Product Disclosure Statement

Issued on 19th December 2018

This is a replacement Product Disclosure Statement, which replaces the Product Disclosure Statement previously dated 7th November 2018, relating to an offer of Term Deposits issued by FE Investments Limited.

This document gives you important information about this investment to help you decide whether you want to invest.

There is useful information about this offer on www.business.govt.nz/disclose.

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

You can also seek advice from a financial adviser to help you to make an investment decision

FE Investments
Further Everyday

Section 1- Key Information Summary

What is this?

This is an offer of first ranking term deposits (***"Term Deposits"***). Term Deposits are debt securities issued by FE Investments Limited (***"FEI"*** or the ***"Company"***). You give FEI money, and in return FEI promises to pay you interest and repay the money at the end of the term. If FEI runs into financial trouble, you might lose some or all of the money you invested.

Term Deposits offered by FEI can be denominated in New Zealand Dollars, US Dollars and Australian Dollars or such other currencies as advised by FEI from time to time.

About FEI

FEI was incorporated in July 2003 under company number 1353487. FEI's purpose is to lend money raised from depositors to small to medium enterprises (***"SME"***) operating in the business sector, as well as to the property sector. As with most other non-bank deposit takers, FEI typically lends to borrowers who do not meet the lending criteria of registered trading banks.

More information about FEI is available on our website www.fei.co.nz

In March 2015, we were licensed by the Reserve Bank of New Zealand as a non-bank deposit taker (***"NBDT"***).

Key Terms of the Offer

Set out below are the key terms of the offer. You should also read section 2 (Terms of the offer).

Description of Term Deposits	Term Deposits are secured debt securities.
Term	Term deposits are issued for terms of 6,12, 18, 24 and 36 months or such other terms specified by FEI.
Interest rates	Details on interest rates for Term Deposits are found on our website or by contacting us for the latest rate card. Interest rates are subject to change without notice. Once your application is accepted, the interest rate for your Term Deposit is fixed until maturity.
Interest payments	Quarterly interest is payable on the first business day of April, July, October and January for the preceding quarter (or part thereof) and where applicable, on the maturity date of Term Deposits. Interest accrues on Term Deposits (at the interest rate specified in your application form) from the actual date FEI is in receipt of payment, subject to clearance of any payment made by cheque. Interest due is payable in the manner specified on your application form subject only to deduction of withholding tax. Interest will be paid in the currency of the Term Deposit made with FEI. For example, NZD deposits will have its interest paid in NZD, AUD deposits will have its interest paid in AUD. Interest may be compounded or credited to the nominated bank account.
Offer opening and closing dates	This offer opened on 29 November 2016. This is a continuous offer. There is no closing date.
Early withdrawal	Term Deposits may be withdrawn prior to maturity in limited circumstances. If FEI agrees (at FEI's discretion) to any withdrawal of Term Deposits (or part thereof), FEI reserves the right to adjust the interest rate to reflect the revised shorter term of your investment. FEI may charge you a reasonable administration fee for any such early withdrawal.

No Guarantee/ Who is responsible for repaying you?

FEI is solely responsible for repaying you. The offer of Term Deposits under this PDS and the interest payable are not guaranteed by FE Investments Group Limited (FEI's parent), the Supervisor, or any other person.

How you can get your money out early

Term Deposits are invested with FEI for a fixed period which means the funds are generally not available until the maturity date.

FEI may consider early repayment of your Term Deposit in limited circumstances such as:

- the death of an investor and an application by his or her estate; or

- material financial hardship, where reasonable proof of such hardship is provided to FEI.

Any request for early withdrawal must be in writing. If FEI agrees to the full or partial early withdrawal of your Term Deposits, FEI may adjust the interest rate to reflect the revised shorter term of your investment and charge you an administration fee. FEI may stipulate that early repayment will be at the times and in amounts acceptable to FEI.

FEI does not intend to quote these Term Deposits on a market licensed in New Zealand and there is no other established market for trading them. This means that you may not be able to sell your Term Deposits before the end of their term.

How Term Deposits rank for repayment

On a liquidation of FEI, your rights and claims under the Term Deposits would rank:

- **after** all creditors preferred by law (e.g. the Inland Revenue for unpaid PAYE and employees for holiday pay) and any permitted prior security interests. As of the current date there are no prior security interests other than a bank guarantee for FEI's tenancy agreement;
- **equally** with all other Term Deposit holders; and
- **ahead** of any lesser ranking secured creditors (at the date of this PDS there are none), all unsecured creditors and the distribution of surplus assets in accordance with the rules of FEI.

Further information regarding how the Term Deposits rank on the liquidation of FEI can be found in section 4 of this PDS (Key features of Term Deposits) on page 12.

What assets are these Term Deposits secured against?

We have granted a security interest to Trustees Executors Limited as supervisor (the **"Supervisor"**) which secures FEI's payment obligations under the Term Deposits. The security interests are over all present and after-acquired personal property of FEI, primarily our loan portfolio and cash holdings.

Further information regarding the security interests can be found in section 4 of this PDS (Key features of Term Deposits) on page 12.

Where you can find FEI's financial information

The financial position and performance of FEI are essential to an assessment of FEI's ability to meet its obligations under the Term Deposits. FEI's annual financial statements are available on the disclose register at www.business.govt.nz/disclose and FEI's website. You should also read section 5 of this PDS (FEI's financial information) on page 14.

Key risks affecting this investment

Investments in debt securities have risks. A key risk is that FEI does not meet its commitments to repay your Term Deposit or pay you interest (credit risk). Section 6 of the PDS (risks of investing) discusses the main factors that give rise to the risk. You should consider if the credit risk of these debt securities is suitable for you. The interest rates for these Term Deposits should also reflect the degree of credit risk. In general, higher returns are demanded by investors from businesses with higher risk of defaulting on their commitments. You need to decide whether the offer is fair. FEI considers that the most significant risks factors are:

Regulatory Compliance Risk

FEI is subject to various regulatory compliance obligations. These include capital adequacy ratios and related party restrictions specified in FEI's Trust Deed. This purpose of these restrictions is to ensure there is sufficient capital to absorb losses and to reduce the risk of excessive lending to connected parties which could be detrimental to FEI's financial position. In the course of preparing FEI's financial statements for the year ended 31st March 2018 for the annual audit, FEI made provisions for individual impaired loans and revalued downwards its finance lease portfolio. The adjustments for individual impaired loans increased the exposure to related parties causing FEI to retrospectively breach its related party exposure limit in March and April 2018. The revaluation of FEI's finance lease portfolio lowered the capital ratio causing FEI to retrospectively breach the capital ratio agreed under the Trust Deed for the months of April, May, October and November 2018 (see section 3 and 5 for more information on the compliance breach and FEI's financial covenants – agreed and statutory). If compliance breaches continue to occur, FEI could be subject to enforcement measures such as financial penalties by the Reserve Bank of New Zealand as well as the Financial Markets Authority and in a worst-case scenario have its deposit taking licence revoked.

Loan Portfolio Concentration Risk

Loan portfolio concentration risk is where a small number of borrowers account for a significant proportion of the loan portfolio. FEI has loan concentration risk because as at 31st March 2018, the top six loans (by value) in FEI's loan portfolio (less any loan provisions) represented 45.13% of its total loan receivables. Furthermore, at the same date FEI had eleven loans where the value of each represented more than 10% of FEI's shareholders' funds. About 27.7% of FEI's total loan receivables were in the property development sector (although the proportion has decreased since then). If credit losses from any of these high concentration loans became material, FEI would have reduced cash reserves available to repay Term Deposits.

Liquidity risk

A significant proportion of FEI's deposits (26.3% as at 31st March 2018) are received from nonresident investors. If financial markets either in New Zealand or overseas were to experience unexpected problems (which may be caused by political, economic, social, financial melt-downs overseas), FEI may face difficulties raising sufficient deposits to replenish maturing deposits. In addition, the recent compliance breaches in relation to minimum capital ratios, maximum single party exposure and related party disclosure (see section 3 under the heading "Breach of Financial Covenants" and section 5 "FEI's financial information") may affect investors' trust in FEI which could also result in FEI facing difficulties in raising deposits. As a result, FEI may have insufficient funds to redeem Term Deposits or pay interest when they are due for payment.

