INTEREST RATE BENCHMARK DISCLOSURE

FEBRUARY 2022

This disclosure is made by Australia and New Zealand Banking Group Limited (ABN 11 005 522 357) in Australia and outside Australia by its branches and subsidiaries (together 'ANZ'). It provides general information about the implications of using interest rate benchmarks in financial transactions and highlights some risks to be aware of if you have entered into or are considering entering into such a transaction with ANZ. This disclosure does not amend, replace or otherwise affect any specific product disclosure. This disclosure does not constitute personal financial product advice or an offer of financial accommodation.

For any financial transaction referencing an interest rate benchmark (either directly or indirectly), you should be aware of possible changes in, disruption to, or cessation of, such benchmarks and understand the potential market, liquidity, accounting, tax, legal, operational, regulatory and financial impact and other risks on those financial transactions that reference such benchmarks including the potential that such benchmark may be altered, deemed unrepresentative or discontinued prior to the maturity of such financial transactions.

Given the rapidly evolving developments in this market, the information in this disclosure may not be fully current or complete at the time you are accessing this webpage. ANZ cannot advise you, or make recommendations, about the impact of the reform of interest rate benchmarks on your financial objectives, situation or needs. You should contact your professional advisors to discuss any queries you may have on your financial transactions with ANZ. If you have any questions about this Disclosure, please contact your ANZ representative.

GENERAL RISKS RELATED TO THE USE OF BENCHMARKS

Benchmarks are used to determine amounts payable under various financial transactions and the value of such transactions. The ongoing reform of benchmarks could have one or more of the following implications for transactions that reference affected benchmarks:

- some benchmarks, including their methodology for calculation, may change to ensure compliance with applicable laws or standards and this may impact the pricing of transactions that reference the affected benchmarks;
- it may no longer be permissible or practicable for some market participants to enter into, or remain in, financial contracts or financial instruments which reference some benchmarks, because such benchmarks (or their administrator) may not comply with applicable law, regulations or standards;
- some benchmarks may perform differently if and when some contributors cease to provide quotations or transaction data used to determine the benchmarks;
- some benchmarks will cease permanently or be determined in a very different way than was previously the case;
- some benchmarks may become or be deemed to be unrepresentative by certain regulators or governing bodies;
- alternative reference rates, that replace affected benchmarks that have ceased to be published or which are unrepresentative, may behave materially differently to affected benchmarks; and
- liquidity in financial contracts which reference alternative reference rates may differ from that which is available for financial instruments that reference existing benchmarks.

Any of these implications could apply to any benchmark at different points in time.

OVERVIEW

Interest rate benchmarks such as Interbank Offered Rates (IBORs) have been the subject of ongoing scrutiny and reform in the past decade as the Financial Stability Board and regulators around the world have recommended that market participants replace IBORs and adopt alternative reference rates (ARRs) in the cash and derivatives markets.

Unrepresentative GBP, EUR, CHF and JPY LIBOR rates

The following rates have either ceased to be published or have been deemed to be unrepresentative as of 31 December 2021:

- Sterling, Euro, Swiss Franc, and Yen LIBOR rates in all tenors;
- US Dollar LIBOR 1-week and 2-month rates.

Synthetic GBP and JPY LIBOR rates

The following IBORs will be published on a synthetic basis until the end of 2022 to allow more time for market participants to complete transition in legacy transactions that reference these rates to ARRs:

- Sterling 1-month, 3-month and 6-month LIBOR rates;
- Yen 1-month, 3-month and 6-month LIBOR rates.

However, the UK regulator does not permit the use of these synthetic rates in cleared transactions or new transactions.

If a synthetic Sterling or Yen LIBOR rate is used in a derivative transaction with ANZ entered into before the end of 2021, you should actively consider whether any amendments need to be made to it as synthetic Sterling or Yen LIBOR rates will not be published indefinitely. You should also be aware that synthetic Sterling and Yen LIBOR rates may not be economically equivalent to legacy LIBOR rates for these currencies and tenors and may have an impact on the value of your transaction.

