Product Disclosure Statement

Vanilla Options and Structured Options

Issued by

EncoreFX (NZ) Limited

16 May 2018

This Product Disclosure Statement replaces the Product Disclosure Statement – Vanilla Options and Structured Options issued on 24 March 2017.

This document provides important information about foreign exchange options to help you decide whether you want to enter into any of these derivatives. There is other useful information about this offer at www.business.govt.nz/disclose.

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.

EncoreFX (NZ) Limited 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 options (**Structured Options**) (together referred to as **Options**) provided by EncoreFX (NZ) Limited (**EncoreFX**, **we**, **us**, **our**). Vanilla Options and Structured Options are derivatives, which are contracts between you and EncoreFX that may require you or EncoreFX to make one or more payments to one another. The amounts that must be paid or received (or both) will depend on the value 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 value of the underlying exchange rate changes, you may suffer losses. In particular, unlike most other kinds of financial products, you may end up owing significant amounts of money. You should carefully read Section 4 of this PDS ('Fees') on how payments are calculated.

Your liability to make margin payments

EncoreFX may require you to make additional payments (referred to as margins) to contribute towards your future obligations under these derivatives. These payments may be required at short notice and can be substantial. You should carefully read Sections 2.5.4 ('Margin Deposit') and 2.5.5 ('Additional Margin Deposit) of this PDS for further information about your obligations.

Risks arising from issuer's creditworthiness

When you enter into derivatives with EncoreFX, you are exposed to a risk that EncoreFX cannot make payments as required. You should carefully read Section 3 of this PDS ('Risks of these derivatives') and consider EncoreFX's creditworthiness. If EncoreFX runs into financial difficulty, the margin or collateral (as the case may be) you provide may be lost.

1.3 About EncoreFX

EncoreFX is a specialist provider of foreign exchange and hedging services, working with clients of all sizes across multiple international markets. For more information about EncoreFX refer to Section 6 of this PDS ('About EncoreFX').

1.4 Which derivatives are covered by this PDS?

This PDS covers Vanilla Options and Structured Options.

Vanilla Options

A Vanilla Option is a financial contract entered into by two parties; a buyer and a seller. The buyer pays a non-refundable premium to the seller (**Premium**). In return, the buyer receives the right, but not the obligation, to exchange a specified amount of one currency for another currency, at a prescribed exchange rate, and on a specified date. The seller of a Vanilla Option receives the Premium for offering these rights to the buyer, and is assigned the obligation to fulfil the terms of the contract if the buyer exercises their right.

Structured Options

A Structured Option involves the simultaneous purchase and sale of two or more options. Structured Options may: involve Vanilla Options and / or option contracts that contain one or more non-standard features that affect the possible outcomes at or before the expiry of that Option (**Exotic Options**); involve multiple legs (i.e. more than two options in one structure); incorporate the use of Leverage; and be structured so that a Premium is not required to be paid, because the Premium from the underlying bought and sold options is offset (**Zero-Premium**).

Key benefits of Options

Options help manage the risk inherent in currency markets by predetermining the amount of one currency to be exchanged for another, the exchange rate the currencies will be exchanged at, and the date on which the transaction will take place. They are often used to provide protection against unfavourable foreign exchange rate movements or to manage cash flow by negating the uncertainty associated with exchange rate fluctuations in exchange for the certainty of a future cash flow.

CONTENT

2. KEY FEATURES OF THE DERIVATIVES

2.1 Introduction

A glossary of the key terms used in this product disclosure statement (**PDS**) is included in Section 10 of this PDS ('Glossary').

2.2 Nature and effect of Options

Vanilla Options and Structured Options are referred to together as Options.

2.2.1 Vanilla Options

A Vanilla Option is a financial contract entered into by two parties; a buyer and a seller. The buyer pays a non-refundable Premium to the seller on a specific date (**Premium Date**). In return, the buyer receives the right, but not the obligation, to exchange a specified amount of currency for another currency (**Notional Amount**), at a prescribed exchange rate (**Strike Rate**), and on a specified date (**Expiry Date**). The seller of a Vanilla Option receives the Premium for offering these rights to the buyer, and is assigned the obligation to fulfil the terms of the contract if the buyer exercises their right.

2.2.2 Structured Options

A Structured Option involves the simultaneous purchase and sale of two or more option contracts. Structured Options may: involve Vanilla Options and / or Exotic Options; involve multiple legs (i.e. more than two options in one structure); incorporate the use of Leverage; and be structured at Zero-Premium.

Structured Options can be tailored to meet unique and specific hedging requirements on a transactional basis by tailoring Expiry Dates, Notional Amounts, Strike Rates, Barrier Rates, and the type of Barrier to meet specific requirements and market views. These variables are discussed in further detail in respect of each of the Structured Options offered by EncoreFX in Section 2.10 of this PDS ('Options offered by EncoreFX'). Barriers are discussed further in Section 2.10.21 of this PDS ('Knock-In and Knock-Out Barriers') and Leverage is discussed in Section 2.12 of this PDS ('Leverage and Structured Options').

The following Structured Options are offered by EncoreFX and are discussed in further detail in Section 2.10 of this PDS ('Options offered by EncoreFX'):

- Collar
- Knock-In Collar
- Knock-In Forward
- Ratio Forward
- Participating Forward
- Participating Collar
- Participating Knock-In
- Participating Convertible
- Knock-In Reset
- Convertible Forward
- Relief Forward
- Forward Overlay
- Seagull Forward
- Venture Forward
- Encore Knock-In
- Knock-Out Forward
- Knock-Out Collar
- Range Reset
- Inverse Collar
- Lift Forward
- Progressive Forward

Structured Options can be a cost effective foreign exchange risk management tool that helps manage the inherent risks of foreign exchange markets. Structured Options can be structured as Zero-Premium products, and unlike Forward Exchange Contracts, they may allow some participation in favourable market moves, while still protecting against adverse market movements.

2.2.3 European, American and Exotic Options

An Option can be either a European Option (meaning that they can only be exercised on the Expiry Date), or an American Option (meaning that they can be exercised at any time throughout the life of the Option). EncoreFX only offers European Options, which means that the Option may only be exercised at the Expiry Date.

Many of the Options that EncoreFX offers include features known as Barriers. Options which include a Barrier feature are also known as Exotic Options. Some of the Barriers that can be used in conjunction with Options are American in style, meaning that they can be exercised at any time throughout the life of the Option. The underlying Option will however remain a European Option notwithstanding these features. Barriers are discussed in further detail in Section 2.10.21 of this PDS ('Knock-In & Knock-Out Barriers').

2.3 How Options work

Options are traded 'over-the-counter' (**OTC**), meaning that they are created and traded off market rather than on an exchange. When creating an Option with EncoreFX, you can tailor the terms to meet your requirements.

- **Vanilla Option:** Prior to entering into a Vanilla Option, we will agree the currency pair to be exchanged, the Notional Amount, the Strike Rate, the Expiry Date, the Expiry Time, the Premium, and the Premium Date (together, the Option Variables). Some Option Variables are restricted and, where that is the case, EncoreFX will advise you of your choices.
- **Structured Option:** Prior to entering into a Structured Option, we will agree the applicable Option Variables (although there will typically be no Premium payable for some Structured Options), as well as certain additional variables that will be relevant to determining the parties' obligations under the Structured Option. The additional variables relating to Structured Options (if any) are set out in relation to each Structured Option offered by EncoreFX in Section 2.10 of this PDS ('Options offered by EncoreFX').

Once we have agreed an Option with you, you will receive a confirmation from us containing all relevant details relating to your Option. On the Expiry Date, you and EncoreFX will be required to settle any obligations in accordance with the terms of the Option.

2.4 Benefits of Options

The benefits relevant to each of the Options offered by EncoreFX are described in Section 2.10 of this PDS ('Options offered by EncoreFX'). In addition to those specific benefits, there are general benefits that apply to both Vanilla Options and Structured Options which are discussed below.

Options help manage the risk inherent in currency markets by predetermining the amount of one currency to be exchanged for another, the exchange rate the currencies will be exchanged at, and the date on which the transaction will take place. This can provide protection against unfavourable foreign exchange rate movements between the date on which you enter into the Option and the Expiry Date. This may also assist you in managing your cash flow by negating the uncertainty associated with exchange rate fluctuations for the certainty of a future cash flow.

The Option Variables can be tailored to meet your requirements. Some Options may also provide flexibility to participate in certain favourable exchange rate movements and may be able to achieve an enhanced exchange rate comparable to the equivalent Forward Exchange Contract rate.

2.5 Amounts payable

2.5.1 Premium

The cost of an Option is defined by the Premium that is required to be paid in order to enter into the contract. EncoreFX calculates Premiums using the industry standard formulas based upon the Black Scholes model. The inputs to the Option pricing formulas include the following:

- The current market Spot Rate.
- Market volatility – the higher the volatility, the higher the Premium.
- The Term of the Option – the longer the term, typically results in a higher Premium.
- The Strike Rate – the closer to being ITM the Strike Rate is, the higher the Premium.
- The interest rate differential of the two currencies involved.
- For Exotic Options, the Barrier Rates also affect the Premium calculation.

For a Zero-Premium Structured Option, you will not pay EncoreFX a Premium, however the underlying Structured Option will consist of two or more Options where the Premium from any purchased Options is offset against the Premium from any sold Options, to achieve a net Premium of nil. EncoreFX may, however, cover the exact same Structured Options with a third-party provider and receive a net Premium due to its volumes and access to interbank pricing.

