FX DERIVATIVES

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.

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IMPORTANT INFORMATION

This document (**"Supplement"**) relates to the Markets Products listed in the Contents section (**"FX Derivatives"**) and is supplemental to 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 FX Derivatives are Markets Products for the purposes of the Derivative Information. The FX Derivatives are identified in the Contents section as either Structured FX Derivatives, which are Forwards for the purposes of the Derivative Information, or Exotic FX Options, which are Options for the purposes of the Derivative Information. The general information set out in the Derivative Information applies to FX Derivatives 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.

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1. GENERAL INFORMATION ABOUT FX DERIVATIVES

Premium: Typically, you will not pay a Premium for any Structured FX Derivatives with the exception of Exotic FX Options where a Premium is typically payable. Rather, the Bank will determine the rates applicable to a Structured FX Derivative (that is, any applicable Forward Rate and Barrier Rate) to create a zero-Premium structure. As described in the Derivative Information, you pay for the FX Derivative by accepting the rates quoted by the Bank. Unless specified otherwise, the "importer" and "exporter" examples given in this Supplement assume that no Premium is payable.

Determination of rates: The terms and outcomes of certain FX Derivatives vary depending on whether a Currency Exchange Rate has traded at or through a specified level. As set out in the Derivative Information, Currency Exchange Rates are not generally regulated in any official manner and are not quoted on any regulated independent exchange. Accordingly, there is no official published rate which will be referred to by the Bank to determine whether a Currency Exchange Rate has traded at a particular level or not. The Bank will, at its discretion, determine whether a specified Currency Exchange Rate has traded at a particular level or not by referring to various reference sources which show the rates of exchange in the market at a particular time.

Certain rights and obligations at Expiry: The rights and obligations in relation to the exchange of currencies on the Payment Date under a FX Derivative are determined by reference to the Spot Currency Exchange Rate (or the Average Exchange Rate, or the Valuation Rate (as applicable)) on Expiry or on the Valuation Date (as applicable) relative to the Currency Exchange Rate specified in the terms of your FX Derivative (e.g. Forward Exchange Rate, Enhanced Forward Rate, Worst Case Rate, Adjusted Worst Case Rate, Best Case Rate or Strike Price).

Where the Spot Currency Exchange Rate at Expiry is worse for you than the specified Currency Exchange Rate, some FX Derivatives give you the right to elect whether to exchange currencies on the Payment Date at that Currency Exchange Rate. Such rights are described more fully in relation to each applicable FX Derivative in this Supplement.

Where the words "unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances" are used in relation to a FX Derivative in this Supplement, that FX Derivative provides you with the right to decide whether or not you wish to exchange currencies on the Payment Date at the specified Currency Exchange Rate. In these situations the Bank must receive instructions from you by Expiry if you do not wish to exchange currencies on the Payment Date.

Where you have this right and at Expiry the Spot Currency Exchange Rate is worse for you than the specified Currency Exchange Rate, the Bank will always assume that you wish to exchange currencies on the Payment Date. If the Bank does not receive confirmation from you that you do not wish to exchange currencies by Expiry the Bank will proceed with exchange of currencies at the specified Currency Exchange Rate on the Payment Date.

Net Settlement: You and the Bank may agree that, in relation to a FX Derivative, 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.

Corresponding Financial Instrument: The FX Derivatives are intended to be used as Risk Management Contracts. That is, the relevant FX Derivative is intended to reduce or mitigate Exchange Rate Risk under a Financial Instrument. You should advise the Bank if you wish to enter into a FX Derivative independently of any Financial Instrument.

2. USE OF EXAMPLES IN THIS SUPPLEMENT

FX Derivatives are not just for exporters and importers: In this Supplement, the method for calculating amounts payable by you or the Bank in respect of each FX Derivative is described by reference to "exporter" or "importer" examples. These examples are included in this Supplement for illustrative purposes only and, as described below, the outcomes described in this Supplement can apply equally to persons other than exporters and importers. Accordingly, persons other than importers and exporters may wish to enter into FX Derivatives.

Where an example is given in relation to an exporter, that example would most typically apply to a New Zealand based exporter that receives payments in a currency other than New Zealand Dollars but has New Zealand Dollar expenses. For example, as an exporter you may be due to be paid US$100,000 in three months time for your goods which have been sold overseas but you have New Zealand Dollar expenses which are to be satisfied from the proceeds of the US$ income.

However, the exporter examples also apply to other persons who wish to protect themselves from a strengthening New Zealand Dollar, such as a New Zealand based investor receiving dividends or redemption proceeds from overseas investments, or proceeds from the sale of assets in a foreign currency, or any other person who has foreign currency and wishes to exchange it for New Zealand Dollars.

Where an example is given in relation to an importer, that example would most typically apply to a New Zealand based importer that makes payments in a currency other than New Zealand Dollars but receives New Zealand Dollar income. For example, as an importer you may have agreed to pay US$100,000 in three months time for goods imported into New Zealand and you are relying on New Zealand Dollar income to satisfy this payment.

However, the importer examples also apply to other persons who wish to protect themselves from a weakening New Zealand Dollar, such as a New Zealand based investor planning to invest in overseas securities, a person who has agreed to purchase assets or property overseas, or any other person who needs to make payments in a foreign currency in the future.

In all cases, the actual effect of a FX Derivative will depend on your particular circumstances, including your tax and financial status, your organisational structure and your views of, and requirements for, risk management. These circumstances may mean that a particular FX Derivative has different benefits and exposures to different risks to those described in this Supplement.

3. WHAT IS A PARTICIPATING FORWARD?

Like a Forward Exchange Contract, a Participating Forward can protect from an unfavourable movement in a Currency Exchange Rate. However, a Participating Forward has an additional feature allowing you to retain the ability to take advantage of a favourable exchange rate movement on a specified percentage of the Principal Amount.

In return for the ability to take advantage of a favourable Currency Exchange Rate movement on the specified percentage of the Principal Amount, the Worst Case Rate is set at a level that is worse for you than if you had instead entered into a comparable Forward Exchange Contract (i.e. a Forward Exchange Contract for the same Principal Amount and having the same Trade Date and Payment Date).

Entering into a Participating Forward

When you enter into a Participating Forward you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B);
- a percentage of the Principal Amount of Currency A on which you wish to be able to take advantage of a favourable exchange rate movement (the **"Participating Amount"**); and
- the Payment Date.

Based on the above, you and the Bank will agree the Worst Case Rate to apply to the Participating Forward.

The amount of the two currencies to be exchanged depends on the Worst Case Rate and the Spot Currency Exchange Rate at Expiry.

How does a Participating Forward work?

The way in which a typical Participating Forward operates is described below by reference to examples of how an exporter and an importer may use a Participating Forward.

Foreign currency receipt – exporter

An exporter may enter into a Participating Forward to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable exchange rate movement in relation to the Participating Amount. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Participating Forward; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of US$ which is equal to the difference between the Principal Amount of US$ and the Participating Amount of US$, in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to that amount of US$).

Foreign currency payment – importer

An importer may enter into a Participating Forward to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable exchange rate movement in relation to the Participating Amount. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Participating Forward; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by subtracting the Participating Amount of US$ from the Principal Amount of US$ and applying the Worst Case Rate to this amount). In exchange, the Bank will pay to you an amount of US$ which is equal to the difference between the Principal Amount and the Participating Amount.

The Worst Case Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Participating Forward.

What are the principal risks of a Participating Forward?

The risks identified in section 6 of the Derivative Information apply to a Participating Forward.

4. WHAT IS A RATIO FORWARD?

Like a Forward Exchange Contract, a Ratio Forward can protect from an unfavourable movement in a Currency Exchange Rate. However, a Ratio Forward allows you to obtain a better Currency Exchange Rate (**“Enhanced Forward Rate”**) than if you had instead entered into a comparable Forward Exchange Contract (i.e. a Forward Exchange Contract for the same Principal Amount and having the same Trade Date and Payment Date).

In return for the Enhanced Forward Rate, until Expiry you will have uncertainty in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.

Entering into a Ratio Forward

When you enter into a Ratio Forward you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B);
- an amount of Currency A which is greater than the Principal Amount of Currency A (the **“Obligated Amount”**); and
- the Payment Date.

The Principal Amount is typically equal to a portion of your exposure under the corresponding Financial Instrument, while the Obligated Amount is typically an amount not exceeding your maximum exposure under the corresponding Financial Instrument.

Based on the above, you and the Bank will agree the Enhanced Forward Rate to apply to the Ratio Forward.

The amount of the two currencies to be exchanged depends on the Enhanced Forward Rate and the Spot Currency Exchange Rate at Expiry.

How does a Ratio Forward work?

The way in which a typical Ratio Forward operates is described below by reference to examples of how an exporter and an importer may use a Ratio Forward.

Foreign currency receipt – exporter

An exporter may enter into a Ratio Forward to protect from a rise in a Currency Exchange Rate and to obtain an Enhanced Forward Rate. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Ratio Forward; or
- the Spot Currency Exchange Rate is lower than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank the Obligated Amount of US$ and the Bank will pay to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Obligated Amount of US$).

Foreign currency payment – importer

An importer may enter into a Ratio Forward to protect from a fall in a Currency Exchange Rate and to obtain an Enhanced Forward Rate. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Ratio Forward; or
- the Spot Currency Exchange Rate is higher than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Obligated Amount of US$) and the Bank will pay to you the Obligated Amount of US$.

The Enhanced Forward Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Ratio Forward.

What are the principal risks of a Ratio Forward?

The risks identified in section 6 of the Derivative Information apply to a Ratio Forward.

In addition, entering into a Ratio Forward gives rise to the risks that:

- If the Obligated Amount exceeds your maximum exposure under a corresponding Financial Instrument, you will face Exchange Rate Risk in relation to the excess amount of Currency A that you either pay to the Bank (such as, under the exporter example above) or receive from the Bank (such as, under the importer example above).
- Until Expiry there is uncertainty in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.
- If the Enhanced Forward Rate is more favourable to you than the Spot Currency Exchange Rate at Expiry and the Principal Amount is less than your maximum exposure under the corresponding Financial Instrument, this FX Derivative does not mitigate your Exchange Rate Risk in relation to the remaining portion of your exposure under the corresponding Financial Instrument.

5. WHAT IS A KNOCK-OUT FORWARD?
(INCLUDING A LATE STARTING OR EARLY FINISHING KNOCK-OUT FORWARD)

Under a Knock-Out Forward, (unless it is "knocked out" as described below) you can exchange currencies with the Bank at an agreed Forward Exchange Rate. However, a Knock-Out Forward allows you to obtain a better Forward Exchange Rate (**"Enhanced Forward Rate"**) than if you had instead entered into a comparable Forward Exchange Contract (i.e. a Forward Exchange Contract for the same Principal Amount and having the same Trade Date and Payment Date).

In return for the Enhanced Forward Rate, if the Currency Exchange Rate moves in a way which is unfavourable to you and has traded at or through a pre-agreed Currency Exchange Rate (**"Barrier Rate"**) during the Barrier Period, the transaction will be cancelled or "knocked out".

Entering into a Knock-Out Forward

When you enter into a Knock-Out Forward you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B); and
- the Payment Date.

Based on the above, you and the Bank will agree an Enhanced Forward Rate to apply to the Knock-Out Forward as well as a Barrier Rate. The Barrier Rate will be a rate which is worse for you than both the Enhanced Forward Rate and the Spot Currency Exchange Rate on the Trade Date.

The amount of the two currencies to be exchanged on the Payment Date depends on the Enhanced Forward Rate, the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Knock-Out Forward work?

The way in which a typical Knock-Out Forward operates is described below by reference to examples of how an exporter and an importer may use a Knock-Out Forward.

Foreign currency receipt – exporter

An exporter may enter into a Knock-Out Forward to obtain an Enhanced Forward Rate and some protection from a rise in a Currency Exchange Rate provided the Knock-Out Forward is not "knocked out". For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and if at any time during the Barrier Period the Spot Currency Exchange Rate trades at a rate that is equal to or higher than the Barrier Rate, the transaction will be cancelled and there will be no payments made by either party under the Knock-Out Forward.

However, if you are an exporter and the Spot Currency Exchange rate does not trade at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Knock-Out Forward; or
- the Spot Currency Exchange Rate is lower than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into a Knock-Out Forward to obtain an Enhanced Exchange Rate and some protection from a fall in a Currency Exchange Rate provided the Knock-Out Forward is not "knocked out". For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and if at any time during the Barrier Period the Spot Currency Exchange Rate trades at a rate that is equal to or lower than the Barrier Rate, the transaction will be cancelled and there will be no payments made by either party under the Knock-Out Forward.

However, if you are an importer and the Spot Currency Exchange Rate does not trade at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount of US$), in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Knock-Out Forward; or
- the Spot Currency Exchange Rate is higher than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$.

The Enhanced Forward Rate, Barrier Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Knock-Out Forward.

Late Starting or Early Finishing Knock-Out Forward

An additional feature can be added to a Knock-Out Forward, limiting the period of time during which the Barrier Rate will apply. A Knock-Out Forward with this feature may be referred to as either a **Late Starting Knock-Out Forward** or an **Early Finishing Knock-Out Forward**. The effect of this feature is described further in section 37.

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

The risks identified in section 6 of the Derivative Information apply to a Knock-Out Forward (including a Late Starting or Early Finishing Knock-Out Forward).

In addition, entering into a Knock-Out Forward (including a Late Starting or Early Finishing Knock-Out Forward) gives rise to the risks that:

- If the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period, the transaction will be cancelled.
- Until the earlier of the Spot Currency Exchange Rate trading at or through the Barrier Rate and the end of the Barrier Period, there is uncertainty as to whether or not you will have any right or obligation to exchange the currencies at the Enhanced Forward Rate.

6. WHAT IS A RATIO KNOCK-OUT FORWARD?
(INCLUDING A LATE STARTING OR EARLY FINISHING RATIO KNOCK-OUT FORWARD)

A Ratio Knock-Out Forward is the same as a Knock-Out Forward except that one or both of the Enhanced Forward Rate and the Barrier Rate may be set at a level that is better for you than if you had instead entered into a comparable Knock-Out Forward (i.e. a Knock-Out Forward for the same Principal Amount and having the same Trade Date and Payment Date).

In return for one or both of the Enhanced Forward Rate and Barrier Rate being set at a level that is better for you, you may have uncertainty until Expiry in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.

Entering into a Ratio Knock-Out Forward

When you enter into a Ratio Knock-Out Forward you nominate the same terms that you nominate when entering into a Knock-Out Forward as well an amount of Currency A which is greater than the Principal Amount of Currency A (the "**Obligated Amount**").

The Principal Amount is typically equal to a portion of your exposure under a corresponding Financial Instrument while the Obligated Amount is typically an amount not exceeding your maximum exposure under the corresponding Financial Instrument.

The amount of the two currencies to be exchanged on the Payment Date depends on the Enhanced Forward Rate, the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Ratio Knock-Out Forward work?

The way in which a typical Ratio Knock-Out Forward operates is described below by reference to examples of how an exporter and an importer may use a Ratio Knock-Out Forward.

Foreign currency receipt – exporter

An exporter may enter into a Ratio Knock-Out Forward to obtain an Enhanced Forward Rate and some protection from a rise in a Currency Exchange Rate provided the Ratio Knock-Out Forward is not "knocked out". For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and at any time during the Barrier Period the Spot Currency Exchange Rate trades at a rate that is equal to or higher than the Barrier Rate, the transaction will be cancelled and there will be no payments made by either party under the Ratio Knock-Out Forward.

However, if you are an exporter and the Spot Currency Exchange rate does not trade at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Ratio Knock-Out Forward; or
- the Spot Currency Exchange Rate is lower than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank the Obligated Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Obligated Amount of US$).

Foreign currency payment – importer

An importer may enter into a Ratio Knock-Out Forward to obtain an Enhanced Forward Rate and some protection from a fall in a Currency Exchange Rate provided the Ratio Knock-Out Forward is not "knocked out". For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and if at any time during the Barrier Period the Spot Currency Exchange Rate trades at a rate that is equal to or lower than the Barrier Rate, the transaction will be cancelled and there will be no payments made by either party under the Knock-Out Forward.

However, if you are an importer and the Spot Currency Exchange Rate does not trade at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount of US$), in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Ratio Knock-Out Forward; or

- the Spot Currency Exchange Rate is higher than the Enhanced Forward Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Obligated Amount of US$) in exchange for the Bank paying to you the Obligated Amount of US$.

The Enhanced Forward Rate, Barrier Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Ratio Knock-Out Forward.

Late Starting or Early Finishing Ratio Knock-Out Forward

An additional feature can be added to a Ratio Knock-Out Forward, limiting the period of time during which the Barrier Rate will apply. A Ratio Knock-Out Forward with this feature may be referred to as either a **Late Starting Ratio Knock-Out Forward** or an **Early Finishing Ratio Knock-Out Forward**. The effect of this feature is described further in section 37.

What are the principal risks of a Ratio Knock-Out Forward?

The risks identified in section 6 of the Derivative Information and in this Supplement in relation to a Knock-Out Forward apply to a Ratio Knock-Out Forward (including a Late Starting or Early Finishing Ratio Knock-Out Forward).

In addition, entering into a Ratio Knock-Out Forward (including a Late Starting or Early Finishing Ratio Knock-Out Forward) gives rise to the risks that:

- If the Obligated Amount exceeds your maximum exposure under a corresponding Financial Instrument, you will face Exchange Rate Risk in relation to the excess amount of currency that you either pay to the Bank (such as, under the exporter example above) or receive from the Bank (such as, under the importer example above).
- There may be uncertainty until Expiry in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.
- If the Enhanced Forward Rate is more favourable to you than the Spot Currency Exchange Rate at Expiry and the Principal Amount is less than your maximum exposure under the corresponding Financial Instrument, this FX Derivative does not mitigate your Exchange Rate Risk in relation to the remaining portion of your exposure under the corresponding Financial Instrument.

7. WHAT IS A CONVERTING FORWARD?
(INCLUDING A LATE STARTING OR EARLY FINISHING CONVERTING FORWARD)

Like a Forward Exchange Contract, a Converting Forward can protect from an unfavourable movement in a Currency Exchange Rate. However, a Converting Forward has an additional feature allowing you to obtain the ability to take advantage of a favourable exchange rate movement if the Spot Currency Exchange Rate trades at or through a pre-agreed Currency Exchange Rate ("**Barrier Rate**") during the Barrier Period.

In return for the ability to take advantage of a favourable Currency Exchange Rate movement (provided the Spot Currency Exchange Rate trades at or through the Barrier Rate during the Barrier Period), the Worst Case Rate is set at a level that is worse for you than if you had instead entered into a comparable Forward Exchange Contract (i.e. a Forward Exchange Contract for the same Principal Amount and having the same Trade Date and Payment Date).

If the Spot Currency Exchange Rate does not trade at or through the Barrier Rate during the Barrier Period you may be required to exchange currencies at the Worst Case Rate on the Payment Date.

Entering into a Converting Forward

When you enter into a Converting Forward you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B); and
- the Payment Date.

Based on the above, you and the Bank will agree a Worst Case Rate to apply to the Converting Forward as well as a Barrier Rate. Typically, the Barrier Rate will be a rate which is worse for you than both the Worst Case Rate and the Spot Currency Exchange Rate on the Trade Date. However, for some Converting Forwards the Worst Case Rate and the Barrier Rate can be set at the same rate.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Converting Forward work?

The way in which a typical Converting Forward operates is described below by reference to examples of how an exporter and an importer may use a Converting Forward.

Foreign currency receipt – exporter

An exporter may enter into a Converting Forward to protect from a rise in a Currency Exchange Rate while obtaining the ability to benefit from a favourable movement in a Currency Exchange Rate if the Spot Currency Exchange Rate trades at a rate that is equal to or higher than the Barrier Rate during the Barrier Period. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and at any time during the Barrier Period the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Barrier Rate and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date, you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Converting Forward; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate no payments are made under the Converting Forward.

However, if you are an exporter and the Spot Currency Exchange Rate does not trade at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date, you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Converting Forward; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into a Converting Forward to protect from a fall in a Currency Exchange Rate while obtaining the ability to benefit from a favourable movement in a Currency Exchange Rate if the Spot Currency Exchange Rate trades at a rate that is equal to or lower than the Barrier Rate during the Barrier Period. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and at any time during the Barrier Period the Spot Currency Exchange Rate has traded at a rate that is equal to or lower than the Barrier Rate and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Converting Forward; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate no payments are made under the Converting Forward.

However, if you are an importer and the Spot Currency Exchange Rate does not trade at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Converting Forward; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$.

The Worst Case Rate, Barrier Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Converting Forward.