USD LIBOR rates

The following rates will either cease or no longer be representative immediately after 30 June 2023:

- US Dollar Overnight, 1-month, 3-month, 6-month and 12-month rates.

The regulators in the UK and US have also issued guidance stating there are to be no new US Dollar LIBOR contracts from 1 January 2022. You should note that exceptions to this prohibition are very narrow and are limited to:

- market making to support client activity related to US Dollar LIBOR transactions entered into before 1 January 2022, provided that such activity is in response to a client request;
- reducing or hedging US Dollar LIBOR exposure for contracts entered into before 1 January 2022;
- novation of US Dollar LIBOR transactions executed before 1 January 2022; and
- participation in a central clearing house auction process for a member default.

The UK regulator has also confirmed that the list includes contracts which, in accordance with their contractual fallbacks, transition to an interpolated LIBOR rate which would itself not otherwise be available unless it falls within one of the exceptions above.

You should ensure any proposed US Dollar LIBOR transaction after 1 January 2022 falls within one of these permitted exceptions.

You should assess how these changes and future reform efforts relating to these and other interest rate benchmarks could impact your existing transactions and any new transactions you may wish to enter into with ANZ.

TRANSITION FROM IBORS TO ARRS

As various IBORS have ceased to be published or have been deemed to be unrepresentative, you should actively assess if your financial contracts with ANZ remain fit for their intended purpose and whether any amendments or changes need to be made.

Financial contracts and instruments which reference affected benchmarks will need to be amended to reflect a new reference rate or to include more robust contractual fallbacks which cater for any change in, disruption to, or cessation of such affected benchmark or for the possibility that such benchmark could be deemed to be unrepresentative.

The impact of transition from IBORs to ARRs affects each relevant financial transaction in a different way. It may depend on a range of factors which include, but are not limited to, the following:

- the nature of the transaction that references the benchmark;
- which benchmark is referenced;
- whether the relevant benchmark is being discontinued or if it is being reformed;
- the nature of the "fallback" provisions, where the transaction includes such provisions (for example, the product may incorporate robust contractual fallbacks under its terms or the ISDA Benchmarks Supplement may be incorporated in your derivative transactions);
- the adjustment for credit and term differences (i.e. between the affected benchmark and the ARR);
- the term of the transaction;
- the date when regulatory reform, product or contractual changes will take effect; and
- whether the transaction relates to, or is intended to provide a hedge for, another transaction (see paragraph on basis risk below).

You should be aware that an ARR may not be similar to, or behave in the same way, as the original benchmark and there is no guarantee that the amount due under a derivative transaction which is calculated by reference to an ARR will be the same as the amount due under a derivative transaction which is calculated by reference to the original benchmark.

ISDA DOCUMENTATION: LEGACY/ EXISTING TRANSACTIONS

ISDA has also published the ISDA 2020 IBOR Fallbacks Protocol. Adherence to the ISDA 2020 IBOR Fallbacks Protocol will incorporate new contractual fallback provisions in relevant derivatives and financial markets documentation between you and each other party that has adhered to the protocol (including the relevant ANZ entities) to address the exposure to benchmarks which could cease to be published or be deemed to be unrepresentative upon the occurrence of certain index cessation events. This industry solution enables parties to amend existing derivative transactions and other specified documents to include the updated alternative reference rates and fallbacks on a multilateral basis without the need for bilateral amendment documentation to be entered into between each party separately.

If you do not adhere to the ISDA 2020 IBOR Fallbacks Protocol or otherwise bilaterally include robust fallbacks in your derivative documentation by referencing the applicable provisions in the 2006 ISDA Definitions or the 2021 ISDA Definitions, existing contractual fallbacks in legacy transactions may not operate adequately or allow you to identify a fallback rate in the absence of a relevant benchmark.

You should carefully consider if any amendments need to be made to your existing derivative transactions and financial markets documentation.

Additional information about ISDA documentation can be found on the Benchmark Transition FAQ page or on Benchmark Reform and Transition from LIBOR InfoHub – International Swaps and Derivatives Association (isda.org).

