

# Supplementary Document for Forward Exchange Contracts and Foreign Exchange Swaps

*Product Disclosure Statement*

**Issued by Bank of New Zealand**  
**Prepared as at 8 March 2019**

This document supplements the BNZ Product Disclosure Statement for Forward Exchange Contracts and Foreign Exchange Swaps dated 18 October 2018.

Bank of New Zealand has prepared this document in accordance with the Financial Markets Conduct Act 2013.

## What is this?

This is a supplementary document dated 8 March 2019 prepared by Bank of New Zealand under section 72 of the Financial Markets Conduct Act 2013.

It supplements BNZ's Product Disclosure Statement for Forward Exchange Contracts and Foreign Exchange Swaps, dated 18 October 2018 (PDS). This supplementary document is to be read together with the PDS.

This supplementary document has been prepared to update information contained in section 3.2 "Issuer Risks" on pages 13 and 14 of the PDS, relating to "Credit Ratings".

## What should you do with this supplementary document?

We recommend that you:

- read this supplementary document with the PDS and consider the implications of the updated information; and
- seek independent advice before deciding whether Forward Exchange Contracts and/or Foreign Exchange Swaps (as defined in the PDS) may be suitable for you.

## Updated information

The information in the PDS to be updated relates to a change in outlook for BNZ's Long-Term Issuer Default rating by one rating agency Fitch. The change in outlook is from "Stable" to "Negative".

This supplementary document updates the PDS by replacing section 3.2 of the PDS from the heading "Credit Ratings" to the end of section 3.2 with the text set out below. The change to the outlook is highlighted in red. Except as updated by this supplementary document, the PDS is unchanged.

## Credit Ratings

The FX Contracts described in this PDS have not been rated by any credit rating agency. However, BNZ has the following credit ratings as at the date of this Supplement.

Rating Agency	Obligations that the rating applies to	Current Credit Rating	Qualification
Standard & Poor's (Australia) Pty Limited	Long-term senior unsecured NZD obligations	AA-	Outlook Negative
Moody's Investors Service Pty Limited	Long-term senior unsecured NZD obligations	A1	Outlook Stable
Fitch Australia Pty Limited	Long-term senior unsecured NZD obligations	AA-	Outlook <b>Negative</b>
Moody's Investors Service Pty Limited	Long-term Counterparty Risk Rating (CRR) (uncollateralised portion of non-debt counterparty financial liabilities)	Aa3	Outlook not provided

The following is a summary of the major rating categories available and shows the placement of BNZ's credit ratings for long term senior unsecured NZD obligations and its counterparty risk rating from Moody's.

	Standard & Poor's	Moody's Investors Service	Fitch Ratings	Description of Grade	Default Probability ****
<b>Long-term senior unsecured NZD obligations:</b> BNZ's credit ratings* (Outlook "Negative" from Fitch and S&P and "Stable" from Moody's). <b>Moody's counterparty risk rating:</b> BNZ's credit rating (no Outlook)**	AAA	Aaa	AAA	Ability to repay principal and interest is extremely strong. This is the highest investment category.	1 in 600
	<b>AA</b>	<b>Aa</b>	<b>AA</b>	Very strong ability to repay principal and interest.	1 in 300
	A	<b>A</b>	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in financial conditions	1 in 150
	BBB	Baa	BBB	Adequate ability to repay principal and interest. More vulnerable to adverse changes.	1 in 30
	BB	Ba	BB	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	1 in 10
	B	B	B	Greater vulnerability and therefore greater likelihood of default.	1 in 5
	CCC	Caa	CCC	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	1 in 2
	CC to C	Ca to C***	CC to C	Highest risk of default.	
	D	-	RD & D	Obligations currently in default.	

\* BNZ's credit rating as at the date of this PDS is AA-/A1/AA-.

\*\* BNZ's credit rating as at the date of this PDS is Aa3.

\*\*\* If a rating of 'C' is given by Moody's Investors Service, the issuer is typically in default.

\*\*\*\* The approximate median likelihood that an investor will not receive repayment on a five-year investment on time and in full based upon historical default rates published by each agency, as at 2008 (source: Reserve Bank of New Zealand publication 'Explaining Credit Ratings', dated November 2008).

Credit ratings by Standard & Poor's and Fitch Ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories. Moody's Investors Service apply numeric modifiers 1, 2 and 3 to show relative standing within the rating categories with 1 being the highest and 3 the lowest.

A credit rating is an independent opinion of the capability and willingness of an entity to meet its financial obligations (in other words, its creditworthiness). It is not a guarantee that the issuer will be able to meet its obligations under derivatives.

# Forward Exchange Contracts and Foreign Exchange Swaps

## *Product Disclosure Statement*

**Issued by Bank of New Zealand  
Prepared as at 18 October 2018**

This document replaces the BNZ Product Disclosure Statement for Forward Exchange Contracts and Foreign Exchange Swaps dated 26 October 2017.

This document provides important information about forward exchange contracts and foreign exchange swaps to help you decide whether you want to enter into any of these derivatives. There is other useful information about this offer at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).

Many derivatives are complex and high-risk financial products that are not suitable for most retail investors. If you do not fully understand a derivative described in this document and the risks associated with it, you should not enter into it. You can also seek advice from a financial adviser to help you make your decision. You should ask if that adviser has experience with these types of derivatives.

Bank of New Zealand has prepared this document in accordance with the Financial Markets Conduct Act 2013.



# 1. Key information summary

## 1.1 What is this?

This is a product disclosure statement for forward exchange contracts (**FECs**) and foreign exchange swaps (**FX Swaps**) provided by Bank of New Zealand (**BNZ**). FECs and FX Swaps are derivatives, which are contracts between you and BNZ that may require you or BNZ to make one or more payments in New Zealand dollars (**NZD** or **NZ\$**) or other currencies to one another. The amounts that must be paid or received (or both) will depend on the level of the underlying exchange rate. The contract specifies the terms on which those payments must be made.

## 1.2 Warning

### **Risk that you may owe money under the derivative**

If the level of the underlying exchange rate changes, you may suffer losses. In particular, unlike most other kinds of financial products, you may end up owing significant amounts of money. You should carefully read section 2.3 (*How payments under an FX Contract are calculated*) of this PDS on how payments are calculated.

### **Risks arising from issuer's creditworthiness**

When you enter into derivatives with BNZ, you are exposed to a risk that BNZ cannot make payments in the relevant currency as required. You should carefully read section 3 of the PDS (*risks of these derivatives*) and consider BNZ's creditworthiness.