2.5.2 Retail Mark-Up

For Vanilla Options, and for Structured Options where you are required to pay a Premium, the Premium quoted to you by EncoreFX may include a mark-up (**Retail Mark-Up**) which is applied on top of the wholesale Premium that we negotiate from our hedging counterparties and / or liquidity providers. The Retail Mark-Up is determined by EncoreFX using a number of factors including the following:

- The size of the transaction (smaller Notional Amounts may mean a larger Retail Mark-Up).
- The two currencies to be traded (where the two currencies are illiquid, the Retail Mark-Up may be larger).

- The time between entering into the Option and the Settlement Date (the longer the time between the dates, the larger the Retail Mark-Up may be).
- Market volatility (higher volatility may result in a larger Retail Mark-Up).
- The frequency with which you trade with EncoreFX (the more frequently you transact with EncoreFX, the smaller the Retail Mark-Up may be).
- The complexity of your requirements or derivatives offered (the more complex, the higher the Retail Mark-Up may be).

2.5.3 Credit requirements

Over the life of an Option, as the underlying exchange rate moves, the Option may be 'In the Money' (**ITM**), 'Out of the Money' (**OTM**) or 'At the Money' (**ATM**). That is, if the Option had to be cancelled at a specific time, it would result in a gain (ITM) or a loss (OTM) or breakeven (ATM).

To manage the market risk when an Option is entered into, EncoreFX may initially secure the Option by taking an advance partial prepayment / cash (**Margin Deposit**). Alternatively, EncoreFX may apply this market risk against your trading limit.

2.5.4 Margin Deposit

The Margin Deposit represents an advance pre-payment of the Option and is taken to secure EncoreFX's potential exposure resulting from adverse OTM currency movements. Your Margin Deposit will reduce any payment that you are required to make on the Expiry Date. The Margin Deposit that we require will be determined as a percentage of the value of the Option that you have entered and is generally about 10% of the value of the transaction. EncoreFX may determine this percentage at its discretion based on a number of factors including the value of your outstanding Options, your current financial position / credit rating and the prevailing market conditions.

The Margin Deposit must be paid within two business days of being requested by EncoreFX. In the event that the Margin Deposit is not received within two business days, EncoreFX may close out your account and terminate the contract as well as terminate and close out any other pending transactions with you and set off amounts owed to you (including any gains on contracts closed out (terminated) against any losses incurred and amounts then owing to EncoreFX by you). In such circumstances you will be liable to EncoreFX for all costs associated with terminating the relevant contracts.

2.5.5 Additional Margin Deposit

Should an Option (or the net position of your Option portfolio) move OTM in excess of the Margin Deposit or your trading limit, EncoreFX will secure this increased market risk through an Additional Margin Deposit. An Additional Margin Deposit is required from you to bring the net market risk exposure to zero. Additional Margin Deposits represent a pre-payment of the Option by you. If an Additional Margin Deposit is required, EncoreFX will advise you immediately. Payment of the Additional Margin Deposit must be made within two business days of the request. If you fail to pay an Additional Margin Deposit, EncoreFX may, in its discretion, choose to cancel some or all of your Options. At the same time, EncoreFX can also terminate and close out any other pending transactions with you and set off amounts owed to you (including any gains on contracts closed out (terminated) against any losses incurred and amounts then owing to EncoreFX by you). In such circumstances you will be liable to EncoreFX for all costs associated with terminating the relevant contracts.

2.5.6 Forgone interest

EncoreFX does not pay interest on amounts held (including Margin Deposits and Additional Margin Deposits). As such, you will forgo the ability to earn interest where EncoreFX is holding any amounts on your behalf. The interest cost is an opportunity cost which is equal to the amount of interest that you would have otherwise earned if those amounts were held in your own bank account.

2.5.7 Trading limits

EncoreFX may choose to waive the requirement of a Margin Deposit by applying the required amount against your trading limit. The trading limit is dependent upon your credit history / rating, strength of financial statements, as well as other factors determined at EncoreFX's sole discretion. EncoreFX may review and amend your trading limit at any time.

The following two methods may be used by EncoreFX in respect of your trading limits:

- **Against individual contracts:** EncoreFX may waive the need for a Margin Deposit by applying the required deposit of each Option against your trading limit. The Option is regularly revalued over the Term of the Option to determine the ITM, OTM or ATM position.
- **Against customer portfolios:** EncoreFX may allocate a trading limit against the net position of your entire portfolio of open Options contracts and any other open contracts that you may have with EncoreFX. EncoreFX re-values every

contract in your portfolio daily, and if the net position (ITM or OTM) is within your trading limit you will not be required to pay an Additional Margin Deposit. If, however, the revaluation results in the net exposure exceeding your trading limit, an Additional Margin Deposit will be required to take your net exposure to zero.

2.6 How to enter into an Option

2.6.1 Application

An application form is required to be completed and submitted to us prior to entering into an Option. The application process is discussed in further detail in Section 9 of this PDS ('How to enter into a client agreement'). Upon our acceptance of your application, you may deliver an instruction to us to enter into an Option. Your instruction will only take effect once we have accepted the instruction.

2.6.2 Options

Prior to entering into an Option, we will agree with you those matters set out in Section 2.3 of this PDS ('How Options work'). An instruction to enter into an Option may be delivered by you over the phone or by email to EncoreFX, or in any other manner set out in the Master Terms and Conditions. After entering into an Option, EncoreFX will send you a confirmation outlining the terms of your Option. It is important that you check the confirmation to make sure that it accurately records the terms of the transaction.

There is no cooling-off period for Options and therefore, you will be bound immediately following our acceptance of your original instruction. In the event that there is a discrepancy between your understanding of the transaction and the confirmation sent to you, you should raise this with us immediately.

Telephone conversations with our dealing room are recorded in accordance with standard market practice. We do this in order to ensure that we have complete records of the details of all transactions. Recorded telephone conversations are retained for a limited time and are usually used when there is a dispute and for staff monitoring purposes. If you do not wish to be recorded, you will need to inform us accordingly. We will however not enter into any transaction over the telephone unless the conversation is recorded.

2.7 Term of an Option

The term of an Option offered under this PDS can range between one day and two years depending on your needs and your credit terms with EncoreFX. A term longer than two years may be considered by EncoreFX, at its sole discretion and on a case-by-case basis.

2.8 Settlement of Options

Options offered by EncoreFX are typically settled in full, rather than a cash settlement of the difference between the Strike Rate and the Spot Rate at the Expiry Date. The settlement date for an Option is typically two business days after the Expiry Date. There may however be occasions where the settlement of an Option is either delayed or brought forward; in part or in full. When this may occur and the resulting consequence are discussed in further detail in Section 2.9 of this PDS ('Rights to alter or terminate an Option').

2.9 Rights to alter or terminate an Option

2.9.1 Historical Rate Rollover Extensions

At any time up to the Expiry Date, you may ask EncoreFX to extend the Term of your Option. This is done by converting the Options to Forward Exchange Contracts on the Expiry Date and pushing back the settlement of those contracts. This is referred to as a Historical Rate Rollover Extension (**HRRE**). All HRREs are subject to prior approval by EncoreFX and may be declined at EncoreFX's sole discretion. EncoreFX will only approve HRREs where there is an underlying business purpose.

If EncoreFX agrees to extend your Term of your Option, the exchange rates relevant to your Options may be altered. The new exchange rates will reflect a number of factors including your previous exchange rates, the Spot Rate and market interest rates. They may also reflect any funding implications where your Options are either ITM or OTM. If a HRRE is agreed upon, we will send you a confirmation detailing the amendment.

2.9.2 Pre-delivery and partial pre-delivery

After entering into an Option, you may wish to bring the agreed Expiry Date forward on all (**pre-delivery**), or a portion (**partial pre-delivery**), of the Notional Amount of your Option. Any pre-delivery or partial pre-delivery of your Option is subject to prior approval by EncoreFX and may be declined by EncoreFX at its sole discretion. Any pre-delivery or partial pre-delivery of an Option may only be available with respect to certain Options in certain circumstances.

If EncoreFX agrees to the pre-delivery or partial pre-delivery of your Option, we may carry out an exchange rate adjustment to the original Option to reflect the earlier delivery of the Option.

You should note that, while in normal trading conditions this adjustment may be marginal, in times of volatility in the foreign exchange market, the adjustment may be significant. You should also be aware that pre-delivery or partial pre-delivery does not necessarily absolve you of your potential obligations on the Expiry Date.

In relation to any partial pre-delivery, the balance of the face value of the Option shall remain due at the original exchange rate on the original Expiry Date.

2.9.3 Close-out / cancellation

You may request to close out or cancel your Option at any time where you no longer require the currency that you have agreed to purchase on the Expiry Date. Any close out or cancellation is subject to approval by EncoreFX and may be declined by EncoreFX at its sole discretion. Any costs that are incurred in terminating and unwinding your Option will be payable by you. You will also be liable for any OTM position in relation to your Option. EncoreFX may require supporting documentation confirming a change in your currency obligations to support your request for the close-out or cancellation.

2.9.4 Termination of an Option

EncoreFX may terminate an Option in limited circumstances. You will be liable for any losses or costs incurred as a result of any termination event. The circumstances in which a termination event may be carried out are set out in full in the Master Terms and Conditions, and include the following:

- Failure to pay any Margin Deposit or Additional Margin Deposit payments.
- If you are insolvent, appoint a receiver or administrator to your business or cease to carry on your business.
- If an event occurs that partially prevents, hinders, obstructs, delays or interferes with your ability to meet your obligations.
- If you dispute the validity of an Option.
- For any other reason set out in the Master Terms and Conditions.