Late Starting or Early Finishing Converting Forward

An additional feature can be added to a Converting Forward, limiting the period of time during which the Barrier Rate will apply. A Converting Forward with this feature may be referred to as either a **Late Starting Converting Forward** or an **Early Finishing Converting Forward**. The effect of this feature is described further in section 37.

What are the principal risks of a Converting Forward?

The risks identified in section 6 of the Derivative Information apply to a Converting Forward (including a Late Starting or Early Finishing Converting Forward).

In addition, entering into a Converting Forward (including a Late Starting or Early Finishing Converting Forward) gives rise to the risk that, until the earlier of the Spot Currency Exchange Rate trading at or through the Barrier Rate and the end of the Barrier Period, you will have uncertainty as to whether you may be obliged to exchange currencies at the Worst Case Rate on the Payment Date.

8. WHAT IS A SMART FORWARD?
(INCLUDING A LATE STARTING OR EARLY FINISHING SMART FORWARD)

Like a Forward Exchange Contract, a Smart Forward can protect from an unfavourable movement in a Currency Exchange Rate. However, a Smart Forward has an additional feature allowing you to retain the ability to take advantage of a favourable exchange rate movement so long as the Spot Currency Exchange Rate does not trade at or through a pre-agreed Currency Exchange Rate ("**Barrier Rate**") at any time during the Barrier Period.

In return for this ability to take advantage of a favourable Currency Exchange Rate movement the Worst Case Rate is set at a level that is worse for you than if you had instead entered into a comparable Forward Exchange Contract (i.e. a Forward Exchange Contract for the same Principal Amount and having the same Trade Date and Payment Date).

If the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period you may be obliged to exchange currencies at the Worst Case Rate on the Payment Date.

Entering into a Smart Forward

When you enter into a Smart Forward you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B); and
- the Payment Date.

Based on the above, you and the Bank will agree a Worst Case Rate to apply to the Smart Forward as well as a Barrier Rate. The Barrier Rate will be a rate which is better for you than the Worst Case Rate, Forward Exchange Rate and the Spot Currency Exchange Rate on the Trade Date.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Smart Forward work?

The way in which a typical Smart Forward operates is described below by reference to examples of how an exporter and an importer may use a Smart Forward.

Foreign currency receipt – exporter

An exporter may enter into a Smart Forward to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or lower than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and the Spot Currency Exchange Rate has not traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, no payments are made under the Smart Forward.

However, if you are an exporter and the Spot Currency Exchange Rate has traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into a Smart Forward to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or higher than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, no payments are made under the Smart Forward.

However, if you are an importer and the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$.

The Worst Case Rate, Barrier Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Smart Forward.

Late Starting and Early Finishing Smart Forward

An additional feature can be added to a Smart Forward, limiting the period of time during which the Barrier Rate will apply. A Smart Forward with this feature may be referred to as either a **Late Starting Smart Forward** or an **Early Finishing Smart Forward**. The effect of this feature is described further in section 37.

What are the principal risks of a Smart Forward?

The risks identified in section 6 of the Derivative Information apply to a Smart Forward (including a Late Starting or Early Finishing Smart Forward).

In addition, entering into a Smart Forward (including a Late Starting or Early Finishing Smart Forward) gives rise to the risk that if the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period you may be obliged to exchange currencies at the Worst Case Rate. If you are obliged to exchange currencies in this circumstance, the Worst Case Rate will be worse for you than the Spot Currency Exchange Rate on Expiry.

9. WHAT IS A RATIO SMART FORWARD? (INCLUDING A LATE STARTING OR EARLY FINISHING RATIO SMART FORWARD)

A Ratio Smart Forward is the same as a Smart Forward except that one or both of the Worst Case Rate and the Barrier Rate will be set at a level that is better for you than if you had instead entered into a comparable Smart Forward (i.e. a Smart Forward for the same Principal Amount and having the same Trade Date and Payment Date).

In return for one or both of the Worst Case Rate and the Barrier Rate being set at a level that is better for you, until Expiry you will have uncertainty in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.

Entering into a Ratio Smart Forward

When you enter into a Ratio Smart Forward you nominate the same terms that you nominate when entering into a Smart Forward as well as an amount of Currency A which is greater than the Principal Amount of Currency A (the "**Obligated Amount**").

The Principal Amount is typically equal to a portion of your exposure under a corresponding Financial Instrument while the Obligated Amount is typically an amount not exceeding your maximum exposure under the corresponding Financial Instrument.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Ratio Smart Forward work?

The way in which a typical Ratio Smart Forward operates is described below by reference to examples of how an exporter and an importer may use a Ratio Smart Forward.

Foreign currency receipt – exporter

An exporter may enter into a Ratio Smart Forward to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or lower than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and the Spot Currency Exchange Rate has not traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Forward; or

- the Spot Currency Exchange Rate is lower than the Worst Case Rate, no payments are made under the Ratio Smart Forward.

However, if you are an exporter and the Spot Currency Exchange Rate has traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and on Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Forward; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, on the Payment Date you must pay to the Bank the Obligated Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Obligated Amount of US$).

Foreign currency payment – importer

An importer may enter into a Ratio Smart Forward to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or higher than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Forward; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, no payments are made under the Ratio Smart Forward.

However, if you are an importer and the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Forward; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Obligated Amount of US$) in exchange for the Bank paying to you the Obligated Amount of US$.

The Worst Case Rate, Barrier Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Ratio Smart Forward.

Late Starting and Early Finishing Ratio Smart Forward

An additional feature can be added to a Ratio Smart Forward, limiting the period of time during which the Barrier Rate will apply. A Ratio Smart Forward with this feature may be referred to as either a **Late Starting Ratio Smart Forward** or an **Early Finishing Ratio Smart Forward**. The effect of this feature is described further in section 37.

What are the principal risks of a Ratio Smart Forward?

The risks identified in section 6 of the Derivative Information and in this Supplement in relation to a Smart Forward apply to a Ratio Smart Forward (including a Late Starting or Early Finishing Ratio Smart Forward).

In addition, entering into a Ratio Smart Forward (including a Late Starting or Early Finishing Ratio Smart Forward) gives rise to the risks that:

- If the Obligated Amount exceeds your maximum exposure under a corresponding Financial Instrument, you will face Exchange Rate Risk in relation to the excess amount of Currency A that you either pay to the Bank (such as, under the exporter example above) or receive from the Bank (such as, under the importer example above).
- Until Expiry there is uncertainty in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.
- If the amounts of the currencies to be exchanged on the Payment Date are determined by reference to the Principal Amount and the Principal Amount is less than your maximum exposure under the corresponding Financial Instrument, this FX Derivative will not mitigate your Exchange Rate Risk in relation to the remaining portion of your exposure under the corresponding Financial Instrument.

10. WHAT IS A SMART FORWARD PLUS?
(INCLUDING A LATE STARTING OR EARLY FINISHING SMART FORWARD PLUS)

Like a Smart Forward, a Smart Forward Plus can protect from an unfavourable movement in a Currency Exchange Rate and allows you to retain the ability to take advantage of a favourable exchange rate movement so long as the Spot Currency Exchange Rate does not trade at or through a pre-agreed Currency Exchange Rate ("**Barrier Rate**") at any time during the Barrier Period.

However, a Smart Forward Plus has an additional feature that allows you to exchange currencies at a Currency Exchange Rate that is better than the Worst Case Rate ("**Adjusted Worst Case Rate**") if the Spot Currency Exchange Rate trades at or through the Barrier Rate during the Barrier Period.

In return for the Adjusted Worst Case Rate, one or both of the Barrier Rate and the Worst Case Rate is set at a level that is worse for you than if you had instead entered into a comparable Smart Forward (i.e. a Smart Forward for the same Principal Amount and having the same Trade Date and Payment Date).

Entering into a Smart Forward Plus

When you enter into a Smart Forward Plus you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B); and
- the Payment Date.

Based on the above, you and the Bank will agree a Worst Case Rate, an Adjusted Worst Case Rate as well as a Barrier Rate.

The Barrier Rate will be a rate which is better for you than the Worst Case Rate, the Adjusted Worst Case Rate and the Spot Currency Exchange Rate at the Trade Date.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Adjusted Worst Case Rate, the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Smart Forward Plus work?

The way in which a typical Smart Forward Plus operates is described below by reference to examples of how an exporter and an importer may use a Smart Forward Plus.

Foreign currency receipt – exporter

An exporter may enter into a Smart Forward Plus to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or lower than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and the Spot Currency Exchange Rate has not traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Plus; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, no payments are made under the Smart Forward Plus.

However, if you are an exporter and the Spot Currency Exchange Rate has traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Adjusted Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Adjusted Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Plus; or
- the Spot Currency Exchange Rate is lower than the Adjusted Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Adjusted Worst Case Rate to the Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into a Smart Forward Plus to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or higher than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Plus; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, no payments are made under the Smart Forward Plus.

However, if you are an importer and the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Adjusted Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Adjusted Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Plus; or
- the Spot Currency Exchange Rate is higher than the Adjusted Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Adjusted Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$.

The Worst Case Rate, Adjusted Worst Case Rate, Barrier Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Smart Forward Plus.

Late Starting or Early Finishing Smart Forward Plus

An additional feature can be added to a Smart Forward Plus, limiting the period of time during which the Barrier Rate will apply. A Smart Forward Plus with this feature may be referred to as either a **Late Starting Smart Forward Plus** or an **Early Finishing Smart Forward Plus**. The effect of this feature is described further in section 37.

What are the principal risks of a Smart Forward Plus?

The risks identified in section 6 of the Derivative Information apply to the Smart Forward Plus (including a Late Starting or Early Finishing Smart Forward Plus).

In addition, entering into a Smart Forward Plus (including a Late Starting or Early Finishing Smart Forward Plus) gives rise to the risk that if the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period you may be obliged to exchange currencies at the Adjusted Worst Case Rate. If you are obliged to exchange currencies in this circumstance, the Adjusted Worst Case Rate will be worse for you than the Spot Currency Exchange Rate on Expiry.

11. WHAT IS A RATIO SMART FORWARD PLUS? (INCLUDING A LATE STARTING OR EARLY FINISHING RATIO SMART FORWARD PLUS)

A Ratio Smart Forward Plus is the same as a Smart Forward Plus except that one or more of the Worst Case Rate, Adjusted Worst Case Rate and the Barrier Rate will be set at a level that is better for you than if you had instead entered into a comparable Smart Forward Plus (i.e. a Smart Forward Plus for the same Principal Amount and having the same Trade Date and Payment Date).

In return for one or more of the Worst Case Rate, Adjusted Worst Case Rate and the Barrier Rate being set at a level that is better for you, until Expiry you will have uncertainty in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.

Entering into a Ratio Smart Forward Plus

When you enter into a Ratio Smart Forward Plus you nominate the same terms that you nominate when entering into a Smart Forward Plus as well as an amount of Currency A which is greater than the Principal Amount of Currency A (the "**Obligated Amount**").

The Principal Amount is typically equal to a portion of your exposure under a corresponding Financial Instrument while the Obligated Amount is typically an amount not exceeding your maximum exposure under the corresponding Financial Instrument.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Adjusted Worst Case Rate, the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Ratio Smart Forward Plus work?

The way in which a typical Ratio Smart Forward Plus operates is described below by reference to examples of how an exporter and an importer may use a Ratio Smart Forward Plus.

Foreign currency receipt – exporter

An exporter may enter into a Smart Forward Plus to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or lower than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and the Spot Currency Exchange Rate has not traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Forward Plus; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, no payments are made under the Ratio Smart Forward Plus.

However, if you are an exporter and the Spot Currency Exchange Rate has traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Adjusted Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Adjusted Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Forward Plus; or
- the Spot Currency Exchange Rate is lower than the Adjusted Worst Case Rate, on the Payment Date you must pay to the Bank the Obligated Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Adjusted Worst Case Rate to the Obligated Amount of US$).

Foreign currency payment – importer

An importer may enter into a Ratio Smart Forward Plus to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or higher than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Forward Plus; or

- the Spot Currency Exchange Rate is higher than the Worst Case Rate, no payments are made under the Ratio Smart Forward Plus.

However, if you are an importer and the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Adjusted Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Adjusted Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Forward Plus; or
- the Spot Currency Exchange Rate is higher than the Adjusted Worst Case Rate, on the Payment Date, you must pay to the Bank an amount of NZ$ (calculated by applying the Adjusted Worst Case Rate to the Obligated Amount of US$) in exchange for the Bank paying to you the Obligated Amount of US$.

Late Starting or Early Finishing Ratio Smart Forward Plus

An additional feature can be added to a Ratio Smart Forward Plus, limiting the period of time during which the Barrier Rate will apply. A Ratio Smart Forward Plus with this feature may be referred to as either a **Late Starting Ratio Smart Forward Plus** or an **Early Finishing Ratio Smart Forward Plus**. The effect of this feature is described further in section 37.

What are the principal risks of a Ratio Smart Forward Plus?

The risks identified in section 6 of the Derivative Information and in this Supplement in relation to a Smart Forward Plus apply to a Ratio Smart Forward Plus (including a Late Starting or Early Finishing Ratio Smart Forward Plus).

In addition, entering into a Ratio Smart Forward Plus (including a Late Starting or Early Finishing Ratio Smart Forward Plus) gives rise to the risks that:

- If the Obligated Amount exceeds your maximum exposure under a corresponding Financial Instrument, you will face Exchange Rate Risk in relation to the excess amount of Currency A that you either pay to the Bank (such as, under the exporter example above) or receive from the Bank (such as, under the importer example above) under the Ratio Smart Forward Plus.
- Until Expiry there is uncertainty in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.
- If the amounts of the currencies to be exchanged on the Payment Date are determined by reference to the Principal Amount and the Principal Amount is less than your maximum exposure under the corresponding Financial Instrument, this FX Derivative will not mitigate your Exchange Rate Risk in relation to the remaining portion of your exposure under the corresponding Financial Instrument.

12. WHAT IS A SMART FORWARD COMBO?
(INCLUDING A LATE STARTING OR EARLY FINISHING SMART FORWARD COMBO)

Like a Forward Exchange Contract, a Smart Forward Combo can protect from an unfavourable movement in a Currency Exchange Rate. However, a Smart Forward Combo has an additional feature allowing you to retain the ability to take advantage of a favourable exchange rate movement on a specified percentage of the Principal Amount, so long as the Spot Currency Exchange Rate does not trade at or through a pre-agreed Currency Exchange Rate ("**Barrier Rate**") at any time during the Barrier Period.

In return for this ability to take advantage of a favourable Currency Exchange Rate movement the Worst Case Rate is set at a level that is worse for you than if you had instead entered into a comparable Forward Exchange Contract (i.e. a Forward Exchange Contract for the same Principal Amount and having the same Trade Date and Payment Date).

If the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period you may be required to exchange the Principal Amount at the Worst Case Rate on the Payment Date.

Entering into a Smart Forward Combo

When you enter into a Smart Forward Combo you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B);
- a percentage of the Principal Amount of Currency A on which you wish to be able to take advantage of a favourable exchange rate movement (the "**Participating Amount**"); and
- the Payment Date.

Based on the above, you and the Bank will agree a Worst Case Rate to apply to the Smart Forward Combo as well as a Barrier Rate. The Barrier Rate will be a rate which is better for you than the Worst Case Rate and the Spot Currency Exchange Rate on the Trade Date.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Smart Forward Combo work?

The way in which a typical Smart Forward Combo operates is described below by reference to examples of how an exporter and an importer may use a Smart Forward Combo.

Foreign currency receipt – exporter

An exporter may enter into a Smart Forward Combo to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable exchange rate movement in relation to the Participating Amount (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or lower than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and the Spot Currency Exchange Rate has not traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Combo; or

- the Spot Currency Exchange Rate is lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of US$ which is equal to the difference between the Principal Amount of US$ and the Participating Amount of US$, in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to that amount of US$).

However, if you are an exporter and the Spot Currency Exchange Rate has traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Combo; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into a Smart Forward Combo to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable exchange rate movement in relation to the Participating Amount (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or higher than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer, and the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Combo; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by subtracting the Participating Amount of US$ from the Principal Amount of US$ and applying the Worst Case Rate to this amount). In exchange the Bank will pay to you an amount of US$ which is equal to the difference between the Participating Amount and the Principal Amount.

However, if you are an importer and the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Combo; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$.

The Worst Case Rate, Barrier Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Smart Forward Combo.

Late Starting or Early Finishing Smart Forward Combo

An additional feature can be added to a Smart Forward Combo, limiting the period of time during which the Barrier Rate will apply. A Smart Forward Combo with this feature may be referred to as either a **Late Starting Smart Forward Combo** or an **Early Finishing Smart Forward Combo**. The effect of this feature is described further in section 37.

What are the principal risks of a Smart Forward Combo?

The risks identified in section 6 of the Derivative Information apply to a Smart Forward Combo (including a Late Starting or Early Finishing Smart Forward Combo).

In addition, entering into a Smart Forward Combo (including a Late Starting or Early Finishing Smart Forward Combo) gives rise to the risk that if the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period you may be obliged to exchange currencies at the Worst Case Rate. If you are obliged to exchange currencies in this circumstance, the Worst Case Rate will be worse for you than the Spot Currency Exchange Rate on Expiry.

13. WHAT IS A SMART FORWARD PLUS (AWCR)?

(INCLUDING A LATE STARTING OR EARLY FINISHING SMART FORWARD PLUS (AWCR))

A Smart Forward Plus (AWCR) is similar to a Smart Forward Plus in that currencies may be exchanged at either a Worst Case Rate or an Adjusted Worst Case Rate (that is, a Currency Exchange Rate that is better for you than the Worst Case Rate). However, the circumstances in which each rate can apply are different. That is, under a Smart Forward Plus (AWCR):

- if the Spot Currency Exchange Rate does not trade at or through the Barrier Rate during the Barrier Period you will be able to exchange currencies at the Adjusted Worst Case Rate on the Payment Date (as opposed to the Worst Case Rate which would apply in these circumstances under a Smart Forward Plus); and
- if the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period you may be obliged to exchange currencies at the Worst Case Rate on the Payment Date (as opposed to the Adjusted Worst Case Rate which would apply in these circumstances under a Smart Forward Plus).

Entering into a Smart Forward Plus (AWCR)

When you enter into a Smart Forward Plus (AWCR) you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B); and
- the Payment Date.

Based on the above, you and the Bank will agree a Worst Case Rate, an Adjusted Worst Case Rate as well as a Barrier Rate.

The Barrier Rate will be a rate which is better for you than the Worst Case Rate, the Adjusted Worst Case Rate and the Spot Currency Exchange Rate at the Trade Date.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Adjusted Worst Case Rate, the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Smart Forward Plus (AWCR) work?

The way in which a typical Smart Forward Plus (AWCR) operates is described below by reference to examples of how an exporter and an importer may use a Smart Forward Plus (AWCR).

Foreign currency receipt – exporter

An exporter may enter into a Smart Forward Plus (AWCR) to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or lower than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and the Spot Currency Exchange Rate has not traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Adjusted Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Adjusted Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Plus (AWCR); or
- the Spot Currency Exchange Rate is lower than the Adjusted Worst Case Rate, no payments are made under the Smart Forward Plus (AWCR).

However, if you are an exporter and the Spot Currency Exchange Rate has traded at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Plus (AWCR); or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$)

Foreign currency payment – importer

An importer may enter into a Smart Forward Plus (AWCR) to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate (so long as the Spot Currency Exchange Rate does not trade at a level that is equal to or higher than the Barrier Rate at any time during the Barrier Period). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Adjusted Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Adjusted Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Plus (AWCR); or
- the Spot Currency Exchange Rate is higher than the Adjusted Worst Case Rate, no payments are made under the Smart Forward Plus (AWCR).

However, if you are an importer and the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Forward Plus (AWCR); or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$.

The Worst Case Rate, Adjusted Worst Case Rate, Barrier Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Smart Forward Plus (AWCR).

Late Starting or Early Finishing Smart Forward Plus (AWCR)

An additional feature can be added to a Smart Forward Plus (AWCR), limiting the period of time during which the Barrier Rate will apply. A Smart Forward Plus (AWCR) with this feature may be referred to as either a **Late Starting Smart Forward Plus (AWCR)** or an **Early Finishing Smart Forward Plus (AWCR)**. The effect of this feature is described further in section 37.

What are the principal risks of a Smart Forward Plus (AWCR)?

The risks identified in section 6 of the Derivative Information apply to the Smart Forward Plus (AWCR) (including a Late Starting or Early Finishing Smart Forward Plus (AWCR)).

In addition, entering into a Smart Forward Plus (AWCR) (including a Late Starting or Early Finishing Smart Forward Plus (AWCR)) gives rise to the risk that if the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period you may be obliged to exchange currencies at the Worst Case Rate. If you are obliged to exchange currencies in this circumstance, the Worst Case Rate will be worse for you than the Spot Currency Exchange Rate on Expiry.

