INTEREST RATE BENCHMARK DISCLOSURE

AUGUST 2023

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 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. Over time, IBORs will cease to be published or will become unrepresentative across different jurisdictions. You should check with your professional advisers on the status of applicable IBORs and ARRs that apply to your financial transactions.

Unreprentative or permanently ceased LIBOR rates -CHF, EUR, GBP and JPY

ICE Benchmark Administration® (IBA) has ceased publication of the following representative LIBOR settings:

LIBOR setting	Cessation Date
All CHF LIBOR	31 December 2021
All EUR LIBOR	31 December 2021
All JPY LIBOR	31 December 2021
Overnight, spot, 1-week, 2-month, 12-month GBP LIBOR	31 December 2021
1-week and 2-month USD LIBOR	31 December 2021

The UK Financial Conduct Authority (FCA) compelled the IBA to continue to publish certain of these LIBOR settings for a limited time using an unrepresentative "synthetic" methodology. These rates have now ceased being published.

LIBOR setting	Cessation Date
1-month, 3-month and 6-month JPY LIBOR	31 December 2022
1-month and 6-month GBP LIBOR	31 March 2023

USD LIBOR rates

ICE Benchmark Administration® (IBA) has ceased publication of the following representative LIBOR settings:

LIBOR setting	Cessation Date
Overnight USD LIBOR	30 June 2023
1-month, 3-month, 6-month and 12-month USD LIBOR	30 June 2023

Synthetic GBP and USD LIBOR rates

On 22 November 2022, the FCA confirmed its decision to compel IBA to continue publication of 3-month GBP LIBOR (on a synthetic basis) until the end of March 2024.

On 3 April 2023, the FCA confirmed its decision to compel IBA to publish 1-month, 3-month and 6-month USD LIBOR rates on a synthetic basis until 30 September 2024.

Any synthetic LIBOR rate is only available for use in legacy contracts (excluding cleared derivatives).

If synthetic GBP or USD LIBOR applies to your derivative transaction with ANZ, you should actively consider if this rate remains suitable for your transaction and if you need to make amendments to your legacy transaction. Synthetic GBP or USD LIBOR will not be published indefinitely. You should be aware synthetic GBP or USD LIBOR may not be economically equivalent to legacy LIBOR for these currencies and settings. This may have an impact on the value of your transaction.

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. The impact may depend on a range of factors which include, but are not limited to, the following:

- the nature of the transaction referencing 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 into 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 on which 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 equivalent 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 and the ISDA 2021 Fallbacks Protocol (and benchmark modules thereunder) (each, a **Fallback Protocol**). Adherence to one or both Fallbacks Protocols 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 relevant Fallback 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 2021 ISDA Interest Rate Derivatives Definitions (2021 ISDA Definitions). For transactions referencing an ARR, the 2021 ISDA Definitions include the basis for the compounding of such rates as well as contractual fallbacks for ARRs which may cease to be published, or deemed to be unrepresentative on the occurrence of certain index cessation events in the 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 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, or may apply differing compounding or rounding methodologies, 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 or compounding or rounding 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.

TERM ARR RATES

Derivative transactions which reference a forward-looking term reference rate such as 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;
- using Term ARRs in cash products should be considered in light of the availability and pricing of any related Term ARR derivative. A Term ARR derivative may not be as liquid as a derivative transaction referencing an ARR compounded in arrears. A Term ARR derivative transaction must also have continued regulatory support. As Term ARR derivatives transactions can only be transacted with end-users, there may be potential pricing impacts on a Term ARR derivative transaction given the lack of an interbank derivatives market for Term ARRs;
- 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;
- 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. Where Term ARRs are published they may not be maintained by their administrators (or have continued regulatory support) and you should consider the applicable fallbacks if such a Term ARR ceases to be published.

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

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