2.10 Options offered by EncoreFX

Each Option offered by EncoreFX is described in detail below. The description of each Option includes an example of the Option with possible outcomes.

The examples set out below are for informational purposes only. They provide an example of one situation only and do not reflect the specific circumstances or the obligations that may arise under a derivative entered into by you. In order to assess the merits of any particular Option you should use the actual rates and figures available to you at the relevant time.

A Forward Exchange Contract is a commonly used foreign exchange derivative for hedging purposes. It allows a user to lock in a fixed amount of currency, at a fixed exchange rate, at a fixed future date. A Forward Exchange Contract can be a useful reference point when comparing Vanilla Options and Structured Options, and is referred to throughout the product examples set out below. For more information on Forward Exchange Contracts, please refer to EncoreFX's Product Disclosure Statement for Forward Exchange Contracts.

Each example Option has a 6-month Term and is written from the perspective of a New Zealand Dollar (NZD) Seller / US Dollar (USD) Buyer (i.e. a corporate client wanting to hedge against a potential appreciation of the USD relative to the NZD). Any Structured Option can be, and usually is, structured as Zero-Premium.

Each example provides an example Spot Rate, which refers to what the Spot Rate might be at the time of inception of the product, in order to achieve the terms listed with the Structured Option. The Spot Rate is for illustrative purposes only.

2.10.1 Vanilla Option

A Vanilla Option provides you with the right, but not the obligation, to exchange the underlying currency at a specified exchange rate and time. A Vanilla Option provides protection in the event of adverse spot market movement as well as the opportunity to participate in favourable spot market movement.

Advantages	Disadvantages
• Provides the holder with protection against adverse market movement at the Protection Rate. • Risk taken by the holder is limited to the Premium. • Gives the holder unlimited participation in a favourable Spot Rate move.	• The holder of the option must pay a non-refundable Premium.

Example Vanilla Option - Spot Rate of 0.7350
Buy NZD Put / USD Call
• Premium = NZD 20,000 • Strike / Protection Rate = 0.7350 • Notional Amount = USD 1,000,000

Possible Outcomes
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7350, you will have the right to buy USD 1,000,000 at the Protection Rate of 0.7350. • **Scenario 2:** If the Spot Rate at the Expiry Date is above the Protection Rate of 0.7350, you will have no obligation and are free to trade at the prevailing Spot Rate.
Possible Variations
• **Deferred Premium:** Typically, Premium is payable within two business days. However, EncoreFX may offer to defer the premium to a future date, most likely the Settlement Date of the Vanilla Option. Deferring Premium on Vanilla Options is subject to certain criteria and is offered at EncoreFX's discretion. • **Buying Vanilla Options:** Typically, EncoreFX are the seller of the Vanilla Option, and you are the buyer. In the scenario where you are the buyer, you would be paying a Premium to EncoreFX. • **Selling Vanilla Options:** It is also possible that you sell a Vanilla Option to EncoreFX, in order to realise the Premium that EncoreFX would pay to you. In this scenario, as the seller of the Vanilla Option to EncoreFX, you would have potential obligations to buy or sell currency as per the parameters of the Vanilla Option.

2.10.2 Collar

A Collar is a Structured Option that allows you to set a Protection Rate and a Participation Rate for your foreign currency needs. At the Expiry Date, a Collar provides the ability to participate in favourable spot market movement between the Protection Rate and the Participation Rate.

Advantages	Disadvantages
• Provides the ability to participate in a favourable Spot Rate move to the Participation Rate. • Provides full protection from an adverse Spot Rate move below the Protection Rate.	• Protection Rate is worse than the comparable Forward Exchange Contract rate. • Upside participation is limited to the Participation Rate.

Example Collar - Spot Rate of 0.7450	
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**
• Strike / Protection Rate = 0.7050 • Notional Amount = USD 1,000,000	• Strike / Participation Rate = 0.7650 • Notional Amount = USD 1,000,000
Possible Outcomes	
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7050, you will have the right to buy USD 1,000,000 at the Protection Rate of 0.7050. • **Scenario 2:** If the Spot Rate at the Expiry Date is between the Strike Rates 0.7050 and 0.7650, you have no obligation and are free to trade at the prevailing Spot Rate. • **Scenario 3:** If the Spot Rate at the Expiry Date is above the Participation Rate of 0.7650, you will be obligated to trade USD 1,000,000 at the Participation Rate of 0.7650.	

2.10.3 Knock-In Collar

A Knock-In Collar is a Structured Option that allows you to set a Protection Rate and a Participation Rate, along with a Knock-In Barrier Rate. A Knock-In Collar provides an opportunity to participate in a favourable Spot Rate move up to the Knock-In Barrier Rate provided the Knock-In Barrier Rate is not Triggered. If the Knock-In Barrier Rate is Triggered, the structure reverts to a standard Collar.

Advantages	Disadvantages
• Provides the ability to participate in a favourable Spot Rate move: ○ to the Knock-In Barrier Rate; or ○ to the Participation Rate (if the Knock-In Barrier Rate is Triggered). • Provides protection from an adverse Spot Rate move below the Protection Rate. • Gives better potential upside participation than a standard Collar.	• Protection Rate is worse than the comparable Forward Exchange Contract rate. • Upside participation is limited to: ○ the Knock-In Barrier Rate; or ○ the Participation Rate (if the Knock-In Barrier Rate is Triggered).

Example Knock-In Collar - Spot Rate of 0.7350	
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**
• Strike / Protection Rate = 0.7150 • Notional Amount = USD 1,000,000	• Strike / Participation Rate = 0.7650 • Notional Amount = USD 1,000,000 • Knock-In Barrier Rate at 0.7800
Possible Outcomes	
• **Scenario 1:** If the Spot Rate at the Expiry Date is between the Strike Rates of 0.7150 and 0.7650, you will have no obligation and may trade at the prevailing Spot Rate. • **Scenario 2:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7150, you will have the right to buy USD 1,000,000 at the Protection Rate of 0.7150. • **Scenario 3:** If the Spot Rate at the Expiry Date is above the Participation Rate of 0.7650, and the Knock-In Barrier Rate of 0.7800 has not been Triggered, you will have no obligation and may trade at the prevailing Spot Rate. • **Scenario 4**: If the Spot Rate at the Expiry Date is above the Participation Rate of 0.7650, and the Barrier Rate of 0.7800 has been Triggered, you will be obligated to trade USD 1,000,000 at Participation Rate of 0.7650.	

2.10.4 Knock-In Forward

The Knock-In Forward is a Structured Option that allows you to set a Protection Rate and participate in a favourable Spot Rate move provided a Knock-In Barrier Rate has not been Triggered. Should the Knock-In Barrier Rate be Triggered, the structure reverts to the Protection Rate.

Advantages	Disadvantages
• Provides the ability to participate in a favourable Spot Rate move provided the Knock-In Barrier Rate is not Triggered. • Provides protection against an adverse Spot Rate move.	• Protection Rate is worse than the comparable Forward Exchange Contract rate. • If the Knock-In Barrier Rate is Triggered, you are obligated to trade at the Protection Rate.

Example Knock-In Forward - Spot Rate of 0.7350	
Buy NZD Put / USD Call	**Sell Knock-In NZD Call / USD Put**
• Strike / Protection Rate = 0.7150 • Notional Amount = USD 1,000,000	• Strike / Protection Rate = 0.7150 • Notional Amount = USD 1,000,000 • Knock-in Barrier Rate = 0.7650

Possible Outcomes
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7150, you will have the right to buy USD 1,000,000 at the Protection Rate of 0.7150. • **Scenario 2:** If the Spot Rate at the Expiry Date is above 0.7150 at the Expiry Date, and the Knock-In Barrier Rate has not been Triggered, you have no obligation and are free to trade at the prevailing Spot Rate. • **Scenario 3:** If the Knock-In Barrier Rate of 0.7650 has been Triggered, you will buy USD 1,000,000 at the Protection Rate of 0.7150.

2.10.5 Ratio Forward

A Ratio Forward is a Structured Option involving bought and sold Options that have the same Strike Rates and Expiry Dates but different Notional Amounts. It is a product that requires the use of Leverage. The advantages and disadvantages of using Leverage are discussed further in Section 2.12 of this PDS ('Leverage and Structured Options'). By using Leverage in this instance, you will be able to achieve an Enhanced Rate, meaning a Strike Rate that is better than the comparable Forward Exchange Contract rate at inception. However, there will be no participation in a favourable Spot Rate move. At the Expiry Date, if the Spot Rate is more favourable than the Strike Rate, you will be obligated to buy a larger Notional Amount. Alternatively, if the Spot Rate is less favourable than the Strike Rate, you will have the right to buy the smaller Notional Amount.

Advantages	Disadvantages
• The Enhanced Rate will be more favourable than the equivalent Forward Exchange Contract rate.	• If the Spot Rate at the Expiry Date is above the Enhanced Rate, you will be obligated to buy the larger Notional Amount at a rate less favourable than the Spot Rate at the Expiry Date. • You do not know the exact Notional Amount to be exchanged before the Expiry Date.

Example Ratio Forward - Spot Rate of 0.7350	
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**
• Strike / Enhanced Rate = 0.7350 • Notional Amount = USD 1,000,000	• Strike / Enhanced Rate = 0.7350 • Notional Amount = USD 2,000,000
Possible Outcomes	
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Enhanced Rate of 0.7350, you will have the right to buy USD 1,000,000 at the Enhanced Rate of 0.7350. • **Scenario 2:** If the Spot Rate at the Expiry Date is above the Enhanced Rate of 0.7350, you will be obligated to buy USD 2,000,000 at the Enhanced Rate of 0.7350.	