14. WHAT IS A FX COLLAR?

A FX Collar can protect from an unfavourable movement in a Currency Exchange Rate while allowing you to take advantage of a favourable exchange rate movement, to the Best Case Rate.

In return for the ability to take advantage of a favourable exchange rate movement the Worst Case Rate is generally set at a level that is worse for you than if you had instead entered into a comparable Forward Exchange Contract (i.e. a Forward Exchange Contract for the same Principal Amount and having the same Trade Date and Payment Date).

Entering into a FX Collar

When you enter into a FX Collar you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B); and
- the Payment Date.

Based on the above, you and the Bank will agree a Worst Case Rate and a Best Case Rate to apply to the FX Collar.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Best Case Rate and the Spot Currency Exchange Rate at Expiry.

How does a FX Collar work?

The way in which a typical FX Collar operates is described below by reference to examples of how an exporter and an importer may use a FX Collar.

Foreign currency receipt – exporter

An exporter may enter into a FX Collar to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate down to the Best Case Rate. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the FX Collar; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate but higher than the Best Case Rate, no payments are made under the FX Collar; or
- the Spot Currency Exchange Rate is equal to or lower than the Best Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Best Case Rate to the Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into a FX Collar to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate up to the Best Case Rate. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the FX Collar; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate but lower than the Best Case Rate, no payments are made under the FX Collar; or
- the Spot Currency Exchange Rate is equal to or higher than the Best Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Best Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$.

The Worst Case Rate, Best Case Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the FX Collar.

What are the principal risks of a FX Collar?

The risks identified in section 6 of the Derivative Information apply to a FX Collar.

15. WHAT IS A RATIO COLLAR?

A Ratio Collar can protect from an unfavourable movement in a Currency Exchange Rate while allowing you to take advantage of a favourable exchange rate movement to the Best Case Rate. In addition, a Ratio Collar allows you to obtain either a better Worst Case Rate, Best Case Rate (or both) than if you had instead entered into a comparable FX Collar (i.e. a FX Collar for the same Principal Amount and having the same Trade Date and Payment Date).

In return for one or both of the Worst Case Rate and the Best Case Rate being set at a level which is better for you, until Expiry you will have uncertainty in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.

Entering into a Ratio Collar

When you enter into a Ratio Collar you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B);
- an amount of Currency A which is greater than the Principal Amount of Currency A (the "**Obligated Amount**"); and
- the Payment Date.

The Principal Amount is typically equal to a portion of your exposure under the corresponding Financial Instrument, while the Obligated Amount is typically an amount not exceeding your maximum exposure under the corresponding Financial Instrument.

Based on the above, you and the Bank will agree a Worst Case Rate and a Best Case Rate to apply to the Ratio Collar.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Best Case Rate and the Spot Currency Exchange Rate at Expiry.

How does a Ratio Collar work?

The way in which a typical Ratio Collar operates is described below by reference to examples of how an exporter and an importer may use a Ratio Collar.

Foreign currency receipt – exporter

An exporter may enter into a Ratio Collar to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate down to the Best Case Rate. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Collar; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate but higher than the Best Case Rate, no payments are made under the Ratio Collar; or
- the Spot Currency Exchange Rate is equal to or lower than the Best Case Rate, on the Payment Date you must pay to the Bank the Obligated Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Best Case Rate to the Obligated Amount of US$).

Foreign currency payment – importer

An importer may enter into a Ratio Collar to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate up to the Best Case Rate. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Collar; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate but lower than the Best Case Rate, no payments are made under the Ratio Collar; or
- the Spot Currency Exchange Rate is equal to or higher than the Best Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Best Case Rate to the Obligated Amount of US$) in exchange for the Bank paying to you the Obligated Amount of US$.

The Worst Case Rate, Best Case Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Ratio Collar.

What are the principal risks of a Ratio Collar?

The risks identified in section 6 of the Derivative Information apply to a Ratio Collar.

In addition, entering into a Ratio Collar gives rise to the risks that:

- If the Obligated Amount exceeds your maximum exposure under a corresponding Financial Instrument, you will face Exchange Rate Risk in relation to the excess amount of Currency A that you either pay to the Bank (such as, under the exporter example above) or receive from the Bank (such as, under the importer example above).
- Until Expiry there is uncertainty in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.
- If the amounts of the currencies to be exchanged on the Payment Date are determined by reference to the Principal Amount and the Principal Amount is less than your maximum exposure under the corresponding Financial Instrument, this FX Derivative will not mitigate your Exchange Rate Risk in relation to the remaining portion of your exposure under the corresponding Financial Instrument.

16. WHAT IS A SMART COLLAR?
(INCLUDING A LATE STARTING OR EARLY FINISHING SMART COLLAR)

A Smart Collar can protect from an unfavourable movement in a Currency Exchange Rate while allowing you to take advantage of a favourable exchange rate movement to a pre-agreed Currency Exchange Rate ("**Barrier Rate"**). However, if the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period, a Best Case Rate will apply to the Smart Collar and you will only be able to take advantage of a favourable exchange rate movement to this level.

In return for this ability to take advantage of a favourable exchange rate movement the Worst Case Rate is set at a level that is worse for you than if you had instead entered into a comparable Forward Exchange Contract (i.e. a Forward Exchange Contract for the same Principal Amount and having the same Trade Date and Payment Date).

Entering into a Smart Collar

When you enter into a Smart Collar you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B); and
- the Payment Date.

Based on the above, you and the Bank will agree a Worst Case Rate and a Best Case Rate to apply to the Smart Collar as well as a Barrier Rate. The Barrier Rate will be a rate which is better for you than the Worst Case Rate, Best Case Rate, Forward Exchange Rate and the Spot Currency Exchange Rate on the Trade Date.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Best Case Rate, and the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Smart Collar work?

The way in which a typical Smart Collar operates is described below by reference to examples of how an exporter and an importer may use a Smart Collar.

Foreign currency receipt – exporter

An exporter may enter into a Smart Collar to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate down to the Barrier Rate. However, if the Spot Currency Exchange Rate trades at a level that is equal to or lower than the Barrier Rate at any time during the Barrier Period, the best Currency Exchange Rate that the exporter can obtain is the Best Case Rate. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and the Spot Currency Exchange Rate does not trade at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Payment Date. the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Collar; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, no payments are made under the Smart Collar.

However, if you are an exporter and at any time during the Barrier Period the Spot Currency Exchange Rate has traded at a rate that is equal to or lower than the Barrier Rate and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Collar; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate but higher than the Best Case Rate, no payments are made under the Smart Collar; or
- the Spot Currency Exchange Rate is equal to or lower than the Best Case Rate, you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Best Case Rate to the Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into a Smart Collar to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate up to the Barrier Rate. However, if the Spot Currency Exchange Rate trades at a level that is equal to or higher than the Barrier Rate at any time during the Barrier Period the best Currency Exchange Rate that the importer can obtain is the Best Case Rate. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Collar; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, no payments are made under the Smart Collar.

However, if you are an importer and at any time during the Barrier Period the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Barrier Rate and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Smart Collar; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate but lower than the Best Case Rate, no payments are made under the Smart Collar; or
- the Spot Currency Exchange Rate is equal to or higher than the Best Case Rate, you must pay to the Bank an amount of NZ$ (calculated by applying the Best Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$.

The Worst Case Rate, Best Case Rate, Barrier Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Smart Collar.

Late Starting or Early Finishing Smart Collar

An additional feature can be added to a Smart Collar, limiting the period of time during which the Barrier Rate will apply. A Smart Collar with this feature may be referred to as either a **Late Starting Smart Collar** or an **Early Finishing Smart Collar**. The effect of this feature is described further in section 37.

What are the principal risks of a Smart Collar?

The risks identified in section 6 of the Derivative Information apply to a Smart Collar (including a Late Starting or Early Finishing Smart Collar).

In addition, entering into a Smart Collar (including a Late Starting or Early Finishing Smart Collar) gives rise to the risk that if the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period you may be obliged to exchange the Principal Amount at the Best Case Rate. If you are obliged to exchange currencies in this circumstance, the Best Case Rate will be worse for you than the Spot Currency Exchange Rate on Expiry.

17. WHAT IS A RATIO SMART COLLAR?
(INCLUDING A LATE STARTING OR EARLY FINISHING RATIO SMART COLLAR)

A Ratio Smart Collar is the same as a Smart Collar except that one or more of the Worst Case Rate, Best Case Rate and the Barrier Rate will be set at a level that is better for you than if you had instead entered into a comparable Smart Collar (i.e. a Smart Collar for the same Principal Amount and having the same Trade Date and Payment Date).

In return for one or more of the Worst Case Rate, Best Case Rate and the Barrier Rate being set at a level that is better for you, until Expiry you will have uncertainty in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.

Entering into a Ratio Smart Collar

When you enter into a Ratio Smart Collar you nominate the same terms that you nominate when entering into a Smart Collar as well as an amount of Currency A which is greater than the Principal Amount of Currency A (the "**Obligated Amount**").

The Principal Amount is typically equal to a portion of your exposure under a corresponding Financial Instrument while the Obligated Amount is typically an amount not exceeding your maximum exposure under the corresponding Financial Instrument.

The amount of the two currencies to be exchanged on the Payment Date depends on the Worst Case Rate, the Best Case Rate, the Spot Currency Exchange Rate at Expiry and whether the Spot Currency Exchange Rate has traded at or through the Barrier Rate at any time during the Barrier Period.

How does a Ratio Smart Collar work?

The way in which a typical Ratio Smart Collar operates is described below by reference to examples of how an exporter and an importer may use a Ratio Smart Collar.

Foreign currency receipt – exporter

An exporter may enter into a Ratio Smart Collarto protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate down to the Barrier Rate. However, if the Spot Currency Exchange Rate trades at a level that is equal to or lower than the Barrier Rate at any time during the Barrier Period, the best Currency Exchange Rate that the exporter can obtain is the Best Case Rate. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and the Spot Currency Exchange Rate does not trade at a rate that is equal to or lower than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Collar; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate, no payments are made under the Ratio Smart Collar.

However, if you are an exporter and at any time during the Barrier Period the Spot Currency Exchange Rate has traded at a rate that is equal to or lower than the Barrier Rate and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Worst Case Rate, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Collar; or
- the Spot Currency Exchange Rate is lower than the Worst Case Rate but higher than the Best Case Rate, no payments are made under the Ratio Smart Collar; or
- the Spot Currency Exchange Rate is equal to or lower than the Best Case Rate, on the Payment Date you must pay to the Bank the Obligated Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Best Case Rate to the Obligated Amount of US$).

Foreign currency payment – importer

An importer may enter into a Ratio Smart Collar to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate up to the Barrier Rate. However, if the Spot Currency Exchange Rate trades at a level that is equal to or higher than the Barrier Rate at any time during the Barrier Period the best Currency Exchange Rate that the importer can obtain is the Best Case Rate. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Collar; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate, no payments are made under the Ratio Smart Collar.

However, if you are an importer and at any time during the Barrier Period the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Barrier Rate and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Worst Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Worst Case Rate to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Ratio Smart Collar; or
- the Spot Currency Exchange Rate is higher than the Worst Case Rate but lower than the Best Case Rate, no payments are made under the Ratio Smart Collar; or
- the Spot Currency Exchange Rate is equal to or higher than the Best Case Rate, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Best Case Rate to the Obligated Amount of US$) in exchange for the Bank paying to you the Obligated Amount of US$.

The Worst Case Rate, Best Case Rate, Barrier Rate, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Smart Collar.

Late Starting or Early Finishing Ratio Smart Collar

An additional feature can be added to a Ratio Smart Collar, limiting the period of time during which the Barrier Rate will apply. A Ratio Smart Collar with this feature may be referred to as either a **Late Starting Ratio Smart Collar** or an **Early Finishing Ratio Smart Collar**. The effect of this feature is described further in section 37.

What are the principal risks of a Ratio Smart Collar?

The risks identified in section 6 of the Derivative Information and in this Supplement in relation to Smart Collars apply to a Ratio Smart Collar (including a Late Starting or Early Finishing Ratio Smart Collar).

In addition, entering into a Ratio Smart Collar (including a Late Starting or Early Finishing Ratio Smart Collar) gives rise to the risks that:

- If the Obligated Amount exceeds your maximum exposure under a corresponding Financial Instrument, you will face Exchange Rate Risk in relation to the excess amount of Currency A that you either pay to the Bank (such as, under the exporter example above) or receive from the Bank (such as, under the importer example above).
- Until Expiry there is uncertainty in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.
- If the amounts of the currencies to be exchanged on the Payment Date are determined by reference to the Principal Amount and the Principal Amount is less than your maximum exposure under the corresponding Financial Instrument, this FX Derivative will not mitigate your Exchange Rate Risk in relation to the remaining portion of your exposure under the corresponding Financial Instrument.

18. WHAT IS AN EXTENDIBLE FORWARD?

An Extendible Forward is a combination of two Forward Exchange Contracts having different Payment Dates and agreed Forward Exchange Rates. The first Forward Exchange Contract takes effect on the Trade Date. However, the second Forward Exchange Contract will only become effective if an agreed Barrier Event occurs.

An Extendible Forward will set out the terms of the two Forward Exchange Contracts (the "**Schedule A Forward Exchange Contract**" and the "**Schedule B Forward Exchange Contract**"), including the agreed Forward Exchange Rates. The Forward Exchange Rate for the Schedule B Forward Exchange Contract may be different to that agreed under the Schedule A Forward Exchange Contract.

An Extendible Forward allows you to obtain a better Forward Exchange Rate for one or both of the Forward Exchange Contracts than if you had instead entered into two stand-alone Forward Exchange Contracts for the same Principal Amounts, and having the same Trade Date and Payment Dates. In return for the agreed Forward Exchange Rates, you will have uncertainty until the Barrier Time on the Barrier Date as to whether the Schedule B Forward Exchange Contract becomes effective. That is, you will have uncertainty as to whether you will have any right or obligation to exchange currencies under the Schedule B Forward Exchange Contract.

Entering into an Extendible Forward

When you enter into an Extendible Forward you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B) under the Forward Exchange Contract in each of Schedule A and Schedule B;
- the Payment Date for each Forward Exchange Contract; and
- the Barrier Rate, Barrier Time and Barrier Date.

Based on the above, you and the Bank will agree the Forward Exchange Rate to apply to the Forward Exchange Contract in each of Schedule A and Schedule B.

The amount of the two currencies to be exchanged will depend on the relevant Forward Exchange Rate, the Spot Currency Exchange Rate and, in relation to the Schedule B Forward Exchange Contract, whether the Barrier Event occurs.

How does an Extendible Forward work?

The way in which a typical Extendible Forward operates is described below by reference to examples of how an exporter and an importer may use an Extendible Forward.

Foreign currency receipt – exporter

An exporter may enter into an Extendible Forward to protect from a rise in a Currency Exchange Rate and to obtain a better Forward Exchange Rate for one or both of the Forward Exchange Contracts. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter at Expiry of the Schedule A Forward Exchange Contract (regardless of whether the Barrier Event has occurred) you must pay to the Bank the Schedule A Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule A Forward Exchange Rate to the Schedule A Principal Amount of US$).

In addition if the Spot Currency Exchange Rate at the Barrier Time on the Barrier Date is:

- higher than the Barrier Rate, the Schedule B Forward Exchange Contract will not become effective and there will be no payments made by either party in respect of the Schedule B Forward Exchange Contract; or
- equal to or lower than the Barrier Rate, the Schedule B Forward Exchange Contract will become effective and at Expiry of the Schedule B Forward Exchange Contract: you must pay to the Bank the Schedule B Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule B Forward Exchange Rate to the Schedule B Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into an Extendible Forward to protect from a fall in a Currency Exchange Rate and to obtain a better Forward Exchange Rate for one of both of the Forward Exchange Contracts. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer at Expiry of the Schedule A Forward Exchange Contract (regardless of whether the Barrier Event has occurred) you must pay to the Bank an amount of NZ$ (calculated by applying the Schedule A Forward Exchange Rate to the Schedule A Principal Amount of US$) in exchange for the Bank paying to you the Schedule A Principal Amount of US$.

In addition if the Spot Currency Exchange Rate at the Barrier Time on the Barrier Date is:

- lower than the Barrier Rate, the Schedule B Forward Exchange Contract will not become effective and there will be no payments made by either party in respect of the Schedule B Forward Exchange Contract; or
- equal to or higher than the Barrier Rate, the Schedule B Forward Exchange Contract will become effective and at Expiry of the Schedule B Forward Exchange Contract: you must pay to the Bank an amount of NZ$ (calculated by applying the Schedule B Forward Exchange Rate to the Schedule B Principal Amount of US$) in exchange for the Bank paying to you the Schedule B Principal Amount of US$.

The Forward Exchange Rates, Barrier Rate, Barrier Time, Barrier Date, Expiration Times, Expiration Dates, Payment Dates and amounts of currency to be exchanged will be specified in the terms of the Extendible Forward.

What are the principal risks of an Extendible Forward?

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

In addition, entering into an Extendible Forward gives rise to the risks that:

- Until the Barrier Time on the Barrier Date, you have no certainty as to whether you can exchange currencies under the Schedule B Forward Exchange Contract.
- If the Barrier Event occurs, you will be obliged to meet the terms set out in the Schedule B Forward Exchange Contract. At this point in time the Schedule B Forward Exchange Rate may be worse for you than you could otherwise achieve in the market.
- If the Barrier Event does not occur, the Schedule B Forward Exchange Contract will not become effective. At this point in time, the Currency Exchange Rate applicable to a replacement Forward Exchange Contract may be worse for you than the Schedule B Forward Exchange Rate. In this case, the average Market Rate you could have for the Schedule A Forward Exchange Contract and the replacement Forward Exchange Contract may be worse for you than if you had otherwise entered into two stand-alone Forward Exchange Contracts at Market Rates, for the same Payment Dates and Principal Amounts entered into at the same time as the Extendible Forward.

19. WHAT IS A CUSTOMER EXTENDIBLE FORWARD?

A Customer Extendible Forward is a combination of two Forward Exchange Contracts having different Payment Dates and agreed Forward Exchange Rates. The first Forward Exchange Contract takes effect on the Trade Date. However, the second Forward Exchange Contract will only become effective if an agreed Barrier Event occurs.

A Customer Extendible Forward will set out the terms of the two Forward Exchange Contracts (the "**Schedule A Forward Exchange Contract**" and the "**Schedule B Forward Exchange Contract**"), including the agreed Forward Exchange Rates. The Forward Exchange Rate for the Schedule B Forward Exchange Contract may be different to that agreed under the Schedule A Forward Exchange Contract.

A Customer Extendible Forward will provide you with a worse Forward Exchange Rate for one or both of the Forward Exchange Contracts than if you had instead entered into two stand-alone Forward Exchange Contracts for the same Principal Amounts, and having the same Trade Date and Payment Dates.

In return for the agreed Forward Exchange Rates, you will have uncertainty until the Barrier Time on the Barrier Date as to whether the Schedule B Forward Exchange Contract becomes effective. That is, you will have uncertainty as to whether you will have any right or obligation to exchange currencies under the Schedule B Forward Exchange Contract.

Entering into a Customer Extendible Forward

When you enter into a Customer Extendible Forward you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B) under the Forward Exchange Contract in each of Schedule A and Schedule B;
- the Payment Date for each Forward Exchange Contract; and
- the Barrier Rate, Barrier Time and Barrier Date.

Based on the above, you and the Bank will agree the Forward Exchange Rate to apply to the Forward Exchange Contract in each of Schedule A and Schedule B.

The amount of the two currencies to be exchanged will depend on the relevant Forward Exchange Rate, the Spot Currency Exchange Rate and, in relation to the Schedule B Forward Exchange Contract, whether the Barrier Event occurs.

How does a Customer Extendible Forward work?

The way in which a typical Customer Extendible Forward operates is described below by reference to examples of how an exporter and an importer may use a Customer Extendible Forward.

Foreign currency receipt – exporter

An exporter may enter into a Customer Extendible Forward to protect from a rise in a Currency Exchange Rate and to obtain the ability to enter into a replacement Forward Exchange Contract at a more favourable Forward Exchange Rate if the Barrier Event does not occur. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter at Expiry of the Schedule A Forward Exchange Contract (regardless of whether the Barrier Event has occurred) you must pay to the Bank the Schedule A Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule A Forward Exchange Rate to the Schedule A Principal Amount of US$).

