Supplementary Document for Currency Options: Vanilla Options and Structured Products

Product Disclosure Statement

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

This document supplements the BNZ Product Disclosure Statement for Currency Options: Vanilla Options and Structured Products 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 Currency Options: Vanilla Options and Structured Products, 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 19 and 20 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 Currency Options (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 Currency Options 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 Negative
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.

Long-term senior unsecured NZD obligations: BNZ's credit ratings* (Outlook "Negative" from Fitch and S&P and "Stable" from Moody's). **Moody's counterparty risk rating**: BNZ's credit rating (no Outlook)**

	Standard & Poor's	Moody's Investors Service	Fitch Ratings	Description of Grade	Default Probability ****
Investment grade	AAA	Aaa	AAA	Ability to repay principal and interest is extremely strong. This is the highest investment category.	1 in 600
Investment grade	**AA**	**Aa**	**AA**	Very strong ability to repay principal and interest.	1 in 300
Investment grade	A	**A**	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in financial conditions	1 in 150
Investment grade	BBB	Baa	BBB	Adequate ability to repay principal and interest. More vulnerable to adverse changes.	1 in 30
Speculative grade	BB	Ba	BB	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	1 in 10
Speculative grade	B	B	B	Greater vulnerability and therefore greater likelihood of default.	1 in 5
Speculative grade	CCC	Caa	CCC	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	1 in 2
Speculative grade	CC to C	Ca to C***	CC to C	Highest risk of default.	
Speculative grade	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.

Currency Options:

Vanilla Options and Structured Products

Product Disclosure Statement

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

This document replaces the BNZ Product Disclosure Statement for Currency Options dated 26 October 2017.

This document provides important information about vanilla options and structured products 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.

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 vanilla options (**Vanilla Options**) and structured products (**Structured Products**), together referred to as Currency Options, provided by Bank of New Zealand (**BNZ**). Vanilla Options and Structured Products 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 sections 2.5 *(Vanilla Options - how do they work and why enter into one?)* and 2.6 *(Structured Products - how do they work and why enter into one?)* 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 Vanilla Options and Structured Products (together, **Currency Options**).

A **Vanilla Option** is an agreement between you and BNZ that gives you the right, but not the obligation, to exchange an agreed amount (the **notional amount**) of one currency for an amount of another currency at an agreed exchange rate on a date in the future (the **settlement date**). You must pay BNZ a non-refundable premium to enter into a Vanilla Option, whether or not you exercise that Vanilla Option.

A **Structured Product** is created by BNZ combining two or more vanilla options and is the product of that combination. By combining the vanilla options, additional features are created, which reduce the premium payable by you (in some cases to nil). However, these additional features also limit the protection or other benefits that the Structured Product can provide when compared to a Vanilla Option.

A Currency Option is designed to allow you to manage a currency risk you are exposed to. Currency Options can provide you with exchange rate protection if you expect to be making or receiving payments in different currencies. In addition, a Currency Option can give you the flexibility to participate in certain favourable exchange rate movements.

Contents

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 Currency Options?

Vanilla Options

A Vanilla Option is an agreement that gives you the right, but not the obligation, to exchange a notional amount of one currency for another currency at an agreed exchange rate (**Strike Price**) on the settlement date.

This right can only be exercised at the **Expiration Time** on the **Expiry Date** for the Vanilla Option (the **Expiry**) or the Vanilla Option will lapse and you will no longer be able to exercise this right. If you choose to exercise your right to exchange currencies with BNZ under a Vanilla Option, the payments that are required to be made by you and BNZ will occur on the settlement date.

You will be required to pay a premium to BNZ for agreeing to enter into a Vanilla Option, whether or not you exercise the Vanilla Option.

Structured Products

BNZ also offers a range of Currency Options known as Structured Products. A Structured Product is created by BNZ combining two or more vanilla options and is the product of that combination. By combining the vanilla options, additional features are created, which can reduce or eliminate the upfront premium payable by you.

However, these additional features also limit the currency protection or other benefits that the Structured Product can provide when compared to a Vanilla Option.

That is, the 'worst case' rate that we offer you under a Structured Product may not be as favourable to you as the 'worst case' rate we would offer you for a Vanilla Option.

In addition, the effect of combining the vanilla options to create a Structured Product means that, under a Structured Product, you may not always have the option to decide whether or not to exchange currencies. Depending on which Structured Product you enter into you ***will*** or ***may*** be required to exchange currencies at an exchange rate specified in your Structured Product. The circumstances in which you must exchange currencies are described in relation to each Structured Product in section 2.6 (*Structured Products - how do they work and why enter into one?*) of this PDS.

BNZ covers its costs and derives its profit on a Structured Product through the net premium calculated on the vanilla options that make up a Structured Product.

Currency Options offered by BNZ

The Currency Options that BNZ is offering in this PDS are:

Vanilla Options

(a) Vanilla Call Options;

(b) Vanilla Put Options;

Structured Products

(c) Currency Protection Transactions or CPTs;

(d) Variable Forward Participator Contracts; and

(e) Variable Forward Range Contracts.

Each of these Currency Options is described further in section 2.5 (*Vanilla Options - how do they work and why enter into one?*) or 2.6 (*Structured Products – how do they work and why enter into one?*) of this PDS.

Option Variables

Before you enter into a Vanilla Option, you and BNZ will agree the **currency pair**, the notional amount of one of those currencies to be exchanged if you exercise the Vanilla Option, the Strike Price, the Expiry Date, the Expiration Time, the premium you must pay to us and the settlement date (together the **Option Variables**). The Expiration Times you can choose are restricted and your BNZ representative will advise you of your choices. The Expiry Date is usually either the settlement date, or two business days before the settlement date.

Before you enter into a Structured Product, you and BNZ will also agree the applicable Option Variables (although there will be no premium payable by you for some Structured Products) as well as certain additional variables that will be relevant for determining the parties' obligations under the Structured Product. The additional variables and their relevance are described in relation to each Structured Product in section 2.6 (*Structured Products - how do they work and why enter into one?*) of this PDS.

The date on which you and BNZ agree to enter into a Currency Option is referred to as the **trade date**.

