DERIVATIVE INFORMATION

This document provides you with information about the described derivatives offered to you by ANZ Bank New Zealand Limited (the Bank) from 25 July 2020.

Any offer the Bank makes to you of derivatives described in this document is limited to investors who are "wholesale investors" within the meaning of the Financial Markets Conduct Act 2013 (FMCA), or others to whom disclosure under the FMCA is not required. This document is not a "product disclosure statement" (as defined in the FMCA) and each offer is not part of any "regulated offer" (as defined in the FMCA) by the Bank.

From 25 July 2020, this document replaces all previous product disclosure statements and other disclosure documents you have received from the Bank in relation to the derivatives described in this document.

MARKETS DERIVATIVE INFORMATION IN RESPECT OF

1. INTEREST RATE SWAPS
2. INTEREST RATE CAPS, FLOORS AND COLLARS
3. FORWARD RATE AGREEMENTS
4. SWAPTIONS
5. CROSS CURRENCY INTEREST RATE SWAPS
6. FX SWAPS
7. CURRENCY OPTIONS
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This Derivative Information (this **"Document"**) is prepared by ANZ Bank New Zealand Limited (**"Bank"**) to apply from 25 July 2020.

This Document is intended for use in New Zealand only and only by persons who are "wholesale investors" (as defined in the FMCA) or who otherwise do not require disclosure under the FMCA. It should not be distributed in any jurisdiction in which its distribution, or the offer of the products described in this Document (**"Markets Products"**) is restricted.

1. IMPORTANT INFORMATION

1.1 Decisions to enter into derivatives are very important. They often have significant consequences. Read all documents carefully. Ask questions. Seek independent advice before committing yourself.

1.2 You should keep this Document and any supplementary and replacement Documents that are provided to you for future reference.

1.3 Please note that the information set out in this Document is of a general nature only and is not intended to provide financial advice or any recommendations. It does not take account of your financial objectives, situation or particular needs. In providing this Document to you, the Bank is not advising you to, or recommending that you, enter into any Markets Product. Examples are included in this Document for illustrative purposes only. In particular, the actual effect of the Markets Products will depend on your particular circumstances, including your tax and financial status and your organisational structure. These circumstances may mean that a Markets Product has different benefits and exposures to different risks to those described in this Document.

1.4 You cannot rely on this Document to identify and assess all risks and benefits for you of the products referred to in this Document. You should undertake your own independent assessment having regard to your circumstances and you should not enter into any product referred to in this Document unless you understand, accept and assume the terms, conditions and risks of the product, you are satisfied that it is suitable for your objectives, financial situation and needs, and you understand foreign exchange and derivative markets and how they operate. It is recommended that you seek independent advice (including tax, legal and financial advice) before deciding whether a particular product is suitable for you.

1.5 You should be aware that:

- You may need to satisfy the Bank's credit or other requirements before you enter into any products referred to in this Document. Any limit or approval that the Bank has in relation to it providing any products referred to in this Document to you is at the sole discretion of the Bank and not for your benefit. Even if advised to you, such limit or approval may be withdrawn or revoked by the Bank at any time at the Bank's discretion without giving you prior notice. By allocating a limit or approval to you, the Bank is not committing to entering into products referred to in this Document with you to the value of that limit or approval; and
- The Bank has no obligation to provide any product referred to in this Document to you, or to agree to any amendment to or termination of (however described) any product referred to in this Document including any partial or pre-delivery, or any partial or other historic rate or other rollover.

Enquiries and complaints

1.6 If you have an enquiry or complaint about any Markets Product please contact your Markets Dealer in the first instance. If you are not satisfied after speaking to your Markets Dealer, please contact the Bank's Derivatives Complaints Officer at Private Bag 92210, Victoria Street West, Auckland 1142 or by calling 0800 626 966.

If you and the Bank cannot agree on how to resolve the complaint, you may be able to take your complaint to the Banking Ombudsman scheme, which is an approved dispute resolution scheme. The scheme will not charge a fee to any complainant to investigate or resolve a complaint and can be contacted at Freepost 218002, PO Box 25327, Featherston Street, Wellington 6146, by phone 0800 805 950 or by email help@bankomb.org.nz.

The Bank's relationship with Australia and New Zealand Banking Group Limited

1.7 Derivatives entered into with the Bank are not deposits or liabilities of Australia and New Zealand Banking Group Limited. Australia and New Zealand Banking Group Limited does not stand behind or guarantee the Bank.

The Australian Prudential Regulatory Authority regulates all Authorised Deposit Taking Institutions (ADI) in Australia. Australia and New Zealand Banking Group Limited is an ADI. However, the Bank is not an ADI.

Other information about the Bank

1.8 Other information about the Bank is contained in the Bank's current disclosure statement that is published pursuant to section 81 of the Reserve Bank of New Zealand Act 1989 and in its financial statements. You can obtain these documents, free of charge, from Level 10, 170-186 Featherston Street, Wellington or on the Bank's website, www.anz.co.nz/about-us/media-centre/investor-information/.

1.9 The financial statements and certain other documents of, or relating to, the Bank are filed on a public register at the Companies Office of the Ministry of Economic Development and are available for public inspection through the Companies Office or on the Companies Office website, www.business.govt.nz/companies.

2. WHAT ARE THE MARKETS PRODUCTS?

2.1 The Markets Products described in this Document as at the date it was prepared are:

Swaps:

- Interest Rate Swaps;
- Cross Currency Interest Rate Swaps;
- FX Swaps;
- Interest Rate Caps, Floors and Collars;

Options:

- Currency Options;
- Bond Options;
- Swaptions;

Forwards:

- Forward Rate Agreements; and
- Forward Exchange Contracts (also known as FX Transactions).

2.2 Set out below is some key information about the Markets Products to help you understand the risks, benefits and costs of the Markets Products:

- Information about the types of transactions that are Markets Products;
- General information about the terms and conditions that are common to several Markets Products;
- Specific information about the particular terms of each Markets Product; and
- A Glossary of some of the key terms used in this Document in relation to Markets Products.

3. SOME COMMONLY USED TERMS IN RELATION TO MARKETS PRODUCTS

3.1 Many of the Markets Products are referred to as "Swaps", "Options" or "Forwards". Descriptions of these terms in the context of the Markets Products are set out in section 4 below.

3.2 However, in order to better understand the descriptions of Swaps, Options and Forwards, it is important to understand some of the key concepts used in relation to the Markets Products.

3.3 Capitalised terms used in this section are defined in this section or in the Glossary.

Why use Markets Products?

3.4 Markets Products may be used to manage Interest Rate Risk and/or Exchange Rate Risk (described below). When used in this way, they may be referred to as **"Risk Management Contracts"**. A Risk Management Contract is an arrangement which is intended to reduce or mitigate certain risks under a Financial Instrument where either:

- the amount that you must pay; or
- the amount that you will receive,

under the Financial Instrument may vary depending on movements in rates such as Interest Rates or Currency Exchange Rates (described below). Rates such as these can change quickly and in unpredictable ways, which can have a significant impact on your cashflows.

3.5 The Risk Management Contract is a separate contract from any corresponding Financial Instrument and need not be with the same party. It does not change or replace the payment or other obligations under any corresponding Financial Instrument. The mitigation occurs by the combination of the economic effects of the Financial Instrument and the Risk Management Contract. The Risk Management Contract typically changes in value (due to changes in Market Rates) in the opposite manner to the corresponding Financial Instrument.