2.10.6 Participating Forward

A Participating Forward is a Structured Option that allows you to protect against an adverse Spot Rate move, while at the same time allowing partial participation in a favourable Spot Rate move. A Participating Forward accomplishes this by using a bought Option which has a larger Notional Amount than the sold Option. Because of this versatility, the Strike Rate on a Participating Forward will be less favourable than the comparable Forward Exchange Contract rate at inception.

Advantages	Disadvantages
• A larger Notional Amount is protected against an adverse Spot Rate move. • Provides the opportunity for uncapped participation in a favourable Spot Rate move on a portion of the Notional Amount. • Can be effective when hedging variable future currency exposures, as you can be hedged for a greater amount than you are obligated for.	• Protection Rate is worse than the comparable Forward Exchange Contract rate. • Participation in a favourable Spot Rate move is limited to the portion that is not obligated at the Protection Rate.

Example Participating Forward - Spot Rate of 0.7450	
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**
• Strike / Protection Rate = 0.7150 • Notional Amount = USD 2,000,000	• Strike / Protection Rate = 0.7150 • Notional Amount = USD 1,000,000
Possible Outcomes	
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7150, you will have the right to buy USD 2,000,000 at the Protection Rate of 0.7150. • **Scenario 2:** If the Spot Rate at the Expiry Date is above the Protection Rate of 0.7150, you will be obligated to buy USD 1,000,000 at the Protection Rate of 0.7150 and you may trade further at the more favourable Spot Rate.	

2.10.7 Participating Collar

A Participating Collar is a Structured Option that provides protection against an adverse Spot Rate move while also allowing for participation on a portion of the contracted Notional Amount up to specified capped rate. It operates in the same manner as a Participating Forward with the main difference being that participation is capped. Given the participation is capped, you will be able to realise a more favourable Protection Rate than a standard Participating Forward.

Advantages	Disadvantages
• Offers greater level of protection against an adverse Spot Rate move than the comparable Participating Forward. • Offers possibility of participating in a favourable Spot Rate move on a portion of the Notional Amount to the Participation Rate.	• Protection Rate is worse than the comparable Forward Exchange Contract rate. • Participation is limited to the Participation Rate.

Example Participating Collar -	Spot Rate of 0.7450	
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**	**Sell NZD Call / USD Put**
• Strike / Protection Rate = 0.7200 • Notional Amount = USD 2,000,000	• Strike / Protection Rate = 0.7200 • Notional Amount = USD 1,000,000	• Strike / Participation Rate = 0.7900 • Notional Amount = USD 1,000,000
Possible Outcomes		
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate 0.7200, you will have the right to buy USD 2,000,000 at the Protection Rate of 0.7200. • **Scenario 2:** If the Spot Rate at the Expiry Date is between the Strike Rates of 0.7200 and 0.7900, you will be obligated to buy USD 1,000,000 at Protection Rate of 0.7200 and you may trade further at the more favourable Spot Rate. • **Scenario 3:** If the Spot Rate at the Expiry Date is above 0.7900, you will be obligated to buy USD 1,000,000 at the Protection Rate of 0.7200 and USD 1,000,000 at the Participation Rate of 0.7900.		

2.10.8 Participating Knock-In

A Participating Knock-In is a Structured Option that offers protection against an adverse Spot Rate move, while at the same time allowing for limited participation in the event of a favourable Spot Rate move. Participation will be available provided a specified Knock-In Barrier Rate is not Triggered. If the Knock-In Barrier Rate is Triggered, you will be obligated to buy the both Notional Amounts at the Protection Rate.

Advantages	Disadvantages
• Offers the potential to participate in a favourable Spot Rate move provided the Knock-In Barrier Rate has not been Triggered. • Provides a more advantageous Protection Rate than a Participating Forward.	• Protection Rate is worse than the comparable Forward Exchange Contract rate. • If the Knock-In Barrier Rate is Triggered, you must buy both obligated Notional Amounts at the Protection Rate.

Example Participating Knock-In - Spot Rate of 0.7350		
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**	**Sell Knock-In NZD Call / USD Put**
• Strike / Protection Rate = 0.7150 • Notional Amount = USD 1,000,000	• Strike / Protection Rate = 0.7150 • Notional Amount = USD 500,000	• Strike / Protection Rate = 0.7150 • Knock-In Barrier Rate = 0.7850 • Notional Amount = USD 500,000
Possible Outcomes		
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7150, you will have the right to buy USD 1,000,000 at the Protection Rate of 0.7150. • **Scenario 2:** If the Spot Rate at the Expiry Date is above the Protection Rate of 0.7150 and the Knock-In Barrier Rate of 0.7850 has not been Triggered, you will be obligated to buy USD 500,000 at the Protection Rate of 0.7150 and you may trade further at the more favourable Spot Rate. • **Scenario 3:** If the Knock-In Barrier Rate has been Triggered during the Barrier Period, you will buy USD 1,000,000 at the Protection Rate of 0.7150.		

2.10.9 Participating Convertible

A Participating Convertible is a Structured Option that allows you to set a Protection Rate that is less favourable than the comparable Forward Exchange Contract rate along with a Knock-Out Barrier Rate. If the Knock-Out Barrier Rate is Triggered, the structure reverts to a standard Participating Forward. If the Knock-Out Barrier Rate is not Triggered, you must buy the full Notional Amount at the Protection Rate.

Advantages	Disadvantages
• Provides the ability to realise a portion of a favourable Spot Rate move if the Knock-Out Barrier Rate is Triggered. • Achieves a more favourable Protection Rate than a standard Participating Forward or standard Convertible Forward.	• Protection Rate is worse than the comparable Forward Exchange Contract rate. • If the Knock-Out Barrier Rate is not Triggered, you must buy the entire Notional Amount at the Protection Rate.

Example Participating Convertible - Spot Rate of 0.7350		
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**	**Sell Knock-Out NZD Call / USD Put**
• Strike / Protection Rate = 0.7200 • Notional Amount = USD 2,000,000	• Strike / Protection Rate = 0.7200 • Notional Amount = USD 1,000,000	• Strike / Protection Rate = 0.7200 • Notional Amount = USD 1,000,000 • Knock-Out Barrier Rate = 0.7050
Possible Outcomes		
• **Scenario 1**: If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7200, you will have the right to buy USD 2,000,000 at the Protection Rate of 0.7200. • **Scenario 2:** If the Spot Rate at the Expiry Date is above the Protection Rate of 0.7200, and the Knock-Out Barrier Rate of 0.7050 has not been Triggered, you will be obligated to buy USD 2,000,000 at the Protection Rate of 0.7200. • **Scenario 3:** If the Spot Rate at the Expiry Date is above 0.7200, and the Knock-Out Barrier Rate of 0.7050 has been Triggered, the structure reverts to a Participating Forward and you will be obligated to buy USD 1,000,000 at the Protection Rate of 0.7200. If needed, you may trade further at the more favourable Spot Rate.		

2.10.10 Knock-In Reset

A Knock-In Reset is a Structured Option that allows you set a Protection Rate and participate in a favourable Spot Rate move up to a specified Knock-In Barrier Rate. If the Knock-In Barrier Rate is Triggered, the structure reverts to the Reset Rate that is more favourable than the Protection Rate.

Advantages	Disadvantages
• Potential to participate in a favourable Spot Rate move up to the Knock-In / Knock-Out Barrier Rates. • If the Knock-In / Knock Out Barrier Rate is Triggered, you are Knocked-In to a more favourable rate than a standard Knock-In Forward.	• Protection Rate is less favourable than the Forward Exchange Contract rate or Knock-In Forward rate at inception. • If the Knock-In / Knock-Out Barrier Rate is Triggered, you must buy the entire Notional Amount at the Reset Rate.

Example Knock-In Reset - Spot Rate of 0.7550		
Buy Knock-Out NZD Put / USD Call	**Buy Knock-In NZD Put / USD Call**	**Sell Knock-In NZD Call / USD Put**
• Strike / Protection Rate = 0.7150 • Knock-Out Barrier Rate = 0.7850 • Notional Amount = USD 1,000,000	• Strike / Reset Rate = 0.7350 • Knock-In Barrier Rate = 0.7850 • Notional Amount = USD 1,000,000	• Strike / Reset Rate = 0.7350 • Knock-In Barrier Rate = 0.7850 • Notional Amount = USD 1,000,000
Possible outcomes		
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7150, and the Knock-Out / In Barrier Rates have not been Triggered, you will have the right to buy USD 1,000,000 at the Protection Rate of 0.7150. • **Scenario 2:** If the Spot Rate at the Expiry Date is above the Protection Rate of 0.7150, and the Knock-Out / In Barrier Rates have not been Triggered, you will have no obligation and will be free to trade at the prevailing Spot Rate. • **Scenario 3**: If the Knock-Out / In Barrier Rates of 0.7850 have been Triggered, you will buy USD 1,000,000 at the Reset Rate of 0.7350.		

2.10.11 Convertible Forward

A Convertible Forward is a Structured Option that allows you to set a Protection Rate with the possibility of the structure converting to a Vanilla Option if a specified Knock-Out Barrier Rate is Triggered. The Protection Rate is less favourable than the comparable Forward Exchange Contract rate at inception.

Advantages	Disadvantages
• Potential for the structure to convert to a Vanilla Option which gives the holder full protection, with unlimited participation in a favourable Spot Rate move (without the usual Premium payable for this right).	• If the Knock-Out Barrier Rate is not Triggered, you are obligated to buy at a less favourable rate than the comparable Forward Exchange Contract rate.