## 1.3 About BNZ

BNZ is a registered bank under the Reserve Bank of New Zealand Act 1989. Since its establishment in 1861, BNZ has been carrying on the business of providing a comprehensive range of banking and financial services in New Zealand.

## 1.4 Which derivatives are covered by this PDS?

This PDS covers FECs and FX Swaps (together, **FX Contracts**).

An FEC is an agreement between you and BNZ to exchange an agreed amount of one currency for an amount of another currency at an agreed exchange rate on a date in the future (the **settlement date**).

An FX Swap is an agreement between you and BNZ to exchange currencies on two settlement dates. The currency pair will be the same for both exchanges. However, which currency in that pair is delivered by each of us and the agreed amount of one of the currencies may be different. The exchange rate will be different for each exchange.

An FX Contract is designed to allow you to manage a currency risk to which you are exposed. FX Contracts provide you with cash flow certainty if you will be making or receiving payments in different currencies. However, entering into an FX Contract also means that you may not receive the benefit of exchange rate movements in your favour.

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## 2. Key features of the derivatives

A glossary of some of the key terms used in this PDS is included in section 11 (*Glossary*) of this PDS.

### 2.1 What are FECs and FX Swaps?

#### FECs

An FEC is an agreement between you and BNZ to exchange an agreed amount of one currency for an amount of another currency at an agreed exchange rate on the settlement date. The amount of the other currency will be calculated by reference to an agreed forward rate.

Information about exchange rates, including how a forward rate is determined, is set out in section 2.3 (*How payments under an FX Contract are calculated*) of this PDS.

#### FX Swaps

An FX Swap is an agreement between you and BNZ to exchange currencies on two settlement dates. The currency pair will be the same for both exchanges. However, which currency in that pair is delivered by each of us and the agreed amount of one of the currencies may be different. The exchange rate will be different for each exchange.

Depending on when the first settlement date is, an FX Swap can be structured in two different ways:

- (a) if the first settlement date is two business days or less after the trade date, the FX Swap will be structured as a spot transaction and an FEC; and
- (b) if the first settlement date is more than two business days after the trade date, the FX Swap will be structured as two FECs.

**Business days** for a spot transaction, means business days in the country of each currency (or a group of countries, depending on market convention for a particular currency) within the currency pair and in the United States, if United States dollars (**USD** or **US\$**) is a reference currency for that foreign exchange transaction. This means the settlement date for a spot transaction may be more than two New Zealand business days after the trade date.

A **currency pair** is the two currencies selected by you and BNZ when you enter into an FX Contract.

Before you enter into an FX Contract, you and BNZ will agree the currency pair, the amounts to be exchanged, the relevant exchange rate(s) and the settlement date(s).

FX Contracts are deliverable contracts. This means that each party must deliver the required amount of the relevant currency to the other party on the settlement date.

### 2.2 Why enter into an FX Contract?

If you will be making or receiving a payment in a different currency, FX Contracts can reduce the uncertainty created by movements in the relevant exchange rate. They do this by setting an exchange rate that will apply to you at a future date (or, in the case of an FX Swap, future dates). This means that, from the time you agree the terms of an FX Contract, you will have certainty of the amounts that you will pay or receive under that FX Contract in each currency on the settlement date (or dates).

If you are not sure exactly when you will be making or receiving a payment in a foreign currency, an FEC can also be structured with an optional delivery period, usually to a maximum length of three months, in which case you can elect for the settlement date to be any business day within that period. This can have a pricing impact but provides you with flexibility as to when you exchange the relevant currencies within the optional delivery period while still maintaining the benefit of an FEC. For example, if you have purchased an item (for an amount of foreign currency) and will need to pay the purchase price when the item is delivered but you do not have a set delivery date.

FECs are more commonly used than FX Swaps. As an FEC only involves one exchange of currencies, an FEC can be used in a range of circumstances. For example, if you are receiving, or need to make, a standalone payment in a foreign currency. However, if you have two transactions where you will be paying, then receiving (or vice versa), an amount of a foreign currency, you may prefer to enter into an FX Swap. For example, if you are making an investment in a foreign currency and you need an amount of the foreign currency to invest and, when the investment matures, you want to exchange the principal amount back into the original currency.

FX Contracts may have tax and accounting implications. You should get independent expert advice before making a decision about whether or not an FX Contract is suitable for you.

## 2.3 How payments under an FX Contract are calculated

### Calculation of payments

In this PDS, we refer to exchanging an amount of one currency for an amount of another currency at an exchange rate. When you enter into an FX Contract you tell us the currency pair and the amount of one currency in the currency pair that you want to exchange on the settlement date (or, in the case of an FX Swap, on each settlement date). When we exchange currencies, one of us will pay the agreed amount of one currency and the other will pay an amount of the other currency calculated by multiplying or dividing (depending on the market convention for the relevant currency pair) the initial agreed amount of currency by the relevant exchange rate.

### Calculation of exchange rates

The terms **exchange rate**, **spot rate** and **forward rate** are commonly used in relation to FX Contracts. When used in this PDS, those terms have the meanings described below.

#### Exchange rate

An exchange rate (spot or forward, each described further below) is the rate determined by BNZ at the time you agree the terms of the FX Contract (the **trade date**) to calculate the amounts that will be exchanged on a settlement date. For example, if the exchange rate of the NZD and USD is NZD/USD 0.6250 this means that for every NZ\$1 exchanged you will receive US\$0.6250. This can also be expressed as USD/NZD 1.6000. This means that for every US\$1 exchanged you will receive NZ\$1.6000.

BNZ will provide information on exchange rates to you on request and by various means (including by email, text message or through online services offered to BNZ customers, as described in section 2.5 (*Entering into an FX Contract*) of this PDS). Exchange rates quoted by BNZ may differ from published rates.

The exchange rates determined by BNZ and quoted to you when agreeing the terms of an FX Contract will vary depending on those terms and whether BNZ is buying (bidding) or selling (offering) the relevant currency. An exchange rate that BNZ quotes to you will also incorporate a margin as described in section 4 (*Fees*) of this PDS.

These quoted rates may be different to indicative exchange rates that are available from a number of sources including Reuters or Bloomberg. Quoted exchange rates are based on indicative rates but those indicative rates are generally for wholesale transactions, made in significant volumes. Exchange rates can change very rapidly.