Premium

A premium will be payable by you on all Vanilla Options and some Structured Products. In the case of a Structured Product where no premium is payable by you, BNZ will derive its profit from either:
(a) the net premium that results from the combination of the relevant vanilla options that create the Structured Product; or
(b) in the case of a CPT, by applying a 'Protection Margin' to the exchange rate at which you exchange currencies.
See section 4 (*Fees*) of this PDS for more information.

Tax and accounting implications

Currency Options may have tax and accounting implications. You should get independent expert advice before making a decision about whether or not a Currency Option is suitable for you.

2.2 How to exercise a Currency Option

Your Currency Option may only be exercised at Expiry. For example, for a Vanilla Option, at Expiry you would compare the current spot rate to the Strike Price under the Vanilla Option and exercise if the Strike Price is more favourable to you than the current spot rate. If you want to exercise your Currency Option, you must contact us at Expiry. You can also contact us prior to Expiry and instruct us to exercise a Currency Option for you at Expiry in certain circumstances.

Under some Structured Products, you may be obliged to exchange currencies on the settlement date even if you have not contacted BNZ about exercising the Option. If you are unsure what your obligations are, please contact your Markets Specialist.

Although we have no obligation to do so, if a Currency Option is 'in the money' for you (meaning it would be beneficial to you to exercise the Currency Option), we will attempt to contact you. However, if we do not (or cannot) contact you, we are entitled to allow the Currency Option to lapse.

2.3 Calculation of payments and exchange rates

In this PDS, we refer to exchanging the notional amount of one currency for another currency at an exchange rate. When we exchange currencies, the amount of the other currency to be exchanged on the settlement date is calculated by multiplying or dividing (depending on the market convention for the relevant currency pair) the notional amount by the relevant exchange rate.

Calculation of exchange rates

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

All exchange rates which apply to Currency Options are determined by BNZ. For some Currency Options the possible outcome will depend on whether the spot rate trades at, above or below an exchange rate specified in the Currency Option, at a specified time on a specified day. In each case, BNZ will determine whether the spot rate has traded at the applicable level. For more information on current spot rates please contact your Markets Specialist or BNZ Partner.

Exchange rate

An exchange rate is the value of one currency expressed in terms of another currency. For example, if the exchange rate of the NZD and United States dollar (**USD** or **US$**) 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.

Exchange rates that are commonly referred to are spot rates and forward rates, each of which is described further below.

BNZ will provide information on exchange rates to you on request and by various other means (including by email or text message). Exchange rates quoted by BNZ will differ from any published spot or forward rates.

The exchange rates determined by BNZ and quoted to you when agreeing the terms of a Currency Option will vary depending on those terms and whether BNZ is buying or selling the relevant currency. An exchange rate that BNZ quotes to you may also incorporate a profit margin for BNZ.

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 one of a number of factors used by BNZ to determine pricing for Currency Options. 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 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 first currency in the currency pair is higher or lower than the interest rate for the other currency being exchanged with BNZ.

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 Use of examples

Sections 2.5 (*Vanilla Options – how do they work and why enter into one?)* and 2.6 (*Structured Products - how do they work and why enter into one?*) of this PDS set out descriptions of each Currency Option and include examples of how each Currency Option may operate. There is some information that applies to the examples for all of the products. That information is set out in this section.

The examples set out in sections 2.5 (*Vanilla Options - how do they work and why enter into one?*) and 2.6 (*Structured Products - how do they work and why enter into one?*) of this PDS are included for illustrative purposes only and only reflect the circumstances described. The examples do not reflect current exchange rates or the specific circumstances or obligations that may arise under a Currency Option you enter into. The actual outcome and overall effect of a Currency Option that you enter into with BNZ will depend on (among other things) the terms of that Currency Option and your financial arrangements.

Option Variables and other information that relates to each example

For each example we have assumed that the Option Variables are:

(a) the currency pair is NZD/USD;

(b) the notional amount is US$100,000;

(c) expiry is at 3 pm 2 business days before the settlement date;

(d) the settlement date is 6 months after the trade date,

and that:

(e) at the trade date:

  (i) the spot rate is 0.6600;

  (ii) the forward rate that would be applicable to a comparable forward exchange contract, which is another type of derivative, is 0.6515; and

(f) references to a 'worst case' exchange rate exclude any premium that may be payable by you to enter into the Currency Option.

By assuming the market conditions are the same (that is, assuming the same spot and forward rates are available at the time each Currency Option is entered into), the examples show how the pricing of a Currency Option may compare to the pricing that could be available for a comparable forward exchange contract and for the other Currency Options.

2.5 Vanilla Options - how do they work and why enter into one?

Vanilla Call Options

How does a Vanilla Call Option work?

A Vanilla Call Option is an agreement that gives you the right, but not the obligation, to ***buy*** an amount of one currency for an amount of another currency at the **Strike Price** on the settlement date. You pay a premium to BNZ for agreeing to enter into the Vanilla Call Option.

If, at Expiry:

(a) the current spot rate is ***more*** favourable to you than the Strike Price, you may let the Vanilla Call Option lapse. You may then enter the market and exchange currencies at the current spot rate; or

(b) the current spot rate is ***less*** favourable to you than the Strike Price, you may exercise the Vanilla Call Option and, on the settlement date:

  (i) either you or BNZ pays the notional amount of one currency; and

  (ii) the other pays an amount of the other currency (calculated by applying the Strike Price to the notional amount).

This means, the Strike Price is the 'worst case' exchange rate (excluding the premium) that will apply to you on the settlement date.

Vanilla Call Option: Example

Please refer to the Option Variables and other information in section 2.4 (*Use of examples*) of this PDS. You will be receiving a payment of US$100,000 in 6 months' time which you want to convert into NZD.

You decide to buy a NZD Vanilla Call Option to have certainty as to the worst NZD/USD exchange rate that will apply to the payment of US$100,000 and, therefore, the minimum amount of NZD you will receive when you convert USD into NZD.