3.6 The true consequences of entering into a Markets Product as a risk mitigant must be assessed by viewing the economic effect of that Markets Product in conjunction with the economic effect of the corresponding Financial Instrument. Whether a Risk Management Contract can mitigate risks under a corresponding Financial Instrument may depend on many factors including the extent to which:

- the method by which future payments are calculated under the Risk Management Contract is consistent with the method by which payments are calculated under the corresponding Financial Instrument;
- the timing of payments under the Risk Management Contract is the same as the timing of payments under the corresponding Financial Instrument;
- the size or value of the Risk Management Contract is the same as the size or value of the corresponding Financial Instrument;
- the term or duration of the Risk Management Contract is the same as the term or duration of the corresponding Financial Instrument;
- the rights of the parties to terminate the Risk Management Contract before its maturity are the same as the equivalent rights under the corresponding Financial Instrument; and
- the other party to the Risk Management Contract is able to meet its obligations.

3.7 In addition, the actual effect of a Markets Product will depend on your particular circumstances, including your tax and financial status, your organisational structure and your views of, and requirements for, risk management. Your purpose in entering into any Markets Products and the benefits to you of those Markets Products will be influenced by these factors. You should not decide to enter into a Markets Product without careful consideration of your particular circumstances.

3.8 As discussed above, Markets Products can be entered into as Risk Management Contracts, intending to mitigate certain risks. However, Markets Products may also be entered into independently of any Financial Instrument. If you wish to enter into a Markets Product independently of any Financial Instrument, you should advise the Bank as the Bank may have different requirements in respect of entering into Markets Products with you in those circumstances. Any requirements which the Bank has in respect of entering into Markets Products in these circumstances are at the sole discretion of the Bank and do not constitute any advice or other indication as to the suitability of that Markets Product for you. You should undertake your own independent assessment having regard to your circumstances and it is recommended that you seek independent advice before deciding a Markets Product is suitable for you.

3.9 Rates commonly referred to in this Document are:

- a Market Rate;
- an Interest Rate; and
- a Currency Exchange Rate.

The risks associated with the above rates which can be managed through appropriate use of Markets Products are:

- Interest Rate Risk; and
- Exchange Rate Risk.

3.10 The meanings of these terms for the purposes of this Document are explained below.

3.11 The **Market Rate** is the Interest Rate or Currency Exchange Rate applicable to a particular Financial Instrument or Markets Product. The Market Rate will be specific to the particular Financial Instrument or Markets Product. It will vary depending on general market and economic conditions and may also vary depending on factors such as the amount to be loaned, borrowed or exchanged, the term of the Financial Instrument or Markets Product and the creditworthiness of the parties. The applicable Market Rate may be agreed at the outset of a Financial Instrument or Markets Product. It may also be agreed at the outset that during the term of a Financial Instrument or Markets Product the rate will be set by reference to a known benchmark or in another agreed manner.

3.12 An **Interest Rate** is a rate which is applied to determine the amount of interest payable or receivable under a Financial Instrument. For example, the amount of interest received on financial assets such as deposits or the amount of interest paid on financial liabilities such as money borrowed. Interest Rates may also be used to determine amounts payable under Markets Products. Interest Rates are usually quoted as a per annum percentage and calculated in relation to an amount (of principal deposited or borrowed or, in the case of a Markets Product, the Principal Amount) and a period of time. Where it is agreed at the outset that during the term of a Financial Instrument or Markets Product the rate will be reset periodically by reference to known reference data, a known benchmark or in another agreed manner, the interest rate is said to be a Floating Rate. Where it cannot change, it is said to be a Fixed Rate.

3.13 Interest rates are generally expressed as a positive number. However, it is possible that an interest rate will be expressed as a negative number. The consequences of this in relation to a Financial Instrument or a Markets product will depend on the terms and conditions of the relevant Financial Instrument or Markets Product. In general, under a Markets Product, a negative interest rate will result in the party which would otherwise receive a payment having to make a payment to the other party based on the Absolute Value of the relevant interest rate (subject to the effect of any margin applied (see section 5.12)). It may be possible for a Markets Product and any underlying Financial Instrument to address negative interest rates differently so that the negative interest rate may have negative consequences for you.

This document and the examples in it are prepared on the basis that interest rates will be positive. However, you should consider the potential for interest rates to be negative and the consequences of this for your Financial Instruments and Markets Products, individually and together.

3.14 **Interest Rate Risk** in relation to a party to a Financial Instrument (or a party which needs or intends to become party to a Financial Instrument) is the risk that during the term of the Financial Instrument, the Market Rate of interest will change. For example, a party faces Interest Rate Risk in the following scenarios:

- An investor in a fixed rate bond faces the interest rate risk that Market Rates rise during the term of the bond. The investor therefore is committed to receiving less interest on the bond than it would receive if investing at the Market Rate of interest at the later time when the Market Rate was higher.
- An issuer of a fixed rate bond faces the interest rate risk that Market Rates fall during the term of the bond. The issuer therefore is committed to paying more interest on the bond than it would pay if it had issued the bond at a later time when the Market Rate of interest was lower.
- A borrower under a floating rate loan faces the interest rate risk that Market Rates rise, so that the borrower's interest costs increase and may be more than if it had entered into a fixed rate loan.

- An investor in a floating rate bond faces the interest rate risk that Market Rates fall so that it receives less than if it had invested in a fixed rate bond at a time when the Market Rate was higher.

3.15 Many currencies are exchangeable. **Currency Exchange Rates** (the Market Rate for the amount of one currency required to buy a unit of another) are not generally regulated in any official manner and are not quoted on any regulated independent exchange. Rather, parties wishing to exchange currencies are free to agree, as a matter of contract, the rate of exchange they will use in their transaction. Notwithstanding that indicative rates are published regularly, there is no Currency Exchange Rate applicable to all transactions. While there are a number of sources of applicable exchange rates, these typically show either historical data reflecting transactions which have occurred in the past or indications of rates which parties may (but are not obliged to) apply in transactions they enter into. They do not reflect an, and there is no, absolute rate of exchange applicable generally.

3.16 The Currency Exchange Rate will vary depending on factors such as the amount to be exchanged, the term of the Financial Instrument or Markets Product and the creditworthiness of the parties. However, banks and other financial services providers may commit, possibly subject to specified terms, to keep applicable exchange rates constant. Equally, the manner in which a Currency Exchange Rate will be determined during the term of a transaction may also be agreed between the parties at the outset of such transaction.

3.17 Even though some currencies are not exchangeable, banks and other financial services providers may attribute a value to such a currency in relation to another currency by quoting an exchange rate for the currencies concerned. Where a Markets Product relates to a currency that is not exchangeable, the currencies will not actually be exchanged under that Markets Product. Rather, the terms of the Markets Product will often provide for the value of each party's obligations to be determined in a single currency and the obligations of the parties will be settled on a Net Basis.

3.18 In many circumstances, a party has an asset or liability denominated in one currency but has an economic need to change or convert that asset to, or meet that liability from funds in, another currency. The party faces the **Exchange Rate Risk** that the applicable Market Rate of exchange will vary with the result that:

- the relative value of an asset is diminished. For example, an exporter agrees the sale price of a product with its customer in US$, which is payable by that customer in the future. The exporter may need to convert this to NZ$ (to satisfy its NZ$ obligations such as paying its suppliers, wages, interest and other liabilities). If the Market Rate of exchange changes so that the NZ$ appreciates against the US$, the exporter's asset (being the US$ receivable) will diminish in relative value and it will receive fewer NZ$; or
- the relative value of a liability is increased. For example, an importer agrees to purchase goods and is to pay for them in the future in US$ but may need to buy the US$ with NZ$ from its revenues. If the Market Rate of exchange changes so that the NZ$ depreciates against the US$, the importer's liability (being the US$ purchase price) will increase in relative value and it must use more NZ$ to effect the payment.

3.19 A convention of the foreign exchange markets is that Currency Exchange Rates can be quoted as either "indirect" or "direct".

3.20 An "indirect" currency quotation is where the local currency is quoted first in the currency pairing. For example, in New Zealand the NZ$-US$ Currency Exchange Rate may be quoted as NZUS = 0.6500 (i.e. NZ$1 equals US$0.6500). A rise in a Currency Exchange Rate for an indirect currency pair means that the local currency has appreciated in value relative to the foreign currency. In New Zealand, Currency Exchange Rates involving the NZ$ are typically quoted in the indirect form.