#### Spot rate

A spot rate is an exchange rate that is used if the settlement date for the transaction is two business days or less after the trade date. The settlement date for a spot transaction is also referred to as the **spot date**. A spot rate is derived from the **inter-bank market exchange rates**.

The inter-bank market exchange rates will be influenced by global and national factors, including:

- (a) investment inflows and outflows (meaning whether institutions are adding to, or reducing, NZ dollar investments);
- (b) economic and political circumstances; and
- (c) market sentiment or expectations.

## Forward rate

A forward rate is used for FX Contracts. A forward rate is not a prediction of where an exchange rate will be at that future date. It is calculated by adjusting the spot rate at the trade date by an amount determined by BNZ (referred to as **forward points**).

## Forward points

Forward points are based on the difference between the interest rates for the two currencies in the currency pair for the relevant period. The greater the difference in the interest rates between the two currencies, the larger the forward points are likely to be, and vice versa.

The forward points can either be a discount or premium to the spot rate depending on whether the interest rate for the currency you are buying (bidding) or selling (offering) in the currency pair is higher or lower than the interest rate for the other currency being exchanged with BNZ.

The following example illustrates in principle how forward points are theoretically calculated if you were to enter into an FEC with BNZ to exchange NZ\$1,000,000 for USD in 90 days' time, where, at the trade date:

- (a) the current NZD/USD spot rate is 0.6500;
- (b) the NZD 90-day interest rate is 2.95%, so if BNZ were to borrow NZ\$1,000,000 for 90 days, on maturity BNZ would make a total payment of the principal plus interest of NZ\$1,007,274 (calculated using a 365 day year (that is, 90/365) and rounded to the nearest dollar); and
- (c) the USD 90-day interest rate is 0.35%, so if BNZ were to invest US\$650,000 for 90 days, on maturity BNZ would receive a total payment of the principal plus interest of US\$650,569 (calculated using a 360 day year (four 90-day quarters that is, 90/360) and rounded to the nearest dollar).

The 90-day forward rate (excluding any margin) is  $\text{US\$}650,569 / \text{NZ\$}1,007,274 = 0.6459$ .

The difference between this forward rate and the current spot rate is  $-0.0041$  ( $0.6459 - 0.6500 = -0.0041$ ).

This means the 90-day forward points for your FEC are -41.

In this example, -41 represent the discount that will be applied to the current spot rate to determine the exchange rate that will apply to your FEC. The forward points are a discount because the NZD 90-day interest rate is higher than the USD 90-day interest rate.

## BNZ trading activities may affect exchange rates and forward points

BNZ's trading activities, for itself and for the accounts of other wholesale and retail customers in the financial markets may affect the rates used to determine the exchange rates.

## 2.4 Examples

Set out below are examples of how an FX Contract may operate. They are included for illustrative purposes only and only reflect the circumstances described. The examples may not reflect current exchange rates and are not indicative of the specific circumstances or obligations that may arise under an FX Contract you may enter into. The actual outcome and overall effect of any FX Contract that you enter into with BNZ will depend on (among other things) the terms of that FX Contract and your financial circumstances and other arrangements.

### FECs:

#### Example 1

You are a New Zealand exporter and will be receiving a payment of US\$100,000 for exported goods in 6 months' time, which you want to convert into NZD.

You decide to enter into an FEC to fix the NZD/USD exchange rate that will apply to the payment of US\$100,000 and, therefore, the amount of NZD you will receive when you convert the USD into NZD.

You accept the following pricing that BNZ offers you for the FEC:

Currency pair: NZD/USD  
Type: You sell USD and buy NZD  
Settlement date: 6 months after the trade date  
Spot rate: 0.6590  
  
Forward points: -90 (that is, -0.0090)  
Forward rate: 0.6500

On the settlement date under the FEC:

- (a) you pay BNZ US\$100,000; and
- (b) BNZ pays you an amount of NZD calculated by applying the forward rate to the USD amount  
(US\$100,000 ÷ 0.6500) = NZ\$153,846.15

You may be better off or worse off for having entered into the FEC, depending on the spot rate on the settlement date. For example, if on the settlement date:

- (a) the spot rate was 0.6400 (that is, more favourable to you than the forward rate), you would have received **more** NZD for your US\$100,000 if you had exchanged your USD for NZD at the spot rate on the settlement date:

$$(US\$100,000 \div 0.6400 = NZ\$156,250.00)$$

You are worse off for having entered into the FEC.

- (b) the spot rate was 0.6600 (that is, less favourable to you than the forward rate), you would have received **less** NZD for your US\$100,000 if you had exchanged your USD for NZD at the spot rate on the settlement date:

$$(US\$100,000 \div 0.6600 = NZ\$151,515.15)$$

You are better off for having entered into the FEC.

### Example 2

You are a New Zealand manufacturer and are importing raw materials costing US\$100,000 from an overseas supplier, which you must pay for in 6 months' time.

You decide to enter into an FEC to fix the amount of NZD you will need to buy the USD to pay for the raw materials.

You accept the following pricing that BNZ offers you for the FEC:

Currency pair: NZD/USD  
Type: You sell NZD and buy USD  
Settlement date: 6 months after the trade date  
Spot rate: 0.6580

Forward points: -100 (that is, -0.0100)  
Forward rate: 0.6480

On the settlement date under the FEC:

- (a) BNZ pays you US\$100,000; and
- (b) you pay BNZ an amount of NZD calculated by applying the forward rate to the USD amount ( $\text{US\$100,000} \div 0.6480$ )  
  
= NZ\$154,320.99

You may be better off or worse off for having entered into the FEC, depending on the spot rate on the settlement date. For example, if on the settlement date:

- (a) the spot rate was 0.6580 (that is, more favourable to you than the forward rate), you would have needed **less** NZD in order to purchase the US\$100,000 if you had exchanged your NZD for USD at the spot rate on the settlement date:

$$(\text{US\$100,000} \div 0.6580 = \text{NZ\$151,975.68})$$

You are worse off for having entered into the FEC.

- (b) the spot rate was 0.6400 (that is, less favourable to you than the forward rate), you would have needed **more** NZD in order to purchase the US\$100,000 if you had exchanged your NZD for USD at the spot rate on the settlement date:

$$(\text{US\$100,000} \div 0.6400 = \text{NZ\$156,250.00})$$

You are better off for having entered into the FEC.