Example Convertible Forward - Spot Rate of 0.7450	
Buy NZD Put / USD Call	**Sell KO NZD Call / USD Put**
• Strike / Protection Rate = 0.7250 • Notional Amount = USD 1,000,000	• Strike / Protection Rate= 0.7250 • Notional Amount = USD 1,000,000 • Knock-Out Barrier Rate = 0.7050

Possible Outcomes
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7250, you will have the right to buy USD 1,000,000 at 0.7250. • **Scenario 2:** If the Spot Rate at the Expiry Date is above the Protection Rate 0.7250, and the Knock-Out Barrier Rate of 0.7050 has not been Triggered, you will be obligated to buy USD 1,000,000 at the Protection Rate of 0.7250. • **Scenario 3:** If the Spot Rate at the Expiry Date is above the Protection Rate of 0.7250, and Knock-Out Barrier Rate of 0.7050 has been Triggered, your structure is converted to a Vanilla Option with no Premium payable, and you have no obligation and may trade at the prevailing Spot Rate.

2.10.12 Relief Forward

A Relief Forward is a Structured Option that allows you to set a Protection Rate with the possibility of your obligations in the contract being released if a Knock-Out Barrier Rate is Triggered. The Knock-Out Barrier Rate is set at a favourable Spot Rate, meaning that if the Spot Rate moved in your favour and Triggered the Knock-Out Barrier Rate, you would no longer be committed for the Notional Amount, and you would be free to trade at the favourable Spot Rate. The Protection Rate is less favourable than the comparable Forward Exchange Contract rate at inception.

Advantages	Disadvantages
• Potential for the structure to convert to a Vanilla Option which gives the holder full protection, with unlimited participation in a favourable Spot Rate move (without the usual Premium payable for this right). • The OTM position of this contract can be capped by the Barrier, allowing more flexible use of credit facilities.	• If the Knock-Out Barrier Rate is not Triggered, you are obligated to buy at a less favourable rate than the comparable Forward Exchange Contract rate.

Example Relief Forward - Spot Rate of 0.7550	
Buy NZD Put / USD Call	**Sell Knock-Out NZD Call / USD Put**
• Strike / Protection Rate = 0.7250 • Notional Amount = USD 1,000,000	• Strike / Protection Rate = 0.7250 • Notional Amount = USD 1,000,000 • Knock-Out Barrier Rate = 0.8250
Possible Outcomes	
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7250, you will have the right to buy USD 1,000,000 at 0.7250. • **Scenario 2:** If the Spot Rate at the Expiry Date is above the Protection Rate of 0.7250, and the Knock-Out Barrier Rate of 0.8250 has not been Triggered, you will be obligated to buy USD 1,000,000 at the Protection Rate of 0.7250. • **Scenario 3:** If the Spot Rate at the Expiry Date is above the Protection Rate of 0.7250, and Knock-Out Barrier Rate of 0.8250 has been Triggered, your structure is converted to a Vanilla Option with no Premium payable, and you have no obligation and may trade at the prevailing Spot Rate.	

2.10.13 Forward Overlay

A Forward Overlay is a Structured Option that provides full protection against an adverse Spot Rate move while also allowing for some participation in a favourable Spot Rate move beyond a certain level. The first two legs of the Forward Overlay function like a Forward Exchange Contract, where you have a fixed rate, for a fixed amount, and a fixed date. However, adding the third leg offsets your obligation beyond a certain level and allows you to participate in a favourable Spot Rate move again.

Advantages	Disadvantages
• Fully protected against adverse Spot Rate movement • Possibility for participation in a favourable Spot Rate movement	• Protection Rate is less favourable than comparable Forward Exchange Contract • Participation in a favourable Spot Rate move is adjusted by the difference between the Strike Rates of the Protection Rate and the Overlay Rate on the Notional Amount

Example Forward Overlay - Spot Rate of 0.7550		
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**	**Buy NZD Call / USD Put**
• Strike / Protection Rate = 0.7400 • Notional Amount = USD 1,000,000	• Strike / Protection Rate = 0.7400 • Notional Amount = USD 1,000,000	• Strike / Overlay Rate = 0.7950 • Notional Amount = USD 1,000,000
Possible outcomes		
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7400, you will have the right to buy USD 1,000,000 at the Protection Rate of 0.7400. • **Scenario 2:** If the Spot Rate at the Expiry Date is between the Protection Rate of 0.7400 and the Overlay Rate of 0.7950, you will be obligated to buy USD 1,000,000 at the Protection Rate of 0.7400. • **Scenario 3:** If the Spot Rate at the Expiry Date is above the Overlay Rate of 0.7950, you are free to deal at the Spot Rate, and you are obligated to pay the offsetting difference on the Notional Amount of USD 1,000,000 between the Protection Rate of 0.7400 and the Overlay Rate of 0.7950. For example, if the Spot Rate finishes at 0.8500 you can exchange USD 1,000,000 at a rate of 0.8500 (NZD 1,176,470.59), and you will also pay NZD 93,489.72, being the difference between USD 1,000,000 at 0.7950 and USD 1,000,000 at 0.7400. This gives you a Dynamic Rate of 0.7874, and a total cost of NZD 1,269,960.30. Your Dynamic Rate improves as the Spot Rate improves.		

2.10.14 Seagull Forward

A Seagull Forward is a Structured Option that provides full protection against an adverse Spot Rate move while also allowing for some participation in a favourable Spot Rate move beyond a certain level. The first two legs of the Seagull Forward function like a Collar Option, where you have both a known worst-case rate and best-case rate, and between the two you have no obligation and can trade at the prevailing Spot Rate. However, adding the third leg offsets your obligation beyond a certain level and allows you to participate in a favourable Spot Rate move again.

Advantages	Disadvantages
• Fully protected against adverse Spot Rate movement. • No obligation if Spot Rate is between the Protection Rate and the Participation Rate. • Possibility for participation in a favourable Spot Rate move.	• Protection and Participation Rates are less favourable than comparable Collar rates. • Participation in a favourable Spot Rate move is adjusted by the difference between the strikes of the Participation Rate and Overlay Rate on the Notional Amount.

Example Seagull Forward - Spot Rate of 0.7550		
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**	**Buy NZD Call / USD Put**
• Strike / Protection Rate = 0.7350 • Notional Amount = USD 1,000,000	• Strike / Participation Rate = 0.7750 • Notional Amount = USD 1,000,000	• Strike / Overlay Rate = 0.7950 • Notional Amount = USD 1,000,000
Possible outcomes		
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7350, you will have the right to buy USD 1,000,000 at the Protection Rate of 0.7350. • **Scenario 2:** If the Spot Rate at the Expiry Date is between the Strike Rates of 0.7350 and 0.7750, you will have no obligation and may trade at the prevailing Spot Rate. • **Scenario 3:** If the Spot Rate at the Expiry Date is between 0.7750 and 0.7950, you will be obligated to buy USD 1,000,000 at the Participation Rate of 0.7750. • **Scenario 4:** If the Spot Rate at the Expiry Date is above the Overlay Rate of 0.7950, you are free to deal at the Spot Rate, and you are obligated to pay the offsetting difference on the Notional Amount of USD 1,000,000 between the Protection Rate of 0.7750 and the Overlay Rate of 0.7950. For example, if the Spot Rate finishes at 0.8500 you can exchange USD 1,000,000 at a rate of 0.8500 (NZD 1,176,470.59), but you will also pay NZD 32,460.95, being the difference between USD 1,000,000 at 0.7950 and USD 1,000,000 at 0.7750. This gives you an effective rate of 0.8272, and a total cost of NZD 1,208,931.53. Your Dynamic Rate improves as the Spot Rate improves.		

2.10.15 Venture Forward

A Venture Forward is a Structured Option similar to a Ratio Forward. Both products make use of Leverage to initially allow you to realise an Enhanced Rate (meaning a Strike Rate better than comparable Structured Options at inception). The advantages and disadvantages of using Leverage are discussed further in Section 2.12 of this PDS ('Leverage and Structured Options'). The Venture Forward achieves a greater enhancement to the initial Enhanced Rate, but comes with a Knock-In / Out Barrier Rate. If this Knock-In / Out Barrier Rate is Triggered, the bought Option is reset, and the Enhanced Rate is therefore reset to a lower Reset Protection Rate. In any case, if the Spot Rate at the Expiry Date finishes above the Enhanced Strike Rate, you will be obligated to trade the larger, Leveraged amount at that rate.

Advantages	Disadvantages
• Protection Rate is better than the comparable Forward Exchange Contract or Ratio Forward rates. • If the Knock-In / Out Barrier Rate is Triggered, you still have protection from further adverse Spot Rate moves.	• If Spot Rate moves favourably, the use of Leverage will obligate you to a larger amount at an Enhanced Rate which is less favourable than the prevailing Spot Rate. • If the Knock-In / Out Barrier Rate is Triggered, your new Reset Protection Rate is less favourable than your initial Enhanced Rate.