In addition if the Spot Currency Exchange Rate at the Barrier Time on the Barrier Date is:

- lower than the Barrier Rate, the Schedule B Forward Exchange Contract will not become effective and there will be no payments made by either party in respect of the Schedule B Forward Exchange Contract; or
- equal to or higher than the Barrier Rate, the Schedule B Forward Exchange Contract will become effective and at Expiry of the Schedule B Forward Exchange Contract: you must pay to the Bank the Schedule B Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule B Forward Exchange Rate to the Schedule B Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into a Customer Extendible Forward to protect from a fall in a Currency Exchange Rate and to obtain the ability to enter into a replacement Forward Exchange Contract at a more favourable Forward Exchange Rate if the Barrier Event does not occur. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer at Expiry of the Schedule A Forward Exchange Contract (regardless of whether the Barrier Event has occurred) you must pay to the Bank an amount of NZ$ (calculated by applying the Schedule A Forward Exchange Rate to the Schedule A Principal Amount of US$) in exchange for the Bank paying to you the Schedule A Principal Amount of US$.

In addition if the Spot Currency Exchange Rate at the Barrier Time on the Barrier Date is:

- higher than the Barrier Rate, the Schedule B Forward Exchange Contract will not become effective and there will be no payments made by either party in respect of the Schedule B Forward Exchange Contract; or
- equal to or lower than the Barrier Rate, the Schedule B Forward Exchange Contract will become effective and at Expiry of the Schedule B Forward Exchange Contract: you must pay to the Bank an amount of NZ$ (calculated by applying the Schedule B Forward Exchange Rate to the Schedule B Principal Amount of US$) in exchange for the Bank paying to you the Schedule B Principal Amount of US$.

The Forward Exchange Rates, Barrier Rate, Barrier Time, Barrier Date, Expiration Times, Expiration Dates, Payment Dates and amounts of currency to be exchanged will be specified in the terms of the Customer Extendible Forward.

What are the principal risks of a Customer Extendible Forward?

The risks identified in section 6 of the Derivative Information apply to a Customer Extendible Forward.

In addition, entering into a Customer Extendible Forward gives rise to the risks that:

- Until the Barrier Time on the Barrier Date, you have no certainty as to whether you can exchange currencies under the Schedule B Forward Exchange Contract.
- If the Barrier Event occurs, you will be obliged to meet the terms set out in the Schedule B Forward Exchange Contract. At this point in time the Schedule B Forward Exchange Rate may be worse for you than you could otherwise achieve in the market. At this point in time, the average Forward Exchange Rate you could have for the Schedule A Forward Exchange Contract and the Schedule B Forward Exchange Contract may be worse for you than if you have otherwise entered into two stand-alone Forward Exchange Contracts at Market Rates, for the same Trade Dates, Payment Dates and Principal Amounts.

20. WHAT IS AN EXTENDIBLE FX COLLAR?

An Extendible FX Collar is a combination of two FX Collars having different Payment Dates and agreed Currency Exchange Rates. The first FX Collar takes effect on the Trade Date. However, the second FX Collar will only become effective if an agreed Barrier Event occurs.

An Extendible FX Collar will set out the terms of the two FX Collars (the "**Schedule A FX Collar**" and the "**Schedule B FX Collar**"), including the agreed Worst Case Rates and Best Case Rates. The Worst Case Rate and Best Case Rate for the Schedule B FX Collar may be different to those agreed under the Schedule A FX Collar.

An Extendible FX Collar can provide you with an improved Worst Case Rate, Best Case Rate, or both, for one or both of the FX Collars than if you had instead entered into two stand-alone FX Collars for the same Principal Amounts and having the same Trade Date and Payment Dates. In return for these improved Currency Exchange Rates, you will have uncertainty until the Barrier Time on the Barrier Date as to whether the Schedule B FX Collar becomes effective. That is, you will have uncertainty as to whether you will have any right or obligation to exchange currencies under the Schedule B FX Collar.

Entering into an Extendible FX Collar

When you enter into an Extendible FX Collar you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B) under the FX Collar in each of Schedule A and Schedule B;
- the Payment Date for each FX Collar; and
- a Barrier Rate, Barrier Time and Barrier Date.

Based on the above, you and the Bank will agree a Worst Case Rate and a Best Case Rate to apply to the FX Collar in each of Schedule A and Schedule B.

The amount of the two currencies to be exchanged on each Payment Date depends on the relevant Worst Case Rate and the Best Case Rate, the Spot Currency Exchange Rate at Expiry and, in relation to the Schedule B FX Collar, whether the Barrier Event occurs.

How does an Extendible FX Collar work?

The way in which a typical Extendible FX Collar operates is described below by reference to examples of how an exporter and an importer may use an Extendible FX Collar.

Foreign currency receipt – exporter

An exporter may enter into an Extendible FX Collar to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate down to the Best Case Rate and to improve one or more of the Currency Exchange Rates available to the exporter when compared to two stand-alone FX Collars for the same Principal Amounts, and having the same Trade Date and Payment Dates. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and at Expiry of the Schedule A FX Collar (regardless of whether the Barrier Event has occurred):

- the Spot Currency Exchange Rate is equal to or higher than the Schedule A Worst Case Rate, on the Schedule A Payment Date you must pay to the Bank the Schedule A Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule A Worst Case Rate to the Schedule A Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Schedule A FX Collar; or
- the Spot Currency Exchange Rate is lower than the Schedule A Worst Case Rate but higher than the Schedule A Best Case Rate, no payments are made under the Schedule A FX Collar; or
- the Spot Currency Exchange Rate is equal to or lower than the Schedule A Best Case Rate, on the Schedule A Payment Date you must pay to the Bank the Schedule A Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule A Best Case Rate to the Schedule A Principal Amount of US$).

In addition if the Spot Currency Exchange Rate at the Barrier Time on the Barrier Date is:

- higher than the Barrier Rate, the Schedule B FX Collar will not become effective and there will be no payments made by either party in respect of the Schedule B FX Collar; or
- equal to or lower than the Barrier Rate, the Schedule B FX Collar will become effective, and if at Expiry of the Schedule B FX Collar:
  - the Spot Currency Exchange Rate is equal to or higher than the Schedule B Worst Case Rate, on the Schedule B Payment Date you must pay to the Bank the Schedule B Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule B Worst Case Rate to the Schedule B Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies no payments are made under the Schedule B FX Collar; or
  - the Spot Currency Exchange Rate is lower than the Schedule B Worst Case Rate but higher than the Schedule B Best Case Rate, no payments are made under the Schedule B FX Collar; or
  - the Spot Currency Exchange Rate is equal to or lower than the Schedule B Best Case Rate, on the Schedule B Payment Date you must pay to the Bank the Schedule B Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule B Best Case Rate to the Schedule B Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into an Extendible FX Collar to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate up to the Best Case Rate and to improve one or more of the Currency Exchange Rates available to the importer when compared to two stand alone FX Collars for the same Principal Amounts, and having the same Trade Date and Payment Dates. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and at Expiry of the Schedule A FX Collar (regardless of whether the Barrier Event has occurred):

- the Spot Currency Exchange Rate is equal to or lower than the Schedule A Worst Case Rate, on the Schedule A Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Schedule A Worst Case Rate to the Schedule A Principal Amount of US$) in exchange for the Bank paying you the Schedule A Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Schedule A FX Collar; or

- the Spot Currency Exchange Rate is higher than the Schedule A Worst Case Rate but lower than the Schedule A Best Case Rate, no payments are made under the Schedule A FX Collar; or
- the Spot Currency Exchange Rate is equal to or higher than the Schedule A Best Case Rate, on the Schedule A Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Schedule A Best Case Rate to the Schedule A Principal Amount of US$) in exchange for the Bank paying to you the Schedule A Principal Amount of US$.

In addition, if the Spot Currency Exchange Rate at the Barrier Time on the Barrier Date is:

- lower than the Barrier Rate, the Schedule B FX Collar will not become effective and there will be no payments made by either party in respect of the Schedule B FX Collar; or
- equal to or higher than the Barrier Rate, the Schedule B FX Collar will become effective, and if at Expiry of the Schedule B FX Collar:
  - the Spot Currency Exchange Rate is equal to or lower than the Schedule B Worst Case Rate, on the Schedule B Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Schedule B Worst Case Rate to the Schedule B Principal Amount of US$) in exchange for the Bank paying to you the Schedule B Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Schedule B FX Collar; or
  - the Spot Currency Exchange Rate is higher than the Schedule B Worst Case Rate but lower than the Schedule B Best Case Rate, no payments are made under the Schedule B FX Collar; or
  - the Spot Currency Exchange Rate is equal to or higher than the Schedule B Best Case Rate, on the Schedule B Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Schedule B Best Case Rate to the Schedule B Principal Amount of US$) in exchange for the Bank paying to you the Schedule B Principal Amount of US$.

The Worst Case Rates, Best Case Rates, Barrier Rate, Barrier Time, Barrier Date, Expiration Times, Expiration Dates, Payment Dates and amounts of currency to be exchanged will be specified in terms of the Extendible FX Collar.

What are the principal risks of an Extendible FX Collar?

The risks identified in section 6 of the Derivative Information apply to an Extendible FX Collar.

In addition, entering into an Extendible FX Collar gives rise to the risks that:

- Until the Barrier Time on the Barrier Date, you have no certainty as to whether you can exchange currencies under the Schedule B FX Collar.
- If the Barrier Event occurs, you will be obliged to meet the terms set out in the Schedule B FX Collar. At this point in time the Worst Case Rate and/or Best Case Rate applicable to the Schedule B FX Collar may be worse for you than you could otherwise achieve in the market on a stand-alone FX Collar with the same Payment Date and Principal Amount.
- If the Barrier Event does not occur, the Schedule B FX Collar will not become effective. At this point in time, the Currency Exchange Rates applicable to a replacement FX Collar may be worse for you than the Worst Case Rate and Best Case Rate set out in Schedule B of the Extendible FX Collar. In this case, the average Market Rate you could have for the Schedule A FX Collar and the replacement FX Collar may be worse for you than if you had otherwise entered into two stand-alone FX Collars at Market Rates for the same Payment Dates and Principal Amounts entered into at the same time as the Extendible FX Collar.

21. WHAT IS AN EXTENDIBLE PARTICIPATING FORWARD?

An Extendible Participating Forward is a combination of two Participating Forwards having different Payment Dates and agreed Worst Case Rates. The first Participating Forward takes effect on the Trade Date. However, the second Participating Forward will only become effective if an agreed Barrier Event occurs.

An Extendible Participating Forward will set out the terms of the two Participating Forwards (the "**Schedule A Participating Forward**" and the "**Schedule B Participating Forward**"), including the agreed Worst Case Rates. The Worst Case Rate for the Schedule B Participating Forward may be different to that agreed under the Schedule A Participating Forward.

An Extendible Participating Forward allows you to obtain a better Worst Case Rate for one or both of the Participating Forwards than if you had instead entered into two stand-alone Participating Forwards for the same Principal Amounts, Participating Amounts and having the same Trade Date and Payment Dates. In return for the agreed Worst Case Rates, you will have uncertainty until the Barrier Time on the Barrier Date as to whether the Schedule B Participating Forward becomes effective. That is, you will have uncertainty as to whether you will have any right or obligation to exchange currencies under the Schedule B Participating Forward.

Entering into an Extendible Participating Forward

When you enter into an Extendible Participating Forward you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B) under the Participating Forward in each of Schedule A and Schedule B;
- the Participating Amount (that is, a percentage of the Principal Amount of Currency A on which you wish to be able to take advantage of a favourable exchange rate movement) for each Participating Forward;
- the Payment Date for each Participating Forward; and
- the Barrier Rate, Barrier Time and Barrier Date.

Based on the above, you and the Bank will agree the Worst Case Rate to apply to the Participating Forward in each of Schedule A and Schedule B.

The amount of the two currencies to be exchanged depends on the relevant Worst Case Rate, the Spot Currency Exchange Rate at Expiry and, in relation to the Schedule B Participating Forward, whether the Barrier Event occurs.

How does an Extendible Participating Forward work?

The way in which a typical Extendible Participating Forward operates is described below by reference to examples of how an exporter and an importer may use an Extendible Participating Forward.

Foreign currency receipt – exporter

An exporter may enter into an Extendible Participating Forward to protect from a rise in a Currency Exchange Rate while retaining the ability to benefit from a favourable exchange rate movement in relation to the Participating Amount and to obtain a better Worst Case Rate for one or both of the Participating Forwards. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and at Expiry of the Schedule A Participating Forward (regardless of whether the Barrier Event has occurred):

- the Spot Currency Exchange Rate is equal to or higher than the Schedule A Worst Case Rate, on the Schedule A Payment Date you must pay to the Bank the Schedule A Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule A Worst Case Rate to the Schedule A Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Schedule A Participating Forward; or
- the Spot Currency Exchange Rate is lower than the Schedule A Worst Case Rate, on the Schedule A Payment Date you must pay to the Bank an amount of US$ which is equal to the difference between the Schedule A Principal Amount of US$ and the Schedule A Participating Amount of US$, in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule A Worst Case Rate to that amount of US$).

In addition, if the Spot Currency Exchange Rate at the Barrier Time on the Barrier Date is:

- higher than the Barrier Rate, the Schedule B Participating Forward will not become effective and there will be no payments made by either party in respect of the Schedule B Participating Forward; or
- equal to or lower than the Barrier Rate, the Schedule B Participating Forward will become effective, and if at Expiry of the Schedule B Participating Forward:
  - the Spot Currency Exchange Rate is equal to or higher than the Schedule B Worst Case Rate, on the Schedule B Payment Date you must pay to the Bank the Schedule B Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule B Worst Case Rate to the Schedule B Principal Amount of US$), unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Schedule B Participating Forward; or
  - the Spot Currency Exchange Rate is lower than the Schedule B Worst Case Rate, on the Schedule B Payment Date you must pay to the Bank an amount of US$ which is equal to the difference between the Schedule B Principal Amount of US$ and the Schedule B Participating Amount of US$, in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Schedule B Worst Case Rate to that amount of US$).

Foreign currency payment – importer

An importer may enter into an Extendible Participating Forward to protect from a fall in a Currency Exchange Rate while retaining the ability to benefit from a favourable exchange rate movement in relation to the Participating Amount and to obtain a better Worst Case Rate for one or both of the Participating Forwards. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and at Expiry of the Schedule A Participating Forward (regardless of whether the Barrier Event has occurred):

- the Spot Currency Exchange Rate is equal to or lower than the Schedule A Worst Case Rate, on the Schedule A Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Schedule A Worst Case Rate to the Schedule A Principal Amount of US$) in exchange for the Bank paying to you the Schedule A Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Schedule A Participating Forward; or
- the Spot Currency Exchange Rate is higher than the Schedule A Worst Case Rate, on the Schedule A Payment Date you must pay to the Bank an amount of NZ$ (calculated by subtracting the Schedule A Participating Amount of US$ from the Schedule A Principal Amount of US$ and applying the Schedule A Worst Case Rate to this amount). In exchange, the Bank will pay to you an amount of US$ which is equal to the difference between the Schedule A Principal Amount and the Schedule A Participating Amount.

In addition, if the Spot Currency Exchange Rate at the Barrier Time on the Barrier Date is:

- lower than the Barrier Rate, the Schedule B Participating Forward will not become effective and there will be no payments made by either party in respect of the Schedule B Participating Forward; or
- equal to or higher than the Barrier Rate, the Schedule B Extendible Participating Forward will become effective, and if at Expiry of the Schedule B Participating Forward:
  - the Spot Currency Exchange Rate is equal to or lower than the Schedule B Worst Case Rate, on the Schedule B Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Schedule B Worst Case Rate to the Schedule B Principal Amount of US$) in exchange for the Bank paying to you the Schedule B Principal Amount of US$, unless at Expiry your instructions to the Bank are that you do not wish to exchange the currencies in those circumstances. If you instruct the Bank that you do not wish to exchange the currencies, no payments are made under the Schedule B Participating Forward; or
  - the Spot Currency Exchange Rate is higher than the Schedule B Worst Case Rate, on the Schedule B Payment Date you must pay to the Bank an amount of NZ$ (calculated by subtracting the Schedule B Participating Amount of US$ from the Schedule B Principal Amount of US$ and applying the Schedule B Worst Case Rate to this amount). In exchange, the Bank will pay to you an amount of US$ which is equal to the difference between the Schedule B Principal Amount and the Schedule B Participating Amount.

The Worst Case Rates, Barrier Time, Barrier Date, Barrier Rate, Expiration Times, Expiration Dates, Payment Dates and amounts of currency to be exchanged will be specified in the terms of the Extendible Participating Forward.

What are the principal risks of an Extendible Participating Forward?

The risks identified in section 6 of the Derivative Information apply to an Extendible Participating Forward.

In addition, entering into an Extendible Participating Forward gives rise to the risks that:

- Until the Barrier Time on the Barrier Date, you have no certainty as to whether you can exchange currencies under the Schedule B Participating Forward.
- If the Barrier Event occurs, you will be obliged to meet the terms set out in the Schedule B Participating Forward. At this point in time the Schedule B Worst Case Rate may be worse for you than you could otherwise achieve in the market.
- If the Barrier Event does not occur, the Schedule B Participating Forward will not become effective. At this point in time, the Currency Exchange Rate applicable to a replacement Participating Forward may be worse for you than the Schedule B Worst Case Rate. In this case, the average Market Rate you could have for the Schedule A Participating Forward and the replacement Participating Forward may be worse for you than if you had otherwise entered into two stand-alone Participating Forwards at Market Rates, for the same Payment Dates and Principal Amounts entered into at the same time as the Extendible Participating Forward.

22. WHAT IS AN AVERAGE RATE FORWARD?

An Average Rate Forward allows you to manage an exchange rate risk at a known Currency Exchange Rate. Unlike an ordinary Forward Exchange Contract, an Average Rate Forward is Cash Settled and the settlement amount and the party that must pay that amount are determined by reference to an average Currency Exchange Rate ("**Average Exchange Rate**") rather than a Spot Currency Exchange on a single time and date.

The Average Exchange Rate is a weighted average, determined in accordance with the method set out in the terms of the Average Rate Forward. The method for determining the Average Exchange Rate involves:

- observing the relevant Spot Currency Exchange Rate on each agreed "Averaging Date" at the time specified in the Average Rate Forward;
- applying the agreed "Averaging Weight" to the Spot Currency Exchange Rate observed on each Averaging Date (different Fixing Weights may apply on different Averaging Dates).

Entering into an Average Rate Forward

When entering into an Average Rate Forward you nominate:

- the currency pair (e.g., US$ and NZ$) and the Principal Amount of one of those currencies;
- a schedule of Averaging Dates and Averaging Weights;
- the Payment Date; and
- the Settlement Currency.

Based on the above, you and the Bank will agree the Forward Exchange Rate to apply to the Average Rate Forward.

How does an Average Rate Forward work?

The way in which a typical Average Rate Forward operates is described below by reference to examples of how an exporter and an importer may use an Average Rate Forward.

Foreign currency receipt – exporter

An exporter may enter into an Average Rate Forward to protect from a rise in an average Currency Exchange Rate.

The Average Exchange Rate is compared to the Forward Exchange Rate:

- if the Average Exchange Rate is higher than the Forward Exchange Rate on the Valuation Date, the Bank must make a cash payment to you in the Settlement Currency based upon the difference between the Average Exchange Rate and the Forward Exchange Rate, applied to the Principal Amount; or
- if the Average Exchange Rate is lower than the Forward Exchange Rate on the Valuation Date, you must make a cash payment to the bank in the Settlement Currency based upon the difference between the Average Exchange Rate and the Forward Exchange Rate applied to the Principal Amount; or
- if the Average Exchange Rate is equal to the Forward Exchange Rate, no payments will be made by either party.

Foreign currency payment – importer

An importer may enter into an Average Rate Forward to protect from a fall in an average Currency Exchange Rate.

The Average Exchange Rate is compared to the Forward Exchange Rate:

- if the Average Exchange Rate is lower than the Forward Exchange Rate on the Valuation Date, the Bank must make a cash payment to you in the Settlement Currency based upon the difference between the Average Exchange Rate and the Forward Exchange Rate, applied to the Principal Amount; or
- if the Average Exchange Rate is higher than the Forward Exchange Rate on the Valuation Date, you must make a cash payment to the bank in the Settlement Currency based upon the difference between the Average Exchange Rate and the Forward Exchange Rate applied to the Principal Amount; or
- if the Average Exchange Rate is equal to the Forward Exchange Rate, no payments will be made by either party.

The Forward Exchange Rate, Averaging Dates, Averaging Weights, Valuation Date, Payment Date, currency pair, Settlement Currency and the Principal Amount of one of those currencies will be specified in the terms of the Average Rate Forward.

What are the principal risks of an Average Rate Forward?

The risks identified in section 6 of the Derivative Information apply to an Average Rate Forward.