## FX Swaps:

### Example

You are a New Zealand exporter and will be receiving a payment of US\$100,000 for exported goods in 2 business days' time, which you want to convert into NZD. However, in 6 months' time, you need to make a payment of US\$100,000 for raw materials you have purchased.

You decide to enter into an FX Swap to fix the amount of your NZD cash flows under the two transactions.

You accept the following pricing that BNZ offers you for the FX Swap:

Currency pair: NZD/USD

#### First settlement date

Type: You sell USD and buy NZD  
Settlement date: 2 business days after the trade  
Spot rate: 0.6595

#### Second Settlement date

Type: You buy USD and sell NZD  
Settlement date: 6 months after the trade date  
Spot rate: 0.6595

Forward points: -100 (that is, -0.0100)  
Forward rate: 0.6495

Under the FX Swap:

- (a) in 2 business days' time, you pay BNZ US\$100,000 and BNZ pays you an amount of NZD calculated by applying the spot rate to the USD amount ( $\text{US\$}100,000 \div 0.6595 = \text{NZ\$}151,630.02$ ); and
- (b) in 6 months' time, you pay BNZ an amount of NZD calculated by applying the 6 month forward rate to the USD amount ( $\text{US\$}100,000 \div 0.6495 = \text{NZ\$}153,964.59$ ), and BNZ pays you US\$100,000.

You may be better off or worse off for having entered into the FX Swap, depending on the spot rate on the second settlement date. For example, if on the second settlement date:

- (a) the spot rate was 0.6595 (that is, more favourable to you than the forward rate), you would have needed **less** NZD in order to purchase the US\$100,000 if you had exchanged your NZD for USD at the spot rate on the second settlement date:

$$(\text{US\$}100,000 \div 0.6595 = \text{NZ\$}151,630.02)$$

You are worse off for having entered into the FX Swap.

- (b) the spot rate was 0.6400 (that is, less favourable to you than the forward rate), you would have needed **more** NZD in order to purchase the US\$100,000 if you had exchanged your NZD for USD at the spot rate on the second settlement date:

$$(\text{US\$}100,000 \div 0.6400 = \text{NZ\$}156,250.00)$$

You are better off for having entered into the FX Swap.

## 2.5 Entering into an FX Contract

### Documentation

Before entering into an FX Contract with you, BNZ will:

- (a) assess your financial position to determine if it satisfies BNZ's credit requirements; and
- (b) assess your understanding of FECs and FX Swaps as described below.

We will advise you of the outcome of this review as soon as possible. If your application is successful, you are required to enter into one of BNZ's standard documents (depending on your status and what types of derivatives you intend to enter into).

BNZ's standard documents for FX Contracts are (in order of frequency of use):

- (a) a Master Agreement for Foreign Exchange and Derivative Transactions (**Derivatives Master Agreement**); and
- (b) an ISDA Master Agreement.

BNZ's general practice is to enter into a Derivatives Master Agreement. However, we will enter into an ISDA Master Agreement if you request, or where our risk assessment indicates that an ISDA Master Agreement would be more appropriate.

If you would like to enter into FECs using BNZ's online service you will also need to sign an application or registration form and accept the terms and conditions for BNZ's online service for FECs, which are described further below under the headings 'Online services' and 'Agreement of terms'. As at the date of this PDS, BNZ's online service for FECs is known as **FX Dealing**. FX Dealing is part of BNZ's business internet banking service, IB4B.

The agreement (or agreements, if you choose to sign an application form and accept the FX Dealing terms and conditions) that you and BNZ enter into governs your derivatives relationship with BNZ and sets out terms and conditions that apply to any derivatives, including any FX Contracts you enter into.

**You should read the terms and conditions of the relevant agreement(s) carefully before entering into it. You should obtain independent legal advice if you do not understand any aspect of the relevant agreement(s).**

### Online services

BNZ may provide you with online services (including smartphone apps and internet-based services) to enable you to enter into FECs with us. You will be required to complete an application or registration form before you can use online services for the purposes of entering into FECs. At the date of this PDS FX Swaps cannot be transacted through FX Dealing.

Further information about FX Dealing is available at [bnz.co.nz/fxonline](https://bnz.co.nz/fxonline). The current terms and conditions for FX Dealing are also available online at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz).

BNZ reserves the right to make changes to, or replace, FX Dealing in the manner described in the terms and conditions for this service, and these changes may allow you to enter into FX Swaps using this service in the future. However, any changes to FX Dealing will not affect any FX Contracts that you have already entered into with us.

### Agreement of terms

The terms of a specific FX Contract are usually agreed verbally over the telephone, by email or (in relation to FECs only) through FX Dealing. We are not required to enter into an FX Contract with you.

In the case of FX Dealing, you will be able to enter into FECs at agreed exchange rates by completing and authorising the relevant transactions on FX Dealing screens. You and BNZ are legally bound by an FX Dealing FEC from the time BNZ accepts your instruction placed through FX Dealing. Please refer to the FX Dealing terms and conditions for more information about agreement and settlement of online transactions.

Once we have reached an agreement, both you and BNZ are bound by the terms which have been agreed. Conversations with our dealing room are recorded. This is standard market practice. We do this to make sure that we have a complete record of the details of all derivatives. Recorded conversations are reviewed when there is a dispute and for staff monitoring purposes. Emails and FX Dealing records are retained by BNZ for the same purpose.

Shortly after entering into an FX Contract (including through FX Dealing in the case of FECs), BNZ will send you a **Confirmation** outlining the commercial terms of the FX Contract. It is extremely important that you check the Confirmation to make sure that it accurately records the terms agreed by you and BNZ. In the case of any error, you will need to raise the matter with your Markets Specialist or BNZ Partner immediately.

### **Suitability of an FEC or FX Swap for you**

Before entering into an FEC or FX Swap we will ask you to provide us with information about your knowledge, experience and level of understanding in relation to that FEC or FX Swap, unless we already hold that information. For non-individual customers this information will be requested in relation to the director(s), employee(s) or agent(s) acting on behalf of the customer entity.

This information enables us to assess whether we think you are able to understand the FEC or FX Swap and the risks involved in entering into the FEC or FX Swap.

**If you do not provide the information we request, there is a strong risk we may not be able to assess these matters, and we may choose not to enter into the FEC or FX Swap with you. If you do provide the information we request and, based on that information, we have concerns about your understanding of the FEC or FX Swap, we will not enter into the FEC or FX Swap with you.**

## **2.6 Alterations**

### **Alteration of the Master Agreement**

If your derivatives relationship with BNZ is governed by a Derivatives Master Agreement, BNZ has a right to amend your agreement by giving 30 days written notice to you.