This summary does not cover all of the risks of investing in the Term Deposits. You should also read section 6 of this PDS (Risks of Investing) on page 17.

What is FEI's credit rating?

Standard & Poor's Rating Services assigned a "B" long-term issuer credit rating to FEI with a negative outlook.

In its report dated 29 March 2018, Standard & Poor's noted that the assigned rating reflects their expectation that FEI will maintain its capitalisation levels. FEI would, benefit from a reduction in property development loans, and continued capital injections to support lending growth. This would lead to a modest de-risking in FEI's lending book over the next few years as it pursues a greater mix of small and midsize enterprise ("SME") term lending and SME cash flow lending, which should see business and credit risk concentrations reduce.

A credit rating is an independent opinion of the capability and willingness of an entity to repay its debts (in other words, its creditworthiness). It is not a guarantee that the financial product being offered is a safe investment. A credit rating should be considered alongside all other relevant information when making an investment decision.

FEI has been rated by Standard and Poor's. Standard and Poor's gives ratings from AAA through to D. Please see credit ratings below (FEI's credit rating is indicated by an arrow and bold text). Standard & Poor's report on FEI can be accessed at www.business.govt.nz/disclose.

Standard & Poor's Rating Scale

Statistics on the Rate of Default for Entities with Rating of a Period of at least 5 years

Ratings	Scale	Risk	Default
Investment Grade Ratings	AAA	Extremely Strong	0.36%
	AA+	Very Strong	0.35%
	AA		
	AA-		
	A+	Strong	0.57%
	A		
	A-		
	BBB+	Adequate	1.95%
	BBB		
	BBB-		
Speculative Grade Ratings	BB+	Less Vulnerable	7.71%
	BB		
	BB-		
	B+	**More Vulnerable**	**18.7%**
	B		
	B-		
	CCC+	Currently Vulnerable	46.28%
	CCC		
	CCC-		
	CC	Currently Highly Vulnerable	46.28%
	C		
	D	In Default	

Source: Standard & Poor's – Ratings Table Methodology

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Section 2 - Terms of the offer

Terms of the offer

Description of Term Deposits	Term Deposits are secured debt securities.
Term	Term deposits are issued for terms of 6, 12, 18, 24 and 36 months or such other terms specified by FEI.
Interest rates	Details on interest rates for Term Deposits are found on our website or by contacting us for the latest rate card. Interest rates are subject to change without notice. Once your application is accepted, the interest rate for your Term Deposit is fixed until maturity.
Interest payments	Quarterly interest is payable on the first business day of April, July, October and January for the preceding quarter (or part thereof) and where applicable, on the maturity date of Term Deposits. Interest accrues on Term Deposits (at the interest rate specified in your application form) from the actual date FEI is in receipt of payment, subject to clearance of any payment made by cheque. Interest due is payable in the manner specified on your application form subject only to deduction of withholding tax. Interest will be paid in the currency of the Term Deposit made with FEI. For example, NZD deposits will have its interest paid in NZD, AUD deposits will have its interest paid in AUD. Interest may be compounded or credited to the nominated bank account.
Offer opening and closing dates	The offer opened on 29 November 2016. This is a continuous offer. There is no closing date.
Ranking of term deposits on liquidation	On a liquidation of FEI, your rights and claims under the Term Deposits will rank: • after all creditors preferred by law and any permitted prior security interests. (at the date of this PDS there is a bank guarantee in place for $108,485 pertaining to FEI's leased premises. As at the date of this PDS, there are no prior security interests; • equally with all Term Deposit holders; and • ahead of any lesser ranking secured creditors (at the date of this PDS there are none), all unsecured creditors and the distribution of surplus assets in accordance with the rules of FEI.
Minimum Investment	NZD$5,000 or equivalent.
Early withdrawal	If FEI agrees (at FEI's discretion) to the full or partial withdrawal of Term Deposits, FEI may adjust the interest rate to reflect the revised shorter term of your investment and set conditions as how the early withdrawal is to be paid out. FEI may charge you a reasonable administration fee for early withdrawal.

Trust Deed

FEI entered into a trust deed dated 8 August 2003 as amended and restated on 18 November 2016 with Trustees Executors Limited as supervisor in relation to the Term Deposits (the **"Trust Deed"**). With effect from 31 March 2018 the Trust Deed was further amended by a Deed of Amendment dated 29 March 2018.

A copy of the Trust Deed and the Deed of Amendment may be obtained from the Disclose register at www.business.govt.nz/disclose.

Interest rate and comparable pricing

In setting interest rates for its Term Deposits, FEI tracks and monitors deposit interest rates offered by the major banks in New Zealand as well as market conditions for term deposits generally.

Generally, interest rates for our Term Deposits have a risk premium of 2% to 4% above the term deposit rates offered by the major banks in New Zealand. The risk premium reflects the higher credit risk posed by NBDT institutions like FEI which lend to borrowers which do not meet a bank's usual credit criteria. In addition, our credit rating is lower than the credit ratings for New Zealand banks.

We invite you to review comparable interest rates for competing term deposits at www.interest.co.nz.

Section 3 - FEI and what it does

Overview of FEI About FEI

During the period since its incorporation, FEI has operated as a finance company lending to the SME and property sectors. It has received deposits from the public and provided financial accommodation to borrowers since 8 August 2003.

FEI's operations and activities

Under this PDS, FEI intends to accept deposits from the public and continue to operate as a finance company. FEI focuses on lending opportunities in the SME sector both in New Zealand and Australia. The funds for future lending opportunities will come from incoming deposits as well as loan repayments from its outstanding loans (when these are collected).

Our lending to the SME sector can take the form of term loans, bridging finance, working capital facilities, trade finance, equipment leasing discounting of rental or subscription contracts, structured facilities for the acquisition of assets or businesses as well as underwriting debt securities (although FEI has no current underwriting arrangements).

Our lending is subject to constraints placed on FEI by the covenants contained in the Trust Deed. The principal assets held by FEI and charged as security for the Term Deposits are its loans receivables together with the securities granted for these loans.

Breakdown of Key Business Activities

SME business lending: for cashflow requirements, working capital and business expansions

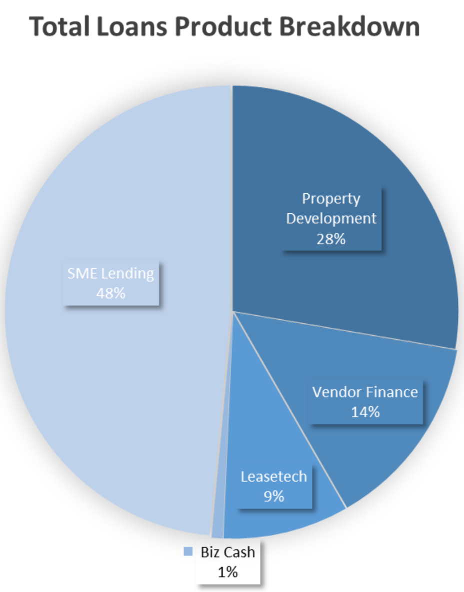
The range of SME borrowers include business service providers, importers and wholesalers, consultancy firms, business equipment, service subscription providers as well as merchants and retailers from its discounting activities of rental or subscription contracts

Finance Leasing (LeaseTech and Vendor Finance): Finance leases provided by FEI encompass equipment financing, IT hardware and software, automotive trade equipment and medical related devices. Some of our Finance leases are provided through "LeaseTech" brand, which is FEI's in-house leasing division, or other third-party originators. Finance leases are a type of lending activity but are required by accounting standards to be separately reported on our balance sheet.

Vendor Finance: These leases include Point of Sale equipment and security equipment which are supported by long term rental contracts typically from retail merchants such as some Domino's Pizza franchises.

Property Development: This includes the financing of a small number of commercial properties (currently 4) through the development phase of construction. However, FEI also securitizes these loans over the project life cycle which reduces its loan exposure (see section below). FEI's property development loans are predominantly for residential and hotel development projects in the Auckland region.

The pie chart below shows the percentage split between SME Lending, Equipment Leasing (LeaseTech), Vendor Finance and Property Development loans as at 31 March 2018:



FEI Offering	Product
SME Lending	Business Loans & Working Capital Cash
Lease Tech	Equipment Leasing
Biz Cash	Fast cash small loans < $35,000
Vendor Finance	Finance on rental contracts
Property Development	Commercial Developments

General Terms of Loans

FEI provides loans on various terms. The following table shows a breakdown of the different types of loans such as capitalizing, interest only, principal and interest ("P&I") as at 31 March 2018.

