conditions described below, choose to redeem the Subordinated Notes early:
 - on the Optional Redemption Date (11 December 2025), or on any Scheduled Interest Payment Date after that date; or
 - on an earlier Scheduled Interest Payment Date if a Tax Event or Regulatory Event has occurred.
- Kiwibank may only choose to redeem the Subordinated Notes early if:
 - the Reserve Bank has consented to the repayment of the Subordinated Notes; and
 - the Solvency Condition will be satisfied immediately after repaying the Subordinated Notes.
- If the Subordinated Notes are repaid on the Optional Redemption Date or on any Scheduled Interest Payment Date after that date, holders will receive the Face Value plus accrued interest.
- If the Subordinated Notes are redeemed prior to the Optional Redemption Date due to a Tax Event or Regulatory Event, holders will receive the greater of Face Value and Market Value plus accrued interest.

Credit rating

- Kiwibank has an issuer credit rating of A1 by Moody's Investors Service
- The Subordinated Notes, which rank behind depositors and other senior debt holders, have been rated Baa3 by Moody's Investors Service
- Capital instruments are notched from the relevant Baseline Credit Assessment

Explaining the Baa3 credit rating of the Subordinated Notes

Kiwibank issuer credit rating	A1
Deduction for removing Group support	3 Notches
Kiwibank Baseline Credit Assessment	Baa1
Deduction for subordination	1 Notch
Deduction for explicit loss absorption	1 Notch
Subordinated Notes credit rating	Baa3

3. The Offer

Key terms of the Offer

Purpose	The Offer will raise Tier 2 Capital to help meet Kiwibank's regulatory capital requirements and manage its capital position Kiwibank's Tier 2 Capital will increase by 72% of the amount raised (less transaction costs)
Use of proceeds	The proceeds of the Offer will be used for Kiwibank's general corporate purposes
Offer amount	Up to \$275 million
Minimum application amount	\$5,000 and in multiples of \$1,000 thereafter
Brokerage	0.50% on firm allocations plus 0.50% retail brokerage, paid by the Issuer
Quotation	Application has been made for the Subordinated Notes to be quoted on the NZX Debt Market under the ticker code KWB010
Joint Lead Managers	Craigs Investment Partners, Forsyth Barr and Jarden

Important dates

Important dates for the Offer	Date
LDD lodgement date	27 November 2020
Opening Date	30 November 2020
Rate Set Date	4 December 2020
Closing Time	12:00 p.m. on 4 December 2020
Issue Date and allotment date	11 December 2020
Expected date of initial quotation	14 December 2020

Important dates for the Subordinated Notes	Date
Scheduled Interest Payment Dates	11 March, 11 June, 11 September and 11 December in each year
First Scheduled Interest Payment Date	11 March 2021
Transition Date	1 July 2021 or such later date determined by the RBNZ
Rate Reset Date and Optional Redemption Date	11 December 2025
Maturity Date	11 December 2030

4. Questions

5. Contact details



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