Neither you nor BNZ has the right to amend an ISDA Master Agreement without the other's consent.

### **Alteration of FX Contracts**

If your derivatives relationship is governed by a Derivatives Master Agreement and we exercise our right to amend your agreement by giving 30 days written notice to you, as described above, such an alteration could result in a change to your FX Contract.

Other than as described in relation to the Derivatives Master Agreement, in general, neither you nor BNZ has the right to change an FX Contract (including any fees or charges) after it has been entered into unless both parties agree. If you want to vary an FX Contract by for example:

- (a) extending or cancelling an FX Contract in whole or in part;
- (b) changing the amount of currencies to be exchanged; or
- (c) changing the applicable forward rate(s), margin or settlement dates,

you must contact your Markets Specialist or BNZ Partner. BNZ is not required to accept your request. If your request is accepted, you must pay any costs of varying the FX Contract (which may include **break costs** (calculated as described in section 2.8 (*Amounts payable on termination*) of this PDS) or a change in the margin (as described in section 4 (*Fees*) of this PDS)) and agree to the terms and conditions of any replacement or amended FX Contract. When revised terms have been agreed for your FX Contract, you will receive an additional Confirmation outlining the varied terms.

You are not entitled to sell or transfer an FX Contract unless BNZ agrees. Even if BNZ does agree, there is no guarantee that a third party will be willing to assume your obligations under that FX Contract on the same terms.

## 2.7 Terminating an FX Contract

Depending on which of the Master Agreements referred to above you have entered into, both you and BNZ may have additional rights to terminate some or all of the derivatives you have entered into with BNZ, primarily if adverse events occur.

### Derivatives Master Agreement

If your relationship with BNZ is governed by a Derivatives Master Agreement, BNZ has a right to terminate any or all derivatives between you and BNZ if a default set out in that agreement occurs, a tax event occurs or if a market disruption event occurs in relation to BNZ. The events of default set out in that agreement include:

- (a) you fail to make a payment or you or a guarantor breaches any other obligation under the agreement;
- (b) you or a guarantor become insolvent;
- (c) you or a guarantor fail to make a payment or comply with obligations under another agreement with BNZ;
- (d) a representation made by you or a guarantor to BNZ in connection with the agreement or under any other agreement with BNZ is untrue or misleading in any material respect;
- (e) you fail to make a payment or comply with obligations in respect of money owed to another person;
- (f) performance of the agreement or a related guarantee becomes illegal;
- (g) you or a guarantor dies (if you or a guarantor are individuals);
- (h) any security over you or a guarantor or your or a guarantor's assets becomes enforceable;
- (i) in BNZ's opinion, a material adverse event occurs in relation to you or a guarantor;
- (j) if you are acting as a trustee of a trust and certain events occur, including events in relation to the termination of the trust or you losing the right of indemnity from the trust assets or your right of indemnity being limited;
- (k) if you are acting as a partner of a partnership and certain events occur, including you breaching the partnership agreement, the partnership being terminated or you ceasing to be a partner of the partnership;
- (l) if you are acting as a general partner of a limited partnership and certain events occur, including the occurrence of a terminating event in respect of the limited partnership, any other steps being taken to terminate the limited partnership or you ceasing to be, or failing to perform your obligations as, a general partner; and
- (m) any other event, which you and BNZ agree or is specified in your Confirmation as an event of default, occurs.

A market disruption event can occur if BNZ is unable to make or receive payments under an FX Contract due to reasons beyond our control which could include disruption in markets, communication methods or a change in law.

A tax event can occur, if, as a result of a change of law, or any action taken by a taxing authority, we will, or there is a substantial likelihood that we will, be required to pay more, or will receive less in connection with the agreement on the next date on which a payment is due. In this case we may terminate the affected derivatives.

## **ISDA Master Agreement**

If your relationship with BNZ is governed by an ISDA Master Agreement, you and BNZ each have a right to terminate any or all derivatives (depending on the relevant event) between you and BNZ if an event of default or termination event set out in that agreement occurs in relation to the other party. The events of default and termination events set out in that agreement will, unless you and BNZ have agreed otherwise, include:

- (a) you or BNZ fail to make a payment or breach any other obligation under the agreement;
- (b) you or BNZ become insolvent;
- (c) you or BNZ fail to make a payment or comply with obligations under another derivative transaction or in respect of borrowed money;
- (d) you or BNZ fail to comply with obligations under a credit support document specified in the ISDA Master Agreement (these are security or guarantee documents);
- (e) a representation made by you or BNZ in connection with the agreement or any derivative is incorrect or misleading in any material respect;
- (f) performance under a derivative becomes illegal;
- (g) you or BNZ amalgamate or merge with a second entity, or transfer all or substantially all of the relevant party's assets to a second entity and:
  - (i) the creditworthiness of the second entity is materially weaker than the relevant party or the second entity does not assume all of the relevant party's obligations under the agreement; or
  - (ii) as a result, either you or BNZ will be required to pay more, or will receive less, under an FX Contract;
- (h) a 'force majeure event' occurs, which is an event or act of a government that is beyond your or BNZ's control that makes it impossible or impracticable for you or BNZ to comply with your obligations under the agreement, including making or receiving payments;
- (i) a 'tax event' occurs, which means that there is a change in tax law or an action taken by a taxing authority or brought in a court which will, or is likely to, result in either you or BNZ being required to pay more, or receive less, under an FX Contract; and
- (j) any other event, which you and BNZ agree or is specified in your Confirmation as an event of default or termination event, occurs.

If there are any 'Credit Support Providers' (for example, a guarantor) specified or other persons named as 'Specified Entities' (for example, your subsidiaries) in relation to you or BNZ, some of these events also apply in relation to those Credit Support Providers or Specified Entities.

## **Information that applies to both Master Agreements**

The information below applies whether your relationship with BNZ is governed by a Derivatives Master Agreement or an ISDA Master Agreement.

In addition to the termination rights described above that apply to your relationship with BNZ, you and BNZ may agree that optional early termination is to apply to an FX Contract. In that case, the relevant party has the right (but not the obligation) to terminate that FX Contract on the date or dates agreed.