Securities for the SME loans are security interests held over borrowers' and/or guarantors' assets and undertakings. In many cases, claims on future cashflow streams are the primary security and, in other cases, security may be land or real property situated in New Zealand and Australia.

Securities for Property development loans are second mortgages or security interests over the development projects. FEI's funding generally ranks after bank funding which usually takes priority over FEI's loans.

Loan Type		Amount	Percentage
Capitalising (Property Development loans)	$	14,915,728	28%
Capitalising loans (SME & residential mortgages)	$	15,962,898	30%
Interest only loans (SME & residential mortgages)	$	9,449,961	18%
P&I only (loans & Finance Leases)	$	14,771,541	28%
Other (Including Provisions)		($2,130,974)	-4%

Key to generating income

FEI derives income from the interest differential arising from interest charged to borrowers and interest paid to depositors. It also earns fee income on loans provided to its borrowers and interest from cash reserves deposited with its banks.

Surplus income (after paying interest on its Term Deposits) is used to pay operating costs.

FEI's level of total assets as at 31 March 2018 was sufficient to generate income to pay interest on its Term Deposits, and to pay operating expenses. However, FEI experienced an after-tax loss of $1,444,000 after making allowance for bad loan provisions. Please refer to "Selected Financial Information" table in Section 5 of this PDS.

Relationship with First Eastern Securities Limited

FEI works closely with First Eastern Securities Limited which offers loan origination, management for property development loans and investor relations with the co-lending investors and provides corporate advisory services in relation to financial facilities provided by FEI to its borrowers. Joint activities between FEI and First Eastern Securities Limited include selling down loans for the benefit of FEI or seeking funds from third parties to on-lend to borrowers. FEI is related to First Eastern Securities Ltd by virtue of the fact that the directors of First Eastern Securities Limited, TK Shim and Mel Stewart, are also directors of FEI as well as having beneficial interests in First Eastern Securities Limited through their family trusts.

Securitisation

FEI has determined policy to sell down its property loans ('securitisation') in order to free up funds to undertake further lending activities. If loans are sold down, FEI acts as a trustee and retains responsibility for managing the loan. Securitisation of property loans is carried out for several reasons.

An advantage of securitisation is that it improves FEI's capital ratio and improves its liquidity. Under the NBDT Regulations property development loans have higher prudential capital requirements (300%) than SME loans (150%) or residential mortgages (35%). After First Eastern Securities Limited arranges the sale of these higher capital-intensive loans, FEI improves its capital ratio and has further liquidity which enables it to make new loans. It also reduces risk from exposure to property development. Because property loans are capitalising in nature FEI would normally have to wait till the end of the loan term to be repaid. FEI measures profitability of its loan receivables by measuring internal rate of return (IRR). The loan-sell down improves FEI's IRR because it is repaid earlier. and thereby improves profitability".

In most cases, FEI receives cash from the purchaser of the loan it sells-down. However, in some cases FEI provides finance to the loan purchaser. In these cases, the new lending is treated as a separate transaction and FEI's normal credit and conflict of interest policies apply. Investors must provide separate unrelated securities (such as their residential properties). FEI takes first ranking mortgages over residential properties (with an LVR of not more than 70%) or commercial properties and is not reliant on the investors' interest in the syndicated loan or on the original borrower.

As at 30 September 2018 $18.64m loans had been sold for cash and $10.64m loans had been sold with finance on new securities. Overall, FEI's property development loans were at $14.92m as at 31st March 2018. By 30th September 2018, the property development loan balance was at $8.50m, a reduction from 28% to 16%.

FEI has no current underwriting arrangements in place as part of any SME business lending. Although if required, FEI are able to offer underwriting debt securities to issuers operating in the SME market via First Eastern Securities Limited which has expertise in arranging public issues of debt securities on behalf of SME companies.

First Eastern Securities Limited derives fees for its services and the liability for payment of these fees is borne by borrowers. The fees payable to First Eastern Securities Limited are funded by drawdowns from FEI's loans to the borrowers. For information on FEI's related party exposure please see section 5 - FEI's financial information.

Breach of financial covenants

In the course of preparing FEI's financial statements for the year ended 31st March 2018, FEI's auditors requested a higher discount rate be used to derive the net present value of its lease portfolio. This meant that FEI had to revalue downwards its finance lease portfolio. These adjustments requested by the auditors increased the exposure to Related Parties causing FEI to retrospectively breach its related party exposure limit in March and April 2018.

As at 31st May 2018 one of FEI's property development loans was in breach of FEI's single party exposure limit of 10% of total assets. The loan which made up 10.8% of FEI's total assets was sold down and brought back within the required limit by June 2018.

In April, May, October and November 2018 FEI was also in breach of the capital ratios agreed under the Trust Deed which are higher than the capital ratio required under the NBDT legislation. These breaches are due to the new IFRS 9 accounting standards which require FEI to take a dynamic approach to provisioning of the loan portfolio. by making assumptions as to the likely provisioning for the coming 12 months.

See section 5 of the PDS for more information on the details of these compliance breaches especially in relation to its extent and the time frame within which they were and are to be resolved.

Board of directors and senior management

Directors

TK Shim (BA, LLB) Chief Executive Officer and Executive Director is one of the founding directors of FEI and has been on the board since July 2003. TK has in-depth experience in corporate advisory services and corporate finance to the SME sector. TK specialises in innovative structured financing for companies in the general business sector including arranging bond and unit trust issues, putting in place trade finance, financing acquisitions, securitisation facilities and other debenture lending products. He was a banking law specialist in some of the major law firms in New Zealand with banking experience gained from working in an international bank. TK is also a director of First Eastern Securities Limited.

Mel Stewart (BAgrSc) Executive Director is the other founding director of FEI and has been on the board since July 2003. Mel has extensive experience in financing in residential, commercial and industrial sectors throughout Australasia. His involvement in the Rural Bank and Elders Finance Limited gives him a comprehensive understanding of issues relating to these areas of finance. Mel is also a qualified property valuer trained in New Zealand. Mel is also a director of First Eastern Securities Limited.

Marcus Ritchie (BMS) has been on the board since November 2014 as an independent director of FEI and was appointed as Executive Director of FEI & FEIG on 1st August 2018. Marcus is an experienced investment banker covering Mergers & Acquisitions with over 15 years' experience, having worked at ANZ Bank (Australia), Bank of America Merrill Lynch (Sydney), American Express (New York), Mizhuo Bank (UK), Dresdner Kleinwort Investment Bank (UK), and Westpac (NZ).

Andrew Schnauer (LLB) is the chairman of FEI's board is who has been on the board since January 2014 and is an independent director of FEI. Andrew is an enrolled Barrister and Solicitor of the High Court of New Zealand and is a director of Schnauer Legal Limited, a law firm situated in Auckland. Andrew acts for a varied range of businesses and also has extensive experience with commercial and residential property.

Jacob Ploeg (BCOM) joined the board as an independent director of FEI in July 2017 and brings over 30 years of experience in the accounting industry, having worked as Senior Audit Manager for DFK Oswin Griffiths Carlton from 1986 to 2017 (previously known as DFK Carlton, Grant Thornton and Chambers Nicholls). Jacob has extensive experience in the auditing of finance companies, listed entities, SME's, and not-for-profit entities. Jacob is also a trustee of a private superannuation scheme state-integrated school and has written articles for a trade magazine on a range of business topics.

Senior Management

Philip Harkness (BBS, DipBS, CA) Philip commenced his appointment as FEI's General Manager in October 2017. Philip has experience drawn from a wide range of industries, in the past 20 years, both domestically and internationally, including audit, fast moving consumer goods, and banking. Philip brings a wealth of operational and management experience that will strengthen the processes and daily operations of FEI. Philip has spent the last 12 years with the Bank of New Zealand ("BNZ"). His last role prior to joining FEI was as Divisional Chief Financial Officer of the Retail Division of BNZ, a position he held for over 4 years.