3.21 A "direct" currency quotation is where the foreign currency is quoted first. For example, in Japan the Japanese Yen-US$ Currency Exchange Rate will typically be quoted as US$JPY = 105.00 (i.e. US$1 equals JPY105.00). A rise in a Currency Exchange Rate for a direct currency pair means that the local currency has depreciated in value relative to the foreign currency.

3.22 All examples in this Document assume that the currency quotation is "indirect". That is, in this Document:

- if you are a New Zealand based exporter:
  - the Currency Exchange Rate is referred to as moving favourably when the NZ$ depreciates in value relative to the foreign currency (i.e. the Currency Exchange Rate moves lower); and
  - the Currency Exchange Rate is referred to as moving unfavourably when the NZ$ appreciates in value relative to the foreign currency (i.e. the Currency Exchange Rate moves higher); and
- if you are a New Zealand based importer:
  - the Currency Exchange Rate is referred to as moving favourably when the NZ$ appreciates in value relative to the foreign currency (i.e. the Currency Exchange Rate moves higher); and
  - the Currency Exchange Rate is referred to as moving unfavourably when the NZ$ depreciates in value relative to the foreign currency (i.e. the Currency Exchange Rate moves lower).

3.23 However, if you are dealing in a currency pair which is quoted directly, in order to understand the method for determining amounts payable by you or the Bank you should consider the examples which are the opposite to your situation. That is:

- if the importer examples would typically apply to your circumstances, you should read the exporter examples as though references to "exporter" were to "importer"; and
- if the exporter examples would typically apply to your circumstances, you should read the importer examples as though references to "importer" were to "exporter".

3.24 If you are unsure whether a currency pair you are dealing in is quoted directly or indirectly, you should contact your Markets Dealer.

4. UNDERSTANDING SWAPS, INTEREST RATE CAPS, FLOORS AND COLLARS, OPTIONS AND FORWARDS

What is a Swap?

4.1 Interest Rate Swaps, Cross Currency Interest Rate Swaps and FX Swaps are types of Swaps.

4.2 This section 4 is prepared on the basis that relevant interest rates are positive. See section 3.13 above in relation to negative interest rates.

4.3 Under an Interest Rate Swap transaction, you and the Bank agree to exchange (i.e. swap) payments with each other on certain dates in the future. The amount of those payments, or method of calculating the payments, will be set out in the terms of the Markets Product. In an Interest Rate Swap, although the amounts are not themselves interest, the amounts payable will be calculated by applying Fixed Rate(s) and/or Floating Rate(s) to a Principal Amount. The Principal Amount is not exchanged.

4.4 A Cross Currency Interest Rate Swap typically includes both:

- the exchange of agreed amounts of two currencies. There may be two exchanges (the first, at the beginning of the transaction, and the second being the exchange back of those currencies at the end of the transaction) or just one exchange (at the end of the transaction) or as otherwise set out in the terms of the Markets Product; and
- periodic payments of amounts calculated by applying a Fixed Rate or a Floating Rate to a Principal Amount.

4.5 Interest Rate Swaps and Cross Currency Interest Rate Swaps allow you to manage Interest Rate Risk and Cross Currency Interest Rate Swaps may also allow you to manage Exchange Rate Risk, in either case, without affecting any corresponding Financial Instrument. That is, entering into one of these Swaps will not affect your obligation to pay interest under a corresponding Financial Instrument. However, an Interest Rate Swap or Cross Currency Interest Rate Swap, when combined with a Financial Instrument can, in effect, mitigate the Interest Rate Risk under that Financial Instrument (although this also means that you may not receive the benefit of rate movements in your favour). A Cross Currency Interest Rate Swap can also be used to manage cash flows in a different currency for the term of the Cross Currency Interest Rate Swap.

4.6 Under an FX Swap, you and the Bank agree to exchange agreed amounts of two currencies at the beginning, or during the term, of the transaction. Amounts of the same two currencies are exchanged back at the end of the transaction. The amount of each currency to be exchanged on the agreed dates is determined and agreed at the time the FX Swap is entered into. An FX Swap is often used to manage cash flows in a different currency for the term of the FX Swap and may allow you to manage Exchange Rate Risk without affecting any corresponding Financial Instrument.

What is an Interest Rate Cap, Floor or Collar?

4.7 An Interest Rate Markets Product may be described as an Interest Rate "Cap", "Floor" or "Collar". These Markets Products allow you to receive some or all of the benefit of rate movements in your favour as they have some of the properties of options. An Interest Rate Cap can offer protection from a rise in an Interest Rate, while an Interest Rate Floor can offer protection from a fall in an Interest Rate. An Interest Rate Collar is a combination of an Interest Rate Cap and an Interest Rate Floor. It can offer protection from unfavourable movements in an Interest Rate, but it limits the gains that may be made if the Interest Rate moves favourably.

What is an Option?

4.8 Currency Options, Bond Options and Swaptions are all types of Option transactions.

4.9 Options allow the Option Buyer to manage Interest Rate Risk (including the price of securities) or Exchange Rate Risk, while retaining the ability to take advantage of favourable movements. An Option Buyer has the right, but not the obligation, to buy or sell an amount of currency or securities, or enter into or terminate a specified transaction at a fixed price on a future date or dates, all as set out in the terms of the Markets Product.

4.10 Currency Options may be described as "put" or "call" Options. Bond Options may be described as "put" or "call" Options. Under a "put" Option, the Option Buyer has the right to sell the amount of the currency or securities that are the subject of the Markets Product to the Option Seller at the Strike Price or to make payments calculated by reference to the Strike Price. Under a "call" Option, the Option Buyer has the right to buy the amount of the currency or securities that are the subject of the Markets Product from the Option Seller at the Strike Price or to receive payments calculated by reference to the Strike Price.

4.11 A Swaption is an option to enter into or to terminate an Interest Rate Swap on the terms set out in the Option.

4.12 In return for the Option, the Option Buyer may pay an amount ("Premium") to the Option Seller. The Option Buyer pays the Premium for the flexibility and protection provided by the Option. The Premium will be calculated by the Bank for each Option and the amount of the Premium and the date (or dates) for payment of the Premium will be determined and agreed with you at the time the Option is entered into.

4.13 Options may be exercised at different times. The date or dates on which an Option may be exercised will be set out in the terms of the Markets Product.

4.14 If the Option is not exercised on a permitted date or within the specified period, the Option will expire and cannot be exercised. Alternatively, an Option may be exercised automatically if the relevant conditions to the automatic exercise of the Option set out in the terms of the Markets Product are met. If the Option is exercised, the parties must pay or deliver the agreed amounts or securities that are the subject of the Option in accordance with the terms of the Option or, in the case of a Swaption, enter into or terminate the Interest Rate Swap referred to in the terms of the Swaption. A Swaption may also provide for cash settlement. In that case, when the option is exercised, instead of the parties entering into the Interest Rate Swap referred to in the terms of the Swaption, an amount will be payable by one party to the other. The method for determining the amount payable and the party that is to pay that amount will be agreed at the time the Markets Product is entered into.

What is a Forward?

4.15 Forward Rate Agreements and Forward Exchange Contracts are types of Forwards.

4.16 Under a Forward Rate Agreement, you and the Bank agree to pay amounts on the Payment Date. The amount of each payment or method of calculating each payment will be set out in the terms of the Markets Product and will be calculated by applying a Fixed Rate or a Floating Rate to a Principal Amount.

4.17 Under a Forward Exchange Contract, you and the Bank agree to exchange amounts of currencies on the Payment Date. The amounts of the currencies to be exchanged will be set out in the terms of the Markets Product.

4.18 Like a Swap, a Forward does not affect any obligations you may have to make interest payments or payments in a foreign currency under any Financial Instrument. However, the economic effect of a Forward, when combined with a Financial Instrument, can be to make certain your interest or foreign exchange costs for the period of the Forward.