## 2.8 Amounts payable on termination

If an FX Contract is terminated early, an amount may be payable by you to BNZ or by BNZ to you. This amount is referred to as a termination amount or a break cost. The way in which BNZ calculates the termination amount or break cost depends on whether the FX Contract is being terminated because:

- (a) you have asked us to terminate the FX Contract for a valid business reason (for example, cancellation of an export order) and we agree (**voluntary termination**); or
- (b) an event of default or other termination event specified in your Master Agreement has occurred and you and/or BNZ have decided to terminate the FX Contract (**involuntary termination**).

In the case of voluntary termination, we will generally effect this by amending the FX Contract to bring the settlement date forward to the agreed termination date, then close out that transaction by entering into an **offsetting transaction** at the current exchange rate. An offsetting transaction is another FEC or FX Swap (as applicable) that has the opposite payments to the FEC or FX Swap being terminated and will be netted against your existing transaction.

There will be either a cost or benefit to you in each of these steps (amending the existing FX Contract and completing an offsetting transaction) depending on the difference between the forward rate applicable to the existing FX Contract and the exchange rate applicable to each of the amended settlement date and the offsetting transaction.

If the voluntary termination results in a net cost to you, you will be required to pay BNZ. If the voluntary termination results in a net gain to you, BNZ will pay you the amount of the gain.

In the case of involuntary termination, your Master Agreement will set out how the value of the terminated transaction will be determined and therefore whether there is an amount payable by you to BNZ or by BNZ to you in respect of the terminated FEC or FX Swap. In general, this amount will be determined by BNZ as at the termination date. BNZ may take into account matters such as the terms of an offsetting transaction, or the mark-to-market value of the terminated FEC or FX Swap.

Regardless of whether the termination is voluntary or involuntary, these termination amounts may be aggregated and, if applicable, this will result in a net amount payable either by you to BNZ or by BNZ to you. This is known as close-out or termination netting. The amounts payable on termination, whether or not they are netted, may be significant. The information set out above is only a summary of the principal circumstances in which derivatives may be terminated and the amounts payable on termination. You should refer to your agreement for full details of all default and termination events and the consequences of those events. You can request an estimate of the termination value from us at any time.

# 3. Risks of these derivatives

## 3.1 Product risks

Set out below are the significant risks of entering into an FX Contract with BNZ.

### **Independent contract**

An FX Contract is completely independent of any underlying transactions you may have. For the FX Contract to create an effective hedge, the terms of the FX Contract (such as the amount of currency to be exchanged and the settlement dates) should match the terms of your underlying transaction. If, for example, you require an amount of currency for your underlying transaction earlier or later than the settlement date of your FX Contract (or, if applicable, outside the optional delivery period for your FEC as described in section 2.2 (*Why enter into an FX Contract?*) of this PDS), a mismatch will occur and the hedge may not be fully effective.

## You are locked into the FX Contract

Once you have entered into an FX Contract, you are locked in for the term of the FX Contract whether or not it is favourable to you in the future. For example, exchange rates may move in a way that means you would have been better off if you had not entered into an FX Contract.

## Altering or terminating an FX Contract may be expensive

If you want to alter or terminate an FX Contract, (for example, if you are an importer and you cancel the contract that requires you to make a payment in a foreign currency or, if you are an exporter and you will not be receiving a payment in foreign currency after all) there may be a cost to you, known as a break cost, depending on the then current inter-bank market exchange rates.

Break costs may also be payable by you if we exercise our right to terminate the FX Contract and/or your Master Agreement with us in any of the other circumstances set out in the applicable Master Agreement (for example, if you default in your obligation to make required payments to us). See section 2.7 (*Terminating an FX Contract*) of this PDS for details on when we can terminate and section 2.8 (*Amounts payable on termination*) of this PDS for details on how we calculate break costs.

## 3.2 Issuer risks

You are exposed to the risk that BNZ becomes insolvent and is unable to meet its obligations under the derivatives. Information that can assist you to assess BNZ's creditworthiness is set out or referred to below.

### Disclosure Statements

As a registered bank under the Reserve Bank of New Zealand Act 1989 BNZ is required to prepare disclosure statements. BNZ's disclosure statements are available at [bnz.co.nz/about-us/governance/financials](http://bnz.co.nz/about-us/governance/financials).

### Credit Ratings

The FX Contracts described in this PDS have not been rated by any credit rating agency. However, BNZ has the following credit ratings as at the date of this PDS.

Rating Agency	Obligations that the rating applies to	Current Credit Rating	Qualification
Standard & Poor's (Australia) Pty Limited	Long-term senior unsecured NZD obligations	AA-	Outlook Negative
Moody's Investors Service Pty Limited	Long-term senior unsecured NZD obligations	A1	Outlook Stable
Fitch Australia Pty Limited	Long-term senior unsecured NZD obligations	AA-	Outlook Stable
Moody's Investors Service Pty Limited	Long-term Counterparty Risk Rating (CRR) (uncollateralised portion of non-debt counterparty financial liabilities)	Aa3	Outlook not provided

The following is a summary of the major rating categories available and shows the placement of BNZ’s credit ratings for long term senior unsecured NZD obligations and its counterparty risk rating from Moody’s.

	Standard & Poor’s	Moody’s Investors Service	Fitch Ratings	Description of Grade	Default Probability ****
<b>Long-term senior unsecured NZD obligations:</b> BNZ’s credit ratings* (Outlook “Negative” from S&P and “Stable” from Moody’s and Fitch). <b>Moody’s counterparty risk rating:</b> BNZ’s credit rating (no Outlook) **	AAA	Aaa	AAA	Ability to repay principal and interest is extremely strong. This is the highest investment category.	1 in 600
	<b>AA</b>	<b>Aa</b>	<b>AA</b>	Very strong ability to repay principal and interest.	1 in 300
	A	<b>A</b>	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in financial conditions	1 in 150
	BBB	Baa	BBB	Adequate ability to repay principal and interest. More vulnerable to adverse changes.	1 in 30
	BB	Ba	BB	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	1 in 10
	B	B	B	Greater vulnerability and therefore greater likelihood of default.	1 in 5
	CCC	Caa	CCC	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	1 in 2
	CC to C	Ca to C***	CC to C	Highest risk of default.	
	D	-	RD & D	Obligations currently in default.	

\* BNZ’s credit rating as at the date of this PDS is AA-/A1/AA-.

\*\* BNZ’s credit rating as at the date of this PDS is Aa3.

\*\*\* If a rating of ‘C’ is given by Moody’s Investors Service, the issuer is typically in default.