Ownership of FE Investments Limited

On the 6th of June 2017, FE Investments Group Limited ("**FEIG**") (formerly WolfStrike Rentals Group Limited) (ASX:FEI) completed the acquisition of FEI. The acquisition was first announced on the ASX on 30 November 2016 when a Share Purchase Agreement ("**SPA**") was signed by the shareholders of FEI and FEIG respectively. The acquisition was approved at an extraordinary general meeting of the FEIG shareholders on the 8th of March 2017.

The Reserve Bank of New Zealand ("**RBNZ**") gave consent for the change in shareholding on 25 May 2017.

As a result of the merger with Wolfstrike Rental Services Limited (now FEIG), FEI took over its finance leasing business. Finance leasing has been an integral part of FEI's lending business model since June 2017.Under the SPA, FEI shareholders contracted to sell all their shares in FEI to FEIG and receive shares in FEIG in return, effectively making the existing FEI shareholders the majority shareholders in FEIG. FEI became a fully owned subsidiary of FEIG as a result of the change in ownership ("Changeover").

The key focus of FEI's business of deposit taking and SME lending has not changed however since the Changeover, FEI has expanded its lending activities to include the leasing of equipment and technology products.

Following the Changeover, FEI has continued its business activities as a Non-Bank Deposit Taker pursuant to this Product Disclosure Statement (as updated from time to time) and its Trust Deed. FEI has also retained its existing Board of Directors and management team.

Section 4 - Key features of term deposits

Ranking and security

The Term Deposits are secured by a security interest over all of FEI's assets granted to Trustees Executors Limited (as Supervisor) under FEI's Trust Deed. The security interest secures all amounts payable by FEI on the Term Deposits and all other moneys payable by it under the terms of the Trust Deed.

In the event of our liquidation, your rights and claims would rank

- **After** any prior ranking security interest under the Trust Deed and claims deemed to have priority by law (which for example include preferential claims by Inland Revenue;
- **Equally** with all other holders of Term Deposits;
- **Ahead** of lower ranking secured creditors (at the date of this PDS there are none), unsecured creditor such as claims from trade creditors, and shareholders**.**

As at 31 March 2018, the amount of the liability secured by the security interest was $55,453,000 and the total value of the assets subject to the security interest was $67,015,000. As at the date of this PDS, there is a bank guarantee for the sum of $108,485 for FEI's office lease which is backed by a cash deposit which ranks ahead of the Term Deposits. At the current date there is no security interest which ranks in priority over the Supervisor's security interest other than the bank guarantee for the office lease.

The Trust Deed does not allow FEI to incur liabilities that rank equally with the Term Deposits except issuing further Term Deposits within the limits stipulated under the Trust Deed. The financial covenants are described below in section 5 "FEI's financial information".

The Trust Deed allows FEI to grant certain additional security interests over FEI's assets and incur further liabilities which rank ahead of your claims provided

- They secure any money to be borrowed or raised in purchasing or acquiring such assets; and
- Secure an amount of no more than 2% of FEI's total tangible assets.

The diagram below illustrates the ranking of the Term Deposits on our liquidation and is based on $55,453,000 of Term Deposits outstanding as at 31 March 2018, being the number of term deposits issued by FEI as at 31 March 2018.

	Ranking on liquidation	**Commentary**	**Amount**		
			31/3/2018	**31/3/2017**	**31/3/2016**
Highest ranking / Earlier priority	Liabilities that rank in priority to Term Deposits	Creditors preferred by law including IRD and employee payments Bank Guarantee for FEI office lease	263,606	143,206	111,012
	Liabilities that rank equally with Term Deposits	including existing Term Deposits as well as those Term Deposits to be issued under this PDS	55,453,000	44,209,000	29,467,303
	Liabilities that rank below the Term Deposits	Unsecured creditors and accruals	432,394	509,794	213,578
Lower ranking / Later priority	Equity	Surplus assets available to shareholders	10,866,000	10,470,000	7,020,000
			67,015,000	**55,332,000**	**37,210,160**

This bank guarantee is put in place as a requirement under the lease arrangement for FEI's office premises. The bank guarantee is supported by a cash backed deposit with the bank.

The number of securities shown in the table above is the value of the debt securities including accrued interest (being term deposits) accepted by FEI.

Guarantees

FEI is solely responsible for repaying you. The offer of Term Deposits under this PDS and the interest payable are not guaranteed by FEIG (parent company of FEI) the Supervisor, or any other person.

Transfer

FEI does not intend to quote these Term Deposits on a market licensed in New Zealand and there is no other established market for trading them. This means that you may not be able to sell the Term Deposits before the end of their term.

FEI may, in its discretion, delay a transfer of the Term Deposits to undertake customer due diligence in accordance with the requirements of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and may charge a fee to you for conducting the customer due diligence.

Section 5 - FEI's financial information

FEI is required by law and its trust deed to meet certain financial requirements. This table shows how FEI is currently meeting those requirements and where some breaches have occurred. These are minimum requirements. Meeting them does not mean that FEI is safe. The section on specific risks relating to FEI's creditworthiness sets out risk factors that could cause its financial position to deteriorate. The offer register provides a breakdown of how the figures in this table are calculated, as well as full financial statements.

Key Ratios

Key Ratio	31/3/2018	31/3/2017	31/3/2016
Capital ratio as calculated in accordance with 2010 Regulations	8.45%	10.8%	9.01%
Minimum capital ratio under the Trust Deed ("Agreed Capital Ratio").	8%	8%	8%
Minimum capital ratio (as to be included in the trust deed under the 2010 Regulations) *	8%	8%	8%

The capital ratio is a measure of the extent to which FEI is able to absorb losses without becoming insolvent. The lower the capital ratio, the fewer financial assets FEI has to absorb unexpected losses arising out of its business activities. For details on a compliance breach in 2018, please refer to the paragraph on "Compliance Breaches" below.

FEI has agreed to higher minimum capital ratios applicable from 1 April 2018. For more details on these agreed ratios please see below under "Financial Covenants" on page 16.

Aggregate exposures to related parties	15.26%[1]	3.29%	9.82%
Maximum limit to aggregate exposures to related parties (under the Trust Deed)	15%	15%	15%
Maximum limit to aggregate exposures to related parties (under the 2010 Regulations) *	15%	15%	15%

Related party exposures are financial exposures that FEI has to related parties. A related party is an entity that is related to FEI through common control or some other connection that may give the party influence over FEI (or FEI over the related party). These related parties include, for example, FE Investments Group Limited (FEI's parent company), First Eastern Securities Limited and First Eastern Capital Limited as well as FEI's directors or their families.

Liquidity Mismatch Ratio (over a 12-month period) *	1.09	1.09	4.7
Minimum Liquidity Mismatch Ratio required under the Trust Deed over a 12-month period	0.45	0.45	0.45
Minimum Liquidity Mismatch Ratio required under the Trust Deed over a 3-month period	1.00	1.00	N/A

Liquidity Ratio	24%	27%	24%
Minimum Liquidity Ratio required under the Trust Deed	10%	N/A	N/A

*for the 12 months ending 31st March ended in the financial years shown in the headings above.

Liquidity requirements help to ensure FEI has sufficient realisable assets on hand to pay its debts as they become due in the ordinary course of business. Failure to comply with liquidity requirements may mean that FEI is unable to repay investors on time and may indicate other financial problems in its business. Liquidity ratios attempt to measure a company's ability to pay off its short-term debt obligations. This is calculated by comparing the company's most liquid assets with its short-term liabilities.

The Minimum Liquidity Ratio required under the Trust Deed is required to be at 10% from 1 January 2018 onwards.

[1] Please see 'Compliance Breaches' on page 15

Selected financial information

Details of our selected financial information are set out in the table below.

Period	31/3/2018	31/3/2017	31/3/2016
Total assets as determined in accordance with GAAP	$67,015,000	$55,332,000	$37,210,160
Total liabilities as determined in accordance with GAAP	$56,149,000	$44,862,000	$30,190,553
Net Profit after Tax as determined in accordance with GAAP	($1,444,000)	$1,213,000	$2,143,476
Net Cash Flows from Operating Activities as determined in accordance with GAAP	($1,332,000)	$2,623,000	$3,361,000
Cash and cash equivalents as determined in accordance with GAAP	$13,285,000	$12,125,000	$7,265,256
Capital as calculated in accordance with the 2010 regulations*	$10,866,000	$10,470,000	$7,019,607

*" the 2010 regulations" means the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010.

