EXTENDIBLE SWAPS AND KNOCK-OUT SWAPS

SUPPLEMENTARY DERIVATIVE INFORMATION

This document provides you with information about the described derivatives offered to you by ANZ Bank New Zealand Limited (the Bank) from 1 December 2015.

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 1 December 2015, 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.

1. IMPORTANT INFORMATION

This document (**"Supplement"**) relates to Extendible Swaps and Knock-Out Swaps and forms part of the Derivative Information (**"Derivative Information"**) prepared by ANZ Bank New Zealand Limited (**"Bank"**) from time to time.

To obtain a copy of the most recent Derivative Information contact your Relationship Manager, your Markets Dealer or call 0800 626 966.

Terms defined in the Derivative Information have the same meanings in this Supplement and in particular, Extendible Swaps and Knock-Out Swaps are Markets Products for the purposes of the Derivative Information. The general information set out in the Derivative Information applies to Extendible Swaps and Knock-Out Swaps and should be read in conjunction with this Supplement.

This Supplement is prepared by the Bank to apply from 1 December 2015.

This Supplement 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 Markets Products, is restricted.

2. WHAT IS AN EXTENDIBLE SWAP?

An Extendible Swap is a combination of an Interest Rate Swap and a Swaption and can be used to manage Interest Rate Risk.

The first part of the Extendible Swap (**"Initial Interest Rate Swap"**) operates in the same way as an ordinary Interest Rate Swap. However, at the end of the Initial Interest Rate Swap (**"Expiration Date"**), the Option Buyer may exercise the Swaption and the terms of the Interest Rate Swap set out in the Swaption (**"Swaption Interest Rate Swap"**) will apply. In effect, the Initial Interest Rate Swap is extended, but on the terms of the Swaption Interest Rate Swap (which may or may not be the same as the terms of the Initial Interest Rate Swap). A Premium may be payable by the Option Buyer under an Extendible Swap.

The Option Buyer may be you or the Bank. Where the Option Buyer is the Bank, the Extendible Swap may be referred to as an "ANZ Extendible Swap". Where you are the Option Buyer, the Extendible Swap may be referred to as a "Customer Extendible Swap".

In summary, a typical Extendible Swap will operate as follows:

- The Option Buyer (which may be you or the Bank) agrees to pay the Premium (if any) to enter into the Extendible Swap. The Premium will be payable on the date or dates specified in the terms of the Extendible Swap.
- On each Payment Date during the term of the Initial Interest Rate Swap:
  - One party, the "Fixed Rate Payer", agrees to pay to the other party, the "Floating Rate Payer", an amount that is calculated by applying the Fixed Rate to the Principal Amount for the Settlement Period; and
  - The Floating Rate Payer agrees to pay to the Fixed Rate Payer an amount calculated by applying the Floating Rate to the Principal Amount for the Settlement Period.
- On the Expiration Date, the Option Buyer may exercise the Swaption and the terms of the Swaption Interest Rate Swap will apply from that date.
- The parties' obligations may be settled on a Net Basis.

The identity of the Option Buyer, the Expiration Date and any Premium payable by the Option Buyer will be set out in the terms of the Extendible Swap, together with the terms of both the Initial Interest Rate Swap and the Swaption Interest Rate Swap. The terms of the Swaption Interest Rate Swap may or may not be the same as the terms of the Initial Interest Rate Swap.

What are the principal risks of an Extendible Swap?

The risks identified in section 6 of the Derivative Information apply to Extendible Swaps.

In addition, entering into an Extendible Swap gives rise to the risks if you are the Option Seller that:

- The Bank may exercise its Option, and you must meet your obligations under the terms of the Swaption Interest Rate Swap, which may be less favourable to you than if you had entered into a new Interest Rate Swap at the time that the Option was exercised or if you had not entered into an Interest Rate Swap at all.
- The Bank does not exercise its Option and the terms of the Swaption Interest Rate Swap do not apply, meaning that you may be exposed to Interest Rate Risk. The Fixed Rate offered for a new Interest Rate Swap at that time may not be as favourable to you as the Fixed Rate that may have applied if, at the time that you entered into the Extendible Swap, you had instead entered into an ordinary Interest Rate Swap that applied for the term of the Swaption Interest Rate Swap.