You accept the following pricing that BNZ offers you for the NZD Vanilla Call Option:

Type:	You sell USD and buy NZD
Strike Price:	0.6700
Premium:	NZ$5,000
Premium payment date:	2 business days after the trade date

If, at Expiry, the NZD/USD spot rate is:

(a) at or below 0.6700 (***more*** favourable to you than the Strike Price), you may allow the NZD Vanilla Call Option to lapse. You may then enter the market and exchange the US$100,000 for NZD at the current spot rate; or

(b) above 0.6700 (***less*** favourable to you than the Strike Price), you may exercise the NZD Vanilla Call Option and, on the settlement date:

(i) you pay BNZ US$100,000; and

(ii) BNZ pays you an amount of NZD calculated by applying the Strike Price to the USD amount (US$100,000 ÷ 0.6700 = NZ$149,253.73)

You can calculate the total cost of entering into the NZD Vanilla Call Option by adjusting the amount that BNZ pays you on the settlement date by the premium, as follows:

NZ$149,253.73 - NZ$5,000 = NZ$144,253.73

This amount can then be used to calculate the effective exchange rate that applies to your NZD Vanilla Call Option:
US$100,000 ÷ NZ$144,253.73 = 0.6932.

Vanilla Put Options

How does a Vanilla Put Option work?

A Vanilla Put Option is an agreement that gives you the right, but not the obligation, to ***sell*** an amount of one currency for an amount of another currency at the Strike Price on the settlement date. You pay a premium to BNZ for agreeing to enter into the Vanilla Put Option.

If, at Expiry:

(a) the current spot rate is ***more*** favourable to you than the Strike Price, you may let the Vanilla Put Option lapse. You may then enter the market and exchange currencies at the current spot rate; or

(b) the current spot rate is ***less*** favourable to you than the Strike Price, you may exercise the Vanilla Put Option and, on the settlement date:

(i) either you or BNZ pays the notional amount of one currency; and

(ii) the other pays an amount of the other currency (calculated by applying the Strike Price to the notional amount).

This means, the Strike Price is the 'worst case' exchange rate (excluding the premium) that will apply to you on the settlement date.

Vanilla Put Option: Example

Please refer to the Option Variables and other information in section 2.4 (*Use of examples*) of this PDS.

You will be making a payment of US$100,000 in 6 months' time and need to convert NZD in order to make the payment.

You decide to buy a NZD Vanilla Put Option to have certainty as to the worst NZD/USD exchange rate that will apply to your payment of US$100,000 and, therefore, the maximum amount of NZD you will pay when you convert your NZD into USD.

You accept the following pricing that BNZ offers you for the NZD Vanilla Put Option:

Type:	You sell NZD and buy USD
Strike Price:	0.6400
Premium:	NZ$6,000
Premium payment date:	2 business days after the trade date

If, at Expiry, the NZD/USD spot rate is:

(a) at or above 0.6400 (***more*** favourable to you than the Strike Price), you may let the NZD Vanilla Put Option lapse. You may then enter the market and exchange NZD for the US$100,000 at the current spot rate; or

(b) below 0.6400 (***less*** favourable to you than the Strike Price), you may exercise the NZD Vanilla Put Option and, on the settlement date:

(i) BNZ pays you US$100,000; and

(ii) you pay BNZ an amount of NZD calculated by applying the Strike Price to the USD amount (US$100,000 ÷ 0.6400 = NZ$156,250.00).

You can calculate the total cost of entering into the NZD Vanilla Put Option by adjusting the amount that you pay BNZ on the settlement date by the premium, as follows:

NZ$156,250 + NZ$6,000 = NZ$162,250

This amount can then be used to calculate the effective exchange rate that applies to your NZD Vanilla Put Option: US$100,000 ÷ NZ$162,250 = 0.6163.

Why enter into a Vanilla Option?

A Vanilla Option provides you with:

(a) a 'worst case' exchange rate (excluding premium), being the Strike Price, for the exchange of a notional amount of a currency at the settlement date;

(b) the flexibility to participate in favourable exchange rate movements for the relevant currency pair; and

(c) the ability to agree the premium at an amount suitable to you, noting that in general the higher the premium the greater the level of currency protection offered by a Vanilla Option. See section 4 (*Fees*) for more information about premiums.

2.6 Structured Products - how do they work and why enter into one?

Premium for Structured Products

Each of the Structured Products will or may have a reduced or nil upfront premium payable by you when compared to a Vanilla Option. However, the trade-off for you paying a lower premium is that you will generally be less able to benefit from favourable exchange rate movements.

In addition, you may not always have the option to decide whether or not to exchange currencies. Depending on which Structured Product you enter into you ***will or may*** be required to exchange currencies at an exchange rate specified in your Structured Product.

The circumstances in which you must exchange currencies are described in relation to each Structured Product in this section. In the case of a Structured Product where no premium is payable by you, BNZ will derive its profit from the net premium that results from the combination of the relevant vanilla options that create the Structured Product.

2.6.1 Currency Protection Transactions (CPTs)

How does a CPT work?

A CPT is an agreement to exchange a notional amount of one currency for another currency on the settlement date. The exchange rate for a CPT will be either an agreed Strike Price adjusted by an agreed margin (the **Protection Margin**) or (if the spot rate is more favourable to you than the Strike Price at Expiry) the then current spot rate adjusted by the Protection Margin.

The Protection Margin will make each exchange rate less favourable to you.

Before you enter into a CPT, in addition to the Option Variables, you and BNZ will agree the Protection Margin. You are not required to pay an upfront premium to BNZ for agreeing to enter into a CPT.

If, at Expiry:

(a) the current spot rate is ***more*** favourable to you than the Strike Price, then on the settlement date you must exchange at the current spot rate (adjusted by the Protection Margin); or

(b) the current spot rate is ***at or less*** favourable to you than the Strike Price, then on the settlement date you must exchange at the Strike Price (adjusted by the Protection Margin).

This means the Strike Price (adjusted by the Protection Margin) is the 'worst case' exchange rate that will apply on the settlement date.

CPT: Example 1

Please refer to the Option Variables and other information in section 2.4 (*Use of examples*) of this PDS.