<table>
<tr><th colspan="3">Example Venture Forward - Spot Rate of 0.7300</th></tr>
<tr><th>Buy Knock-Out NZD Put / USD Call</th><th>Sell NZD Call / USD Put</th><th>Buy Knock-In NZD Put / USD Call</th></tr>
<tr><td>• Strike / Enhanced Rate = 0.7500
• Knock-Out Barrier Rate = 0.7000
• Notional Amount = USD 500,000</td><td>• Strike / Enhanced Rate = 0.7500
• Notional Amount = USD 1,000,000</td><td>• Strike / Reset Protection Rate = 0.7100
• Knock-In Barrier Rate = 0.7000
• Notional Amount = USD 500,000</td></tr>
<tr><th colspan="3">Possible Outcomes</th></tr>
<tr><td colspan="3">• Scenario 1: If the Spot Rate at the Expiry Date is above the Enhanced Rate of 0.7500, you will be obligated to buy USD 1,000,000 at the Enhanced Rate of 0.7500.
• Scenario 2: If the Spot Rate at the Expiry Date is below the Enhanced Rate of 0.7500, and the Knock-In / Out Barrier Rate of 0.7000 has not been Triggered, you will have the right to buy USD 500,000 at the Enhanced Rate of 0.7500.
• Scenario 3: If the Spot Rate at the Expiry Date is between the Strike Rates of 0.7100 and 0.7500, and the Knock-In / Out Barrier Rate of 0.7000 has been Triggered, you will have no obligation and may trade at the prevailing Spot Rate.
• Scenario 4: If the Spot Rate at the Expiry Date is below the Reset Protection Rate of 0.7100, and the Knock-In / Out Barrier Rate has been Triggered, you will have the right to buy USD 500,000 at the Reset Protection Rate of 0.7100.</td></tr>
</table>

2.10.16 Encore Knock-In

An Encore Knock-In is a Structured Option that allows you to set a Protection Rate and participate in a favourable Spot Rate move up to pre-set Knock-In Barrier Rates at two different rates. If only the first Barrier Rate is Triggered, you will only be obligated to trade a portion of the Option at the Protection Rate and can trade your remaining amount at the more favourable Spot Rate. If both Barrier Rates are Triggered, you will be obligated to trade the entire amount at the Protection Rate.

Advantages	Disadvantages
• Provides the ability to participate in a favourable Spot Rate move up to known Knock-In Barrier Rates. • Knock-In Barrier Rates are staggered at different rates, allowing some participation even if one Knock-In Barrier Rate is Triggered. • Fully protected against adverse Spot Rate movement.	• Protection Rate is worse than the comparable Forward Exchange Contract rate. • If one Knock-In Barrier Rate is Triggered, you will be obligated to trade a portion of the Notional Amount at the Protection Rate. • If both Knock-In Barrier Rates are Triggered, you will be obligated to trade the entire amount at the Protection Rate.

Example Encore Knock-In - Spot Rate of 0.7550		
Buy NZD Put / USD Call	**Sell Knock-In NZD Call / USD Put**	**Sell Knock-In NZD Call / USD Put**
• Strike / Protection Rate = 0.7150 • Notional Amount = USD 1,000,000	• Strike / Protection Rate = 0.7150 • Notional Amount = USD 500,000 • Knock-in Barrier Rate = 0.7850	• Strike / Protection Rate = 0.7150 • Notional Amount = USD 500,000 • Knock-In Barrier Rate = 0.8050

Possible Outcomes
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Protection Rate of 0.7150, you will have the right to buy USD 1,000,000 at the Protection Rate of 0.7150. • **Scenario 2:** If neither Knock-In Barrier Rate has been Triggered, and the Spot Rate at the Expiry Date is above the Protection Rate of 0.7150, you will have no obligation and are free to trade at the prevailing Spot Rate. • **Scenario 3:** If only the Knock-In Barrier Rate of 0.7850 has been Triggered, and the Spot Rate at the Expiry Date is above the Protection Rate of 0.7150, you will be obligated to buy USD 500,000 at the Protection Rate of 0.7150. You are free to buy the remainder of your USD at the more favourable Spot Rate. • **Scenario 4:** If both Knock-In Barrier Rates of 0.7850 and 0.8050 have been Triggered, you will buy USD 1,000,000 at the Protection Rate of 0.7150.

2.10.17 Knock-Out Forward

A Knock-Out Forward is a Structured Option that provides you with the potential to achieve an Enhanced Rate that outperforms the comparable Forward Exchange Contract. However, there is a possibility a Knock-Out Barrier Rate is Triggered, which results in the entire contract being terminated, leaving you with no protection from adverse currency movement. This means you may be left to exchange your currency requirements at the Spot Rate, which could cost significantly more than alternatives that were available at the outset.

Advantages	Disadvantages
• Potential to trade at an Enhanced Rate that outperforms the comparable Forward Exchange Contract. • Consistently outperforms the comparable Forward Exchange Contract when the Knock-Out Barrier Rate has not been Triggered.	• If the Knock-Out Barrier Rate is Triggered, you are left with no protection from adverse currency movement. • You may be left to exchange your currency requirements at the Spot Rate, which could cost significantly more than alternatives that were available at the outset. • You are unable to determine the outcome of this product until either the Knock-Out Barrier Rate has been Triggered, or Barrier Period has expired.

Example Knock-Out Forward, Spot Rate of 0.7450	
Buy Knock-Out NZD Put / USD Call	**Sell Knock-Out NZD Call / USD Put**
• Strike / Enhanced Rate = 0.7550 • Notional Amount = USD 1,000,000 • Knock-Out Barrier Rate = 0.6750	• Strike / Enhanced Rate = 0.7550 • Notional Amount = USD 1,000,000 • Knock-Out Barrier Rate = 0.6750
Possible Outcomes	
• **Scenario 1:** If the Knock-Out Barrier Rate of 0.6750 has not been Triggered, you will buy USD 1,000,000 at the Enhanced Rate of 0.7550 on the Expiry Date. • **Scenario 2:** If the Knock-Out Barrier Rate of 0.6750 has been Triggered, the contract is terminated and you will have no protection or obligations remaining in the contract.	

2.10.18 Knock-Out Collar

A Knock-Out Collar is a Structured Option that provides you with the potential to achieve Enhanced Rates that outperform the comparable Collar. However, if a Knock-Out Barrier Rate is Triggered, the entire contract will be terminated, leaving you with no protection from adverse currency movement. This means you may be left to exchange your currency requirements at the Spot Rate, which could cost significantly more than alternatives that were available at the outset.

Advantages	Disadvantages
• Potential to trade at an Enhanced Rate that outperforms the comparable Collar. • Enhanced Rate on the obligated portion is more favourable than the comparable Knock-Out Forward, allowing greater potential benefit.	• If the Knock-Out Barrier Rate is Triggered, you are left with no protection from adverse currency movement. • You may be left to exchange your currency requirements at the Spot Rate, which could cost significantly more than alternatives that were available at the outset. • You are unable to determine the outcome of this product until either the Knock-Out Barrier Rate has been Triggered, or the Barrier Period has completed.

Example Knock-Out Collar - Spot Rate of 0.7450	
Buy Knock-Out NZD Put / USD Call	**Sell Knock-Out NZD Call / USD Put**
• Strike / Enhanced Rate = 0.7350 • Notional Amount = USD 1,000,000 • Knock-Out Barrier Rate = 0.6750	• Strike / Enhanced Rate= 0.7750 • Notional Amount = USD 1,000,000 • Knock-Out Barrier Rate = 0.6750
Possible Outcomes	
• **Scenario 1:** If the Knock-Out Barrier Rate of 0.6750 has not been Triggered, and the Spot Rate at the Expiry Date is below the NZD Put Option Enhanced Rate of 0.7350, you will have the right to buy USD 1,000,000 at the Enhanced Rate of 0.7350. • **Scenario 2:** If the Knock-Out Barrier Rate of 0.6750 has not been Triggered, and the Spot Rate at the Expiry Date is between the two Strike Rates of 0.7350 and 0.7750, you will have no obligation and may choose to trade at the Spot Rate. • **Scenario 3:** If the Knock-Out Barrier Rate of 0.6750 has not been Triggered, and the Spot Rate at the Expiry Date is above the NZD Call Option Enhanced Rate of 0.7750, you will buy USD 1,000,000 at the Enhanced Rate of 0.7750. • **Scenario 4:** If the Knock-Out Barrier Rate of 0.6750 has been Triggered, the contract is terminated and you will have no protection or obligations remaining in the contract.	

2.10.19 Range Reset

A Range Reset is a Structured Option that provides you with the potential to trade at an Enhanced Rate, that outperforms the comparable Forward Exchange Contract. The Range Reset has two separate levels at which Knock-In / Out Barriers are set, which create a range. If the Knock-In / Out Barrier Rates have not been Triggered, you trade at the Enhanced Rate. If the Knock-In / Out Barrier Rates are Triggered, the contract will reset to a Reset Rate, and you will be obligated to trade at this rate at the Expiry Date.

Advantages	Disadvantages
• Potential to achieve an Enhanced Rate that outperforms the comparable Forward Exchange Contract. • Potential to achieve an Enhanced Rate whilst always maintaining a worst-case rate, unlike the Knock-Out Forward.	• If either of the Knock-In and Knock-Out Barrier Rates are Triggered, you will be obligated to trade at a Reset Rate. • The Reset Rate is often considerably lower than what comparable alternatives may have offered at the outset of the contract.

Example Range Reset - Spot Rate of 0.7450	
Buy Double Knock-Out NZD Put / USD Call	**Sell Double Knock-Out NZD Call / USD Put**
• Strike / Enhanced Rate = 0.7450 • Notional Amount = USD 1,000,000 • Knock-Out Barrier Rate = 0.6950 • Knock-Out Barrier Rate = 0.7950	• Strike / Enhanced Rate= 0.7450 • Notional Amount = USD 1,000,000 • Knock-Out Barrier Rate = 0.6950 • Knock-Out Barrier Rate = 0.7950

Buy Double Knock-In NZD Put / USD Call	Sell Double Knock-In NZD Call / USD Put
• Strike / Reset Rate = 0.7250 • Notional Amount = USD 1,000,000 • Knock-In Barrier Rate = 0.6950 • Knock-In Barrier Rate = 0.7950	• Strike / Reset Rate= 0.7250 • Notional Amount = USD 1,000,000 • Knock-In Barrier Rate = 0.6950 • Knock-In Barrier Rate = 0.7950
Possible Outcomes	
• **Scenario 1:** If at the Expiry Date the Knock-In / Out Barrier Rates have not been Triggered, you will buy USD 1,000,000 at the Enhanced Rate of 0.7450. • **Scenario 2:** If at the Expiry Date the Knock-In / Out Barrier Rates have been Triggered, you will buy USD 1,000,000 at the Reset Rate of 0.7250.	