Other limitations, restrictions and prohibitions

Financial covenants

Our Trust Deed limits the amount FEI can lend to any one borrower or related group of borrowers. The maximum amount owing by any one borrower or a related group of borrowers cannot exceed the greater of 10% of our total tangible assets, or $1 million ("Limit"). However, our Supervisor has the power to consent to a specific deviation from this requirement. On 8 December 2017, the Supervisor granted its consent for FEI to exceed the Limit under clause 4.2(c) of the Trust Deed with regard to the financing receivables from one of its groups of debtors. The consent was for the period from 8 December 2017 to 31 March 2018, and the maximum exposure to the borrowing group during this period was not to exceed 18.06% of FEI's total tangible assets, or $11.85 million, whichever is greater. FEI must ensure that the aggregate exposures of FEI to all related parties does not exceed 15% of the capital of FEI.

FEI has to maintain a statutory capital ratio of 8% ("Statutory Capital Ratio") against its total assets. In addition, FEI has agreed with its Supervisor to have a capital ratio of 9% ("Agreed Capital Ratio") until 30th September 2018 when the Agreed Capital Ratio went up to 9.5%. 2018. Under our Trust Deed, the Agreed Capital Ratio then will revise down to 8% from April 2021. The rationale is that FEI is to maintain an Agreed Capital Buffer of 1.5% (difference between Agreed Capital Ratio and Statutory Capital Ratio) to ensure that it does not breach the Statutory Capital Ratio. Please note that the column "capital ratios under the Trust Deed" in the above Key ratio Table refer to the "Agreed Capital Ratios". If FEI does not meet the Agreed Capital Ratios, it is technically in breach of a financial covenant and is required to notify the Supervisor and to develop a plan how to rectify the situation.

For details on compliance breaches in 2018, please refer to the paragraph 'Compliance breaches' below.

Compliance Breaches

When FEI prepared its financial statements for the year ended 31st March 2018 it revalued downwards its finance lease portfolio. FEI also made additional loan provisions for certain specific loans.

The adjustments and specific loan provisioning lowered the capital ratio and increased the exposure to Related Parties causing FEI to retrospectively breach its capital ratio in April 2018 and related party exposure limit in March and April 2018 (see table below for magnitude of breaches). On 25 May 2018 FEI notified the Supervisor of the compliance breach and implemented a remediation plan. The remediation measures included a $400,000 increase in capital which increased the capital ratio to over the minimum ratio of 9% and a $100,000 repayment of a related party loan which reduced FEI's related party exposure to below the limit. The remediation measure took effect 31st May 2018.

FEI has also come under the Agreed Capital Ratio for the months of April, May, October and November 2018 which is due to the following:

IFRS 9 accounting standard ("IFRS9") came into effect on 1st April 2018. IFRS9 requires financial institutions to take a dynamic approach to provisioning of their loan portfolio by making assumptions as to the likely provisioning for the coming 12 months. In other words, under IFRS, FEI has to provide for its expected credit loss ("ECL") as opposed to the traditional provisioning methodology which required financial institutions to provide for actual losses incurred therefore this is retrospective provisions adjustments that have been made to the new financial year starting 1st April 2018.

As required by its Trust Deed, FEI is discussing with its Supervisor about how it intends to bring its capital to above the Agreed Capital Ratio."

Capital and Allowable Related Party exposures by month

After Audit/IFRS9 Adjustment	31/03/18 Adjusted	30/04/18 Adjusted	31/05/18 Adjusted	30/06/18 Adjusted	31/07/18 Adjusted	31/08/18 Adjusted	30/09/18 Adjusted	31/10/18 Adjusted	30/11/18 Adjusted
FEI Capital Adequacy Ratio	8.45%	8.72%	8.78%	9.28%	9.33%	9.25%	9.30%	9.33%	9.36%
Agreed Capital Ratio as per the Trust Deed	8%	9%	9%	9%	9%	9%	9%	9.50%	9.50%
Minimum Statutory Capital Ratio	8%	8%	8%	8%	8%	8%	8%	8%	8%
FEI Related Party Exposure	15.26%	15.51%	14.96%	14.57%	13.94%	13.77%	13.76%	13.24%	13.52%
Maximum Allowable Statutory Related Party Exposure	15%	15%	15%	15%	15%	15%	15%	15%	15%

Disclosure of Fees Paid to a Related Party and other related party transactions

FEI has issued restated financial statement for the year ended 31st March 2018. These contain a revised note 7 which details fees paid to First Eastern Securities Limited for management services for property development loans and investor relations with the co-lending investor in relation to property loans. (For a description of the relationship between FEI and First Eastern Securities Limited please refer to 'FEI's operations and activities in section 3 above).

The letter of offer and loan documentation for each FEI loan can provide for fees, such as property developments exit fees which are capitalized to the loan balance, to be paid by the borrower. Where First Eastern Securities Ltd has arranged a sell down of a loan, it receives a share of the fee, paid by the borrowers. This is because First Eastern Securities Ltd manages the sold-down loan and reinforces that the loan is sold with no recourse to FEI. All expenses related to the loan sell-down such as valuation, brokerage to third party brokers, marketing and professional fees are paid by First Eastern Securities Ltd. Generally, exit fees are split evenly between FEI and First Eastern Securities Ltd

The disclosure note also covers related parties' transactions with the Directors of FE Investments Group Limited (FEI's parent company) as well as further explanation on related parties' transactions with the Company's Directors (for example, on the subscription of redeemable preference shares by parties related to the Company's Directors). Please refer to note 7 in the notes to the restated financial statements for the year ended 31st March 2018.

The reissued financial statements did not result in any changes to the numbers in the Income Statement, Balance Sheet and the Statement of Cashflows. However, it was accompanied by a Qualified Opinion from our Auditors. The qualification relates only to the matters of disclosure of the related party transactions. We recommend that you read the restated financial statements together with the auditor's report which are available on our website.

Single Party Exposure Limit

As noted above, our Trust Deed limits the amount FEI can lend to any one borrower or related group of borrowers. The maximum amount owing by any one borrower or a related group of borrowers cannot exceed the greater of 10% of our total tangible assets, or $1 million.

As at 31st May 2018, a property development loan to a borrower was 10.8% of FEI's total assets which exceeded the Limit. FEI notified the Supervisor of the Limit breach and implemented a remediation plan. The breach was remedied in June 2018 and the loan was under the Limit by the end of June 2018.

Another property development loan to a different borrower has also breached the Limit. However, this was not a breach because the Supervisor granted FEI a consent under clause 4.2(c) of the Trust Deed to exceed the Limit subject to certain conditions. (see above at 'Other limitations, restrictions and prohibitions'). The loans were sold down on 26 March 2018 so that the exposure was under the limit of 10% by 31 March 2018 as required by the Supervisor.

Section 6 Risks of investing

General risks

Your investment is subject to the general risk that FEI may become insolvent and not be able to meet its obligations to pay you interest or repay the principal when due under the Term Deposits.

There is no established market available to trade our Term Deposits. If you wish to sell your Term Deposit before maturity there is a risk that you may not be able to find a buyer or that the amount received is less than the principal amount paid for the Term Deposit.

Specific risks relating to FEI's creditworthiness considered below;

Significant loan write off

Description of circumstance

Loan portfolio concentration risk is where a small number of its borrowers account for a significant proportion of its loan portfolio. FEI would suffer a material credit loss in the event that FEI had to write off any loans from these particular borrowers.

Significance of circumstance

FEI has 13 loans greater than $1m as at 31st March 2018 and these account for 50% of FEI's total loans.

Please refer to page 8 on the split of our loan portfolio (into property and SME/commercial loans) as at 31st March 2018.

Likelihood of impact

The likelihood of a property development loan going into default and having an adverse impact on FEI's ability to repay its Term Deposits is medium (See below).

The likelihood of an SME/commercial borrower defaulting and having an adverse impact on FEI's ability to repay its Term Deposits is low to medium as most of its SME/commercial loans have first ranking securities granted to secure the loans.

FEI's loan portfolio includes rental/subscription contracts assigned by the originators of these contracts which FEI has acquired as part of its discounting facilities. Even though FEI's credit risk is spread across all these contracts, it relies on the originators to collect receipts (as its trustee and agent on its behalf).

The likelihood of an originator failing to pass receipts to FEI is low to medium as FEI has first ranking securities over the originators.