5. GENERAL INFORMATION ABOUT MARKETS PRODUCTS

Documentation

5.1 If you have entered into, or received from the Bank, one of the following agreements (which set out fundamental terms and conditions of the relationship between you and the Bank and of the Markets Products) all Markets Products that you enter into will be governed by that agreement:

- the Institutional Financial Markets Transactions Terms and Conditions;
- the ISDA Master Agreement;
- the Master Agreement for Foreign Exchange and Derivative Transactions; or
- the Master Agreement for Foreign Exchange and Option Transactions.

The commercial terms specific to a particular Markets Product will ordinarily be recorded in a "confirmation", which will be provided to you by the Bank shortly after you and the Bank have agreed these commercial terms and entered into the Markets Product. Upon receipt of the confirmation, you must check the confirmation and either notify the Bank if there is an error or, if required, sign a copy of the confirmation and return it to the Bank. However, your Markets Product will not be affected if, for any reason, this procedure is not followed.

5.2 If your relationship with the Bank is not governed by any of those agreements, any Markets Products that you enter into will be subject to the terms and conditions (if any) incorporated in the confirmation relating to that Markets Product between you and the Bank.

5.3 In addition, you may need to satisfy the Bank's credit or other requirements before you enter into any Markets Products. Any limit or approval that the Bank has in relation to Market Products provided to you is at the sole discretion of the Bank and not for your benefit. Even if advised to you, such limit or approval may be withdrawn or revoked by the Bank at any time at the Bank's discretion without giving you prior notice. By allocating a limit or approval to you, the Bank is not committed to entering into Markets Products with you to the value of that limit or approval.

5.4 Sometimes you and the Bank may enter into a separate bilateral agreement, the terms of which may add to, or vary, the terms and conditions of whichever of the above agreements governs your relationship with the Bank.

Alteration and termination

5.5 While Markets Products can be useful risk management tools, there may be occasions when you wish to alter the terms of a Markets Product or you no longer require a certain Markets Product. For example, you may have been using an Interest Rate Swap to manage your interest costs under a Financial Instrument and you pay some or all amounts due under that Financial Instrument early. In such circumstances, you must continue to meet your existing obligations under the Interest Rate Swap unless the Interest Rate Swap is amended or terminated. Further, you are not entitled to sell or transfer a Markets Product unless the Bank agrees. In the Bank's opinion, there is no established market for such sales or transfers.

5.6 In general, neither you nor the Bank have the right to alter or terminate a Markets Product after it has been entered into unless both parties agree (other than an amendment to the Institutional Financial Market Transactions Terms and Conditions made by the Bank in accordance with those Terms and Conditions or if Optional Early Termination is applicable in respect of a particular Markets Product for one or both parties (see paragraph 5.11)). If you wish to alter or terminate a Markets Product, you need to contact the Bank to discuss your requirements in relation to such alteration or termination. If the Bank agrees to alter or terminate a Markets Product, it will advise you of the terms of any alteration or termination, including any amounts that the Bank determines are payable in respect of the alteration or termination. When determining the amount payable, the Bank will take into account a variety of factors, including the terms and conditions of the particular Markets Product, any relevant Market Rates prevailing at the time and market volatility. The requested alteration or termination will not be made unless you agree to those terms. The alteration or termination may result in you making a payment to, or receiving a payment from, the Bank. Alternatively, the value of that payment may be incorporated in a rate or amount payable under the altered Markets Product or a replacement Markets Product.

5.7 However, if you have entered into one of the agreements referred to above, both you and the Bank have contractual rights to terminate Markets Products:

- If your relationship with the Bank is governed by the Institutional Financial Markets Transactions Terms and Conditions, the Bank can terminate any or all Market Products between you and the Bank if an event of default set out in those Terms and Conditions occurs in relation to you, or either you or the Bank can terminate any or all Market Products between you and the Bank if any termination event set out in those Terms and Conditions occurs in relation to the other party;
- if your relationship with the Bank is governed by an ISDA Master Agreement, you and the Bank each have a right to terminate any or all Market Products between you and the Bank if an event of default or termination event set out in that agreement occurs in relation to the other party; and

- if your relationship with the Bank is governed by a Master Agreement for Foreign Exchange and Derivative Transactions or a Master Agreement for Foreign Exchange and Option Transactions, you and the Bank each have a right to terminate all Markets Products entered into between you if an event of default set out in that agreement occurs in relation to the other party.

5.8 The events of default include:

- the relevant party fails to make a payment or breaches any other obligation under the agreement;
- the relevant party becomes insolvent;
- the relevant party fails to make a payment or comply with its obligations under another derivative transaction or in respect of borrowed money;
- a representation made by the relevant party to the other is not correct,

and, in relation to the Institutional Financial Markets Transactions Terms and Conditions and the ISDA Master Agreement, the termination events include a Markets Product becoming illegal.

5.9 If a Markets Product is terminated early, the value of the terminated Markets Product will be determined as at the termination date. The value of the terminated Markets Product is usually determined by the Bank. If more than one Markets Product is terminated, these values will be aggregated and will result in a net amount payable either by you to the Bank or by the Bank to you.

5.10 The information set out above is only a summary of the principal circumstances in which Markets Products may be terminated and the amounts payable on termination. You should refer to your agreement for full details of all default and termination events and the consequences of those events, including the bases on which the value of terminated Markets Products and the net amount payable are determined.

5.11 In addition, your Markets Product may provide for Optional Early Termination (**"Optional Early Termination"**). If Optional Early Termination is applicable to a Markets Product the terms of the Markets Product will provide that one or either party may exercise the option to terminate the Markets Product on the optional early termination date or dates. The value of the terminated Markets Product will be determined and an amount will be payable either by you to the Bank or by the Bank to you. The method for determining the amount payable and the party that is to pay that amount will be agreed at the time the Markets Product is entered into.

Fees and charges

5.12 In general, you pay for a Markets Product by accepting any rates or fixed amounts quoted by the Bank for that Markets Product or, if you enter into more than one Markets Product at the same time, by accepting any rates or fixed amounts quoted by the Bank in relation to all Markets Products entered into at that time. This is because the Bank may obtain a benefit when entering into Markets Products by incorporating margins into the terms of the Markets Products provided to you. In addition, a Premium may be charged in relation to Options. The Bank may also charge you fees in relation to a Markets Product. Any such fees will be agreed at the time the Markets Product is entered into.

Consequences of failure to make a payment

5.13 As noted above, if you fail to make a payment when due under a Markets Product, you may be in default and the Bank may exercise its rights under the Institutional Financial Markets Transactions Terms and Conditions or the relevant Master Agreement that governs your relationship with the Bank, including rights of early termination. You should refer to the Institutional Financial

Markets Transactions Terms and Conditions or the relevant Master Agreement that governs your relationship with the Bank for full details of the Bank's rights.

5.14 In addition, failure to make a payment when due under the terms of a Markets Product may have consequences under other documents, including your Financial Instruments. For example, it may cause an event of default to occur under your Financial Instrument or have consequences under any security interests or guarantees that you have granted. You should review your Financial Instruments and any security agreements or guarantees that you have entered into in order to identify and understand these consequences.