2.10.20 Inverse Collar

The Inverse Collar is similar in style to the Collar, however the levels on the underlying Options are inversed. This means the Strike Rate on the bought Option is more favourable than the comparable Forward Exchange Contract rate, and the Strike Rate on the sold Option is less favourable than the comparable Forward Exchange Contract rate. Given the Strike Rate is more favourable than the comparable Forward Exchange Contract rate, an Inverse Collar is a Structured Option that provides you with the potential to achieve an Enhanced Rate in unfavourable moves in the currency. However, in the event of a favourable Spot Rate move, the Inverse Collar will obligate you to exchange currency at a comparably unfavourable Strike Rate. If the Spot Rate at the Expiry Date finishes between the two Strike Rates, both Options will be exercised, and you will be obligated to trade both Notional Amounts at the different Strike Rates.

Advantages	Disadvantages
• Potential to trade at an Enhanced Rate that outperforms the comparable Forward Exchange Contract.	• The worst-case rate at the outset can be significantly lower than the comparable Forward Exchange Contract rate. • If the Spot Rate at the Expiry Date finishes in between the two Strike Rates, both Options will be exercised meaning you will be obligated to buy two lots of currency.
Example Inverse Collar - Spot Rate of 0.7450	
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**
• Strike / Enhanced Rate = 0.7550 • Notional Amount = USD 1,000,000	• Strike Rate = 0.7150 • Notional Amount = USD 1,000,000
Possible Outcomes	
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Strike Rate of 0.7150, you will have the right to buy USD 1,000,000 at the Enhanced Rate of 0.7550. • **Scenario 2:** If the Spot Rate at the Expiry Date is above the Enhanced Rate of 0.7550, you will be obligated to buy USD 1,000,000 at the Strike Rate of 0.7150. • **Scenario 3:** If the Spot Rate at the Expiry Date is in between the Strike Rate of 0.7150 and the Enhanced Rate of 0.7550, both Options will be exercised, and you will be obligated to buy USD 1,000,000 at the Strike Rate of 0.7150, and USD 1,000,000 at the Enhanced Rate of 0.7550. This is a total of USD 2,000,000 at an effective rate of 0.7345.	

2.10.21 Lift Forward

A Lift Forward is a Structured Option that offers protection against an adverse Spot Rate move, while at the same time allowing the potential to deal at an enhanced Dynamic Rate in an unfavourable Spot Rate move. If the spot rate moves unfavourably against the Protection Rate, you will have the potential to deal at an enhanced Dynamic Rate. If the Knock-Out Barrier is Triggered, then you lose the opportunity to deal at the enhanced Dynamic Rate, and deal at the Protection Rate.

Advantages	Disadvantages
• Provides the opportunity to deal at an advantageous Dynamic Rate in the event of an unfavourable Spot Rate move.	• Protection Rate is worse than the comparable Forward Exchange Contract rate. • If the Knock-Out Barrier Rate is Triggered, you lose the opportunity to deal at the Dynamic Rate.

Example Lift Forward - Spot Rate of 0.7550		
1. Buy NZD Put / USD Call	**2. Sell NZD Call / USD Put**	**3. Buy Knock-Out NZD Put / USD Call**
• Strike / Protection Rate = 0.7400 • Notional Amount = USD 500,000	• Strike / Protection Rate = 0.7400 • Notional Amount = USD 500,000	• Strike / Protection Rate = 0.7400 • Notional Amount = USD 500,000 • Knock-Out Barrier Rate = 0.6750

Possible Outcomes

- **Scenario 1:** If the Spot Rate at the Expiry Date finishes below the Protection Rate, and the Knock-Out Barrier Rate has not been Triggered, then you deal the Notional Amount of USD 500,000 at the Protection Rate of 0.7400. You also deal the Notional Amount of an additional USD 500,000 at the Protection Rate of 0.7400. Typically, the second Notional Amount is closed out at market rates for a profit which is used to enhance the overall rate creating a Dynamic Rate. Refer to the Dynamic Rate table below.
- **Scenario 2:** If the Spot Rate at the Expiry Date finishes above the Protection Rate of 0.7400, you will be obligated to buy USD 500,000 at the Protection Rate of 0.7400.
- **Scenario 3:** If the Spot Rate at the Expiry Date finishes below the Protection Rate, and the Knock-Out Barrier rate has been Triggered, then you buy USD 500,000 at 0.7400.

Spot Rate at Expiry	Rate Outcome	Outcome Comments
0.7400	0.7400	Deal at Protection Rate.
0.7350	0.7451	Deal at Dynamic Rate. **Example:** The Spot Rate at the Expiry Date finishes below the Protection Rate at 0.7100, and the Knock-Out Barrier Rate has not been Triggered. Therefore, you deal the Notional Amount of USD 500,000 at the Protection Rate of 0.7400, which costs NZD 675,675.68. A second Notional Amount of USD 500,000 at the Protection Rate of 0.7400 is closed out at the market rate of 0.7100, for a profit of NZD 28,549.68. The original settlement amount of NZD 675,675.68 is adjusted to reflect this profit giving a new settlement amount of NZD 647,126.00. In effect, this gives you the Notional Amount of USD 500,000 at the Dynamic Rate of 0.7726, at a total net cost of NZD 647,126.00.
0.7300	0.7503	
0.7250	0.7556	
0.7200	0.7611	
0.7150	0.7668	
0.7100	0.7726	
0.7050	0.7787	
0.7000	0.7848	
0.6950	0.7912	
0.6900	0.7978	
0.6850	0.8046	
0.6800	0.8116	
0.6750	0.7400	Knock-Out NZD Put / USD Call Option Terminated – Deal at Protection Rate.

Possible Variations

- In some variations of this product, the Knock-Out Barrier feature of the third option may be excluded, leaving a standard Vanilla Option (a NZD Put / USD Call option if following the example above). In this scenario, the overall Protection Rates and Barrier Rates may be less favourable. However, the risk of losing the ability to deal at the enhanced Dynamic Rate (via Knock-Out Barrier being Triggered) is eliminated.

2.10.22 Progressive Forward

A Progressive Forward is a Structured Option that offers protection against an adverse Spot Rate move, while at the same time allowing for limited participation in the event of a favourable Spot Rate move, and the potential to deal at an enhanced Dynamic Rate in an unfavourable Spot Rate move. Participation will be available provided a specified Knock-In Barrier Rate is not Triggered. If the Knock-In Barrier Rate is Triggered, you will be obligated to buy the Notional Amount of the sold option at the Protection Rate. If the spot rate moves unfavourably against the Protection Rate, you will have the potential to deal at an enhanced Dynamic Rate. If the Knock-Out Barrier is Triggered, then you lose the opportunity to deal at the enhanced Dynamic Rate, and deal at the Protection Rate.

Advantages	Disadvantages
• Offers the potential to participate in a favourable Spot Rate move provided the Knock-In Barrier Rate has not been Triggered. • Provides the opportunity to deal at an advantageous Dynamic Rate in the event of an unfavourable Spot Rate move.	• Protection Rate is worse than the comparable Forward Exchange Contract rate, and comparable Knock-In Forward rate. • If the Knock-In Barrier Rate is Triggered, you are obligated to buy the Notional Amount on the sold option at the Protection Rate. • If the Knock-Out Barrier Rate is Triggered, you lose the opportunity to deal at the Dynamic Rate.

Example Progressive Forward - Spot Rate of 0.7550		
1. Buy NZD Put / USD Call	**2. Sell Knock-In NZD Call / USD Put**	**3. Buy Knock-Out NZD Put / USD Call**
• Strike / Protection Rate = 0.7350 • Notional Amount = USD 500,000	• Strike / Protection Rate = 0.7350 • Knock-In Barrier Rate = 0.7900 • Notional Amount = USD 500,000	• Strike / Protection Rate = 0.7350 • Knock-Out Barrier Rate = 0.6750 • Notional Amount = USD 500,000

Possible Outcomes

- **Scenario 1:** If the Spot Rate at the Expiry Date finishes below the Protection Rate, and the Knock-Out Barrier Rate has not been Triggered, then you deal the Notional Amount of USD 500,000 at the Protection Rate of 0.7350. You also deal the Notional Amount of an additional USD 500,000 at the Protection Rate of 0.7350. Typically, the second Notional Amount is closed out at market rates for a profit which is used to enhance the overall rate creating a Dynamic Rate.
- **Scenario 2:** If the Spot Rate at the Expiry Date finishes above the Protection Rate of 0.7350, and the Knock-In Barrier rate has not been Triggered, then you have no obligation and may deal at the prevailing Spot Rate.
- **Scenario 3:** If the Spot Rate at the Expiry Date finishes above the Protection Rate of 0.7350, and the Knock-In Barrier rate has been Triggered, you will be obligated to buy USD 500,000 at the Protection Rate of 0.7350.
- **Scenario 4:** If the Spot Rate at the Expiry Date finishes below the Protection Rate, and the Knock-Out Barrier rate has been Triggered, then you buy USD 500,000 at 0.7350

Spot Rate at Expiry	Dynamic Rate	Outcome Comments
0.7350	0.7350	Deal at Protection Rate.
0.7300	0.7401	Deal at Dynamic Rate. **Example:** The Spot Rate at the Expiry Date finishes below the Protection Rate at 0.7100, and the Knock-Out Barrier Rate has not been Triggered. Therefore, you deal the Notional Amount of USD 500,000 at the Protection Rate of 0.7350, which costs NZD 680,272.11. A second Notional Amount of USD 500,000 at the Protection Rate of 0.7350 is closed out at the market rate of 0.7100, for a profit of NZD 23,953.24. The original settlement amount of NZD 680,272.11 is adjusted to reflect this profit giving a new settlement amount of NZD 656,318.87. In effect, this gives you the Notional Amount of USD 500,000 at the Dynamic Rate of 0.7618, at a total net cost of NZD 656,318.87.
0.7250	0.7453	
0.7200	0.7506	
0.7150	0.7562	
0.7100	0.7618	
0.7050	0.7677	
0.7000	0.7737	
0.6950	0.7799	
0.6900	0.7863	
0.6850	0.7929	
0.6800	0.7997	
0.6750	0.7350	Knock-Out NZD Put / USD Call Option Terminated – Deal at Protection Rate.