At 31st March 2018 about 52.03% of FEI's loans have first ranking securities while 36.03% are secured by second mortgages. A second mortgage means that FEI's claim ranks behind a first mortgage security the borrower has granted to a bank or another lender. For more detail on the risks associated with FEI's exposure to the property sector, please see below under the heading 'Material property sector exposure'. Less than 6% of FEI's loan portfolio are unsecured as at 31st March 2018. For an overview of the proportions of various sectors and loan types please refer to the pie chart on page 8.

A stress test scenario based on the unaudited figures for FEI's capital ratio and balance sheet position as at the end of June 2018 indicates that if there was an unexpected loss of $750,000 (which would be in addition to the amount already set aside for potential loan losses) it would lead to decline of FEI's capital ratio from 9.55% as at end of June 2018 to 9%. If there was an unexpected loss of $2million it would reduce the capital ratio down to 8%.

Nature of impact

A significant credit loss from one or more of these loans would affect FEI's ability to meet its commitments to its Depositors.

Potential magnitude of impact

If credit losses from any of these high concentration loans become material, FEI would end up with reduced cash reserves to repay Term Deposits when due. Its capital ratio would also deteriorate to the level where it would not be able to meet the minimum level of capital ratio required under its Trust Deed. On the other hand, if the credit loss is greater than its entire share capital, then amounts available to meet FEI's commitments to depositors could be reduced by such level of losses in excess of its share capital.

However FEI's policy is to maintain a capital ratio of at least 1% to 2% above the statutory minimum capital of 8% ("Minimum Capital Ratio"). This gives FEI some buffer to cushion any credit losses from its loan portfolio. FEI had an average capital ratio of 9.10% for the financial year to 31st March 2018. Furthermore, FEI has an on-going capital raising programme to raise additional capital to increase its shareholders' funds. Such additional capital injections aim to mitigate this risk by maintaining FEI's capital ratio and cash reserves required to meet its obligations to depositors.

Material property sector exposure

Description of circumstance

FEI provides property development loans on the basis of assessed completion value of projects. FEI's property development loans are secured, ranking behind a bank or another lender.

Delays in completion or cost overruns would increase the credit risk of a property development loan to FEI.

Significance of circumstance

As at 31 March 2018 approximately 28% of FEI's loan portfolio is in New Zealand property sector.

Interest and fees earned on property development loans are capitalised and paid at the end of the loan term. Repayment is dependent on timely completion of the development within budget in order for end-buyers to settle in accordance with the terms of their sale and purchase agreements.

Failure of end-buyers to settle for whatever reason may result in a shortfall of all or part of the expected loan repayment to FEI as second mortgagee. Shortfall to FEI may also stem from unexpected cost overruns or delays in project completion.

Development financing risk at launch – During the initial stages of a development project, there is a risk that the development may not be implemented as anticipated and additional funding may be required from FEI in the event of failure to obtain bank funding to complete a project.

Subsequent refinancing risk where a development is delayed – Additional costs may be incurred if there is a delay in the development which may reduce or potentially eliminate FEI's development margin. There is also a risk that if a loan is not recovered in full FEI's equity will be reduced and this will have a negative effect on its capital ratio. For details on FEI's capital ratio policy please see above under the heading 'Significant Loan Write-off Risk'.

Likelihood of impact

The property sector is cyclical in nature and has a boom and bust tendency. As such the likelihood of a property development loan going into default with a consequent adverse impact on FEI's ability to repay its Term Deposits is medium due to the fact that FEI's securities rank behind a bank or other lenders. However, FEI seeks to mitigate this risk by syndicating all or most of its property development loans to wholesale investors before the loans are due for repayment. It is important to note that syndication of these loans is based on prevailing market conditions. FEI has a high concentration of property development loans in Auckland, meaning that a shock or dip in the Auckland market could lead to material credit losses from these loans.

Nature of impact

A significant credit loss from a property development loan would have an adverse effect on FEI's ability to meet its commitments to its depositors.

Potential magnitude of impact

If credit losses from any of the property development loans become material, FEI would end up with reduced cash reserves to repay Term Deposits when due. Its capital ratio would also deteriorate to the level where it would not be able to meet the minimum level of capital ratio required under its Trust Deed. In these cases, FEI would be required to seek funding to bolster its shareholders' fund to meet the Minimum Capital Ratio and provide cash reserves to meet commitments to depositors.

FEI has a loan which was initially provided for an apartment development project but in June 2018 was switched to a hotel development project ("Switch-Over"). Before the Switch-Over, the borrower was put into receivership. Part of the Switch-Over involved the underlying project being sold to two new borrowing entities and the loans being re-documented with them. In accordance with FEI's risk management programme, FEI conducts regular reviews of the project to assess the loans' creditworthiness.

Please refer to narration on FEI's capital ratio policy under the heading "Significant Loan Write-off Risk" above.

Capitalizing of interest and fees

Description of circumstance

FEI recognizes income (both interest and fee income) which is capitalising in nature. Capitalised income means that FEI does not receive income in cash until the loan is repaid at the end of the term. FEI's property development loans are normally capitalising loans. For a breakdown of the various loan terms in relation to capitalising, interest only or principal and interest, see section 3 "FEI and what it does" under the heading General loan terms.

Significance of circumstance

At 31 March 2018, around 57.33% of FEI's loan portfolio is capitalising in nature. On average the period of capitalisation in FEI's loan portfolio is approximately 2 years with a minimum period of 3 months and a maximum of 4 years. There is increased risk on capitalizing loans because completion delays or cost overruns result in more income being charged to the loan and there may be insufficient development margin to cover all capitalised income and loan principal.

Likelihood of impact

The likelihood of a capitalising loan going into default with a consequent adverse impact on FEI's ability to repay its Term Deposits is medium. FEI seeks to mitigate this risk (in the case of residential property development projects) by requiring the borrower to have achieved a certain minimum level of pre-sales and requiring the borrower to provide a minimum percentage of the deposit for each unit sold, prior to providing finance for the project. In addition, FEI seeks to reduce its reliance on capitalising loans by syndicating these loans to wholesale investors.

Nature of impact

FEI will have to rely on alternative sources of cash to meet its commitments to depositors prior to repayment of its capitalizing loans. If any borrowers of capitalizing loans default on repayments, there would be liquidity pressure on FEI which could affect its ability to repay Term Deposits.

In addition, FEI would be required to back out all affected capitalized income from its financial statements with any loan write off offset against its retained earnings.

Potential magnitude of impact

FEI had eleven capitalizing loans where the loan value represents 10% or more than of FEI's shareholders' funds as at 31st March 2018 and these account for 46.4% of FEI's total loans

If credit losses from any of these capitalizing loans became material, FEI would end up with reduced funds to repay Term Deposits and its capital ratio would also deteriorate to the level where it would not be able to meet the minimum level of capital ratio required under its Trust Deed.

Alternatively, if the credit loss is greater than its entire share capital, then amounts due to depositors could be reduced by such level of losses in excess of its share capital. In such eventuality, FEI would be required to bolster its shareholders' fund to meet the Minimum Capital Ratio and to augment its cash reserves to meet its commitments to depositors.

Please refer to narration on FEI's capital ratio policy under the heading "Significant Loan Write-off Risk" above on how FEI manages this particular risk.

Liquidity risk

Description of circumstance

Liquidity risk is the risk where FEI, for whatever reason, does not have enough cash reserves or is not able to raise funds in time to redeem Term Deposits or pay interest thereon when these amounts are due ("liquidity crunch").

Significance of circumstance

A significant proportion of FEI's deposits (26.3% as at 31st March 2018) are received from non-resident investors. A liquidity crunch may occur if financial markets both in New Zealand and overseas experience unexpected or acute shortages of funds (which may be caused by political, economic, social, financial melt-downs overseas). FEI may face difficulties in raising sufficient deposits to replace maturing deposits resulting in FEI failing to meet its financial commitments as they fall due. A liquidity risk may also occur if FEI does not receive loan payments when due.

Deterioration in investors' confidence generally and in the banking and finance industry may also increase the liquidity risk for FEI should there be a mass exodus of investors' funds from the banking and finance industry. Regulatory and/or tax changes may also impact non-resident investors.