You will be receiving a payment of US$100,000 in 6 months' time which you want to convert into NZD.

You decide to buy a CPT to have certainty as to the worst NZD/USD exchange rate that will apply to the payment of US$100,000 and, therefore, the minimum amount of NZD you will receive when you convert the USD into NZD. You do not want to pay an upfront premium, but you want to benefit from favourable exchange rate movements.

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

Type:	You sell USD and buy NZD
Strike Price:	0.6700
Protection Margin:	0.0150

If, at Expiry, the NZD/USD spot rate is:

(a) 0.6200 (***more*** favourable to you than the Strike Price) you must exchange your USD for NZD at the spot rate (0.6200) plus the Protection Margin (0.0150) (an exchange rate of 0.6200 + 0.0150 = 0.6350). On the settlement date:

(i) you pay BNZ US$100,000; and

(ii) BNZ pays you an amount of NZD calculated by applying that rate to the USD amount (US$100,000 ÷ 0.6350 = NZ$157,480.31); or

(b) 0.7000 (***less*** favourable to you than the Strike Price) you must exchange your USD for NZD at the Strike Price (0.6700) plus the Protection Margin (0.0150) (an exchange rate of 0.6700 + 0.0150 = 0.6850). On the settlement date:

(i) you pay BNZ US$100,000; and

(ii) BNZ pays you an amount of NZD calculated by applying that rate to the USD amount (US$100,000 ÷ 0.6850 = NZ$145,985.40).

CPT: Example 2

Please refer to the Option Variables and other information in section 2.4 (*Use of examples*) of this PDS.

You will be making a payment of US$100,000 in 6 months' time and need to convert NZD in order to make the payment.

You decide to buy a CPT to have certainty as to the worst NZD/USD exchange rate that will apply to the payment of US$100,000 and, therefore, the maximum amount of NZD you will require when you purchase the USD. You do not want to pay an upfront premium, but you want to benefit from favourable exchange rate movements.

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

Type:	You buy USD and sell NZD
Strike Price:	0.6400
Protection Margin:	0.0320

If, at Expiry, the NZD/USD spot rate is:

(a) 0.6500 (***more*** favourable to you than the Strike Price) you must exchange your NZD for USD at the spot rate (0.6500) less the Protection Margin (0.0320) (an exchange rate of 0.6500 - 0.0320 = 0.6180). On the settlement date:
  (i) BNZ pays you US$100,000; and
  (ii) you pay BNZ an amount of NZD calculated by applying that rate to the USD amount (US$100,000 ÷ 0.6180 = NZ$161,812.30); or

(b) 0.6200 (***less*** favourable to you than the Strike Price) you must exchange your NZD for USD at the Strike Price (0.6400) less the Protection Margin (0.0320) (an exchange rate of 0.6400 - 0.0320 = 0.6080). On the settlement date:
  (i) BNZ pays you US$100,000; and
  (ii) you pay BNZ an amount of NZD calculated by applying that rate to the USD amount (US$100,000 ÷ 0.6080 = NZ$164,473.68).

Why enter into a CPT?

A CPT provides you with:
(a) a 'worst case' exchange rate (the Strike Price adjusted by the Protection Margin), which can reduce the uncertainty created by movements of the exchange rate for the relevant currency pair;
(b) the flexibility to participate in limited favourable exchange rate movements; and
(c) no upfront premium payment obligation.

2.6.2 Variable Forward Participator Contracts

How does a Variable Forward Participator Contract work?

A Variable Forward Participator Contract is an agreement that gives you the right to exchange a notional amount of one currency for another currency on the settlement date at a 'worst case' exchange rate (the **Transaction Rate**). It also allows you to benefit from favourable exchange rate movements on an agreed portion of the notional amount (the **Floating Amount**). However, the remaining portion of the notional amount (the **Fixed Amount**) must be exchanged at the Transaction Rate.

Before you enter into a Variable Forward Participator Contract, in addition to the Option Variables, you and BNZ will agree the Transaction Rate, Floating Amount and Fixed Amount. No cash premium is payable to BNZ for a Variable Forward Participator Contract.
If, at Expiry:

(a) the current spot rate is ***more*** favourable to you than the Transaction Rate, you must exchange the Fixed Amount at the Transaction Rate on the settlement date, but you may enter the market to exchange the Floating Amount at the current spot rate; or
(b) the current spot rate is ***at or less*** favourable to you than the Transaction Rate, you must exchange both the Floating Amount and the Fixed Amount at the Transaction Rate on the settlement date.

This means, the Transaction Rate is the 'worst case' exchange rate that will apply on the settlement date.

Variable Forward Participator Contract: Example 1

Please refer to the Option Variables in section 2.4 (*Use of examples*) of this PDS.

You will be receiving a payment of US$100,000 in 6 months' time which you want to convert into NZD.

You decide to buy a Variable Forward Participator Contract to have certainty as to the worst NZD/USD exchange rate that will apply to the payment of US$100,000 and, therefore, the minimum amount of NZD you will receive when you convert the USD into NZD. You do not want to pay a cash premium, but you want to benefit from favourable exchange rate movements in relation to the exchange of part of the US$100,000 you are due to receive.

You accept the following pricing that BNZ offers you for the Variable Forward Participator Contract:

Type:	You sell USD and buy NZD
Transaction Rate:	0.6800
Floating Amount:	50%
Fixed Amount:	50%

If, at Expiry, the NZD/USD spot rate is:

(a) below 0.6800 (***more*** favourable to you than the Transaction Rate), you must exchange the Fixed Amount at the Transaction Rate. You may allow the Variable Forward Participator Contract to lapse in relation to the Floating Amount. You may then enter the market and exchange the Floating Amount at the current spot rate. On the settlement date:

  (i) you pay BNZ US$50,000; and

  (ii) BNZ pays you an amount of NZD calculated by applying the Transaction Rate to the Fixed Amount (US$50,000 ÷ 0.6800 = NZ$73,529.41). The spot transaction for the Floating Amount would be entered into separately; or

(b) at or above 0.6800 (***less*** favourable to you than the Transaction Rate), you must exchange both the Fixed Amount and the Floating Amount (that is, US$100,000) at the Transaction Rate. On the settlement date:

  (i) you pay BNZ US$100,000; and

  (ii) BNZ pays you an amount of NZD calculated by applying the Transaction Rate to the USD amount (US$100,000 ÷ 0.6800 = NZ$147,058.82)

Variable Forward Participator Contract: Example 2

Please refer to the Option Variables and other information in section 2.4 (*Use of examples*) of this PDS.