6. RISKS OF ENTERING INTO MARKETS PRODUCTS

6.1 The principal risks associated with all Markets Products described in this Document are:

- ***Alteration or termination of Financial Instruments:*** If your underlying reason for entering into a Markets Product no longer exists (for example, you entered into a Markets Product in order to mitigate your Interest Rate Risk or your Exchange Rate Risk and the corresponding Financial Instrument is terminated, or the terms of the corresponding Financial Instrument are varied) you may wish to terminate or vary that Markets Product. As noted above under "Alteration and termination", while the Bank will consider your request to alter or terminate a Markets Product, the Bank has no obligation to agree to alter or terminate a Markets Product. Also, if the Markets Product can be altered or terminated, you may need to pay an amount to the Bank in order to alter or terminate the Markets Product.
- ***Negative Interest rates:*** If interest rates are negative, then a party which would otherwise expect to receive a payment under a Markets Product based on a positive interest rate may instead have to make a payment. Also, because any corresponding Financial Instrument may not treat negative interest rates in the same way, the payments under the Markets Product may not offset your obligations under Financial Instrument as intended. See section 3.13 as to negative interest rates generally.
- ***Changes to the reference rate used to calculate the Floating Rate under your Markets Product***: Reference rates worldwide are being reviewed and in many cases being changed. The reference rate currently used for a Markets product denominated in NZD is "BKBM". As at the date of this document, we expect that BKBM will continue to be the reference rate used for NZD in the foreseeable future. However, it is possible that BKBM and other applicable reference rates may change at some stage in the future and your Markets product may not hedge your Interest Rate Risk to the same extent as it did before the reference rate changed.
- ***Different rates:*** If you are using a Markets Product to protect against Interest Rate Risk in a Financial Instrument, you should check whether the Floating Rate referred to in that Financial Instrument and in the terms of the Markets Product are calculated on the same basis (for example, the same reference source, interest periods and day count fractions are used). If they are different, the rate in your Financial Instrument may not move the same way or to the same extent as the rate on which payments under your Markets Product are calculated. For example, you may enter into an Interest Rate Swap under which the Bank pays you floating rate interest based on BKBM. If the obligations under the Financial Instrument which you intended to offset against payments under the Swap incurs interest based on a different floating rate to BKBM, then you are exposed to the risk that the payments you receive from the Bank may not offset the payments you are required to make on your Financial Instrument as you expect.
- ***Different Payment Dates:*** Similarly, if the Payment Dates under your Markets Product and under your corresponding Financial Instrument are not the same:
  - movements in Currency Exchange Rates or Interest Rates between the respective payment dates may mean that the payments under the Markets Product may not offset your payment obligations under the corresponding Financial Instruments as you expect; and
  - you may have a cashflow timing mismatch (for example, you may not receive a payment under your Markets Product until after you are required to have made a payment under your corresponding Financial Instrument). This may have cashflow implications for you that you would not have if the Payment Dates were the same.
- ***Forego potential benefits:*** By entering into a Markets Product which, when combined with your obligations under a corresponding Financial Instrument, has the effect of making certain an Interest Rate or Currency Exchange Rate for a future Payment Date (that is, a Swap or

Forward) you may not receive the future financial benefit of favourable market movements in that rate or price.

- ***Fluctuating markets and rates:*** It is impossible to predict how Interest Rates, Currency Exchange Rates and the prices of securities may move in the future. Historic levels do not indicate future levels. For example, prices of currencies are highly volatile and can fluctuate rapidly and over wide ranges and may reflect unforeseen events or changes in conditions. Accordingly, while you may take comfort from the certainty of entering into a Markets Product which has the effect of making your Interest Rate, Currency Exchange Rate or security price certain under a corresponding Financial Instrument, it is impossible to predict whether it will be beneficial, from a purely economic perspective, to enter into a Markets Product. There are situations in which the value of the payments you make to the Bank under a Markets Product may be greater than the value of the payments you receive from the Bank under that Markets Product. This may occur in the following circumstances:
  - you have entered into a Swap, an Interest Rate Cap, Floor or Collar or a Forward, and the relevant Interest Rate or Currency Exchange Rate moves in a direction which is not beneficial to you; or
  - you have entered into an Option and paid a Premium, but you decide not to exercise the Option; or
  - you are the Option Seller and the terms of that Option require you to transact at a specified level in certain circumstances, and those circumstances occur.
- ***Bank's ability to perform:*** The Bank's ability to perform its obligations under the Markets Products is dependent on its financial wellbeing. Should the Bank become insolvent or be placed into liquidation, statutory management or receivership, or is otherwise not able to pay its debts as they fall due, you may not receive timely, or full, payment of amounts payable to you by the Bank. Any claims you may have against the Bank in relation to Markets Products will rank equally with all unsecured creditors, but behind secured creditors and those creditors preferred by statute.
- ***Markets Products can be complex:*** Some Markets Products are complex and entering into Markets Products in any structured or varied form, or in any combination, may increase that complexity. If you do not fully understand the Markets Product, the risks associated with the Markets Product and your risk profile, the Markets Product may have unexpected consequences. In order to properly understand Markets Products, you should seek independent advice (including tax, legal and financial advice).
- ***Different risks for investment:*** Amounts payable by you or the Bank under a Markets Product may change significantly as a result of fluctuating Interest Rates, Currency Exchange Rates and/or the price of securities. If you do not have a corresponding Financial Instrument and have entered into a Markets Product solely as an income generating product, you will be exposed to risks which would not exist if you had a corresponding Financial Instrument. Your loss in these circumstances may be unlimited.
- ***Individual circumstances are crucial:*** The risks to you arising from, and the suitability for you of, Markets Products cannot be assessed in isolation. They can only be properly assessed and understood in the context of your own particular, individual circumstances. This Document describes generally the terms of Markets Products and the principal risks associated with them. However, the Bank does not assess the risks to you of any Markets Products. We recommend that you get independent advice before deciding that a Markets Product is suitable for you
- ***Market Disruption:*** There is risk of events occurring in relation to markets generally which may affect Markets Products. Such events are commonly called disruption events. Examples of possible disruption events include the lack of availability of relevant price information on settlement, a material change to the operation of a market, or a trading suspension or limitation. Disruption events can cause, for example, a delay in valuation or the payment date

of a Markets Product or a change in the way payment for the Markets Product can be made. Some Markets Products such as Currency Options or Forward Exchange Contracts will include terms setting out what will happen if a disruption event occurs.

- ***Political and Economic Instability and Government Intervention:*** The political, regulatory, legal and economic systems of some countries can be more volatile than those of others. Instability or uncertainty in any of these systems can affect the value of Markets Products and may constitute a disruption event. This can take many forms, but may include, for example, the introduction of new policy or regulation that changes the expected operation of an emerging or developing market. The imposition or modification of exchange controls on the currency of an emerging or developing market could also constitute a disruption event.
- ***Liquidity Risk***: Lack of liquidity can affect the value of Markets Product, the ability of a party to a Markets Product to agree to alter or terminate a Markets Product and the ability of a party to meet its obligations under that Markets Product as they fall due. In this context, liquidity means the general availability in the usual markets of genuine offers to buy or sell a currency or other asset or to enter into, terminate or dispose of a financial contract.
- ***Less Information Available:*** Economic, regulatory, political and industrial information for some markets may be less accessible and less independent than the information a party might otherwise expect to be available. Some markets are generally not subject to uniform accounting and reporting standards and do not meet international standards as to transparency of regulatory, political and industrial information.

7. SPECIFIC INFORMATION ABOUT THE MARKETS PRODUCTS

Interest Rate Swaps

7.1 Interest Rate Swaps are commonly used to manage Interest Rate Risk.

7.2 Important information about the nature of Swaps and other information relating to Interest Rate Swaps is set out in previous sections of this document. However, in summary, a typical Interest Rate Swap will operate as follows (but see section 3.13 "Negative Interest Rates"):

- One party, the "Fixed Rate Payer", agrees to pay amounts to the other party, the "Floating Rate Payer", calculated by applying the Fixed Rate to the Principal Amount for each Settlement Period;
- The Floating Rate Payer agrees to pay amounts to the Fixed Rate Payer calculated by applying the Floating Rate to the Principal Amount for each Settlement Period;
- The parties' payment obligations may be settled on a Net Basis; and
- The Payment Dates will be specified in the terms of the Markets Product.

7.3 In certain cases, payments under a Markets Product may be made at the beginning (as opposed to the end) of each relevant Settlement Period. In such cases, if it is agreed that "Discounting" will apply, the amounts payable will be discounted (reduced) in the manner agreed, to reflect the value of the early payment.