In addition, entering into an Average Rate Forward gives rise to the risk that the effectiveness of the Average Rate Forward in mitigating your foreign exchange risk will depend on the degree to which the averaging process specified corresponds to the risk profile of your underlying exposure.

23. WHAT IS A CAPPED GAIN FORWARD?

A Capped Gain Forward is a series of Forward Exchange Contracts which can provide you with an improved Currency Exchange Rate ("**Enhanced Forward Rate**"). The Enhanced Forward Rate is better than the average Forward Exchange Rate you would receive if you had instead entered into a series of comparable Forward Exchange Contracts (i.e. Forward Exchange Contracts for the same Principal Amounts and having the same Trade Dates and Payment Dates).

In return for the Enhanced Forward Rate, your aggregate mark-to-market gain for the Capped Gain Forward will be limited to a pre-agreed level ("**Capped Gain Amount**").

The mark-to-market gain on a Valuation Date is a measurement of the difference between the Valuation Rate and the Enhanced Forward Rate (determined by the Bank with reference to the Valuation Rate Source). The mark-to-market gain is not an actual payment to you, rather it is used to determine the Capped Gain Event.

Throughout the Term, you must exchange currencies with the Bank until either the last Payment Date or the Capped Gain Event occurs. If, on a Valuation Date, your aggregate mark-to-market gain is equal to or greater than the Capped Gain Amount as determined by the Bank, the Capped Gain Event occurs.

If the Capped Gain Event occurs, the Capped Gain Forward will be terminated (subject to any final payments determined by the Capped Gain Payment Style). If the Capped Gain Event has occurred and you and the Bank have agreed the:

- **No Payment** Capped Gain Payment Style, no payments are made; or
- **Full Payment** Capped Gain Payment Style, you will exchange the Principal Amount at the Enhanced Forward Rate; or
- **Adjusted Payment** Capped Gain Payment Style, you will exchange the Principal Amount at an adjusted Enhanced Forward Rate.

Entering into a Capped Gain Forward

When you enter into a Capped Gain Forward you nominate:

- a Principal Amount of a currency (Currency A) that you would like to exchange for another currency (Currency B); and
- the Payment Dates.

Based on the above, you and Bank will agree an Enhanced Forward Rate, Valuation Dates, a Valuation Rate Source, a Capped Gain Amount, and a Capped Gain Payment Style.

The amount of the two currencies to be exchanged on each Payment Date depends on the Enhanced Forward Rate, the Valuation Rate, whether the Capped Gain Event has occurred and the Capped Gain Payment Style.

How does a Capped Gain Forward work?

The way in which a typical Capped Gain Forward operates is described below by reference to examples of how an exporter and an importer may use a Capped Gain Forward.

Foreign currency receipt – exporter

An exporter may enter into a Capped Gain Forward to obtain an Enhanced Forward Rate and to protect from a rise in Currency Exchange Rate (subject to the occurrence of the Capped Gain Event and the Capped Gain Payment Style). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter, on each Payment Date, unless the Capped Gain Event has occurred, you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount).

If on a Valuation Date, the Valuation Rate is:

- lower than the Enhanced Forward Rate, no mark-to-market gain will be recorded by the Bank; or
- equal to or higher than the Enhanced Forward Rate, the mark-to-market gain will be recorded by the Bank.

If the Capped Gain Event occurs on a Valuation Date, on the following Payment Date:

- if you and the Bank have agreed the **No Payment** Capped Gain Payment Style, the Capped Gain Forward is automatically terminated and no further payments are made by either party; or
- if you and the Bank have agreed the **Full Payment** Capped Gain Payment Style, you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount). The Capped Gain Forward is then automatically terminated and no further payments will be made by either party; or
- if you and the Bank have agreed the **Adjusted Payment** Capped Gain Payment Style, you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Adjusted Enhanced Forward Rate to the Principal Amount). The Adjusted Enhanced Forward Rate is calculated by the Bank. The Adjusted Enhanced Forward Rate will ensure the aggregate mark-to-market gain is equal to the Capped Gain Amount. The Capped Gain Forward is then automatically terminated and no further payments will be made by either party.

Foreign currency payments – importer

An importer may enter into a Capped Gain Forward to obtain an Enhanced Forward Rate and to protect from a fall in Currency Exchange Rate subject to the occurrence of the Capped Gain Event and the Capped Gain Payment Style. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer, on each Payment Date, unless the Capped Gain Event has occurred, you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount) in exchange for the Bank paying to you the Principal Amount of US$.

If on a Valuation Date, the Valuation Rate is:

- higher than the Enhanced Forward Rate, no mark-to-market gain will be recorded by the Bank; or
- equal to or lower than the Enhanced Forward Rate, the mark-to-market gain will be recorded by the Bank.

If the Capped Gain Event occurs on a Valuation Date, on the following Payment Date:

- if you and the Bank have agreed the **No Payment** Capped Gain Payment Style, the Capped Gain Forward is automatically terminated and no further payments are made by either party; or
- if you and the Bank have agreed the **Full Payment** Capped Gain Payment Style, you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount) in exchange for the Bank paying to you the Principal Amount of US$. The Capped Gain Forward is then automatically terminated and no further payments will be made by either party; or
- if you and the Bank have agreed the **Adjusted Payment** Capped Gain Payment Style, you must pay to the Bank an amount of NZ$ (calculated by applying the Adjusted Enhanced Forward Rate to the Principal Amount) in exchange for the Bank paying to you the Principal Amount of US$. The Adjusted Enhanced Forward Rate is calculated by the Bank. The Adjusted Enhanced Forward Rate will ensure the aggregate mark-to-market gain is equal to the Capped Gain Amount. The Capped Gain Forward is then automatically terminated and no further payment will be made by either party.

What are the principal risks of a Capped Gain Forward?

The risks identified in section 6 of the Derivative Information apply to a Capped Gain Forward.

In addition, entering into a Capped Gain Forward gives rise to the risks that:

- If the Capped Gain Event occurs, the Capped Gain Forward is terminated.
- Termination of the Capped Gain Forward may require you to take alternative steps to manage your Exchange Rate Risk and a replacement transaction may be at less favourable rates than the Enhanced Forward Rate, or the Currency Exchange Rate applicable to equivalent Forward Exchange Contracts which could have been entered into at the Trade Date for the same Payment Date and Principal Amounts.
- As the Capped Gain Forward could be terminated on any Valuation Date, it is not certain as to the aggregate amount of currency which will be exchanged during the Term of the Capped Gain Forward.

24. WHAT IS A RATIO CAPPED GAIN FORWARD?

A Ratio Capped Gain Forward is the same as a Capped Gain Forward except that one or both of the Enhanced Forward Rate and the Capped Gain Amount may be set at a level that is better for you than if you had instead entered into a comparable Capped Gain Forward (i.e. a Capped Gain Forward for the same Principal Amount and having the same Trade Date and Payment Date).

In return for one or both of the Enhanced Forward Rate and the Capped Gain Amount being set at a level that is better for you, you may have additional uncertainty in relation to the aggregate amount of currency you may be obliged to exchange during the Term of the Capped Gain Forward.

Entering into a Ratio Capped Gain Forward

When you enter into a Ratio Capped Gain Forward you nominate the same terms that you nominate when entering into a Capped Gain Forward as well as an amount of Currency A which is greater than the Principal Amount of Currency A (the "**Obligated Amount**").

The Principal Amount is typically equal to a portion of your exposure under the corresponding Financial Instrument, while the Obligated Amount is typically an amount not exceeding your maximum exposure under the corresponding Financial Instrument.

The amount of the two currencies to be exchanged on each Payment Date depends on the Enhanced Forward Rate, the Valuation Rate, whether the Capped Gain Event has occurred and the Capped Gain Payment Style.

How does a Ratio Capped Gain Forward work?

The way in which a typical Ratio Capped Gain Forward operates is described below by reference to examples of how an exporter and an importer may use a Ratio Capped Gain Forward.

Foreign currency receipt – exporter

An exporter may enter into a Ratio Capped Gain Forward to obtain an Enhanced Forward Rate and to protect from a rise in Currency Exchange Rate (subject to the occurrence of the Capped Gain Event and the Capped Gain Payment Style). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter, on each Payment Date, unless the Capped Gain Event has occurred, and if on the respective Valuation Date, the Valuation Rate is:

- lower than the Enhanced Forward Rate, you must pay to the Bank the Obligated Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Obligated Amount) and no mark-to-market gain will be recorded by the Bank; or
- equal to or higher than the Enhanced Forward Rate, you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount) and the mark-to-market gain will be recorded by the Bank.

If the Capped Gain Event occurs on a Valuation Date, on the following Payment Date:

- if you and the Bank have agreed the **No Payment** Capped Gain Payment Style, the Ratio Capped Gain Forward is automatically terminated and no further payments are made by either party; or
- if you and the Bank have agreed the **Full Payment** Capped Gain Payment Style, you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount). The Ratio Capped Gain Forward is then automatically terminated and no further payments will be made by either party; or
- if you and the Bank have agreed the **Adjusted Payment** Capped Gain Payment Style, you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Adjusted Enhanced Forward Rate to the Principal Amount). The Adjusted Enhanced Forward Rate is calculated by the Bank. The Adjusted Enhanced Forward Rate will ensure the aggregate mark-to-market gain is equal to the Capped Gain Amount. The Ratio Capped Gain Forward is then automatically terminated and no further payments will be made by either party.

Foreign currency payments – importer

An importer may enter into a Ratio Capped Gain Forward to obtain an Enhanced Forward Rate and to protect from a fall in Currency Exchange Rate subject to the occurrence of the Capped Gain Event and the Capped Gain Payment Style. For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer, on each Payment Date, unless the Capped Gain Event has occurred, and if on the respective Valuation Date, the Valuation Rate is:

- higher than the Enhanced Forward Rate, you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Obligated Amount) in exchange for the Bank paying to you the Obligated Amount of US$ and no mark-to-market gain will be recorded by the Bank; or
- equal to or lower than the Enhanced Forward Rate, you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount) in exchange for the Bank paying to you the Principal Amount of US$ and the mark-to-market gain will be recorded by the Bank.

If the Capped Gain Event occurs on a Valuation Date, on the following Payment Date:

- if you and the Bank have agreed the **No Payment** Capped Gain Payment Style, the Ratio Capped Gain Forward is automatically terminated and no further payments are made by either party; or

- if you and the Bank have agreed the **Full Payment** Capped Gain Payment Style, you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Principal Amount) in exchange for the Bank paying to you the Principal Amount of US$. The Ratio Capped Gain Forward is then automatically terminated and no further payments will be made by either party; or
- if you and the Bank have agreed the **Adjusted Payment** Capped Gain Payment Style, you must pay to the Bank an amount of NZ$ (calculated by applying the Adjusted Enhanced Forward Rate to the Principal Amount) in exchange for the Bank paying to you the Principal Amount of US$. The Adjusted Enhanced Forward Rate is calculated by the Bank. The Adjusted Enhanced Forward Rate will ensure the aggregate mark-to-market gain is equal to the Capped Gain Amount. The Ratio Capped Gain Forward is then automatically terminated and no further payment will be made by either party.

What are the principal risks of a Ratio Capped Gain Forward?

The risks identified in section 6 of the Derivative Information and in this Supplement in relation to a Capped Gain Forward apply to a Ratio Capped Gain Forward.

In addition, entering into a Ratio Capped Gain Forward gives rise to the risks that:

- If the Obligated Amount exceeds your maximum exposure under a corresponding Financial Instrument, you will face Exchange Rate Risk in relation to the excess amount of currency that you either pay to the Bank (such as, under the exporter example above) or receive from the Bank (such as, under the importer example above).
- If the Enhanced Forward Rate is more favourable to you than the Spot Currency Exchange Rate on a Payment Date and the Principal Amount is less than your maximum exposure under the corresponding Financial Instrument, this FX Derivative does not mitigate your Exchange Rate Risk in relation to the remaining portion of your exposure under the corresponding Financial Instrument.

25. WHAT IS AN ACCUMULATING FORWARD?

An Accumulating Forward can provide you with an improved Currency Exchange Rate (the "**Enhanced Forward Rate**") when compared to the Forward Exchange Rate for a comparable Forward Exchange Contract (i.e. a Forward Exchange Contract having the same Trade Date and Payment Date).

In return for the Enhanced Forward Rate, until the final Valuation Date, you will have uncertainty in relation to the amount of currency that you must exchange on the Payment Date.

The amount of currency that you will exchange will be determined by the amount of currency accumulated on each Valuation Date during the Term (as determined by the Bank with reference to the Valuation Rate Source).

Entering into an Accumulating Forward

When you enter into an Accumulating Forward you nominate:

- a maximum amount of currency (Currency A) (the "**Total Principal Amount**") that you would like to exchange for another currency (Currency B);
- an amount of Currency A which is a proportion of the Total Principal Amount which may be accumulated on each Valuation Date (the "**Principal Amount**"); and
- the Payment Date.

Based on the above, you and the Bank will agree an Enhanced Forward Rate, a Barrier Rate, Valuation Dates, and a Valuation Rate Source.

The amount of currency accumulated on each Valuation Date depends on the Valuation Rate in relation to the Barrier Rate.

The amount of currency to be exchanged on the Payment Date will be the aggregate of the Principal Amounts that have been accumulated (the "**Accumulated Principal Amount**").

How does an Accumulating Forward work?

The way in which a typical Accumulating Forward operates is described below by reference to examples of how an exporter and an importer might use an Accumulating Forward.

Foreign currency receipt – exporter

An exporter may enter into an Accumulating Forward to obtain an Enhanced Forward Rate and to protect from a rise in the Currency Exchange Rate (provided the Valuation Rate is at or below the Barrier Rate on a Valuation Date). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If on a Valuation Date, the Valuation Rate is:

- equal to or below the Barrier Rate, the Principal Amount is accumulated; or
- above the Barrier Rate, no amount is accumulated.

On the Payment Date you must pay to the Bank the Accumulated Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Accumulated Principal Amount).

Foreign currency payments – importer

An importer may enter into an Accumulating Forward to obtain an Enhanced Forward Rate and to protect from a fall in the Currency Exchange Rate (provided the Valuation Rate is at or above the Barrier Rate on a Valuation Date). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If on a Valuation Date, the Valuation Rate is:

- equal to or above the Barrier Rate, the Principal Amount is accumulated; or
- below the Barrier Rate, no amount is accumulated.

On the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the aggregate Accumulated Principal Amount) in exchange for the Bank paying to you the Accumulated Principal Amount of US$.

What are the principal risks of an Accumulating Forward?

The risks identified in section 6 of the Derivative Information apply to an Accumulating Forward.

In addition, entering into an Accumulating Forward gives rise to the risks that:

- There is no certainty as to the amount to be exchanged on the Payment Date until the final Valuation Rate has been determined.
- If the Accumulated Principal Amount is less than the Total Principal Amount, the Market Rate for a replacement transaction may be less favourable than the Enhanced Forward Rate, or the Currency Exchange Rate applicable to equivalent Forward Exchange Contracts which could have been entered into at the Trade Date for the same Payment Date and Principal Amounts.

26. WHAT IS A RATIO ACCUMULATING FORWARD?

A Ratio Accumulating Forward is the same as an Accumulating Forward except that one or both of the Enhanced Forward Rate and the Barrier Rate may be set at a level that is better for you than if you had instead entered into a comparable Accumulating Forward (i.e. an Accumulating Forward for the same Principal Amount and having the same Trade Date and Payment Date).

In return for one or both of the Enhanced Forward Rate and Barrier Rate being set at a level that is better for you, you may have uncertainty until the final Valuation Rate has been determined in relation to the maximum amount of currency you may be obliged to exchange on the Payment Date.

Entering into a Ratio Accumulating Forward

When you enter into a Ratio Accumulating Forward you nominate the same terms that you nominate when entering into an Accumulating Forward as well as:

- a maximum amount of Currency A which is greater than the Total Principal Amount (the "**Total Obligated Amount**"); and
- an amount of Currency A which is a proportion of the Total Obligated Amount which may be accumulated on each Valuation Date (the "**Obligated Amount**");

The Total Principal Amount is typically equal to a portion of your exposure under a corresponding Financial Instrument, while the Total Obligated Amount is typically an amount not exceeding your maximum exposure under the corresponding Financial Instrument.

Based on the above, you and the Bank will agree an Enhanced Forward Rate, a Barrier Rate, Valuation Dates, and a Valuation Rate Source.

The amount of currency accumulated on each Valuation Date depends on the Valuation Rate in relation to the Barrier Rate and the Enhanced Forward Rate.

The amount of currency to be exchanged on the Payment Date will be the aggregate of the Principal Amounts and the Obligated Amounts that have been accumulated (the "**Accumulated Amount**").

How does a Ratio Accumulating Forward work?

The way in which a typical Ratio Accumulating Forward operates is described below by reference to examples of how an exporter and an importer might use a Ratio Accumulating Forward.

Foreign currency receipt – exporter

An exporter may enter into a Ratio Accumulating Forward to obtain an Enhanced Forward Rate and to protect from a rise in the Currency Exchange Rate (provided the Valuation Rate is at or below the Barrier Rate on a Valuation Date). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If on a Valuation Date, the Valuation Rate is:

- below the Enhanced Forward Rate, the Obligated Amount is accumulated; or
- equal to or above the Enhanced Forward Rate and equal to or below the Barrier Rate, the Principal Amount is accumulated; or
- above the Barrier Rate, no amount is accumulated.

On the Payment Date you must pay to the Bank the Accumulated Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the Accumulated Amount).

Foreign currency payments – importer

An importer may enter into a Ratio Accumulating Forward to obtain an Enhanced Forward Rate and to protect from a fall in the Currency Exchange Rate (provided the Valuation Rate is at or above the Barrier Rate on a Valuation Date). For the purpose of this example Currency A is US$ and Currency B is NZ$.

If on a Valuation Date, the Valuation Rate is:

- above the Enhanced Forward Rate, the Obligated Amount is accumulated; or
- equal to or below the Enhanced Forward Rate and equal to or above the Barrier Rate, the Principal Amount is accumulated; or
- below the Barrier Rate, no amount is accumulated.

On the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Enhanced Forward Rate to the aggregate Accumulated Amount) in exchange for the Bank paying to you the Accumulated Amount of US$.

What are the principal risks of a Ratio Accumulating Forward?

The risks identified in section 6 of the Derivative Information and in this Supplement in relation to an Accumulating Forward apply to a Ratio Accumulating Forward.

In addition, entering into a Ratio Accumulating Forward gives rise to the risks that:

- If the Accumulated Amount is less than the Total Principal Amount, the Market Rate for a replacement transaction may be less favourable than the Enhanced Forward Rate, or the Currency Exchange Rate applicable to equivalent Forward Exchange Contracts which could have been entered into at the Trade Date for the same Payment Date and Principal Amounts.
- If the Total Obligated Amount exceeds your maximum exposure under a corresponding Financial Instrument, you will face Exchange Rate Risk in relation to the excess amount of currency that you either pay to the Bank (such as, under the exporter example above) or receive from the Bank (such as, under the importer example above).
- If the Enhanced Forward Rate is more favourable to you than the Spot Currency Exchange Rate on the Payment Date and the Accumulated Amount is less than your maximum exposure under the corresponding Financial Instrument, this FX Derivative does not mitigate your Exchange Rate Risk in relation to the remaining portion of your exposure under the corresponding Financial Instrument.

27. WHAT IS A KNOCK-OUT OPTION?
(INCLUDING A LATE STARTING OR EARLY FINISHING KNOCK-OUT OPTION)

Like a Currency Option, a Knock-Out Option can (unless it has been "knocked out" as described below) offer the Option Buyer protection from an unfavourable movement in a Currency Exchange Rate, while retaining the ability to take advantage of a favourable exchange rate movement. However, if the Spot Currency Exchange Rate trades at or through a pre-agreed Currency Exchange Rate ("**Barrier Rate**") during the Barrier Period, the Currency Option will be cancelled or "knocked out".

The Premium payable for a Knock-Out Option will always be less than the Premium payable for a comparable Currency Option (i.e. a Currency Option having the same Principal Amount, Strike Price, Trade Date and Payment Date).

There are two forms of a Knock-Out Option, a "Knock-Out Call" and a "Knock-Out Put".

Entering into a Knock-Out Option

When entering into a Knock-Out Option the Option Buyer nominates:

- a Principal Amount of a currency (Currency A) to be exchanged for another currency (Currency B);
- the Strike Price;
- the Barrier Rate (which may be higher or lower than the Spot Currency Exchange Rate on the Trade Date); and
- the Payment Date.

Based on the above, a Premium to be paid by the Option Buyer is agreed.

How does a Knock-Out Call work?