\*\*\*\* The approximate median likelihood that an investor will not receive repayment on a five-year investment on time and in full based upon historical default rates published by each agency, as at 2008 (source: Reserve Bank of New Zealand publication ‘Explaining Credit Ratings’, dated November 2008).

Credit ratings by Standard & Poor’s and Fitch Ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories. Moody’s Investors Service apply numeric modifiers 1, 2 and 3 to show relative standing within the rating categories with 1 being the highest and 3 the lowest.

A credit rating is an independent opinion of the capability and willingness of an entity to meet its financial obligations (in other words, its creditworthiness). It is not a guarantee that the issuer will be able to meet its obligations under derivatives.

### 3.3 Risks when entering or settling the derivatives

The terms of an FX Contract are usually agreed verbally over the telephone, by email or (in the case of FECs) through FX Dealing as described in section 2.5 (*Entering into an FX Contract*) of this PDS. You and BNZ are bound by the terms as soon as they are agreed.

Where the terms of an FX Contract are agreed by email, the exchange rate(s) quoted in our emails to you will be indicative only. This is because there may be delays in sending and/or receiving emails and inter-bank market exchange rates may change during that time. In these circumstances, an FX Contract will not be treated

as being agreed until we acknowledge your acceptance of our final quote, typically by return email. You and BNZ are legally bound by an FEC from the time BNZ accepts your instruction placed through FX Dealing. BNZ will usually confirm its acceptance through FX Dealing. However, the FEC will be binding whether or not you receive any such confirmation.

From time to time disputes may arise about the terms of an FX Contract that has been agreed verbally, by email or using FX Dealing. We record conversations with our dealing room and retain emails and records of transactions entered into through FX Dealing. If there is a dispute between you and BNZ regarding the terms of a particular FX Contract that has been agreed verbally, by email or using FX Dealing we can review the recorded conversations, retained emails or online transaction records to confirm the details of the transaction.

## 4. Fees

The payments due under an FX Contract are as described in section 2.3 (*How payments under an FX Contract are calculated*) of this PDS.

You are not required to pay BNZ any fees on the trade date in order to enter into an FX Contract. BNZ covers its costs and derives its profit on FX Contracts by adjusting the exchange rate (or, in the case of an FX Swap, exchange rates) specified in an FX Contract by a margin. The margin is incorporated in the spot rate and/or the forward points. The margin is determined when BNZ agrees the exchange rate (or rates) with you when entering into the FX Contract. You effectively pay the margin when you make the required payments under the FX Contract.

The margin covers BNZ's internal transaction costs, compensation for market, credit and operational risk, regulatory capital costs and profit margin. The calculation of the margin varies from customer to customer and, in some cases, from transaction to transaction and is influenced by a number of factors, comprising:

- (a) the terms of the FX Contract, including the size, duration and complexity of the transaction;
- (b) market volatility and liquidity in the relevant currencies; and
- (c) the creditworthiness of the customer.

For example, an FX Contract with a duration of 2 years entered into at a time of high market volatility will likely have a higher margin than an FX Contract of 6 months entered into at the same time. Similarly, an FX Contract for the exchange of an illiquid or very small amount of currency or which has complex or unusual terms (as agreed by you and BNZ), is likely to have a higher margin than an FX Contract for a different amount of currency and/or less complex or unusual terms. Also, the adjustment to the margin to take account of creditworthiness for a very creditworthy customer will likely be less than the margin adjustment applicable to a customer who is less creditworthy.

As part of its business, BNZ regularly trades for its own account and the accounts of other wholesale and retail customers in the financial markets, including the management of its own exchange rate and interest rate risks. These activities may affect the inter-bank market exchange rates to which the margin is applied.

### **Alteration of FX Contracts**

If you ask us to alter the terms of your FX Contract we are likely to recalculate the margin incorporated in the exchange rate (or rates) applied to determine amounts you pay under the FX Contract. The recalculated margin may increase the cost of the FX Contract to you. The same factors will impact the recalculation of the margin that influence our calculation of the original margin when we agree to enter into an FX Contract. We will not agree to alter the FX Contract unless you have accepted the applicable exchange rate (or rates) (including the recalculated margin). If you accept the new terms we will send you a revised Confirmation.

### Early termination of FX Contracts

If an FX Contract is terminated early, voluntarily or not, you may be required to pay BNZ a break cost, as described in sections 2.8 (*Amounts payable on termination*) and 3.1 (*Product risks*) of this PDS. This amount can be significant.

## 5. How BNZ treats funds and property received from you

Typically no payments are made upfront (that is, on the trade date) in relation to an FX Contract. Payments are made on settlement dates as described in sections 2.1 (*What are FECs and FX Swaps?*) and 2.3 (*How payments under an FX Contract are calculated*) of this PDS. Payments you are required to make must be made directly to BNZ, to the account specified in your Confirmation. All payments are treated as being received by us when cleared funds are received in our account and become our property on payment.

BNZ does not currently require margin or collateral in relation to an FX Contract offered under this PDS, but reserves the right to request security for your obligations as part of our assessment of your creditworthiness.

## 6. About BNZ

BNZ is a registered bank under the Reserve Bank of New Zealand Act 1989. Since its establishment in 1861, BNZ has been carrying on the business of providing banking and financial services in New Zealand. BNZ provides a comprehensive range of banking and financial services, including deposit taking, credit and debit cards, corporate, domestic and multi-currency lending, dealing in interest rate and foreign exchange products and other derivatives, trade finance, the distribution of life and general insurance, managed funds, KiwiSaver and superannuation products and the provision of investment advice. The ultimate parent bank of BNZ is National Australia Bank Limited. National Australia Bank Limited does not guarantee the obligations of BNZ in relation to derivatives, including the FX Contracts.

How to contact BNZ:

#### Registered office & business address

Level 4  
80 Queen Street  
Auckland 1010

#### Postal address

Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045

**Phone:** BNZ Markets 0800 658 882

**Website:** [bnz.co.nz/institutional-banking/financial-markets](https://bnz.co.nz/institutional-banking/financial-markets)

# 7. How to complain

If you have a complaint about an FX Contract offered under this PDS, the first step is to raise your concern with the person you dealt with initially. This will likely be your Markets Specialist or BNZ Partner. They should be able to resolve the majority of problems and will listen to and investigate your concern.

If that person is unable to resolve your problem, they will follow it up and keep you informed about action being taken on your behalf. If the issue remains unresolved, contact the Head of BNZ Markets by email to [Head\\_of\\_BNZ\\_Markets@bnz.co.nz](mailto:Head_of_BNZ_Markets@bnz.co.nz).