You will be making a payment of US$100,000 in 6 months' time and need to convert NZD in order to make the payment.

You decide to buy a Variable Forward Participator Contract to have certainty as to the worst NZD/USD exchange rate that will apply to the payment of US$100,000 and, therefore, the maximum amount of NZD you will require when you purchase the USD. You do not want to pay a cash premium, but you want to benefit from favourable exchange rate movements in relation to the exchange of part of the US$100,000 you need to purchase.

You accept the following pricing that BNZ offers you for the Variable Forward Participator Contract:

Type:	You buy USD and sell NZD
Transaction Rate:	0.6300
Floating Amount:	50%
Fixed Amount:	50%

If, at Expiry, the NZD/USD spot rate is:

(a) above 0.6300 (***more*** favourable to you than the Transaction Rate), you must exchange the Fixed Amount at the Transaction Rate. You may allow the Variable Forward Participator Contract to lapse in relation to the Floating Amount. You may then enter the market and exchange the Floating Amount at the current spot rate. On the settlement date:

(i) BNZ pays you US$50,000; and

(ii) you pay BNZ an amount of NZD calculated by applying the Transaction Rate to the Fixed Amount (US$50,000 ÷ 0.6300 = NZ$79,365.08). The spot transaction for the Floating Amount would be entered into separately; or

(b) at or below 0.6300 (***less*** favourable to you than the Transaction Rate), you must exchange both the Fixed Amount and the Floating Amount (that is, US$100,000) at the Transaction Rate. On the settlement date:

(i) BNZ pays you US$100,000; and

(ii) you pay BNZ an amount of NZD calculated by applying the Transaction Rate to the USD amount (US$100,000 ÷ 0.6300 = NZ$158,730.16).

Why enter into a Variable Forward Participator Contract?

A Variable Forward Participator Contract provides you with:

(a) a 'worst case' exchange rate (the Transaction Rate), which can reduce the uncertainty created by movements of the exchange rate for the relevant currency pair;

(b) the flexibility to participate in favourable exchange rate movements in respect of the Floating Amount; and

(c) no upfront premium payment obligation.

2.6.3 Variable Forward Range Contracts

How does a Variable Forward Range Contract work?

A Variable Forward Range Contract is an agreement that gives you the right to exchange a notional amount of one currency for another currency on the settlement date at a 'worst case' exchange rate (the **Protection Rate**) if the spot rate at Expiry is less favourable to you than the Protection Rate. However, if the spot rate is more favourable to you than an agreed 'best case' exchange rate (the **Advantage Rate**) at Expiry, you must exchange the notional amount of one currency at the Advantage Rate on the settlement date.

Before you enter into a Variable Forward Range Contract, in addition to the Option Variables, you and BNZ will agree the Protection Rate and Advantage Rate. Depending on the Protection Rate and Advantage Rate you agree with us, an upfront premium may also be payable by you to BNZ for a Variable Forward Range Contract.

If, at Expiry:

(a) the current spot rate is ***between*** the Protection Rate and the Advantage Rate (meaning it is more favourable to you than the Protection Rate but less favourable to you than the Advantage Rate), you may let the Variable Forward Range Contract lapse. You may then enter the market and exchange currencies at the current spot rate; or

(b) the current spot rate is ***at or less*** favourable to you than the Protection Rate you must exchange at the Protection Rate on the settlement date; or

(c) the current spot rate is ***at or more*** favourable to you than the Advantage Rate you must exchange at the Advantage Rate on the settlement date.

This means, the Protection Rate is the 'worst case' exchange rate (excluding premium (if any)) that will apply on the settlement date and the Advantage Rate is the 'best case' exchange rate (excluding premium (if any)) that will apply on the settlement date.

Variable Forward Range Contract: Example 1

Please refer to the Option Variables and other information in section 2.4 (*Use of examples*) of this PDS.

You will be receiving a payment of US$100,000 in 6 months' time which you want to convert into NZD.

You decide to buy a Variable Forward Range Contract to have certainty as to the worst NZD/USD exchange rate that will apply to the payment of US$100,000 and, therefore, the minimum amount of NZD you will receive when you convert the USD into NZD. You want to pay less premium than you would for a Vanilla Call Option, but you want to benefit from favourable exchange rate movements down to a specified rate (the Advantage Rate).

You accept the following pricing that BNZ offers you for the Variable Forward Range Contract:

Type:	You sell USD and buy NZD
Protection Rate:	0.6900
Advantage Rate:	0.6000
Premium:	NZ$1,500
Premium payment date:	2 business days after the trade date

If, at Expiry, the NZD/USD spot rate is:

(a) between 0.6000 and 0.6900 (***more*** favourable to you than the Protection Rate, but ***less*** favourable to you than the Advantage Rate), you may allow the Variable Forward Range Contract to lapse. You may then enter the market and sell the US$100,000 in exchange for NZD at the current spot rate;

(b) 0.7000 (***less*** favourable to you than the Protection Rate), you must exchange currencies at the Protection Rate. On the settlement date:

(i) you pay BNZ US$100,000; and

(ii) BNZ pays you an amount of NZD calculated by applying the Protection Rate to the USD amount (US$100,000 ÷ 0.6900 = NZ$144,927.54).

You can calculate the total cost of entering into the Variable Forward Range Contract by adjusting the amount that BNZ pays you on the settlement date by the premium, as follows:

NZ$144,927.54 - NZ$1,500 = NZ$143,427.54

This amount can then be used to calculate the effective exchange rate that applies to your Variable Forward Range Contract:

US$100,000 ÷ NZ$143,427.54 = 0.6972; or

(c) 0.5900 (***more*** favourable to you than the Advantage Rate), you must exchange currencies at the Advantage Rate. On the settlement date:

(i) you pay BNZ US$100,000; and

(ii) BNZ pays you an amount of NZD calculated by applying the Advantage Rate to the US$100,000 (US$100,000 ÷ 0.6000 = NZ$166,666.67).