Likelihood of impact

The likelihood of a liquidity crunch having an adverse impact on FEI's ability to repay its Term Deposits is low due to FEI's policy of holding or targeting a minimum of 4% to 5% of its total assets in cash reserves on its balance sheet at all times, its loyal depositor base with satisfactory renewal rates, its securitisation programme with its wholesale investors (see section 3 – 'FEI and what it does' above for more detail on FEI's securitisation programme) and its loan portfolio of rental/subscription contracts.

Nature of impact

A liquidity crunch would result in FEI having insufficient funds to redeem Term Deposits or pay interest on thereon when these amounts are due for payment.

Potential magnitude of impact

To assess the potential impact of a potential liquidity risk, FEI monitors liquidity using certain formulas to measure liquidity cover and potential mismatches in the ability to meet repayments from available assets. Under the Trust Deed, FEI has to maintain a mismatch ratio (as defined in the Trust Deed) of 0.45 times over a rolling 12-month period. FEI also maintains a Liquidity Coverage Ratio of 1X times, using the same formula as the mismatch ratio (as set out in the Trust Deed), but measured on a three-month rolling basis.

FEI does not have a standing credit facility in place. FEI has however reviewed the loans scheduled for repayment within the 12 months from 31 March 2018, the expected level of new deposits and the deposits scheduled for redemption for the same period. Based on the sensitivity analysis conducted by FEI, FEI is projected to have sufficient funds from loan repayments, renewal of deposits and new deposits to redeem deposits requiring redemption in that period.

Given the nature of forward-looking projections and estimates, there is always a risk and high degree of uncertainty attached to making projections 12 months ahead. Actual results may differ materially from projections made. In making these forward-looking projections and estimates FEI made assumptions based on its perceptions of expected market conditions over the 12 months from 31 March 2018.

The sensitivity analysis may be affected adversely if actual loan repayments, renewals of deposits or new deposits in the 12 months from March 2018 fall materially short of the levels expected by FEI. In the case of loan repayments, FEI only considers the likelihood for such loan repayments to occur in the 12 months from March 2018 regardless of their contracted repayment dates.

Based on these assumptions, FEI is projected to generate sufficient funds to redeem the deposits due within the 12 months from April 2018. As at 31 March 2018, FEI had cash reserves of $13.285 million on its balance sheet representing 19.8% of its total assets.

Capital adequacy

Description of circumstance

For the period 1 October 2018 to 31 March 2021, FEI's Trust Deed requires it to maintain a capital ratio of 9.5% of its total assets. This revised to 8% from 1 April 2021. FEI's statutory minimum capital ratio is 8% as set out in the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010. The rationale for the increased capital ratio required is to provide a buffer of 1.5% (the difference between the Statutory Capital Ratio and the Agreed Capital ratio, see above section 5 "FEI's financial information") in case of unforeseen events.

Significance of circumstance

A material credit loss as a result of any of the risks set out above (being significant loan write off, material property sector exposure and capitalising loans risks) could reduce FEI's capital ratio to below the Minimum Capital Ratio causing FEI to breach its Trust Deed and/or the Deposit Takers (Credit Ratings, Capital Ratios, and Related Party Exposures) Regulations 2010.

Likelihood of impact

The likelihood of FEI's capital ratio falling below the Minimum Capital Ratio is medium. FEI has a policy of maintaining its capital ratio above the Minimum Capital Ratio and is required under its Trust Deed to maintain a capital ratio which is 1.5% higher than the Statutory Capital Ratio (see above at section 5 – FEI's financial information under the heading "Financial covenants"). This gives FEI some buffer to cushion any credit losses from its loan portfolio. FEI also periodically has capital injections to support total asset growth and provide buffer against credit losses and has a policy to retain earnings. Please refer to narration on FEI's capital ratio policy under the heading "Significant Loan Write-off Risk" above. For the potential regulatory impact of breaching capital ratios please see below under 'Regulatory Risk'.

Nature of impact

FEI's failure to maintain a Minimum Capital Ratio would be detrimental to its depositors as it reduces the level of capital buffer to cushion any credit losses resulting from loan write-offs.

Potential magnitude of impact

As with the Significant Loan Write-off Risk above, FEI's capital ratio could deteriorate to a level where its capital is not sufficient to meet its commitments to repay Term Deposits.

Regulatory risk

Description of Circumstance

FEI operates within the framework set out by Non-Bank Deposit Takers Act 2013 and its Regulations. Under the NBDT Act, the key prudential requirements for FEI are a minimum capital ratio and related party exposure limits.

Significance of Circumstance

FEI is required to comply with these key prudential requirements as part of its deposit taking licence which permits it to accept funds from the public.

Likelihood of Impact

If FEI suffers a material capital loss from a large loan write-off or suffer significant cumulative losses from a number of loans, there is a risk that its capital ratio would fall below the Agreed Capital Ratio or the Statutory Capital Ratio prescribed by the NBDT Act (see above in section 5 FEI's financial information under the heading "Financial covenants" on page 16).

To manage regulatory risk, FEI monitors its performance against the agreed and the statutory financial covenants. While the Agreed Capital Ratio serves as a buffer to avoid a breach of the Statutory Capital Ratio it still constitutes a breach of a financial covenant under the Trust Deed which must be reported to the Supervisor. In response to the compliance breaches that occurred in 2018 (see above section 3 and 5 for details), FEI's directors have taken immediate steps to strengthen its compliance and governance procedures and to implement a strong compliance culture within FEI to avoid further breaches.

Nature of Impact

In the event of a continuous and/or material non-compliance with regulatory obligations, FEI could face the risk of financial penalties and/or have its deposit taking licence revoked by RBNZ.

Potential magnitude

The magnitude of the effect on FEI will depend upon the amount of any financial penalties but if RBNZ revoked its deposit taking licence that would prevent FEI from continuing to accept deposits from the public.

Section 7 - Tax

New Zealand residents will have resident withholding tax (**"RWT"**) deducted from their interest payments, and there may be other tax consequences from acquiring or disposing of the Term Deposits.

The RWT rates at the date of this PDS are 28% for companies (other than corporate trustees) and 10.5%, 17.5%, 30% and 33% for all other investors. If you do not provide us with your RWT tax rate, you will automatically have RWT tax deducted at the maximum rate (33% at the date of this PDS), unless you are a company, in which case it will be deducted at 28%.

If you have queries relating to the tax consequences of your investment, then you should seek independent financial and tax advice which is specific to your circumstances before deciding to invest.

RWT will not be deducted where you hold a current certificate of exemption, and a copy of the certificate is provided at the time your application form is lodged with FEI, or at any time thereafter but in any event not later than 1 month prior to the next interest payment date. The holder of any certificate of exemption must ensure the relevant certificate is current, and immediately inform FEI should the certificate lapse for whatever reason.

FEI is registered as an approved issuer with the Inland Revenue Department and therefore is able to use the approved issuer levy scheme in certain circumstances. If you inform FEI that you are a nonresident, then a zero rate of non-resident withholding tax will apply and an approved issuer levy of 2% will be deducted from the gross interest payable to you. It is your responsibility to inform FEI if, for any reason, you no longer meet the conditions that allow the approved issuer levy to apply.

The above statements on taxation are based on the applicable tax legislation current at the date of this PDS. FEI does not take any responsibility for tax advice to any holders of Term Deposits. FEI recommends that you seek your own independent tax advice in relation to your investment in Term Deposits.

Section 8 - Who is involved?

Who is involved?

	Name	Role
Issuer	FE Investments Limited	Issuer of the Term Deposits.
Supervisor	Trustees Executors Limited	Provides independent oversight of us in relation to the Term Deposits.
Auditor to the Issuer	William Buck Audit (NZ) Limited	Provides external audit services to FEI every 6 months.
Legal advisor of the Issuer	Stace Hammond Lawyers	Provides advice in relation to this PDS and the Term Deposits.

*Note: William Buck Audit (NZ) Limited have been appointed as the new auditors on 10 December 2018.

Section 9 - How to complain

We endeavor to maintain a good relationship with all of our investors. If you have any enquires about your investment, please call the Investments Manager at FEI on (09) 359 9716 or contact us at Level 15, Chorus House, 66 Wyndham, Auckland.

If after talking to the General Manager you are not satisfied, you have the right to refer the matter to TK Shim, one of the Executive Directors, who can be contacted at the address and phone number set out above.