The way in which a typical Knock-Out Call operates is described below by reference to an example of how an exporter may use a Knock-Out Call.

Foreign currency receipt – exporter

An exporter may buy a Knock-Out Call to obtain protection from a rise in a Currency Exchange Rate (provided the Knock-Out Call is not "knocked out") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller. The Premium will be payable on the date or dates specified in the terms of the Knock-Out Call.

If the Spot Currency Exchange Rate has traded at a rate that is at or through the Barrier Rate at any time during the Barrier Period, the transaction will be cancelled and there will be no payments made by either party under the Knock-Out Call, other than the Premium required to be paid under the terms of the Knock-Out Call.

However, if the Spot Currency Exchange Rate has not traded at a rate that is at or through the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Strike Price, the Option Buyer may exercise the Knock-Out Call or (if automatic exercise applies and the conditions to the automatic exercise of the Knock-Out Call have been satisfied) the Knock-Out Call will be automatically exercised. If the Knock-Out Call is exercised, on the Payment Date the Option Buyer must pay to the Option Seller the Principal Amount of US$ in exchange for the Option Seller paying to the Option Buyer an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$); or
- the Spot Currency Exchange Rate is lower than the Strike Price, the Knock-Out Call need not be exercised or, if automatic exercise applies, the Knock-Out Call will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

How does a Knock-Out Put work?

The way in which a typical Knock-Out Put operates is described below by reference to an example of how an importer may use a Knock-Out Put.

Foreign currency payment – importer

An importer may buy a Knock-Out Put to obtain protection from a fall in a Currency Exchange Rate (provided the Knock-Out Put is not "knocked out") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller. The Premium will be payable on the date or dates specified in the terms of the Knock-Out Put.

If the Spot Currency Exchange Rate has traded at a rate that is at or through the Barrier Rate at any time during the Barrier Period, the transaction will be cancelled and there will be no payments made by either party under the Knock-Out Put, other than the Premium required to be paid under the terms of the Knock-Out Put.

However, if the Spot Currency Exchange Rate has not traded at a rate that is at or through the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Strike Price, the Option Buyer may exercise the Knock-Out Put or (if automatic exercise applies and the conditions to the automatic exercise of the Knock-Out Put have been satisfied) the Knock-Out Put will be automatically exercised. If the Knock-Out Put is exercised, on the Payment Date the Option Buyer must pay to the Option Seller an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$), in exchange for the Option Seller paying to Option Buyer the Principal Amount of US$; or
- the Spot Currency Exchange Rate is higher than the Strike Price, the Knock-Out Put need not be exercised or, if automatic exercise applies, the Knock-Out Put will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

The Strike Price, Barrier Rate, Premium, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Knock-Out Option.

Late Starting or Early Finishing Knock-Out Calls and Knock-Out Puts

An additional feature can be added to a Knock-Out Option, limiting the period of time during which the Barrier Rate will apply. A Knock-Out Call with this feature may be referred to as either a **Late Starting Knock-Out Call** or an **Early Finishing Knock-Out Call**. A Knock-Out Put with this feature may be referred to as either a **Late Starting Knock-Out Put** or an **Early Finishing Knock-Out Put**. The effect of this feature is described further in section 37.

What are the principal risks of a Knock-Out Call or a Knock-Out Put?

The risks identified in section 6 of the Derivative Information apply to a Knock-Out Option (including a Late Starting or Early Finishing Knock-Out Option).

In addition, entering into a Knock-Out Option (including a Late Starting or Early Finishing Knock-Out Option) gives rise to the risks that:

- If the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period the transaction will be cancelled.
- Until the earlier of the Spot Currency Exchange Rate trading at or through the Barrier Rate and the end of the Barrier Period, there is uncertainty as to whether the Option Buyer will have the right to exchange the currencies at the Strike Price on the Payment Date.

28. WHAT IS A KNOCK-IN OPTION?
(INCLUDING A LATE STARTING OR EARLY FINISHING KNOCK-IN OPTION)

Like a Currency Option, a Knock-In Option can (if it is "knocked in" as described below) offer the Option Buyer protection from an unfavourable movement in a Currency Exchange Rate, while retaining the ability to take advantage of a favourable exchange rate movement. However, the Option will only become exercisable if the Spot Currency Exchange Rate trades at or through a pre-agreed Currency Exchange Rate ("**Barrier Rate**") during the Barrier Period. That is, the transaction must be "knocked in".

The Premium payable for a Knock-In Option will always be less than the Premium payable for a comparable Currency Option (i.e. a Currency Option having the same Principal Amount, Strike Price, Trade Date and Payment Date).

There are two forms of a Knock-In Option, a "Knock-In Call" and a "Knock-In Put".

Entering into a Knock-In Option

When entering into a Knock-In Option the Option Buyer nominates:

- a Principal Amount of a currency (Currency A) to be exchanged for another currency (Currency B);
- the Strike Price;
- the Barrier Rate (which may be higher or lower than the Spot Currency Exchange Rate on the Trade Date);
- the Payment Date.

Based on the above, a Premium to be paid by the Option Buyer is agreed.

How does a Knock-In Call work?

The way in which a typical Knock-In Call operates is described below by reference to an example of how an exporter may use a Knock-In Call.

Foreign currency receipt – exporter

An exporter may buy a Knock-In Call to obtain protection from a rise in a Currency Exchange Rate (provided the Knock-In Call is "knocked in") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller. The Premium will be payable on the date or dates specified in the terms of the Knock-In Call.

If the Spot Currency Exchange Rate has not traded at a rate that is at or through the Barrier Rate at any time during the Barrier Period, there will be no payments made by either party under the Knock-In Call, other than the Premium required to be paid under the terms of the Knock-In Call.

However, if the Spot Currency Exchange Rate has traded at a rate that is at or through the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Strike Price, the Option Buyer may exercise the Knock-In Call or (if automatic exercise applies and the conditions to the automatic exercise of the Knock-In Call have been satisfied) the Knock-In Call will be automatically exercised. If the Knock-In Call is exercised, on the Payment Date the Option Buyer must pay to the Option Seller the Principal Amount of US$ in exchange for the Option Seller paying to the Option Buyer an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$); or
- the Spot Currency Exchange Rate is lower than the Strike Price, the Knock-In Call need not be exercised or, if automatic exercise applies, the Knock-In Call will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

How does a Knock-In Put work?

The way in which a typical Knock-In Put operates is described below by reference to an example of how an importer may use a Knock-in Put.

Foreign currency payment – importer

An importer may buy a Knock-In Put to obtain protection from a fall in a Currency Exchange Rate (provided the Knock-In Put is "knocked in") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller to purchase the Knock-In Put. The Premium will be payable on the date or dates specified in the terms of the Knock-In Put.

If the Spot Currency Exchange Rate has not traded at a rate that is at or through the Barrier Rate at any time during the Barrier Period there will be no payments made by either party under the Knock-In Put, other than the Premium required to be paid under the terms of the Knock-In Put.

However, if the Spot Currency Exchange Rate has traded at a rate that is at or through the Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Strike Price, the Option Buyer may exercise the Knock-In Put or (if automatic exercise applies and the conditions to the automatic exercise of the Knock-In Put have been satisfied) the Knock-In Put will be automatically exercised. If the Knock-In Put is exercised, on the Payment Date the Option Buyer must pay to the Option Seller an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$), in exchange for the Option Seller paying to the Option Buyer the Principal Amount of US$; or
- the Spot Currency Exchange Rate is higher than the Strike Price, the Knock-In Put need not be exercised or, if automatic exercise applies, the Knock-In Put will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

The Strike Price, Barrier Rate, Expiry, Payment Date, Premium and amounts of currency to be exchanged will be specified in the terms of the Knock-In Option.

Late Starting or Early Finishing Knock-In Calls and Knock-In Puts

An additional feature can be added to a Knock-In Option, limiting the period of time during which the Barrier Rate will apply. A Knock-In Call with this feature may be referred to as either a **Late Starting Knock-In Call** or an **Early Finishing Knock-In Call**. A Knock-In Put with this feature may be referred to as either a **Late Starting Knock-In Put** or an **Early Finishing Knock-In Put**. The effect of this feature is described further in section 37.

What are the principal risks of a Knock-In Call or a Knock-In Put?

The risks identified in section 6 of the Derivative Information apply to a Knock-In Option (including a Late Starting or Early Finishing Knock-In Option).

In addition, entering into a Knock-In Option (including a Late Starting or Early Finishing Knock-In Option) gives rise to the risks that:

- If the Spot Currency Exchange Rate does not trade at or through the Barrier Rate at any time during the Barrier Period, the Option will not be exercisable and the Option Buyer has no right to exchange the Principal Amount at the Strike Price on the Payment Date.
- Until the earlier of the Spot Currency Exchange Rate trading at or through the Barrier Rate and the end of the Barrier Period, there is uncertainty as to whether the Option Buyer will have the right to exchange the currencies at the Strike Price on the Payment Date.

29. WHAT IS A DOUBLE KNOCK-OUT OPTION?
(INCLUDING A LATE STARTING OR EARLY FINISHING DOUBLE KNOCK-OUT OPTION)

Like a Currency Option, a Double Knock-Out Option can (unless it is "knocked out" as described below) offer the Option Buyer protection from an unfavourable movement in a Currency Exchange Rate, while retaining the ability to take advantage of a favourable exchange rate movement. However, if the Spot Currency Exchange Rate trades at or through one or both of the two pre-agreed Currency Exchange Rates ("**Barrier Rates**") during the Barrier Period, the transaction will be cancelled or "knocked out".

The Premium payable for a Double Knock-Out Option will always be less than the Premium payable for a comparable Currency Option (i.e. a Currency Option having the same Principal Amount, Strike Price, Trade Date and Payment Date).

There are two forms of a Double Knock-Out Option, a "Double Knock-Out Call" and a "Double Knock-Out Put".

Entering into a Double Knock-Out Option

When entering into a Double Knock-Out Option the Option Buyer nominates:

- a Principal Amount of a currency (Currency A) to be exchanged for another currency (Currency B);
- the Strike Price;
- the Barrier Rates (the "**Upper Barrier Rate**" and the "**Lower Barrier Rate**"); and
- the Payment Date.

Based on the above, a Premium to be paid by the Option Buyer is agreed.

How does a Double Knock-Out Call work?

The way in which a typical Double Knock-Out Call operates is described below by reference to an example of how an exporter may use a Double Knock-Out Call.

Foreign currency receipt – exporter

An exporter may buy a Double Knock-Out Call to obtain protection from a rise in a Currency Exchange Rate (provided the Double Knock-Out Call is not "knocked out") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller to purchase the Double Knock-Out Call. The Premium will be payable on the date or dates specified in the terms of the Double Knock-Out Call.

If the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate at any time during the Barrier Period, the transaction will be cancelled and there will be no payments made by either party under the Double Knock-Out Call, other than the Premium required to be paid under the terms of the Double Knock-Out Call.

However, if the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Strike Price, the Option Buyer may exercise the Double Knock-Out Call or (if automatic exercise applies and the conditions to the automatic exercise of the Double Knock-Out Call have been satisfied) the Double Knock-Out Call will be automatically exercised. If the Double Knock-Out Call is exercised, on the Payment Date the Option Buyer must pay to the Option Seller the Principal Amount of US$ in exchange for the Option Seller paying to the Option Buyer an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$); or

- the Spot Currency Exchange Rate is lower than the Strike Price, the Double Knock-Out Call need not be exercised or, if automatic exercise applies, the Double Knock-Out Call will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

How does a Double Knock-Out Put work?

The way in which a typical Double Knock-Out Put operates is described below by reference to an example of how an importer may use a Double Knock-Out Put.

Foreign currency payment – importer

An importer may buy a Double Knock-Out Put to obtain protection from a fall in a Currency Exchange Rate (provided the Double Knock-Out Put is not "knocked out") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller to purchase the Double Knock-Out Put. The Premium will be payable on the date or dates specified in the terms of the Double Knock-Out Put.

If the Spot Currency Exchange Rate has traded at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate at any time during the Barrier Period, the transaction will be cancelled and there will be no payments made by either party under the Double Knock-Out Put, other than the Premium required to be paid under the terms of the Double Knock-Out Put.

However, if the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate at any time during the Barrier Period and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Strike Price, the Option Buyer may exercise the Double Knock-Out Put or (if automatic exercise applies and the conditions to the automatic exercise of the Double Knock-Out Put have been satisfied) the Double Knock-Out Put will be automatically exercised. If the Double Knock-Out Put is exercised, on the Payment Date the Option Buyer must pay to the Option Seller an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$), in exchange for the Option Seller paying to the Option Buyer the Principal Amount of US$; or
- the Spot Currency Exchange Rate is higher than the Strike Price, the Double Knock-Out Put need not be exercised or, if automatic exercise applies, the Double Knock-Out Put will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

The Strike Price, Barrier Rates, Expiry, Payment Date, Premium and amounts of currency to be exchanged will be specified in the terms of the Double Knock-Out Option.

Late Starting or Early Finishing Double Knock-Out Calls and Double Knock-Out Puts

An additional feature can be added to a Double Knock-Out Option, limiting the period of time during which the Barrier Rates will apply. A Double Knock-Out Call with this feature may be referred to as either a **Late Starting Double Knock-Out Call** or an **Early Finishing Double Knock-Out Call**. A Double Knock-Out Put with this feature may be referred to as either a **Late Starting Double Knock-Out Put** or an **Early Finishing Double Knock-Out Put**. The effect of this feature is described further in section 37.

What are the principal risks of a Double Knock-Out Call or a Double Knock-Out Put?

The risks identified in section 6 of the Derivative Information apply to a Double Knock-Out Option (including a Late Starting or Early Finishing Double Knock-Out Option).

In addition, entering into a Double Knock-Out Option (including a Late Starting or Early Finishing Double Knock-Out Option) gives rise to the risks that:

- If the Spot Currency Exchange Rate trades at or through a Barrier Rate at any time during the Barrier Period, the transaction will be cancelled.
- Until the earlier of the Spot Currency Exchange Rate trading at or through a Barrier Rate and the end of the Barrier Period, there is uncertainty as to whether the Option Buyer will have the right to exchange the currencies at the Strike Price on the Payment Date.

30. WHAT IS A DOUBLE KNOCK-IN OPTION?

(INCLUDING A LATE STARTING OR EARLY FINISHING DOUBLE KNOCK-IN OPTION)

Like a Currency Option, a Double Knock-In Option can (if it is "knocked in" as described below) offer the Option Buyer protection from an unfavourable movement in a Currency Exchange Rate, while retaining the ability to take advantage of a favourable exchange rate movement. However, the Option will only be exercisable if the Spot Currency Exchange Rate trades at or through one of the two pre-agreed Currency Exchange Rates ("**Barrier Rates**") during the Barrier Period. That is, the transaction must be "knocked in".

The Premium payable for a Double Knock-In Option will always be less than the Premium payable for a comparable Currency Option (i.e. a Currency Option having the same Principal Amount, Strike Price, Trade Date and Payment Date).

There are two forms of a Double Knock-In Option, a "Double Knock-In Call" and a "Double Knock-In Put".

Entering into a Double Knock-In Option

When entering into a Double Knock-In Option the Option Buyer nominates:

- a Principal Amount of a currency (Currency A) to be exchanged for another currency (Currency B);
- the Strike Price;
- the Barrier Rates (the "**Upper Barrier Rate**" and the "**Lower Barrier Rate**"); and
- the Payment Date.

Based on the above, a Premium to be paid by the Option Buyer is agreed.

How does a Double Knock-In Call work?

The way in which a typical Double Knock-In Call operates is described below by reference to an example of how an exporter may use a Double Knock-In Call.

Foreign currency receipt – exporter

An exporter may buy a Double Knock-In Call to obtain protection from a rise in a Currency Exchange Rate (provided the Double Knock-In Call is "knocked in") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller to purchase the Double Knock-In Call. The Premium will be payable on the date or dates specified in the terms of the Double Knock-In Call.

If the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate at any time during the Barrier Period there will be no payments made by either party under the Double Knock-In Call, other than the Premium required to be paid under the terms of the Double Knock-In Call.

The Double Knock-In Call becomes exercisable when the Spot Currency Exchange Rate first trades at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate during the Barrier Period. If the Double Knock-In Call becomes exercisable and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Strike Price, the Option Buyer may exercise the Double Knock-In Call or (if automatic exercise applies and the conditions to the automatic exercise of the Double Knock-In Call have been satisfied) the Double Knock-In Call will be automatically exercised. If the Double Knock-In Call is exercised, on the Payment Date the Option Buyer must pay to the Option Seller the Principal Amount of US$ in exchange for the Option Seller paying to the Option Buyer an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$); or
- the Spot Currency Exchange Rate is lower than the Strike Price, the Double Knock-In Call need not be exercised or, if automatic exercise applies, the Double Knock-In Call will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

How does a Double Knock-In Put work?

The way in which a typical Double Knock-In Put operates is described below by reference to an example of how an importer may use a Double Knock-In Put.

Foreign currency payment – importer

An importer may buy a Double Knock-In Put to obtain some protection from a fall in a Currency Exchange Rate (provided the Double Knock-In Put is "knocked in") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller to purchase the Double Knock-In Put. The Premium will be payable on the date or dates specified in the terms of the Double Knock-In Put.

If the Spot Currency Exchange Rate has not traded at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate at any time during the Barrier Period there will be no payments made by either party under the Double Knock-In Put, other than the Premium required to be paid under the terms of the Double Knock-In Put.

However, the Double Knock-In Put becomes exercisable when the Spot Currency Exchange Rate first trades at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate during the Barrier Period. If the Double Knock-In Put becomes exercisable and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Strike Price, the Option Buyer may exercise the Double Knock-In Put or (if automatic exercise applies and the conditions to the automatic exercise of the Double Knock-In Put have been satisfied) the Double Knock-In Put will be automatically exercised. If the Double Knock-In Put is exercised, on the Payment Date the Option Buyer must pay to the Option Seller an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$), in exchange for the Option Seller paying to the Option Buyer the Principal Amount of US$; or
- the Spot Currency Exchange Rate is higher than the Strike Price, the Double Knock-In Put need not be exercised or, if automatic exercise applies, the Double Knock-In Put will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

The Strike Price, Barrier Rates, Expiry, Payment Date, Premium and amounts of currency to be exchanged will be specified in the terms of the Double Knock-In Option.

Late Starting or Early Finishing Double Knock-In Calls and Double Knock-In Puts

An additional feature can be added to a Double Knock-In Option, limiting the period of time during which the Barrier Rates will apply. A Double Knock-In Call with this feature may be referred to as either a **Late Starting Double Knock-In Call** or an **Early Finishing Double Knock-In Call**. A Double Knock-In Put with this feature may be referred to as either a **Late Starting Double Knock-In Put** or an **Early Finishing Double Knock-In Put**. The effect of this feature is described further in section 37.

What are the principal risks of a Double Knock-In Call or a Double Knock-In Put?

The risks identified in section 6 of the Derivative Information apply to a Double Knock-In Option (including a Late Starting or Early Finishing Double Knock-In Option).

In addition, entering into a Double Knock-In Option (including a Late Starting or Early Finishing Double Knock-In Option) gives rise to the risks that:

- If the Spot Currency Exchange Rate does not trade at or through a Barrier Rate at any time during the Barrier Period, the Option will not be exercisable and the Option Buyer has no right to exchange the Principal Amount at the Strike Price on the Payment Date.
- Until the earlier of the Spot Currency Exchange Rate trading at or through a Barrier Rate and the end of the Barrier Period, there is uncertainty as to whether the Option Buyer will have the right to exchange the currencies at the Strike Price on the Payment Date.

31. WHAT IS A DISCRETE BARRIER KNOCK-OUT OPTION?

Like a Knock-Out Option, a Discrete Barrier Knock-Out Option can (unless it has been "knocked out" as described below) offer the Option Buyer protection from an unfavourable movement in a Currency Exchange Rate, while retaining the ability to take advantage of a favourable exchange rate movement. A Discrete Barrier Knock-Out Option differs from an ordinary Knock-Out Option in that there is only one "discrete" day and time, partway through the Option Term when the Barrier Rate is observed and the Option can be knocked out.

Like a Knock-Out Option, the Premium payable for a Discrete Barrier Knock-Out Option will always be less than the Premium payable for a comparable Currency Option (i.e. a Currency Option having the same Principal Amount, Strike Price, Trade Date and Payment Date).

There are two forms of a Discrete Barrier Knock-Out Option, a "Discrete Barrier Knock-Out Call" and a "Discrete Barrier Knock-Out Put".