In the event the problem is still not resolved to your satisfaction, you should refer your complaint to:

## **BNZ Resolve**

Attention: Manager, Complaint Resolution  
Bank of New Zealand  
PO Box 995, Shortland Street  
Auckland 1140

**Phone:** 0800 788 999

Any complaint which reaches this level will receive the personal attention of a member of BNZ's Complaint Resolution team.

BNZ follows the Code of Banking Practice (**Code**) which sets out standards for dealing with customer concerns and complaints. The Code provides that if you're not happy with anything we've done, we'll try to put it right, quickly and fairly.

If, after raising the matter with BNZ, you are still not satisfied, you may contact the Banking Ombudsman. The Banking Ombudsman has been appointed by all the banks subscribing to the Code and is an approved dispute resolution scheme under the Financial Service Providers (Registration and Dispute Resolution) Act 2008. The Banking Ombudsman may be able to help reach resolution if this cannot be achieved through BNZ's own complaints procedures. The Banking Ombudsman will not charge you a fee to investigate or resolve your complaint.

The telephone number of the Banking Ombudsman is 0800 805 950. Any correspondence should be addressed to:

## **The Office of the Banking Ombudsman**

Freepost 218002  
PO Box 25327  
Featherston St  
Wellington 6146

[help@bankomb.org.nz](mailto:help@bankomb.org.nz)

Complaints may also be made to the Financial Markets Authority through its website [fma.govt.nz](http://fma.govt.nz), or at:

## **Financial Markets Authority**

DX Box CX10033  
PO Box 106 672  
Auckland 1143

**Phone:** +64 9 300 0400

## 8. Where you can find more information

Further information relating to BNZ and the FX Contracts offered under this PDS is available from the offer register at [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz). A copy of the information on the offer register is available on request from the Registrar of Financial Service Providers.

For example, on the offer register, there is a link to BNZ's disclosure statements published under section 81 of the Reserve Bank of New Zealand Act 1989, including the financial statements contained in those disclosure statements.

A copy of BNZ's most recent disclosure statement can also be obtained free of charge from BNZ's website [bnz.co.nz/about-us/governance/financials](https://bnz.co.nz/about-us/governance/financials), any BNZ store or agency of BNZ. BNZ's annual disclosure statements and other documents relating to BNZ are filed on a public register at the Companies Office of the Ministry of Business, Innovation and Employment and are available for public inspection (free of charge) through the Companies Office or on the Companies Office website [companiesoffice.govt.nz/companies](https://companiesoffice.govt.nz/companies).

Additional information about BNZ and FX Contracts is also available free of charge at [bnz.co.nz/about-us/governance/terms-and-conditions](https://bnz.co.nz/about-us/governance/terms-and-conditions) and [bnz.co.nz/fxonline](https://bnz.co.nz/fxonline).

Further information about BNZ will also be available on the website of any licensed market, or other securities exchange, on which BNZ's financial products may be quoted from time to time.

You may also request information about FX Contracts, as well as the most recent copy of this PDS, free of charge, by contacting your Markets Specialist or BNZ Partner or by contacting BNZ using the details set out in section 6 (*About BNZ*) of this PDS.

## 9. How to enter into client agreement

Before entering into a client agreement with you, BNZ will consider your financial position and understanding of FECs or FX Swaps as described in section 2.5 (*Entering into an FX Contract*) of this PDS. If your application is successful, BNZ will advise you which of the standard documents described in section 2.5 (*Entering into an FX Contract*) of this PDS you will be required to enter into. This will be your client agreement. You should ensure you understand all of your client agreement before entering into it. You can start this process by contacting your Markets Specialist or BNZ Partner.

In addition, you will only be able to enter into an FX Contract with BNZ if you have been given a copy of this PDS.

# **10.No offer or distribution outside New Zealand**

This PDS (and the offer of FX Contracts set out in this PDS) is intended for distribution in New Zealand only. Receipt of the PDS in jurisdictions outside New Zealand may be restricted by local law. It must not be distributed in any jurisdiction in which its distribution, or the offer of derivatives described in this PDS, is restricted.

# 11. Glossary

The meanings of these expressions are provided to assist you when reading this PDS - however if any expression has a specific definition in any contract or Confirmation between you and BNZ in relation to an FX Contract, then the definition in that contract or Confirmation will apply to the legal rights and obligations between you and us.

**BNZ, we, us** and **our** means (unless the context requires otherwise) Bank of New Zealand.

**Break cost** is the amount you may have to pay BNZ if any derivative you enter into with us is terminated early.

**Business days** for spot transactions, means business days in the country of each currency (or a group of countries, depending on market convention for a particular currency) within the currency pair and in the United States, if USD is a reference currency for that foreign exchange transaction. This means the settlement date for a spot transaction may be more than two New Zealand business days after the trade date.

**Confirmation** means a document that sets out the terms of any FX Contract that you enter into with us, as agreed between you and us, over the phone, by email or using FX Dealing (for FECs).

**Currency pair** means the two currencies that are exchanged on the settlement date(s) under an FX Contract.

**Derivatives Master Agreement** means the BNZ Master Agreement for Foreign Exchange and Derivative Transactions.

**FECs** means the forward exchange contracts offered under this PDS.

**FX Contracts** means FECs and FX Swaps.

**FX Dealing** means the BNZ service that allows you to enter into FECs with us online, as described in the FX Dealing terms and conditions, including any amendments to, or replacements of, this service that may occur from time to time.

**FX Swaps** means the foreign exchange swaps offered under this PDS.

**Inter-bank market exchange rate** means the wholesale exchange rates at which banks are able to buy and sell currencies with each other.

**ISDA Master Agreement** means the International Swaps and Derivatives Association Master Agreement.

**Master Agreement** means the Derivatives Master Agreement or the ISDA Master Agreement.

**NZD** or **NZ\$** means New Zealand dollars.

**PDS** means this product disclosure statement.

**Settlement date** means the date (or, in the case of an FX Swap, dates) that you and BNZ will exchange an agreed amount of one currency for an amount of another currency at an agreed exchange rate under an FX Contract.

**Spot transaction** is an agreement to exchange two currencies at the spot rate for those currencies, with a settlement date that is two business days or less after the trade date.

**Trade date** means the date you agree the terms of an FX Contract you enter into with us.

**USD** or **US\$** means United States dollars.