7.4 If Optional Early Termination is applicable, the Interest Rate Swap may be terminated prior to its termination date and an amount will be payable by one party to the other. Further information on Optional Early Termination is set out in paragraph 5.11.

Interest Rate Caps, Floors and Collars

7.5 An Interest Rate Markets Product may be described as an Interest Rate "Cap", "Floor" or "Collar". These types of Interest Rate Markets Products can be used to protect against Interest Rate Risk, while retaining the ability to take advantage of some or all favourable Interest Rate movements:

- An Interest Rate Cap can offer protection for a party (typically a borrower) from a rise in an Interest Rate. A typical Interest Rate Cap will operate as follows (but see section 3.13 "Negative Interest Rates") :
  - One party, the "Fixed Rate Payer", agrees to pay to the other party, the "Floating Rate Payer", the fixed amounts specified in the terms of the Markets Product or amounts that are calculated by applying the Fixed Rate to the Principal Amount for each Settlement Period;
  - The Floating Rate Payer agrees to pay amounts to the Fixed Rate Payer calculated by applying the excess, if any, of the Floating Rate over the "cap" rate to the Principal Amount;
  - The parties' obligations may be settled on a Net Basis; and
  - The Payment Dates will be specified in the terms of the Markets Product.
- An Interest Rate Floor can offer protection for a party (typically a lender or an investor) from a fall in an Interest Rate. A typical Interest Rate Floor will operate as follows (but see section 3.13 "Negative Interest Rates") :
  - One party, the "Fixed Rate Payer", agrees to pay to the other party, the "Floating Rate Payer", the fixed amounts specified in the terms of the Markets Products or amounts that are calculated by applying the Fixed Rate to the Principal Amount for each Settlement Period;
  - The Floating Rate Payer agrees to pay amounts to the Fixed Rate Payer calculated by applying the excess, if any, of the "floor" rate over the Floating Rate to the Principal Amount;
  - The parties' obligations may be settled on a Net Basis; and
  - The Payment Dates will be specified in the terms of the Markets Product.
- An Interest Rate Collar can protect a party from an unfavourable change in an Interest Rate, but limits the gains that may be made if there is a favourable change in an Interest Rate. For example:
  - a borrower may enter into an Interest Rate Collar to protect from a rise in an Interest Rate and accepts that the gain that may be made if that Interest Rate falls is limited; or
  - a lender or investor may enter into an Interest Rate Collar to protect from a fall in an Interest Rate and accepts that the gain that may be made if that Interest Rate rises is limited.
- A typical Interest Rate Collar will operate as follows (but see section 3.13 "Negative Interest Rates") :
  - One party, the "Floating Rate Payer A", agrees to pay amounts to the other party, the "Floating Rate Payer B", calculated by applying the excess, if any, of the Floating Rate over the "cap" rate to the Principal Amount;
  - The Floating Rate Payer B agrees to pay amounts to the Floating Rate Payer A, calculated by applying the excess, if any, of the "floor" rate over the Floating Rate to the Principal Amount;
  - In addition to these floating rate payments, one party, the "Fixed Rate Payer", may also agree to pay to the other party, the fixed amounts specified in the terms of the Markets Product or amounts that are calculated by applying the Fixed Rate to the Principal Amount either as one initial payment or for each Settlement Period;
  - The parties' obligations may be settled on a Net Basis; and
  - The Payment Dates will be specified in the terms of the Markets Product.

7.6 In certain cases, payments under a Markets Product may be made at the beginning (as opposed to the end) of each relevant Settlement Period. In such cases, if it is agreed that "Discounting" will apply, the amounts payable will be discounted (reduced) in the manner agreed, to reflect the value of the early payment.

7.7 If Optional Early Termination is applicable, the Interest Rate Cap, Floor or Collar may be terminated prior to its termination date and an amount will be payable by one party to the other. Further information on Optional Early Termination is set out in paragraph 5.11.

Forward Rate Agreements

7.8 Forward Rate Agreements are commonly used to manage Interest Rate Risk on a short term basis.

7.9 Important information about the nature of Forwards and other information relating to Forward Rate Agreements is set out in previous sections of this document. However, in summary, a typical Forward Rate Agreement will operate in one of the following ways (but see section 3.13 "Negative Interest Rates"):

- One:
  - One party, the "Fixed Rate Payer", agrees to pay an amount to the other party, the "Floating Rate Payer", calculated by applying the Fixed Rate to the Principal Amount for the Settlement Period;
  - The Floating Rate Payer agrees to pay an amount to the Fixed Rate Payer by applying the Floating Rate to the Principal Amount for the Settlement Period;
  - The parties' payment obligations are settled on a Net Basis; or
- Two:
  - The parties agree that one party will pay to the other an amount calculated by applying the difference between the Fixed Rate and the Floating Rate to the Principal Amount for the Settlement Period;
  - If the Fixed Rate exceeds the Floating Rate, the amount is payable by the "Fixed Rate Payer";
  - If the Floating Rate exceeds the Fixed Rate, the amount is payable by the "Floating Rate Payer"; and
- In each case, the Payment Date will be specified in the terms of the Markets Product.

7.10 In certain cases, payments under a Markets Product may be made at the beginning (as opposed to the end) of each relevant Settlement Period. In such cases, if it is agreed that "Discounting" will apply, the amounts payable will be discounted (reduced) in the manner agreed, to reflect the value of the early payment.

7.11 If Optional Early Termination is applicable, the Forward Rate Agreement may be terminated prior to its termination date and an amount will be payable by one party to the other. Further information on Optional Early Termination is set out in paragraph 5.11.

Swaptions

7.12 Swaptions allow you to agree the terms on which the Option Buyer may manage its Interest Rate Risk, but retain the flexibility as to whether that Swap commences or whether a Swap terminates prior to the term specified in the Swap.

7.13 Important information about the nature of Swaps and Options, and other information in relation to Swaptions is set out in previous sections of this document. However, in summary, a typical Swaption will operate as follows:

- The Option Buyer agrees to pay a Premium to the Option Seller to purchase the Swaption. The Premium will be payable on the date or dates in the terms of the Markets Product;
- At the time the Swaption is entered into, the parties agree the terms of the Interest Rate Swap forming part of that Swaption or agree the Interest Rate Swap that may be terminated under the Swaption; and
- On the exercise date specified in the terms of the Markets Product (which may be expressed as an exercise date, an exercise period, or in the case of a "European" style Swaption, the expiration date), the Option Buyer may exercise the Swaption and:
  - if the Swaption relates to the entry into an Interest Rate Swap, the terms of the Interest Rate Swap will apply from that date; or
  - if the Swaption relates to the termination of an Interest Rate Swap, the Interest Rate Swap specified in the terms of the Markets Product will terminate from that date.

7.14 Alternatively, if the Swaption provides for cash settlement, when the Option is exercised, instead of entering into the Interest Rate Swap specified in the terms of the Markets Product, an amount will be payable by one party to the other. The method for determining the amount payable and the party that is to pay that amount will be agreed at the time the Markets Product is entered into.

7.15 If Optional Early Termination is applicable, the Swaption may be terminated prior to its termination date and an amount will be payable by one party to the other. Further information about Optional Early Termination is set out in paragraph 5.11.

Cross Currency Interest Rate Swaps

7.16 Cross Currency Interest Rate Swaps can be used to manage both Interest Rate Risk and Exchange Rate Risk. Cross Currency Interest Rate Swaps are a combination of an Interest Rate Swap and an exchange of currencies.