Entering into a Discrete Barrier Knock-Out Option

When entering into a Discrete Barrier Knock-Out Option the Option Buyer nominates:

- a Principal Amount of a currency (Currency A) to be exchanged for another currency (Currency B);
- the Strike Price;
- the Barrier Event. That is:
  - the Barrier Rate (which may be higher or lower than the Spot Currency Exchange Rate on the Trade Date);
  - the Barrier Date and the Barrier Time; and
  - whether the Barrier Event occurs if the Spot Currency Exchange Rates trades at a rate that is "equal to or higher than" or "equal to or lower than" the Barrier Rate; and
- the Payment Date.

Based on the above, a Premium to be paid by the Option Buyer is agreed.

How does a Discrete Barrier Knock-Out Call work?

The way in which a typical Discrete Barrier Knock-Out Call operates is described below by reference to an example of how an exporter may use a Discrete Barrier Knock-Out Call.

Foreign currency receipt – exporter

An exporter may buy a Discrete Barrier Knock-Out Call to obtain protection from a rise in a Currency Exchange Rate (provided the Discrete Barrier Knock-Out Call is not "knocked out") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller. The Premium will be payable on the date or dates specified in the terms of the Discrete Barrier Knock-Out Call.

If the Spot Currency Exchange Rate trades at a rate that is at or through the Barrier Rate at the Barrier Time on the Barrier Date, the transaction will be cancelled and there will be no payments made by either party under the Discrete Barrier Knock-Out Call, other than the Premium required to be paid under the terms of the Discrete Barrier Knock-Out Call.

However, if the Spot Currency Exchange rate has not traded at a rate that is at or through the Barrier Rate at the Barrier Time on the Barrier Date and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Strike Price, the Option Buyer may exercise the Discrete Barrier Knock-Out Call or (if automatic exercise applies and the conditions to the automatic exercise of the Discrete Barrier Knock-Out Call have been satisfied) the Discrete Barrier Knock-Out Call will be automatically exercised. If the Discrete Barrier Knock-Out Call is exercised, on the Payment Date the Option Buyer must pay to the Option Seller the Principal Amount of US$ in exchange for the Option Seller paying to the Option Buyer an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$); or
- the Spot Currency Exchange Rate is lower than the Strike Price, the Discrete Barrier Knock-Out Call need not be exercised or, if automatic exercise applies, the Discrete Barrier Knock-Out Call will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

How does a Discrete Barrier Knock-Out Put work?

The way in which a typical Discrete Barrier Knock-Out Put operates is described below by reference to an example of how an importer may use a Discrete Barrier Knock-Out Put.

Foreign currency payment – importer

An importer may buy a Discrete Barrier Knock-Out Put to obtain protection from a fall in a Currency Exchange Rate (provided the Discrete Barrier Knock-Out Put is not "knocked out") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller. The Premium will be payable on the date or dates specified in the terms of the Discrete Barrier Knock-Out Put.

If the Spot Currency Exchange Rate trades at a rate that is at or through the Barrier Rate at the Barrier Time on the Barrier Date, the transaction will be cancelled and there will be no payments made by either party under the Discrete Barrier Knock-Out Put, other than the Premium required to be paid under the terms of the Discrete Barrier Knock-Out Put.

However, if the Spot Currency Exchange Rate has not traded at a rate that is at or through the Barrier Rate at the Barrier Time on the Barrier Date and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Strike Price, the Option Buyer may exercise the Discrete Barrier Knock-Out Put or (if automatic exercise applies and the conditions to the automatic exercise of the Discrete Barrier Knock-Out Put have been satisfied) the Discrete Barrier Knock-Out Put will be automatically exercised. If the Discrete Barrier Knock-Out Put is exercised, on the Payment Date the Option Buyer must pay to the Option Seller an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$), in exchange for the Option Seller paying to the Option Buyer the Principal Amount of US$; or
- the Spot Currency Exchange Rate is higher than the Strike Price, the Discrete Barrier Knock-Out Put need not be exercised or, if automatic exercise applies, the Discrete Barrier Knock-Out Put will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

The Strike Price, Barrier Rate, Barrier Time, Barrier Date, Premium, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Discrete Barrier Knock-Out Option.

What are the principal risks of a Discrete Barrier Knock-Out Call or a Discrete Barrier Knock-Out Put?

The risks identified in section 6 of the Derivative Information apply to a Discrete Barrier Knock-Out Option.

In addition, entering into a Discrete Barrier Knock-Out Option gives rise to the risks that:

- If the Spot Currency Exchange Rate trades at or through the Barrier Rate at the Barrier Time on the Barrier Date the transaction will be cancelled.
- Until the Barrier Time on the Barrier Date, there is uncertainty as to whether the Option Buyer will have the right to exchange the currencies at the Strike Price on the Payment Date.

32. WHAT IS A DISCRETE BARRIER DOUBLE KNOCK-OUT OPTION?

Like a Double Knock-Out Option, a Discrete Barrier Double Knock-Out Option can (unless it is "knocked out" as described below) offer the Option Buyer protection from an unfavourable movement in a Currency Exchange Rate, while retaining the ability to take advantage of a favourable exchange rate movement. A Discrete Barrier Double Knock-Out Option differs from an ordinary Double Knock-Out Option in that there is only one "discrete" day and time, partway through the option Term when the Barrier Rates are observed and the Option can be knocked out.

Like a Double Knock-Out Option, the Premium payable for a Discrete Barrier Double Knock-Out Option will always be less than the Premium payable for a comparable Currency Option (i.e. a Currency Option having the same Principal Amount, Strike Price, Trade Date and Payment Date).

There are two forms of a Discrete Barrier Double Knock-Out Option, a "Discrete Barrier Double Knock-Out Call" and a "Discrete Barrier Double Knock-Out Put".

Entering into a Discrete Barrier Double Knock-Out Option

When entering into a Discrete Barrier Double Knock-Out Option the Option Buyer nominates:

- a Principal Amount of a currency (Currency A) to be exchanged for another currency (Currency B);
- the Strike Price;
- the Barrier Event. That is:
  - the Barrier Rates (the "**Upper Barrier Rate**" and the "**Lower Barrier Rate**"); and
  - the Barrier Date and the Barrier Time; and
- the Payment Date.

Based on the above, a Premium to be paid by the Option Buyer is agreed.

How does a Discrete Barrier Double Knock-Out Call work?

The way in which a typical Discrete Barrier Double Knock-Out Call operates is described below by reference to an example of how an exporter may use a Discrete Barrier Double Knock-Out Call.

Foreign currency receipt – exporter

An exporter may buy a Discrete Barrier Double Knock-Out Call to obtain protection from a rise in a Currency Exchange Rate (provided the Discrete Barrier Double Knock-Out Call is not "knocked out") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller. The Premium will be payable on the date or dates specified in the terms of the Discrete Barrier Double Knock-Out Call.

If the Spot Currency Exchange Rate trades at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate at the Barrier Time on the Barrier Date, the transaction will be cancelled and there will be no payments made by either party under the Discrete Barrier Double Knock-Out Call, other than the Premium required to be paid under the terms of the Discrete Barrier Double Knock-Out Call.

However, if the Spot Currency Exchange Rate does not trade at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate at the Barrier Time on the Barrier Date and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Strike Price, the Option Buyer may exercise the Discrete Barrier Double Knock-Out Call or (if automatic exercise applies and the conditions to the automatic exercise of the Discrete Barrier Double Knock-Out Call have been satisfied) the Discrete Barrier Double Knock-Out Call will be automatically exercised. If the Discrete Barrier Double Knock-Out Call is exercised, on the Payment Date the Option Buyer must pay to the Option Seller the Principal Amount of US$ in exchange for the Option Seller paying to the Option Buyer an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$); or
- the Spot Currency Exchange Rate is lower than the Strike Price, the Discrete Barrier Double Knock-Out Call need not be exercised or, if automatic exercise applies, the Discrete Barrier Double Knock-Out Call will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

How does a Discrete Barrier Double Knock-Out Put work?

The way in which a typical Discrete Barrier Double Knock-Out Put operates is described below by reference to an example of how an importer may use a Discrete Barrier Double Knock-Out Put.

Foreign currency payment – importer

An importer may buy a Discrete Barrier Double Knock-Out Put to obtain protection from a fall in a Currency Exchange Rate (provided the Discrete Barrier Double Knock-Out Put is not "knocked out") and to pay a lower Premium than would be payable under a comparable Currency Option. For the purposes of this example Currency A is US$ and Currency B is NZ$.

The Option Buyer agrees to pay a Premium to the Option Seller. The Premium will be payable on the date or dates specified in the terms of the Discrete Barrier Double Knock-Out Put.

If the Spot Currency Exchange Rate trades at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate at the Barrier Time on the Barrier Date, the transaction will be cancelled and there will be no payments made by either party under the Discrete Barrier Double Knock-Out Put, other than the Premium required to be paid under the terms of the Discrete Barrier Double Knock-Out Put.

However, if the Spot Currency Exchange Rate does not trade at a rate that is equal to or higher than the Upper Barrier Rate or at a rate that is equal to or lower than the Lower Barrier Rate at the Barrier Time on the Barrier Date and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Strike Price, the Option Buyer may exercise the Discrete Barrier Double Knock-Out Put or (if automatic exercise applies and the conditions to the automatic exercise of the Discrete Barrier Double Knock-Out Put have been satisfied) the Discrete Barrier Double Knock-Out Put will be automatically exercised. If the Discrete Barrier Double Knock-Out Put is exercised, on the Payment Date the Option Buyer must pay to the Option Seller an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$), in exchange for the Option Seller paying to the Option Buyer the Principal Amount of US$; or
- the Spot Currency Exchange Rate is higher than the Strike Price, the Discrete Barrier Double Knock-Out Put need not be exercised or, if automatic exercise applies, the Discrete Barrier Double Knock-Out Put will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

The Strike Price, Barrier Rates, Barrier Time, Barrier Date, Expiry, Payment Date, Premium and amounts of currency to be exchanged will be specified in the terms of the Discrete Barrier Double Knock-Out Option.

What are the principal risks of a Discrete Barrier Double Knock-Out Call or a Discrete Barrier Double Knock-Out Put?

The risks identified in section 6 of the Derivative Information apply to a Discrete Barrier Double Knock-Out Option.

In addition, entering into a Discrete Barrier Double Knock-Out Option gives rise to the risks that:

- If the Spot Currency Exchange Rate trades at or through a Barrier Rate at the Barrier Time on the Barrier Date, the transaction will be cancelled.
- Until the Barrier Time on the Barrier Date, there is uncertainty as to whether the Option Buyer will have the right to exchange the currencies at the Strike Price on the Payment Date.

33. WHAT IS A COMPOUND OPTION?

A Compound Option is an Option to purchase a Currency Option ("**Underlying Currency Option**") with a pre-agreed Strike Price on a date in the future.

The buyer of the Compound Option pays an initial Premium ("**Initial Premium**") for the right to purchase the Underlying Currency Option on a future date.

The Initial Premium is less than the Premium payable for a comparable Currency Option (i.e. a Currency Option having the same Principal Amount, Strike Price, Trade Date and Payment Date). If the buyer of the Compound Option exercises the right to purchase the Underlying Currency Option an additional Premium will be payable ("**Exercise Premium**"). The aggregate of the Initial Premium and Exercise Premium ("**Total Premium**") will be greater than the Premium payable for a comparable Currency Option.

Entering into a Compound Option

When entering into a Compound Option the Option Buyer nominates:

- a Principal Amount of a currency (Currency A) to be exchanged for another currency (Currency B);
- the Strike Price;
- the date on which the right to purchase the Underlying Currency Option can be exercised (the "**Compound Option Exercise Date**");
- the Expiry of the Underlying Currency Option; and
- the Payment Date.

Based on the above, the Initial Premium and the Exercise Premium to be paid by the Option Buyer are agreed.

Compound Options come in two forms, a "Compound Call" and a "Compound Put".

How does a Compound Call work?

The way in which a typical Compound Call operates is described below by reference to an example of how an exporter may use a Compound Call.

Foreign currency receipt – exporter

An exporter may buy a Compound Call to obtain protection from a future rise in a Currency Exchange Rate. For the purposes of this example Currency A is US$ and Currency B is NZ$.

You will pay the Initial Premium to the Bank to purchase the Compound Call. The Initial Premium will be payable on the date or dates specified in the terms of the Compound Call.

If you wish to exercise your right to purchase the Underlying Currency Option you must give notice to the Bank on the Compound Option Exercise Date. If you exercise this right you will be obliged to pay the Exercise Premium to the Bank on the date or dates specified in the terms of the Compound Call.

If you do not exercise your right to purchase the Underlying Currency Option the only amount you will have paid to the Bank is the Initial Premium.

If you have exercised your right to purchase the Underlying Currency Option and at Expiry:

- the Spot Currency Exchange Rate is equal to or higher than the Strike Price, you may exercise the Underlying Currency Option or (if automatic exercise applies and the conditions to the automatic exercise of the Underlying Currency Option have been satisfied) the Underlying Currency Option will be automatically exercised. If the Underlying Currency Option is exercised, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$); or
- the Spot Currency Exchange Rate is lower than the Strike Price, the Underlying Currency Option need not be exercised or, if automatic exercise applies, the Underlying Currency Option will not be exercised, and the only amount you will have paid to the Bank is the Total Premium required to be paid under the terms of the Compound Call.

How does a Compound Put work?

The way in which a typical Compound Put operates is described below by reference to an example of how an importer may use a Compound Put.

Foreign currency payment – importer

An importer may buy a Compound Put to obtain protection from a future fall in a Currency Exchange Rate. For the purposes of this example Currency A is US$ and Currency B is NZ$.

You will pay the Initial Premium to the Bank to purchase the Compound Put. The Initial Premium will be payable on the date or dates specified in the terms of the Compound Put.

If you wish to exercise your right to purchase the Underlying Currency Option you must give notice to the Bank on the Compound Option Exercise Date. If you exercise this right you will be obliged to pay the Exercise Premium to the Bank on the date or dates specified in the terms of the Compound Put.

If you do not exercise your right to purchase the Underlying Currency Option the only amount you will have paid to the Bank is the Initial Premium.

If you have exercised your right to purchase the Underlying Currency Option and at Expiry:

- the Spot Currency Exchange Rate is equal to or lower than the Strike Price, you may exercise the Underlying Currency Option or (if automatic exercise applies and the conditions to the automatic exercise of the Underlying Currency Option have been satisfied) the Underlying Currency Option will be automatically exercised. If the Underlying Currency Option is exercised, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Strike Price to the Principal Amount of US$), in exchange for the Bank paying to you the Principal Amount of US$; or

- the Spot Currency Exchange Rate is higher than the Strike Price, the Underlying Currency Option need not be exercised or, if automatic exercise applies, the Underlying Currency Option will not be exercised. The only amount that you will have paid to the Bank is the Total Premium required to be paid under the terms of the Compound Put.

The Strike Price, Compound Option Exercise Date, Initial Premium, Exercise Premium, Expiry, Payment Date and amounts of currency to be exchanged will be specified in the terms of the Compound Put.

What are the principal risks of a Compound Call or a Compound Put?

The risks identified in section 6 of the Derivative Information apply to a Compound Option.

34. WHAT IS A SEAGULL?

A Seagull is a combination of three Options which, together, can:

- provide you with protection from an unfavourable exchange rate movement so long as, on Expiry, the Spot Currency Exchange Rate does not trade at or through the Upper Strike (in the exporter example below) or the Lower Strike (in the importer example below); and
- allow you to take advantage of a favourable exchange rate movement on Expiry between the Middle Strike and the Best Case Rate.

A Seagull is similar to a FX Collar, but unlike a FX Collar, the protection from an unfavourable exchange rate movement is limited as there is no Worst Case Rate. Therefore, a Seagull will only partially mitigate your Exchange Rate Risk.

In return for accepting that there is no Worst Case Rate, the Strike Prices for the Middle Strike and/or Best Case Rate under the Seagull will be set at a level which is better for you than the rates that would be available to you for a comparable FX Collar (i.e. the Worst Case Rate and/or Best Case Rate for a FX Collar for the same Principal Amount and having the same Trade Date and Payment Date).

A Seagull is a combination of either:

- two "call" Options and one "put" Option; or
- two "put" Options and one "call" Option.

All three Options are entered into at the same time and have the same Expiry, Payment Date and Principal Amount. However, the Strike Price will differ for each of the Options. You will be the Option buyer in relation to one of the Options and the Option seller in relation to the other two.

Entering into a Seagull

When you enter into a Seagull you nominate:

- a Principal Amount of a currency (Currency A) to be exchanged for another currency (Currency B);
- a different Strike Price ("**Lower Strike**", "**Middle Strike**" and "**Upper Strike**") to apply to each Option; and
- the Payment Date.

How does a Seagull Work?

The way in which a typical Seagull operates is described below by reference to an example of how an exporter and an importer may use a Seagull.

Foreign currency receipt – exporter

An exporter may enter into a Seagull to protect from a rise in a Currency Exchange Rate between the Middle Strike and the Upper Strike while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate down to the Lower Strike. An exporter would:

- buy a "call" Option from the Bank at the Middle Strike;
- sell a "call" Option to the Bank at the Upper Strike; and
- sell a "put" Option to the Bank at the Lower Strike (this is the Best Case Rate).

For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and at Expiry the Spot Currency Exchange Rate is:

- equal to or higher than the Upper Strike:
  - you may exercise your "call" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "call" Option have been satisfied) your "call" Option at the Middle Strike will be automatically exercised. If your "call" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$); and
  - the Bank's "call" Option at the Upper Strike will be exercised and on the Payment Date the Bank must pay you the Principal Amount of US$ in exchange for you paying the Bank an amount of NZ$ (calculated by applying the Upper Strike to the Principal Amount of US$).

Although the two "call" Options are individually settled (that is, they are not settled on a Net Basis), the economic effect of the two "call" Options when considered together is that you have received a NZ$ benefit equal to the difference between the Upper Strike and the Middle Strike applied to the Principal Amount of US$. If you then enter into a separate foreign exchange transaction to exchange the Principal Amount of US$ into NZ$ at the Spot Currency Exchange Rate, this benefit will, in effect, partially mitigate the cost of the higher Spot Currency Exchange Rate; or

- higher than the Middle Strike and lower than the Upper Strike, you may exercise your "call" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "call" Option have been satisfied) your "call" Option at the Middle Strike will be automatically exercised. If your "call" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$); or
- equal to or lower than the Middle Strike and higher than the Lower Strike, the Options need not be exercised or, if automatic exercise applies, no Options will be exercised and no payments are made under the Seagull; or
- equal to or lower than the Lower Strike, the Bank's "put" Option at the Lower Strike will be exercised and on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying you an amount of NZ$ (calculated by applying the Lower Strike to the Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into a Seagull to protect from a fall in a Currency Exchange Rate between the Middle Strike and the Lower Strike while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate up to the Upper Strike. An importer would:

- buy a "put" Option from the Bank at the Middle Strike;
- sell a "put" Option to the Bank at the Lower Strike; and
- sell a "call" Option to the Bank at the Upper Strike (this is the Best Case Rate).

For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and at Expiry the Spot Currency Exchange Rate is:

- equal to or lower than the Lower Strike:
  - you may exercise your "put" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "put" Option have been satisfied) your "put" Option at the Middle Strike will be automatically exercised. If your "put" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$; and
  - the Bank's "put" Option at the Lower Strike will be exercised and on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Lower Strike to the Principal Amount of US$).

Although the two "put" Options are individually settled (that is, they are not settled on a Net Basis), the economic effect of the two "put" Options when considered together is that you have received a NZ$ benefit equal to the difference between the Lower Strike and the Middle Strike applied to the Principal Amount of US$. If you then enter into a separate foreign exchange transaction to exchange the Principal Amount of US$ into NZ$ at the Spot Currency Exchange Rate, this benefit will, in effect, partially mitigate the cost of the lower Spot Currency Exchange Rate; or

- lower than the Middle Strike and higher than the Lower Strike, you may exercise your "put" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "put" Option have been satisfied) your "put" Option at the Middle Strike will be automatically exercised. If your "put" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$; or
- equal to or higher than the Middle Strike and lower than the Upper Strike, the Options need not be exercised or, if automatic exercise applies, no Options will be exercised and no payments are made under the Seagull; or
- equal to or higher than the Upper Strike, the Bank's "call" Option at the Upper Strike will be exercised and on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Upper Strike to the Principal Amount of US$) in exchange for the Bank paying you the Principal Amount of US$.

What are the principal risks of a Seagull?

The risks identified in section 6 of the Derivative Information apply to a Seagull.