ISDA DOCUMENTATION: NEW TRANSACTIONS

New derivative transactions which reference interest rate benchmarks will typically be documented under industry standard terms published by the International Swaps and Derivatives Association, Inc. (**ISDA**) such as the 2006 ISDA Definitions (**2006 ISDA Definition**s) or the 2021 ISDA Interest Rate Derivatives Definitions (**2021 ISDA Definitions**). In relation to (a) new transactions referencing USD LIBOR pursuant to one of the exceptions to the general prohibition, each of the 2006 ISDA Definitions and 2021 ISDA Definitions now include robust contractual fallbacks in respect of the benchmarks which could cease to be published or be deemed to be unrepresentative upon the occurrence of certain index cessation events and (b) new transactions referencing an ARR, each of the 2006 ISDA Definitions and 2021 ISDA Definitions include the basis on which compounding of such rates can be undertaken as well as contractual fallbacks for ARRs which could cease to be published or be deemed to be unrepresentative upon the occurrence of certain index cessation events in future.

You should carefully consider the terms that should apply to any new derivative transactions you may wish to enter into with ANZ and whether the standard terms under the 2006 ISDA Definitions or 2021 ISDA Definitions are appropriate in relation to your transactions.

BASIS RISK BETWEEN RATES REFERENCED IN FINANCIAL CONTRACTS

Derivative transactions entered into for hedging purposes may incorporate different contractual triggers and fallback methodologies in relation to benchmark cessation from those included in the financial contracts for the underlying bonds or loans which the derivative transactions are designed to hedge. There is no guarantee that the same contractual triggers and fallback methodologies will be incorporated in all financial contracts.

The cessation or discontinuation of a benchmark may result in a (temporary or permanent) mismatch between the rate referenced in one financial transaction and another. As such, basis risks may arise in transactions using derivatives and the related financial contracts that they are intended to hedge. The potential mismatch may impact the relative financial performance, financial reporting and value of the underlying financial contract and derivative transactions that are used to hedge it.

You should assess whether there is potential for basis risks to arise between your derivative transactions and any other financial contracts they are intended to hedge and seek advice if you are not sure about potential implications for your derivative transactions and related bonds or loans.

ARR TERM RATES

Derivative transactions which reference a forward-looking term reference rate such as Term SONIA or Term SOFR (**Term ARRs**) are subject to certain risks and limitations:

- the use of Term ARRs for the vast majority of derivative transactions has not been supported in best practice statements by US or UK regulators. For example, Term SOFR can only be used in derivative transactions entered into with end-users to hedge cash products which reference Term SOFR;
- market participants should seek to understand the potential mismatches between how Term ARRs may be documented under a loan and a derivative transaction, in particular, how temporary and permanent fallbacks may apply to such transactions;
- the use of Term ARRs in cash products should be considered in light of the availability, and pricing, of related Term ARR derivative transactions relative to the deeper liquidity in derivative transactions referencing ARRs compounded in arrears;
- Term ARRs have a limited performance history. The future performance of a Term ARR cannot be inferred from any assumed or actual historical performance data. Term ARRs behave materially differently to IBORs as benchmark interest rates; and
- Term ARRs may not be developed for all currencies and you may not be able to hedge your portfolio solely by using Term ARRs.

USEFUL LINKS AND REFERENCES

Reform of benchmarks continues to evolve and you should regularly monitor regulatory and market developments.

Further information is available at:

- Bank of England: https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor
- Financial Conduct Authority UK: https://www.fca.org.uk/markets/libor-transition
- The U.S. Alternative Reference Rates Committee: https://www.newyorkfed.org/arrc
- International Swaps and Derivatives Association: https://www.isda.org/category/legal/benchmarks
- Financial Stability Board: https://www.fsb.org/work-of-the-fsb/market-and-institutional-resilience/libor-and-other-benchmarks

Australia and New Zealand Banking Group Limited (ANZ) ABN 11 005 357 522. Item No. 97870 03.2022 WZ117847