7.17 Important information about the nature of Swaps and other information relating to Interest Rate Swaps is set out in other sections of this document. However, in summary, a typical Cross Currency Interest Rate Swap will operate as follows:

- On the first Payment Date, you may be required to pay the Bank an agreed amount of one currency in exchange for the Bank paying you an agreed amount of a second currency. Alternatively, the amounts of these exchanges may be variable and payable over the term of the Markets Product on the basis that you agree with the Bank;
- Each party agrees to make periodic payments to the other party calculated by applying an Interest Rate to a Principal Amount for each Settlement Period. The currency and amount of the Principal Amount (and, therefore, the currency of the payment) and the Interest Rate applicable to each party will be specified in the terms of the Markets Product (but see section 3.13 "Negative Interest Rates");
- On the final Payment Date, you pay to the Bank an agreed amount of the second currency in exchange for the Bank paying you an agreed amount of the first currency;
- At the time you enter into the Markets Product, you and the Bank will agree the Currency Exchange Rate(s) that will apply to each scheduled exchange of the two currencies during the term of the Markets Product;
- The Payment Dates will be specified in the terms of the Markets Product; and
- The terms of the Markets Product may provide that, instead of exchanging currencies during the term of the Cross Currency Interest Rate Swap, the value of each party's obligations will be determined in a single currency and those obligations of the parties will be settled on a Net Basis.

7.18 If Optional Early Termination is applicable, the Cross Currency Interest Rate Swap may be terminated prior to its termination date and an amount will be payable by one party to the other. Further information on Optional Early Termination is set out in paragraph 5.11.

FX Swaps

7.19 FX Swaps are commonly used to manage cash flows in a different currency for the term of the FX Swap and may allow you to manage Exchange Rate Risk.

7.20 An FX Swap is a combination of, and may be documented as, a spot currency transaction (that is, a currency transaction at the relevant Spot Currency Exchange Rate or an adjusted Spot Currency Exchange Rate) and a Forward Exchange Contract, or two Forward Exchange Contracts. Important information about the nature of Swaps, Forward Exchange Contracts and other information relating to FX Swaps is set out in other sections of this document. However, in summary, a typical FX Swap will operate as follows:

- At the beginning of the transaction, you pay to the Bank an agreed amount of one currency in exchange for the Bank paying to you an agreed amount of a second currency;
- At the end of the transaction, you pay to the Bank an agreed amount of the second currency in exchange for the Bank paying to you an agreed amount of the first currency;

- The amounts of the two currencies to be exchanged on the agreed dates depend on the Currency Exchange Rates you agree with the Bank at the time you enter into the FX Swap;
- The Payment Dates and the Currency Exchange Rates will be specified in the terms of the Markets Product.

7.21 If Optional Early Termination is applicable, the FX Swap may be terminated prior to its termination date and an amount will be payable by one party to the other. Further information on Optional Early Termination is set out in paragraph 5.11.

Currency Options

7.22 Currency Options are commonly used by the Option Buyer to manage an Exchange Rate Risk, while retaining the ability to take advantage of some or all favourable exchange rate movements.

7.23 Important information about the nature of Options and other information relating to Currency Options is set out in previous sections of this document. However, in summary, a typical Currency Option will operate as follows:

- The Option Buyer agrees to pay a Premium to the Option Seller to purchase the Option. The Premium will be payable on the date or dates specified in the terms of the Markets Product;
- The Option may be exercised on any of the exercise dates specified in the terms of the Markets Product (which may be expressed as exercise dates, an exercise period or, in the case of a "European" style Option, the expiration date), or the Option may be automatically exercised if "Automatic Exercise" is specified as being applicable to the Markets Product and the conditions to the automatic exercise of the Option have been satisfied;
- If the Option is exercised, the Option Buyer must pay to the Option Seller on the Payment Date a specified amount of one currency and the Option Seller will pay to the Option Buyer a specified amount in a second currency;
- The specified amounts of the two currencies to be exchanged depend on the Currency Exchange Rate which is the Strike Price for the Option; and
- The Payment Dates and the Strike Price will be specified in the terms of the Markets Product.

7.24 Currency Options may also be described as "call" or "put" Options:

- A "call" can offer protection for an Option Buyer (typically an exporter) from a rise in a Currency Exchange Rate. The Option Buyer of a call pays a Premium to the Option Seller and agrees a Strike Price to apply to a Principal Amount. On the exercise date, if the Spot Currency Exchange Rate is higher than the Strike Price the Option may be exercised, or (if automatic exercise applies and the conditions to the automatic exercise of the Option have been satisfied) the Option will be automatically exercised. If the Option is exercised, the parties will then exchange the agreed amounts of currency on the Payment Date. If the Spot Currency Exchange Rate is lower than the Strike Price on the exercise date the Option need not be exercised or, if automatic exercise applies, the Option will not be exercised, and the only amount that the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the call; and
- A "put" can offer protection for an Option Buyer (typically an importer) from a fall in a Currency Exchange Rate. The Option Buyer of a put pays a Premium to the Option Seller and agrees a Strike Price to apply to a Principal Amount. On the exercise date, if the Spot Currency Exchange Rate is lower than the Strike Price the Option may be exercised, or (if automatic exercise applies and the conditions to the automatic exercise of the Option have been satisfied) the Option will be automatically exercised. If the option is exercised, the parties will then exchange the agreed amounts of currency on the Payment Date. If the Spot Currency Exchange Rate is higher than the Strike Price on the exercise date the Option need not be exercised or, if automatic exercise applies, the Option will not be exercised, and the only amount that the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the put.

7.25 In certain circumstances, the Option Seller will pay the Option Buyer an amount equal to the difference between the Strike Price and the Spot Currency Exchange Rate, applied to the Principal Amount on that date. Alternatively, the terms of the Markets Product may provide that, instead of exchanging currencies, the value of each party's obligations will be determined in a single currency and the obligations of the parties will be settled on a Net Basis.

7.26 If Optional Early Termination is applicable, the Currency Option may be terminated prior to its termination date and an amount will be payable by one party to the other. Further information on Optional Early Termination is set out in paragraph 5.11.

Forward Exchange Contracts

7.27 Forward Exchange Contracts are commonly used to manage Exchange Rate Risk in relation to future payments and/or receipts under Financial Instruments.

7.28 Important information about the nature of Forwards and other information relating to Forward Exchange Contracts is set out in previous sections of this document. However, in summary, under a typical Forward Exchange Contract, on the Payment Date, you pay to the Bank an agreed amount of currency in exchange for the Bank paying to you an agreed amount of another currency. The amount of the two currencies to be exchanged depends on the Forward Exchange Rate you agree with the Bank at the time you enter into the Forward Exchange Contract. Alternatively, the terms of the Markets Product may provide that, instead of exchanging currencies, the value of each party's obligations will be determined in a single currency and the obligations of the parties will be settled on a Net Basis.

7.29 If Optional Early Termination is applicable, the Forward Exchange Contract may be terminated prior to its termination date and an amount will be payable by one party to the other. Further information on Optional Early Termination is set out in paragraph 5.11.

Bond Options

7.30 Bond Options are commonly used to manage the risk of price or yield movements in relation to a particular bond or bonds at a future date, while retaining the ability to take advantage of favourable price or yield movements.

7.31 Important information about the nature of Options and other information relating to Bond Options is set out in previous sections of this document. However, in summary, a Bond Option will operate as follows:

- The Option Buyer agrees to pay a Premium to the Option Seller to purchase the Option. The Premium will be payable on the date or dates specified in the terms of the Markets Product;
- The Option may be exercised on the exercise date specified in the Markets Product (which may be expressed as exercise dates, an exercise period or, in the case of a "European" style Option, the expiration date), or (if automatic exercise applies and any conditions to the automatic exercise of the Option have been satisfied) the Option will be automatically exercised;

- If the Option is exercised, either:
  - one party must pay an amount to the other party calculated by applying a Strike Price to the principal amount or face value of bonds and the second party must deliver to the first party the principal amount, or face value, of bonds (see the descriptions of "put" and "call" options below in relation to each party's obligations); or
  - the Option Seller must pay an amount to the Option Buyer calculated by applying the difference between the Strike Price and the Bond Price to the principal amount, or face value, of bonds;
- The Payment Date, Strike Price and principal amount, or face value, of bonds will be specified in the terms of the Markets Product;
- The parties' obligations may be settled on a Net Basis.