You can calculate the total cost of entering into the Variable Forward Range Contract by adjusting the amount that BNZ pays you on the settlement date by the premium, as follows:

NZ$166,666.67 - NZ$1,500 = NZ$165,166.67

This amount can then be used to calculate the effective exchange rate that applies to your Variable Forward Range Contract:

US$100,000 ÷ NZ$165,166.67 = 0.6054

Variable Forward Range Contract: Example 2

Please refer to the Option Variables and other information in section 2.4 (*Use of examples*) of this PDS.

You will be making a payment of US$100,000 in 6 months' time and need to convert NZD in order to make the payment.

You decide to buy a Variable Forward Range Contract to have certainty as to the worst NZD/USD exchange rate that will apply to the payment of US$100,000 and, therefore, the maximum amount of NZD you will require when you purchase the USD. You want to pay less premium than you would for a Vanilla Put Option, but you want to benefit from favourable exchange rate movements up to a specified rate (the Advantage Rate).

You accept the following pricing that BNZ offers you for the Variable Forward Range Contract:

Type:	You buy USD and sell NZD
Protection Rate:	0.6200
Advantage Rate:	0.6800
Premium:	NZ$2,000
Premium payment date:	2 business days after the trade date

If, at Expiry, the NZD/USD spot rate is:

(a) between 0.6200 and 0.6800 (***more*** favourable to you than the Protection Rate but ***less*** favourable to you than the Advantage Rate), you may allow the Variable Forward Range Contract to lapse. You may then enter the market and purchase the US$100,000 in exchange for NZD at the current spot rate;

(b) below 0.6200 (***less*** favourable to you than the Protection Rate) you must exchange currencies at the Protection Rate. On the settlement date:

(i) BNZ pays you US$100,000; and

(ii) you pay BNZ an amount of NZD calculated by applying the Protection Rate to the USD amount (US$100,000 ÷ 0.6200 = NZ$161,290.32).

You can calculate the total cost of entering into the Variable Forward Range Contract by adjusting the amount that you pay BNZ on the settlement date by the premium, as follows:

NZ$161,290.32 + NZ$2,000 = NZ$163,290.32

This amount can then be used to calculate the effective exchange rate that applies to your Variable Forward Range Contract:

US$100,000 ÷ NZ$163,290.32 = 0.6124; or

(c) above 0.6800 (***more*** favourable to you than the Advantage Rate) you must exchange currencies at the Advantage Rate. On the settlement date:

(i) BNZ pays you US$100,000; and

(ii) you pay BNZ an amount of NZD calculated by applying the Advantage Rate to the US$100,000 (US$100,000 ÷ 0.6800 = NZ$147,058.52).

You can calculate the total cost of entering into the Variable Forward Range Contract by adjusting the amount that you pay BNZ on the settlement date by the premium, as follows:

NZ$147,058.82 + NZ$2,000 = NZ$149,058.82

This amount can then be used to calculate the effective exchange rate that applies to your Variable Forward Range Contract:

US$100,000 ÷ NZ$149,058.82 = 0.6709

Why enter into a Variable Forward Range Contract?

A Variable Forward Range Contract provides you with:

(a) a 'worst case' exchange rate (excluding premium (if any)), being the Protection Rate, which can reduce the uncertainty created by movements of the exchange rate for the relevant currency pair; and

(b) the flexibility to participate in favourable exchange rate movements to the level of the Advantage Rate.

2.7 Entering into a Currency Option

Documentation

Before entering into a Currency Option with you, BNZ will:

(a) assess your financial position to determine if it satisfies BNZ's credit requirements; and

(b) assess your understanding of Currency Options 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 Currency Options 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.

The agreement 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 Currency Options you enter into.

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

Agreement of terms

The terms of a specific Currency Option are usually agreed verbally over the telephone or by email. We are not required to enter into a Currency Option with you.

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 are retained by BNZ for the same purpose.

Shortly after entering into a Currency Option, BNZ will send you a **Confirmation** outlining the commercial terms of the Currency Option. 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 Currency Options for you

Before entering into a Currency Option we will ask you to provide us with information about your knowledge, experience and level of understanding in relation to that Currency Option, 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 Currency Option and the risks involved in entering into the Currency Option. We need to make this assessment for each type of Currency Option. Accordingly, we may choose to enter into only some types of Currency Option(s) with you.

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 Currency Option with you. If you do provide the information we request and, based on that information, we have concerns about your understanding of the Currency Option, we will not enter into the Currency Option with you.

2.8 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 Currency Options

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 Currency Option.

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

(a) extending or cancelling a Currency Option in whole or in part;

(b) changing the amount of currencies to be exchanged; or

(c) changing the applicable exchange 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 Currency Option (which may include **break costs** (calculated as described in section 2.10 (*Amounts payable on termination*) of this PDS) and agree to the terms and conditions of any replacement or amended Currency Option. When revised terms have been agreed for your Currency Option, you will receive an additional Confirmation outlining the varied terms.

You are not entitled to sell or transfer a Currency Option 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 Currency Option on the same terms.

2.9 Terminating a Currency Option

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 a Currency Option 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 a Currency Option;

(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 a Currency Option; 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 a Currency Option. In that case, the relevant party has the right (but not the obligation) to terminate that Currency Option on the date or dates agreed. This is different from allowing a Currency Option to lapse.

2.10 Amounts payable on termination

If a derivative is terminated early, the value of the terminated derivative will be determined as at the termination date. The value of the terminated derivative is usually determined by BNZ, and will include a calculation of a break cost or benefit based on the 'mark-to-market' value of the specific Currency Option as described in sections 3.1 (*Product risks*) and 4 (*Fees*) of this PDS.

If more than one derivative is being terminated under your Master Agreement, 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 a Currency Option.