In addition, entering into a Seagull gives rise to the risk that:

- There is no Worst Case Rate under a Seagull and therefore you will have unlimited exposure to an unfavourable Currency Exchange Rate movement; i.e. in the exporter example above, the exporter will be exposed to Currency Exchange Rate movements above the Upper Strike and in the importer example above, the importer will be exposed to Currency Exchange Rate movements below the Lower Strike.

35. WHAT IS A KNOCK-IN SEAGULL?

Like a Seagull, a Knock-In Seagull is a combination of three Options which, together, can:

- provide you with protection from an unfavourable exchange rate movement so long as, on Expiry, the Spot Currency Exchange Rate does not trade at or through the Upper Strike (in the exporter example below) or the Lower Strike (in the importer example below); and
- if the Spot Currency Exchange Rate does not trade at or through the Barrier Rate at any time during the Barrier Period, allow you to take advantage of a favourable exchange rate movement on Expiry between the Middle Strike and the Barrier Rate; or
- if the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period, allow you to take advantage of a favourable exchange rate movement on Expiry between the Middle Strike and the Lower Strike (in the exporter example below) or between the Middle Strike and the Upper Strike (in the importer example below).

A Knock-In Seagull is similar to a Smart Collar, but unlike a Smart Collar, the protection from an unfavourable exchange rate movement is limited as there is no Worst Case Rate. Therefore, a Knock-In Seagull will only partially mitigate your Exchange Rate Risk.

In return for accepting that there is no Worst Case Rate, the Barrier Rate and Strike Prices for the Middle Strike and/or Lower Strike (in the exporter example below) or the Middle Strike and/or Upper Strike (in the importer example below) will be set at a level which is better for you than the rates that would be available to you for a comparable Smart Collar (i.e. the Barrier Rate, Worst Case Rate and/or Best Case Rate for a Smart Collar for the same Principal Amount and having the same Trade Date and Payment Date).

A Knock-In Seagull is a combination of either:

- two "call" Options and one Knock-In Put; or
- two "put" Options and one Knock-In Call.

All three Options are entered into at the same time and have the same Expiry, Payment Date and Principal Amount. However, the Strike Price will differ for each of the Options. You will be the Option buyer in relation to one of the Options and the Option seller in relation to the other two. In particular, you will be the seller of the Knock-In Option so the description of Knock-In Options in section 28 of this Supplement should be read with this in mind.

Entering into a Knock-In Seagull

When you enter into a Knock-In Seagull you nominate:

- a Principal Amount of a currency (Currency A) to be exchanged for another currency (Currency B);
- a different Strike Price ("**Lower Strike**", "**Middle Strike**" and "**Upper Strike**") to apply to each Option;
- a Barrier Rate applicable to the Knock-In Option, which will be more favourable for you than the most favourable Strike Price on the Options (i.e. equal to or lower than the Lower Strike (in the exporter example below) or equal to or higher than the Upper Strike (in the importer example below)); and
- the Payment Date.

How does a Knock-In Seagull Work?

The way in which a Knock-In Seagull operates is described below by reference to an example of how an exporter and importer may use a Knock-In Seagull.

Foreign currency receipt – exporter

An exporter may enter into a Knock-In Seagull to protect from a rise in a Currency Exchange Rate between the Middle Strike and the Upper Strike while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate down to the Barrier Rate, so long as the Spot Currency Exchange Rate does not trade at a rate which is at or through the Barrier Rate during the Barrier Period. If the Spot Currency Exchange Rate trades at or through the Barrier Rate during the Barrier Period, the Lower Strike will be the Best Case Rate.

An exporter would:

- buy a "call" Option from the Bank at the Middle Strike;
- sell a "call" Option to the Bank at the Upper Strike; and
- sell a Knock-In Put to the Bank at the Lower Strike.

For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an exporter and the Spot Currency Exchange Rate has not traded at or through the Barrier Rate at any time during the Barrier Period and at Expiry the Spot Currency Exchange Rate is:

- equal to or higher than the Upper Strike:
  - you may exercise your "call" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "call" Option have been satisfied) your "call" Option at the Middle Strike will be automatically exercised. If your "call" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$); and
  - the Bank's "call" Option at the Upper Strike will be exercised and on the Payment Date the Bank must pay you the Principal Amount of US$ in exchange for you paying the Bank an amount of NZ$ (calculated by applying the Upper Strike to the Principal Amount of US$).

Although the two "call" Options are individually settled (that is, they are not settled on a Net Basis), the economic effect of the two "call" Options when considered together is that you have received a NZ$ benefit equal to the difference between the Upper Strike and the Middle Strike applied to the Principal Amount of US$. If you then enter into a separate foreign exchange transaction to exchange the Principal Amount of US$ into NZ$ at the Spot Currency Exchange Rate, this benefit will, in effect, partially mitigate the cost of the higher Spot Currency Exchange Rate; or

- higher than the Middle Strike and lower than the Upper Strike, you may exercise your "call" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "call" Option have been satisfied) your "call" Option at the Middle Strike will be automatically exercised. If your "call" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$); or
- equal to or lower than the Middle Strike and higher than the Barrier Rate, the Options need not be exercised or, if automatic exercise applies, no Options will be exercised and no payments are made under the Knock-In Seagull.

If, however the Spot Currency Exchange Rate has traded at a rate that is at or through the Barrier Rate at any time during the Barrier Period and at Expiry the Spot Currency Exchange Rate is:

- equal to or higher than the Upper Strike:
  - you may exercise your "call" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "call" Option have been satisfied) your "call" Option at the Middle Strike will be automatically exercised. If your "call" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$); and

– the Bank's "call" Option at the Upper Strike will be exercised and on the Payment Date the Bank must pay you the Principal Amount of US$ in exchange for you paying the Bank an amount of NZ$ (calculated by applying the Upper Strike to the Principal Amount of US$).

Although the two "call" Options are individually settled (that is, they are not settled on a Net Basis), the economic effect of the two "call" Options when considered together is that you have received a NZ$ benefit equal to the difference between the Upper Strike and the Middle Strike applied to the Principal Amount of US$. If you then enter into a separate foreign exchange transaction to exchange the Principal Amount of US$ into NZ$ at the Spot Currency Exchange Rate, this benefit will, in effect, partially mitigate the cost of the higher Spot Currency Exchange Rate; or

- higher than the Middle Strike and lower than the Upper Strike, you may exercise your "call" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "call" Option have been satisfied) your "call" Option at the Middle Strike will be automatically exercised. If your "call" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$); or
- equal to or lower than the Middle Strike and higher than the Lower Strike, the Options need not be exercised or, if automatic exercise applies, no Options will be exercised and no payments are made under the Knock-In Seagull; or
- equal to or lower than the Lower Strike, the Bank's Knock-In Put at the Lower Strike will be exercised and on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Lower Strike to the Principal Amount of US$).

Foreign currency payment – importer

An importer may enter into a Knock-In Seagull to protect from a fall in a Currency Exchange Rate between the Middle Strike and the Lower Strike while retaining the ability to benefit from a favourable movement in a Currency Exchange Rate up to the Barrier Rate, so long as the Spot Currency Exchange Rate does not trade at a rate which is at or through the Barrier Rate during the Barrier Period. If the Spot Currency Exchange Rate trades at or through the Barrier Rate during the Barrier Period, the Upper Strike will be the Best Case Rate.

An importer would:

- buy a "put" Option from the Bank at the Middle Strike;
- sell a "put" Option to the Bank at the Lower Strike; and
- sell a Knock-In Call to the Bank at the Upper Strike.

For the purpose of this example Currency A is US$ and Currency B is NZ$.

If you are an importer and the Spot Currency Exchange Rate has not traded at or through the Barrier Rate at any time during the Barrier Period and at Expiry the Spot Currency Exchange Rate is:

- equal to or lower than the Lower Strike:
  - you may exercise your "put" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "put" Option have been satisfied) your "put" Option at the Middle Strike will be automatically exercised. If your "put" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$; and
  - the Bank's "put" Option at the Lower Strike will be exercised and on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Lower Strike to the Principal Amount of US$).

Although the two "put" Options are individually settled (that is, they are not settled on a Net Basis), the economic effect of the two "put" Options when considered together is that you have received a NZ$ benefit equal to the difference between the Lower Strike and the Middle Strike applied to the Principal Amount of US$. If you then enter into a separate foreign exchange transaction to exchange the Principal Amount of US$ into NZ$ at the Spot Currency Exchange Rate, this benefit will, in effect, partially mitigate the cost of the lower Spot Currency Exchange Rate; or

- lower than the Middle Strike and higher than the Lower Strike, you may exercise your "put" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "put" Option have been satisfied) your "put" Option at the Middle Strike will be automatically exercised. If your "put" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$; or
- equal to or higher than the Middle Strike and lower than the Barrier Rate, the Options need not be exercised or, if automatic exercise applies, no Options will be exercised and no payments are made under the Knock-In Seagull.

If, however the Spot Currency Exchange Rate has traded at a rate that is at or through the Barrier Rate at any time during the Barrier Period and at Expiry the Spot Currency Exchange Rate is:

- equal to or lower than the Lower Strike:
  - you may exercise your "put" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "put" Option have been satisfied) your "put" Option at the Middle Strike will be automatically exercised. If your "put" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$; and
  - the Bank's "put" Option at the Lower Strike will be exercised and on the Payment Date you must pay to the Bank the Principal Amount of US$ in exchange for the Bank paying to you an amount of NZ$ (calculated by applying the Lower Strike to the Principal Amount of US$).

Although the two "put" Options are individually settled (that is, they are not settled on a Net Basis), the economic effect of the two "put" Options when considered together is that you have received a NZ$ benefit equal to the difference between the Lower Strike and the Middle Strike applied to the Principal Amount of US$. If you then enter into a separate foreign exchange transaction to exchange the Principal Amount of US$ into NZ$ at the Spot Currency Exchange Rate, this benefit will, in effect, partially mitigate the cost of the lower Spot Currency Exchange Rate; or

lower than the Middle Strike and higher than the Lower Strike, you may exercise your "put" Option at the Middle Strike or (if automatic exercise applies and the conditions to the automatic exercise of your "put" Option have been satisfied) your "put" Option at the Middle Strike will be automatically exercised. If your "put" Option at the Middle Strike is exercised, on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Middle Strike to the Principal Amount of US$) in exchange for the Bank paying to you the Principal Amount of US$; or

- equal to or higher than the Middle Strike and lower than the Barrier Rate, the Options need not be exercised or, if automatic exercise applies, no Options will be exercised and no payments are made under the Knock-In Seagull; or
- equal to or higher than the Upper Strike, the Bank's Knock-In Call at the Upper Strike will be exercised and on the Payment Date you must pay to the Bank an amount of NZ$ (calculated by applying the Upper Strike to the Principal Amount of US$) in exchange for the Bank paying you the Principal Amount of US$.

What are the principal risks of a Knock-In Seagull?

The risks identified in section 6 of the Derivative Information and in this Supplement in relation to a Seagull apply to a Knock-In Seagull.

In addition, entering into a Knock-In Seagull gives rise to the risk that:

- If the Spot Currency Exchange Rate trades at or through the Barrier Rate at any time during the Barrier Period the Bank may exercise its Knock-In Option and you may be obliged to exchange currencies at the most favourable Strike Price on the Options (i.e. the Lower Strike (in the exporter example above) or the Upper Strike (in the importer example above)), which will be worse for you than the Spot Currency Exchange Rate on Expiry.

36. WHAT IS AN AVERAGE RATE OPTION?

An Average Rate Option can offer the Option Buyer protection from an unfavourable movement in an average Currency Exchange Rate, while retaining the ability to take advantage of a favourable movement in the average Currency Exchange Rate. Unlike an ordinary Currency Option, an Average Rate Option is Cash Settled and the settlement amount and the party that must pay that amount are determined by reference to an average Currency Exchange Rate ("**Average Exchange Rate**") rather than the Spot Currency Exchange Rate on a single time and date.

The Average Exchange Rate is a weighted average, determined in accordance with the method set out in the terms of the Average Rate Option. The method for determining the Average Exchange Rate involves:

- observing the relevant Spot Currency Exchange Rate on each agreed "Averaging Date" at the time specified in the Average Rate Option; and
- applying the agreed "Averaging Weight" to the Spot Currency Exchange Rate observed on each Fixing Date (different Averaging Weights may apply on different Averaging Dates).

There are two forms of an Average Rate Option, an "Average Rate Call" and an "Average Rate Put".

Entering into an Average Rate Option

When entering into an Average Rate Option you nominate:

- the currency pair (e.g., US$ and NZ$) and the Principal Amount of one of those currencies;
- the Strike Price;
- a schedule of Averaging Dates and Averaging Weights;
- the Payment Date; and
- the Settlement Currency.

Based on the above, a Premium to be paid by the Option Buyer is agreed.

How does an Average Rate Call work?

The way in which a typical Average Rate Call operates is described below by reference to an example of how an exporter may use an Average Rate Call.

Foreign currency receipt – exporter

An exporter may buy an Average Rate Call to obtain protection from a rise in an average Currency Exchange Rate.

The Option Buyer agrees to pay a Premium to the Option Seller. The Premium will be payable on the date or dates specified in the terms of the Average Rate Call.

At Expiry the Average Exchange Rate is compared to the Strike Price:

- if the Average Exchange Rate is higher than the Strike Price, the Option Buyer may exercise the Average Rate Call or (if automatic exercise applies and the conditions to the automatic exercise of the Average Rate Call have been satisfied) the Average Rate Call will be automatically exercised. If the Average Rate Call is exercised, on the Payment Date the Option Seller must pay to the Option Buyer a cash payment in the Settlement Currency calculated by reference to the difference between the Average Exchange Rate and the Strike Price applied to the Principal Amount; or
- if the Average Exchange Rate is lower or equal to the Strike Price, the Average Rate Option need not be exercised or, if automatic exercise applies, the Average Rate Call will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

How does an Average Rate Put work?

The way in which a typical Average Rate Put operates is described below by reference to an example of how an importer may use an Average Rate Put.

Foreign currency payment – importer

An importer may buy an Average Rate Put to obtain protection from a fall in an average Currency Exchange Rate.

The Option Buyer agrees to pay a Premium to the Option Seller. The Premium will be payable on the date or dates specified in the terms of the Average Rate Put.

At Expiry the Average Exchange Rate is compared to the Strike Price:

- if the Average Exchange Rate is lower than the Strike Price, the Option Buyer may exercise the Average Rate Put or (if automatic exercise applies and the conditions to the automatic exercise of the Average Rate Put have been satisfied) the Average Rate Put will be automatically exercised. If the Average Rate Put is exercised, on the Payment Date the Option Seller must pay to the Option Buyer a cash payment in the Settlement Currency calculated by reference to the difference between the Average Exchange Rate and the Strike Price applied to the Principal Amount; or
- if the Average Exchange Rate is equal to or higher than the Strike Price, the Average Rate Put need not be exercised or, if automatic exercise applies, the Average Rate Put will not be exercised, and the only amount the Option Buyer will have paid to the Option Seller is the Premium required to be paid under the terms of the Option.

The Strike Price, Premium, Averaging Dates, Averaging Weights, Expiry, Payment Date, currency pair, Settlement Currency and the Principal Amount of one of those currencies will be specified in the terms of the Average Rate Option.

What are the principal risks of an Average Rate Call or an Average Rate Put?

The risks identified in section 6 of the Derivative Information apply to an Average Rate Option.

In addition, entering into an Average Rate Option gives rise to the risk that the effectiveness of the Average Rate Option in mitigating your foreign exchange risk will depend on the degree to which the averaging process specified corresponds to the risk profile of your underlying exposure.

37. LATE STARTING AND EARLY FINISHING FX DERIVATIVES

The following FX Derivatives can be either "Late Starting" or "Early Finishing", which is a feature that allows you to limit the period of time during which the Barrier Rate will apply ("**Barrier Period**") to that FX Derivative:

- Knock-Out Forward
- Ratio Knock-Out Forward
- Converting Forward
- Smart Forward
- Ratio Smart Forward
- Smart Forward Plus
- Ratio Smart Forward Plus
- Smart Forward Combo
- Smart Forward Plus (AWCR)
- Smart Collar
- Ratio Smart Collar
- Knock-Out Option
- Knock-In Option
- Double Knock-Out Option
- Double Knock-In Option

For both a Late Starting and Early Finishing FX Derivative, the Barrier Period will always be shorter than the Term, in that:

- for a Late Starting FX Derivative, the Barrier Period will start on a date after the Trade Date and will finish at Expiry; and
- for an Early Finishing FX Derivative, the Barrier Period will start on the Trade Date and will finish on a date prior to Expiry.

However, in return for the ability to nominate a Barrier Period, one or more of the exchange rates applicable to the FX Derivative (e.g. the Worst Case Rate, Adjusted Worst Case Rate, Best Case Rate or Enhanced Forward Rate) and/or Barrier Rate applicable to the FX Derivative will be adjusted. For example:

- if limiting the Barrier Period reduces the period of time that your rights under the FX Derivative may be adversely affected by the Spot Currency Exchange Rate trading at or through a Barrier Rate, one or more of the applicable exchange rates referred to above and/or the Barrier Rate will be set at a level that is worse for you than if the Barrier Period was equal to the Term; and
- if limiting the Barrier Period reduces the period of time that your rights under the FX Derivative may be beneficially affected by the Spot Currency Exchange Rate trading at or through a Barrier Rate, one or more of the applicable exchange rates referred to above and/or the Barrier Rate will be set at a level that is better for you than if the Barrier Period was equal to the Term.

When you enter into a Late Starting or Early Finishing FX Derivative you nominate the same terms that you nominate when entering into that FX Derivative as well as the Barrier Period. The effect of the Barrier Period feature on the Forward Exchange Rate(s) and/or Barrier Rate will depend on the length of the Barrier Period and the FX Derivative itself.

Other than having a specified Barrier Period, the payment obligations and (unless stated otherwise in relation to a particular FX Derivative) risks of a Late Starting or Early Finishing FX Derivative are no different to the same FX Derivative without the Barrier Period feature. Accordingly, all risks relevant to the particular FX Derivative are also applicable to a Late Starting and Early Finishing FX Derivative of the same type.

38. GLOSSARY

Adjusted Enhanced Forward Rate
The rate determined by the Bank on the final Valuation Date by reference to an agreed Valuation Rate, the Capped Gain Amount and the aggregate mark-to-market gain.

Average Exchange Rate
See pages 27 and 45.

Barrier Date
The date on which the relevant Currency Exchange Rate must trade at or through an agreed level for a Barrier Event to have occurred.

Barrier Event
A Currency Exchange Rate trading at or through an agreed level at a specific time on a specified day.

Barrier Period
The period of time during which a Barrier Rate (if any) applies to a FX Derivative. The applicable Barrier Period will be equal to the Term unless the relevant FX Derivative is a Late Starting or Early Finishing FX Derivative. For Late Starting or Early Finishing FX Derivatives see section 37.

Barrier Rate
The agreed level which a Currency Exchange Rate must trade at or though at the Barrier Time on the Barrier Date to constitute a Barrier Event.

Barrier Time
The time on a Barrier Date at which the relevant Currency Exchange Rate is observed to determine whether a Barrier Event has occurred.

Best Case Rate
The most favourable Currency Exchange Rate at which you may or must exchange currencies under a FX Derivative as agreed at the time the FX Derivative is entered into.

Cash Settled
A FX Derivative will be cash settled if there is no exchange of currencies and, instead, 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.

Expiration Date
A date specified in the terms of a Markets Product on which a Currency Exchange Rate will be determined for the purposes of calculating payments (if any) to be made on the Payment Date for that Markets Product.

Expiration Time
A time specified in the terms of a Market Product at which a Currency Exchange Rate will be determined for the purposes of calculating payments (if any) to be made on the Payment Date for that Markets Product. For FX Derivatives involving NZ$ this will typically be 3.00pm Wellington time.

Expiry
The Expiration Time on the Expiration Date as specified in the terms of a Markets Product.

Settlement Currency
In relation to a FX Derivative that is Cash Settled, the currency in which the parties' obligations are determined.

Term
The period from (and including) the date on which you and the Bank enter into the Markets Product to (and including) Expiry.

Trade Date
The time and date on which you enter into the transaction with the Bank.

Valuation Date
A date specified in the terms of a Markets Product at which a Currency Exchange Rate will be determined for the purposes of calculation payments (if any) to be made on the Payment Date for that Markets Product.

Valuation Rate
The rate determined on a Valuation Date by reference to an agreed Valuation Rate Source or, if no Valuation Rate Source is specified, the Spot Currency Exchange Rate at an agreed time on that date.

Valuation Rate Source
The source by reference to which a Valuation Rate will be determined on a Valuation Date.

Worst Case Rate
The least favourable Currency Exchange Rate at which you may or must exchange currencies under a FX Derivative as agreed at the time the FX Derivative is entered into.

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