Complaints may also be made to the Supervisor at:

- PO Box 4197, Auckland or email cts@trustees.co.nz

FEI is a member of a dispute resolution scheme, Financial Services Complaints Limited (FSCL). If you and FEI cannot agree on how to resolve your issue within 40 working days, you can refer the matter to FSCL:

- Financial Services Complaints Limited, Level 12, 45 Johnston Street, Wellington
- Telephone: 0800 347 257
- Email: info@fscl.org.nz

Financial Services Complaints Limited will not charge you a fee for investigating or resolving a complaint. Complaints can also be made to the Financial Markets Authority through its website http://www.fma.govt.nz

Section 10 - Where you can find more information

Further information regarding FEI and the Term Deposits is available on the offer register at http://www.business.govt.nz/disclose and can be obtained by request from the Registrar of Financial Service Providers.

Section 11- How to apply

To apply for the term deposits, you need to complete an application form and submit it to us. An application form is attached to this PDS and an online version can be found at www.fei.co.nz

Section 12 - Contact information

FE Investments Limited
Level 15, Chorus House, 66 Wyndham Street, Auckland
PO Box 106 264, Auckland.
Telephone: 09) 359 9445 or 0800 334 683
Email: enquiries@fei.co.nz
Website: www.fei.co.nz

APPLICATION FOR TERM DEPOSITS

FE INVESTMENTS LIMITED

Client Number

(Office Use Only) ____________

1 Please enter your personal details

Joint/Company/Trust/Estate

Deposit number *(Office Use Only)*

Mr | Mrs | Miss | Other | Surname | First names

Mr | Mrs | Miss | Other | Surname | First names

Telephone | Mobile

Email

Physical address

Suburb | City | Country | Post code

Postal address *(if different from above)*

2 Resident withholding tax

If you are a New Zealand resident we will deduct Resident Withholding Tax ("RWT") at the rate of 33% unless you either request us to deduct at a lesser rate or if you hold a valid Certificate of Exemption for RWT. Please attach a copy of this Exemption Certificate to this Application Form.

IRD Number (01): | IRD Number (02):

Please deduct RWT at the rate of 10.5% 17.5% 28% 30% 33% 2% (AIL) Others

3 Investment options (all rates listed are per -annum)

Term	Tick or complete	% Rate	Amount investing (minimum
12 months			
18 months			
24 months			
36 months			
Other			

Currency of Investment

4 Quarterly interest payment instruction (please mark appropriate box)

Compounded quarterly. Earn interest on my interest, and add the quarterly interest due to my SECURED TERM DEPOSIT account.

Direct credit. Please pay quarterly interest direct to my bank account.

Bank: Account number:

Account name:

Cheque. Please send quarterly interest by cheque to the above address.

5 Maturity instructions

Choose from the following option. (We will contact you in advance of maturity so that you can confirm or vary this instruction) Funds to be paid by:

Repayment of principal and all interest outstanding *(if any)* to bank account detailed

above. Reinvestment of principal and repayment of all interest outstanding *(if any)*.

Reinvestment of $ and the repayment of all remaining principal and interest outstanding (if any).

My signature is confirmation that I have read the latest version of FE Investments Limited Product Disclosure Statement and agree to the terms and conditions expressed in that document together with any additional terms and conditions contained in the Application Form.

Signature:______________________ **Signature:**______________________ **Date:**________/______/20____

If this is a joint application both must sign. If you are signing as an attorney, please attach the Power of Attorney or Authority Letter.

Terms and Conditions - Secure term deposits

FE Investments Limited ("FEI") reserves the right, without notice, to vary the interest rates and terms offered for secured term deposits ("Term Deposits"). FEI will advise you if your application is received after any rate or terms change to the Term Deposits. Unless you confirm to FEI within five business days that you accept the revised rate or terms, your investments will be refunded in full.

Investors will receive (subject only to funds on call) a fixed rate of return for the term of their investment. Interest will be earned on investments and paid at the rates and time or times specified on the Application Form relating to the investment and the payment options selected.

How to invest

After you have made your decision as to which investment product you wish to invest in, and the term and payment options that best suit your needs, the Application Form should be completed as follows (state N/A where a section is not applicable):

Panel 01.

Complete the appropriate panels as to your personal details. Please note that pursuant to the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, FEI requires the identity of all new investors to be verified. In particular:

Investors Identification

All investors must provide an acceptable certified copy of the signed identification as follows:

1. (a) a New Zealand Passport OR a photographic national ID issued by a foreign government for identification purpose;

OR (b) 1 form of non-photographic identification such as the NZ full birth certificate plus 1 supporting form of photographic identification such as a NZ driver licence, current international driving permit; OR

(c) New Zealand Driver Licence plus 1 non-photographic document issued within 12 months by a registered bank or a government agency.

2. All investors must provide certified verification of their residential address by providing a copy of one of the following documents (which cannot be more than three months old):

(a) Bank statement;

(b) Power bill;

(c) Home phone bill;

(d) Inland Revenue statement; or

(e) Local authority rates bill.

PLEASE NOTE:

If you are meeting us face to face, then you can bring the above documents to our office for verification by us. If you are not meeting us then you will need to have the documents certified by a Trusteed Referee. A Trusted Referee can be one of the following:

A Commonwealth representative (e.g Ambassador, Minister, High Commissioner); Police constable; Justice of the Peace; Registered medical doctor; Kaumatua; Registered teacher; Minister of religion; Lawyer; Notary public; NZ Honorary Consul; Member of parliament; or a chartered accountant.

- Minor: If any applicant is under 18 years of age, the Application Form must be signed by the parent or guardian of the applicant.

  Companies: Please provide a copy of the company's Certificate of Incorporation. Applications must be signed on behalf of the company by two directors, or one director whose signature must be witnessed.

- Trusts & Estates: Identification is required for each trustee, as specified under "All Investors". Where there are three or more trustees, one trustee must be noted on the Application Form as the investor. A certified copy of the Trust Deed may be required on request.

  Power of Attorney: If this application is made under a Power of Attorney, the Power of Attorney (or a certified copy) must be provided to FEI. The donee of such Power of Attorney must certify that they have received no notice of revocation thereof, by the death of the donor or otherwise.

Panel 02.

All investments will have withholding tax deducted unless a copy of the 'Certificate of Exemption' is provided to FEI, or 'Approved Issuer Levy' (AIL) is applicable (see below). Where interest is paid to overseas residents, FEI may deduct Non-Resident Withholding Tax (NRWT) or the cost of the AIL. To enable us to deduct NRWT or AIL, please provide us with both your mailing and residential addresses. If selected, NRWT will be deducted at the rate that applies to your country of residence, per the address provided.
Alternatively, the cost of AIL (currently 2% of the interest rate) will be deducted in lieu of NRWT (special conditions apply and acknowledgements may be required; please contact FEI for details). NRWT will be rated zero when selecting the AIL option.

Panels 03 and 04.

Complete the appropriate panels for the type of investment, term and payment options that best suit your needs. If you wish to invest in a combination of the investment funds you may do so on the one Application Form by completing more than one panel. To confirm the interest rate and payment options current at the time of application, please call FEI on Free Phone 0800 334 683.

New Zealand Tax Residents, please note: If we do not have your IRD number on file, we are required to deduct Resident Withholding Tax at the non-declaration rate of 33%.

Panel 05.

Complete the appropriate panel for your preferred management of your investment on maturity.

Panel 06.

Once completed, please sign the declaration and forward the Application Form together with a cheque for the full amount of your investment crossed "NOT TRANSFERABLE" and made payable to the order of 'F E Investments Limited', to us using the enclosed Free-Post envelope.

Alternatively, complete a direct debit to the bank account number below and attach proof of the deposit to this Application Form.

Bank Account Name: **F E Investments Limited**

Bank Account Number: **12 3216-0057691-61**

General information

All rates are subject to change without prior notice. All rates listed are per annum.

If you have any queries about your investment or completing this form, please telephone us during business hours on free phone 0800 334 683, or e-mail us at: enquiries@fei.co.nz. Alternatively, you can write to us at P O Box 106264 Auckland, 1001.

Confidentiality

FE Investments Limited will take all reasonable steps to protect the confidentiality of all information received from and about you, and will not disclose any information not publicly available to a third party, without your prior consent, except for the purposes of carrying out its business functions or as required by law.
You can request access to and correction of any of your personal information held by F E Investments Limited at any time in writing.