Independent contract

Any Currency Option is completely independent of any underlying transactions you may have. For the Currency Option to create an effective hedge, the terms of the Currency Option (such as the notional amount and the settlement date) 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 Currency Option, a mismatch will occur and the hedge may not be fully effective.

Obligations under a Currency Option

Once you have entered into a Currency Option, you are bound by the terms of your Master Agreement and Confirmation.

While it is always your decision whether or not to exercise a Vanilla Option, if you have entered into a Structured Product you ***may or will*** be required to exchange currencies at an exchange rate specified in that Structured Product. For example, if you enter into:

(a) a CPT, you must exchange currencies, although the exchange rate that applies will not be certain until Expiry;

(b) a Variable Forward Participator Contract, you must exchange currencies at the Transaction Rate. However, whether you must exchange the total notional amount or just the Fixed Amount will not be certain until Expiry; or

(c) a Variable Forward Range Contract, your ability to participate in favourable exchange rate movements will be limited to the level of the Advantage Rate.

Accordingly, on the settlement date of your Structured Product you may be in a worse position than if you had never entered into the Structured Product.

Before you enter into a Currency Option, you should ensure that you understand all of the possible outcomes under that Currency Option and whether the Currency Option will provide the protection you are seeking.

If a premium is payable by you for your Currency Option (that is, a Vanilla Option or a Variable Forward Range Contract), you must pay the premium on the premium payment date. The premium is non-refundable, even if you do not exchange currencies under the Currency Option (for example, if the spot rate is more favourable to you than the 'worst case' exchange rate specified in your Currency Option at Expiry and you allow the Currency Option to lapse).

Altering or terminating a Currency Option may be expensive

If you want to alter or terminate a Currency Option, (for example, if you are an importer and you cancel the underlying 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 market value of that Currency Option.

Break costs may also be payable by you if we exercise our right to terminate the Currency Option 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 2.9 (*Terminating a Currency Option*) of this PDS for details on when we can terminate and section 2.10 (*Amounts payable on termination*) of this PDS for details on how we calculate break costs.

Deciding not to exercise a Currency Option (that is, allowing it to lapse) is not the same as terminating it.

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**

Credit Ratings

The Currency Options 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.

Long-term senior unsecured NZD obligations: BNZ's credit ratings* (Outlook "Negative" from S&P and "Stable" from Moody's and Fitch). **Moody's counterparty risk rating:** BNZ's credit rating (no Outlook)**

	Standard & Poor's	Moody's Investors Service	Fitch Ratings	Description of Grade	Default Probability ****
Investment grade	AAA	Aaa	AAA	Ability to repay principal and interest is extremely strong. This is the highest investment category.	1 in 600
Investment grade	**AA**	**Aa**	**AA**	Very strong ability to repay principal and interest.	1 in 300
Investment grade	A	**A**	A	Strong ability to repay principal and interest although somewhat susceptible to adverse changes in financial conditions	1 in 150
Investment grade	BBB	Baa	BBB	Adequate ability to repay principal and interest. More vulnerable to adverse changes.	1 in 30
Speculative grade	BB	Ba	BB	Significant uncertainties exist which could affect the payment of principal and interest on a timely basis.	1 in 10
Speculative grade	B	B	B	Greater vulnerability and therefore greater likelihood of default.	1 in 5
Speculative grade	CCC	Caa	CCC	Likelihood of default considered high. Timely repayment of principal and interest is dependent on favourable financial conditions.	1 in 2
Speculative grade	CC to C	Ca to C***	CC to C	Highest risk of default.	
Speculative grade	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 a Currency Option are usually agreed verbally over the telephone or by email as described in section 2.7 (*Entering into a Currency Option*) of this PDS. You and BNZ are bound by the terms as soon as they are agreed.

Where the terms of a Currency Option are agreed by email, the exchange rate(s) and premium (if applicable) quoted in our emails to you will be indicative only. This is because there may be delays in sending and/or receiving emails and some Option Variables may change during that time. In these circumstances, a Currency

Option will not be treated as being agreed until we acknowledge your acceptance of our final quote, typically by return email.

From time to time disputes may arise about the terms of a Currency Option that has been agreed verbally or by email. We record conversations with our dealing room and retain emails. If there is a dispute between you and BNZ regarding the terms of a particular Currency Option that has been agreed verbally or by email we can review the recorded conversations or retained emails to confirm the details of the transaction.

4. Fees

The payments due under a Currency Option are described in sections 2.5 (*Vanilla Options - how do they work and why enter into one?*) and 2.6 (*Structured Products - how do they work and why enter into one?*) of this PDS.

BNZ covers its costs and derives its profit on:

(a) a Vanilla Option by charging you an upfront premium; and

(b) a Structured Product by either charging you an upfront premium or from the net premium that results from the combination of the relevant vanilla options that create the Structured Product. In the case of a CPT, the premium is paid through the Protection Margin.

Premium

If you buy a Vanilla Option you must pay BNZ an upfront premium for agreeing to enter into the relevant Vanilla Option. If you buy a Variable Forward Range Contract you may also be required to pay BNZ an upfront premium, depending on the relevant exchange rates that you agree with BNZ.

The upfront premium is payable to BNZ whether or not you exercise the relevant Currency Option. It is payable in a single payment two business days after the trade date, unless you and BNZ agree otherwise.

The amount of the premium is agreed between you and BNZ before you enter into the Currency Option. You may ask for the premium to be quoted to you in either currency of the relevant currency pair.

The premium covers BNZ's internal transaction costs, compensation for market, credit and operational risk, regulatory capital costs and profit margin. The calculation of the premium 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 Currency Option, including the size, duration and complexity of the transaction;

(b) market volatility and liquidity in the relevant currencies;

(c) the creditworthiness of the customer; and

(d) BNZ's profit margin.

For example, a Currency Option with a duration of 1 year entered into at a time of high market volatility will likely have a higher premium than a Currency Option of 3 months entered into at the same time or at a time of lower market volatility. Similarly, a Currency Option 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 premium than a Currency Option for a more liquid amount of currency and/or less complex or unusual terms. Also, the adjustment to the premium to take account of creditworthiness for a very creditworthy customer will likely be less than the premium adjustment applicable to a customer who is less creditworthy.