3. WHAT IS A KNOCK-OUT SWAP?

A Knock-Out Swap is a form of Interest Rate Swap that can be used to manage Interest Rate Risk.

Under an Interest Rate Swap transaction, you and the Bank agree to exchange (ie 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 Interest Rate Swap. 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.

However, unlike an ordinary Interest Rate Swap (under which the Fixed Rate Payer agrees to pay amounts calculated by applying the Fixed Rate to the Principal Amount for every Settlement Period), under a Knock-Out Swap, the calculation of the amount payable by the Fixed Rate Payer on each Payment Date will depend on whether the Floating Rate is equal to or higher than the **"Knock-Out Swap Rate"** on the **"Reset Date"**. The Knock-Out Swap Rate will be set at a level that is higher than the Fixed Rate. When setting the Knock-Out Swap Rate, the Bank will take into account a variety of factors including the factors considered when setting a Fixed Rate and the Fixed Rate applicable to the Knock-Out Swap.

If the Floating Rate is below the Knock-Out Swap Rate on a Reset Date, the amounts payable by the parties are calculated in the same way as for an ordinary Interest Rate Swap. However, if the Floating Rate is equal to or higher than the Knock-Out Swap Rate on a Reset Date, rather than paying an amount calculated by reference to the Fixed Rate for that Settlement Period, the amount payable by the Fixed Rate Payer will be calculated by reference to the Floating Rate. As the Fixed Rate may not always be used to calculate amounts payable by the Fixed Rate Payer (that is, the Fixed Rate can be "knocked out"), the Fixed Rate will be set at a lower level under a Knock-Out Swap than it would be had the parties instead entered into an ordinary Interest Rate Swap.

In summary, a Knock-Out Swap will operate as follows:

- The Bank will determine the Floating Rate on each Reset Date.
- If the Floating Rate is lower than the Knock-Out Swap Rate on a Reset Date:
  - the Fixed Rate Payer agrees to pay to the Floating Rate Payer >>on the relevant Payment Date an amount that is calculated by applying the Fixed Rate to the Principal Amount for the Settlement Period; and
  - the Floating Rate Payer agrees to pay to the Fixed Rate Payer on the relevant Payment Date an amount calculated by applying the Floating Rate to the Principal Amount for the Settlement Period.

- If the Floating Rate is equal to or higher than the Knock-Out Swap Rate on a Reset Date, each party agrees to pay to the other on the Payment Date an amount calculated by applying the Floating Rate to the Principal Amount for the Settlement Period.
- The parties' obligations may be settled on a Net Basis. If, on a Payment Date, the amount payable by each party is calculated by reference to the Floating Rate (that is, the Floating Rate is equal to or higher than the Knock-Out Swap Rate on the relevant Reset Date), each party will be obliged to pay to the other the same amount. This means that if the terms of the Knock-Out Swap permit settlement on a Net Basis there will be no payment by either party on that Payment Date in relation to the Knock-Out Swap.
- The Knock-Out Swap Rate, Payment Dates and the Reset Dates will be specified in the terms of the Knock-Out Swap.

What are the principal risks of a Knock-Out Swap?

The risks identified in section 6 of the Derivative Information apply to Knock-Out Swaps.

In addition, entering into a Knock-Out Swap gives rise to the risk that, if the Floating Rate is equal to or higher than the Knock-Out Swap Rate on any Reset Date, the Fixed Rate Payer must, on the relevant Payment Date, pay an amount calculated by reference to the Floating Rate (instead of the Fixed Rate). This has the practical effect of exposing the Fixed Rate Payer to Interest Rate Risk for that Settlement Period.

If you are the Fixed Rate Payer, this means that, on that Payment Date, your payment obligations under the Knock-Out Swap will be greater than your obligations would have been if you had instead entered into an ordinary Interest Rate Swap.

This also means that, as stated above, if the terms of the Knock-Out Swap permit settlement on a Net Basis, there will be no payment by either party on that Payment Date in relation to the Knock-Out Swap.

ANZ Bank New Zealand Limited 11/15

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