7.32 Bond Options may also be described as "call" or "put" Options:

- A "call" can offer protection for an Option Buyer (typically an investor) from a rise in the price of a bond. The Option Buyer of a call pays a Premium to the Option Seller and agrees a Strike Price to apply to a principal amount, or face value, of bonds. On the exercise date, if the Bond Price is higher than the Strike Price the Option may be exercised, or (if automatic exercise applies and any conditions to the automatic exercise of the Option have been satisfied) the Option will be automatically exercised. If the Option is exercised, on the Payment Date, either:
  - the Option Buyer will pay an amount to the Option Seller calculated by applying the Strike Price to the principal amount, or face value, of bonds and the Option Seller will deliver to the Option Buyer the principal amount, or face value, of bonds; or
  - the Option Seller will pay an amount to the Option Buyer calculated by applying the difference between the Strike Price and the Bond Price to the principal amount, or face value, of bonds.

  If the Bond Price is lower than the Strike Price on the exercise date the Option need not be exercised or, if automatic exercise applies, the Option will not be exercised, and the only amount that the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the call; and
- A "put" can offer protection for an Option Buyer (typically an investor) from a fall in the price of a bond. The Option Buyer of a put pays a Premium to the Option Seller and agrees a Strike Price to apply to a principal amount, or face value, of bonds. On the exercise date, if the Bond Price is lower than the Strike Price the Option may be exercised, or (if automatic exercise applies and any conditions to the automatic exercise of the Option have been satisfied) the Option will be automatically exercised. If the Option is exercised, on the Payment Date, either:
  - the Option Seller will pay an amount to the Option Buyer calculated by applying the Strike Price to the principal amount, or face value, of bonds and the Option Buyer will deliver to the Option Seller the principal amount, or face value, of bonds; or
  - the Option Buyer will pay an amount to the Option Seller calculated by applying the difference between the Strike Price and the Bond Price to the principal amount, or face value, of bonds.

  If the Bond Price is higher than the Strike Price on the exercise date the Option need not be exercised or, if automatic exercise applies, the Option will not be exercised, and the only amount that the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the put.

7.33 If Optional Early Termination is applicable, the Bond Option may be terminated prior to its termination date and an amount will be payable by one party to the other. Further information on Optional Early Termination is set out in paragraph 5.11.

Tailored Markets Products

7.34 It is possible to enter into variations of one or more Markets Products.

7.35 Any variation will be agreed with you and set out in the terms and conditions for the Markets Product. You should be aware that your rights, obligations and risks under a variation of one or more Markets Products may differ markedly from the standard Markets Product.

Combined Markets Products

7.36 It is also possible to enter into combinations of Markets Products. You should be aware that different outcomes can be achieved by entering into more than one Markets Product or entering into a Markets Product which is a combination of other Markets Products. As expected, your rights, obligations and risks under a combined Markets Product may differ markedly from those of the individual Markets Products.

8. GLOSSARY

Absolute Value

The Absolute Value of a negative number is the positive value of that negative number. For example, the Absolute Value of -3 is 3.

Bank

ANZ Bank New Zealand Limited.

BKBM

The rate (rounded upwards, if necessary, to the nearest 4 decimal places) as displayed at or about 10.45 am on the relevant day on the Thomson Reuters Monitor Screen page BKBM (or its successor page) for bank bills having a term approximately equal to the term of the Settlement Period.

Bond Price

In relation to a Bond Option, the price of the bonds referred to in that Bond Option, stated as an amount in a currency, or as a percentage of the nominal value of the relevant bonds, in each case, as determined on the exercise date or the expiration date in accordance with the terms of the Markets Product.

Currency Exchange Rate

See paragraph 3.15.

Exchange Rate Risk

See paragraph 3.18.

Financial Instrument

An arrangement constituting a financial asset or liability. This includes investment assets such as loans, bonds and other securities where interest is received, liabilities such as loans, bonds and other capital raising instruments where interest is to be paid, and foreign exchange assets or liabilities, but does not include any of the Markets Products.

Fixed Rate

An Interest Rate set at a specific level for the term of a Markets Product. When setting a Fixed Rate, the Bank will take into account a variety of factors including:

- the terms and conditions of the particular Markets Product, including the Principal Amount, the term of the Markets Product, the Floating Rate and the frequency of Payment Dates;
- inter-bank market rates prevailing at the time, including the then current Floating Rate;
- market volatility; and
- your relationship with the Bank.

Floating Rate
An Interest Rate specified in the terms of a Markets Product that changes on a periodic basis, usually tied to movement of an outside indicator and may be adjusted by adding or subtracting a spread (if any). The rate is reset at the start of each Settlement Period. The Floating Rate that is usually used in Markets Products where the Principal Amount is in NZ dollars is a BKBM rate. If the Principal Amount that the Floating Rate is applied to is not in NZ dollars, a different Floating Rate will apply.

Forward Exchange Rate
A Currency Exchange Rate whereby one currency is sold against another for a future date set at a specific level for the term of the Markets Product. The forward exchange rates that the Bank quotes are not a forecast of where the Bank believes the Currency Exchange Rate will be on any future date. Rather, the Bank calculates a forward exchange rate by taking the current Spot Currency Exchange Rate and adjusting it by a "forward margin". The forward margin reflects interest rate differentials between the two currencies in the Currency Exchange Rate as determined by the Bank. It is expressed as a number of foreign exchange points, and is either added to or subtracted from the current Spot Currency Exchange Rate to determine the Forward Exchange Rate. This depends on which currency in the Currency Exchange Rate has the higher or lower interest rate.

Interest Rate
See paragraph 3.12.

Interest Rate Risk
See paragraph 3.14.

Market Rate
See paragraph 3.11.

Markets Products
The products described in this Document from time to time.

Net Basis

The payment obligations of the parties on a specified day in the same currency are set off against each other and are satisfied by the party with the greater obligation paying the net amount to the other.

Option Buyer

The party to the Option that may exercise the Option.

Option Seller

The party to the Option that is granting the Option to the Option Buyer.

Optional Early Termination

See paragraph 5.11.

Payment Date
A date specified in the terms of a Markets Product on which you and/or the Bank must make a payment to the other party or deliver an amount of currency or securities to the other party (other than payments of Premium).

Premium
See paragraph 4.12.

Principal Amount
The amount specified in the terms of a Markets Product to which the Floating Rate, Fixed Rate, Spot Currency Exchange Rate, Forward Exchange Rate or Strike Price is applied in order to determine your and the Bank's payment obligations. It is usually called the "principal amount" or the "notional amount". The Principal Amount is agreed with the Bank. If the Markets Product is being used as a Risk Management Contract in respect of a corresponding Financial Instrument, to provide the appropriate risk mitigation, the Principal Amount needs to be determined by you by reference to that Financial Instrument and the level to which you wish to mitigate your risk.

Risk Management Contract
See paragraph 3.4.

Settlement Period
In relation to an Interest Rate Swap, an Interest Rate Cap, Floor or Collar or a Forward Rate Agreement, each period during which the Fixed Rate or Floating Rate is applied to the Principal Amounts.

Spot Currency Exchange Rate
The Currency Exchange Rate determined by the Bank as being the rate attributable to a transaction for settlement two business days after the transaction is entered into (although the payment date may vary depending on the currencies that are the subject of the transaction).

Strike Price
(a) In relation to a Bond Option, the price of bonds referred to in that Bond Option, stated as an amount in a currency or as a percentage of the value of the relevant bonds specified in, or otherwise determined in accordance with, the terms of a Bond Option.

(b) In relation to a Currency Option, the Currency Exchange Rate specified in the terms of an Option.

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ANZ Bank New Zealand Limited 07/20