In addition, the more favourable the exchange rate(s) you agree with BNZ are to you under the Currency Option, the higher the premium payable is likely to be. The rate at which premiums move in response to changes in the relevant exchange rate is the result of mathematical modelling and is not linear (meaning that the changes in the premium and exchange rates are not directly correlated). However, if the rate at which you may exchange under a Currency Option is set at a less favourable exchange rate in order to reduce the premium payable, you will generally be lessening the protection that the Currency Option can provide against unfavourable exchange rate movements.

In the case of a Structured Product where you do not pay an upfront premium, the net premium from which we derive our profit is determined by calculating the premium for each vanilla option that is combined to create the Structured Product. We take the same factors set out above into account (which will have the same impact) when making that calculation. We calculate the net premium before you enter into the Structured Product. You effectively pay for the Structured Product by agreeing the terms of the Structured Product and making the required payments under it.

Similarly, we take the same factors into account (which will have the same impact) when determining the Protection Margin for a CPT. We calculate the Protection Margin before you enter into the CPT. You effectively pay for the CPT by agreeing the terms of the CPT and making the required payments under it.

Alteration of Currency Options

If you ask us to alter the terms of your Currency Option we are likely to recalculate the premium (if applicable). The recalculated premium may increase the cost of the Currency Option to you. The same factors will impact the recalculation of the premium that influence our calculation of the original premium when we agree to enter into a Currency Option. We will not agree to alter the Currency Option unless you have accepted the new premium. If you accept the new premium we will send you a revised Confirmation.

Early termination of Currency Options

If a Currency Option is terminated early, voluntarily or not, you may be required to pay BNZ a break cost, as described in sections 2.10 (*Amounts payable on termination*) and 3.1 (*Product risks*) of this PDS.

Calculation of mark-to-market values

In simple terms, a break cost or benefit for a Currency Option is BNZ's determination of a market value of the Currency Option at the time it is calculated (on the termination date). This is also known as the 'mark-to-market' value of the Currency Option, which is determined by valuing the Currency Option on the termination date. This value reflects the discounted expected value of that Currency Option, based on the current market value of the relevant Option Variables.

5. How BNZ treats funds and property received from you

Other than where a premium is payable, there are typically no payments made upfront in relation to a Currency Option. Payments are made on settlement dates as described in sections 2.5 (*Vanilla Options - how do they work and why enter into one?*) and 2.6 (*Structured Products - how do they work and why enter into one?*) of this PDS. Payments you are required to make (including both premium payments and payments on the settlement date) 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 upon payment.

BNZ does not currently require margin or collateral in relation to Currency Options 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 Currency Options.

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

7. How to complain

If you have a complaint about a Currency Option 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.

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

Complaints may also be made to the Financial Markets Authority through its website **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 Currency Options offered under this PDS is available from the offer register at **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**, 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**.

Additional information about BNZ and Currency Options is also available free of charge at **bnz.co.nz/about-us/governance/terms-and-conditions**.

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 Currency Options, 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 Currency Options as described in section 2.7 (*Entering into a Currency Option*) of this PDS. If your application is successful, BNZ will advise you which of the standard documents described in section 2.7 (*Entering into a Currency Option*) of this PDS you will be required to enter into. This will be your client agreement. You should ensure you understand this 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 a Currency Option 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 Currency Options 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 a Currency Option, then the definition in that contract or Confirmation will apply to the legal rights and obligations between you and us.

Advantage Rate means, in relation to a Variable Forward Range Contract, the rate that represents the best case exchange rate (excluding premium (if any)) at which you will exchange currencies.

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 Currency Option that you enter into with us, as agreed between you and us, over the phone or by email.

CPT means a Currency Protection Transaction offered under this PDS.

Currency Options mean the Vanilla Options and Structured Products offered under this PDS.

Currency pair means the two currencies that are exchanged on the settlement date under a Currency Option.

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

Expiration Time means an agreed time by which the Currency Option must be exercised or it will lapse. Expiration Times are restricted; your BNZ representative will advise you of your choices.

Expiry Date means the date on which a Currency Option must be exercised or allowed to lapse.

Expiry means, in relation to a Currency Option, the Expiration Time on the Expiration Date for that Currency Option.

Floating Amount means the portion of the notional amount under a Variable Forward Participator Contract that you have the right, but not the obligation, to exchange at the Transaction Rate.

Fixed Amount means the portion of the notional amount under a Variable Forward Participator Contract that you are obliged to exchange at the Transaction Rate regardless of the current spot rate.

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

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

Notional amount means the agreed amount of one currency that you may exchange with BNZ for another currency on the settlement date.

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

Option Variables means the applicable variables for each Currency Option, being the Strike Price, the Expiry Date, the Expiration Time, the premium payable by you and the settlement date and any other variable specified in the Confirmation for that Currency Option.

PDS means this product disclosure statement.

Protection Margin means, in relation to a CPT, the amount by which either the Strike Price or current spot rate is adjusted at Expiry to determine the exchange rate that is applied on the settlement date.

Protection Rate means, in relation to a Variable Forward Range Contract, the rate that represents the 'worst case' exchange rate (excluding premium (if any)) at which you will exchange currencies.

Settlement date means the date that you and BNZ will be required to exchange currencies under a Currency Option.

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.

Strike Price means:

(a) in relation to a Vanilla Option, the rate at which the notional amount is exchanged for another currency if the Vanilla Option is exercised; and

(b) in relation to a CPT, the rate which is adjusted by the Protection Margin to determine the exchange rate at which you may be required to exchange currencies.

Structured Products means the structured foreign currency options offered under this PDS, being CPTs, Variable Forward Participator Contracts and Variable Forward Range Contracts.

Trade date means the date that you agree the terms of a Currency Option with us.

Transaction Rate means, in relation to a Variable Forward Participator Contract, the rate at which the Fixed Amount (or, in some cases, the notional amount of a currency) will be exchanged for another currency.

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

Vanilla Options means the Vanilla Call Options and Vanilla Put Options offered under this PDS.

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