Possible Variations

- In some variations of this product, the Knock-Out Barrier feature of the third option may be excluded, leaving a standard Vanilla Option (a NZD Put / USD Call option if following the example above). In this scenario, the overall Protection Rates and Barrier Rates may be less favourable. However, the risk of losing the ability to deal at the enhanced Dynamic Rate (via Knock-Out Barrier being Triggered) is eliminated.

2.11 Knock-In and Knock-Out Barriers

As previously noted in Section 2.2.3 of this PDS (‘European, American and Exotic Options’), many of the Options that EncoreFX offers include features known as Barriers. These Options are also known as Exotic Options. A Barrier is a feature of an Option that if Triggered will either activate (Knock-In Barrier Rate) or terminate (Knock-Out Barrier Rate) the underlying Option. A Barrier is Triggered if the Spot Rate reaches the Barrier Rate during the Barrier Period. Each Barrier will usually have unique terms, including a Spot Rate at which the Barrier is Triggered and a Barrier Period or timeframe for which the Barrier can be Triggered. The Spot Rate at which a Barrier can be Triggered is the interbank market rate.

EncoreFX generally operates under the industry convention that the Barrier is American unless otherwise specified, meaning that the Barrier Period is live throughout the Term of the Option. Where an American Barrier is in place, if the Spot Rate trades at or outside the Barrier between the date that the contract is entered and the Expiry Date, the Barrier is said to be Triggered. You can elect to have a shorter term apply to the Barrier in a Structured Option by opting for European Barriers or Window Barriers.

A European Barrier is effective only at the Expiry Date of the Option, meaning that the Spot Rate may trade at or beyond the Barrier prior to the Expiry Date without the Barrier being Triggered. If the Spot Rate is at or beyond the Barrier at the Expiry Date of the Option, the Barrier is said to be Triggered.

Window Barriers are applicable to specific periods of time within the Term of the Option. For example, a “last month Window Barrier” is active in the last month of the Term of the Option. This means that the Spot Rate may trade at or beyond the Barrier prior to last month without the Barrier being Triggered. However, during the last month the Barrier becomes active, meaning that if the Spot Rate trades at or outside of the Barrier during the last month of the Term of the Option, the Barrier is said to be Triggered.

You can request that EncoreFX provide a European or Window Barrier at any time before entering a Structured Option, provided that European or Window Barriers are available for the particular structure in question. The Barrier type used is set at the outset of the contract and cannot be changed once accepted.

All else being equal, choosing a European or Window Barrier instead of an American Barrier may result in a less favourable range between the Strike Rate(s) and the Barrier Rate(s) for the same Structured Option. For example, a Knock-In Forward with an American Barrier for a NZD Seller / USD Buyer may have a Protection Rate of 0.7100 and an American Barrier at 0.7650. While the equivalent Term Knock-In Forward with European Barrier may have a Protection Rate of 0.7100 and a Barrier at 0.7350. In this example, the choice of a European Barrier results in less potential participation in a potentially favourable depreciation in the USD against the NZD exchange rate.

Note that this example is for informational purposes only and is not an indication of future exchange rates.

2.12 Leverage and Structured Options

Many of the Structured Options that EncoreFX offer can utilise Leverage to achieve Enhanced Rates. Leveraging Structured Options is a process where the client sells a Notional Amount for one or more of the underlying Options, which is larger than the Notional Amount of the underlying Options that are purchased. This means you may be obligated to trade a larger Notional Amount (on the sold Options) than the protected amount (on the bought Options).

The increased obligation within the Structured Option is offset by Enhanced Rates for the underlying structure. These Enhanced Rates give you the potential to achieve better outcomes than what is normally available with the non-Leveraged version of the product. Whilst the benefits of Enhanced Rates are clear, there are increased risks when using Leverage with Structured Options. Specifically, if a Structured Option were to be exercised, you could be obligated to exchange a higher amount of currency than what you would have been protected for, or what you may have opted for with a non-Leveraged version of the same Structured Option.

2.12.1 Options available for Leverage

The Ratio Forward and Venture Forward are both products which utilise Leverage by default. Other products listed above in Section 2.10 of this PDS (‘Options offered by EncoreFX’) which can be Leveraged, include the following:

- Collar
- Knock-In Collar
- Knock-In Forward
- Knock-In Reset
- Convertible Forward
- Relief Forward
- Forward Overlay
- Seagull Forward
- Encore Knock-In
- Knock-Out Forward
- Knock-Out Collar
- Range Reset
- Inverse Collar
- Lift Forward
- Progressive Forward

2.12.2 Example of a Leveraged Option – Leveraged Collar

The example set out below is for informational purposes only. It provides an example of one situation only and does not reflect the specific circumstances or the obligations that may arise under a derivative entered into by you. In order to assess the merits of any particular Option you should use the actual rates and figures available to you at the relevant time.

The example Option below has a 6-month Term, is structured at Zero-Premium and is written from the perspective of a New Zealand Dollar (NZD) Seller / US Dollar (USD) Buyer (e.g., a corporate client wanting to hedge against a potential appreciation of the USD relative to the NZD).

A Leveraged Collar is a Structured Option that allows you to set a Protection Rate and a Participation Rate for your foreign currency needs. At the Expiry Date, a Leveraged Collar provides the ability to participate in a favourable Spot Rate move between the Protection Rate and the Participation Rate. The Leverage used comes from selling an Option for a Notional Amount that is larger than the Notional Amount of a purchased Option. In this case, the Leverage is a multiple of two times that of the purchased Option. The Leverage allows you to achieve better Strike Rates than a standard Collar Option.

Advantages	Disadvantages
• Provides the ability to participate in a favourable Spot Rate move. • Protected from an adverse Spot Rate move for a portion of the contract. • Can achieve more favourable levels than a non-Leveraged Collar.	• Upside participation is limited. • Obligated to buy a larger Notional Amount at the Expiry Date if the Spot Rate is more favourable than the more favourable Strike Rate.

Example Leveraged Collar - Spot Rate of 0.7350	
Buy NZD Put / USD Call	**Sell NZD Call / USD Put**
• Strike Rate = 0.7150 • Notional = USD 1,000,000	• Strike Rate = 0.7650 • Notional = USD 2,000,000
Possible Outcomes	
• **Scenario 1:** If the Spot Rate at the Expiry Date is below the Strike Rate of 0.7150, you will have the right to buy USD 1,000,000 at the Strike Rate of 0.7150. • **Scenario 2:** If the Spot Rate at the Expiry Date is between the Strike Rates of 0.7150 and 0.7650, you will have no obligation and will be free to trade at the prevailing Spot Rate. • **Scenario 3:** If the Spot Rate at the Expiry Date is above the Strike Rate of 0.7650 you will be obligated to trade USD 2,000,000 at the Strike Rate of 0.7650.	

2.12.3 Using Leverage

Leverage of Structured Options is commonly used as a tool to obtain Enhanced Rates over and above what would normally be available. Whilst the exchange rates are enhanced, there are other risks which can make using Leverage more complicated. As a result, Leverage is generally used as a tool to complement an existing hedging portfolio. It is usually only used where a fully hedged position is not required. Leverage is also sometimes used as a tool to take an advantageous approach for exposures that would typically be left unhedged.

2.12.4 Risks of using Leverage

The use of Leverage creates new risks when compared to non-Leveraged Structured Options. When Leverage is used, these new risks are added to the already existing risks of non-Leveraged Structured Options. The existing risks of each Option are set out in Section 3.1 of this PDS (‘Product risks’). The risks associated with Leverage are discussed further in Section 3.1.2 of this PDS (‘Additional risks of using Leverage’).

3. RISKS OF THESE DERIVATIVES

3.1 Product risks

3.1.1 Product specific commitments

On entering into an Option, you are agreeing to a contract with a specific set of commitments. This includes the potential to exchange currency at rates that may be unfavourable to the Spot Rate available in the future, or rates available on other products. Section 2.10 of this PDS ('Options offered by EncoreFX') sets out the product specific commitments relating to each of the Options offered by EncoreFX.

3.1.2 Additional risks of using Leverage

The additional risks of using Leverage include the following:

- You may be obligated to purchase a larger Notional Amount than you are protected for in the Structured Option. If at the Expiry Date the Structured Option outcome results in you buying the obligated amount on the sold leg of the Option, then this will be a multiplier (typically two times) of the bought leg on the Option.
- A Leveraged Structured Option will not provide you with a fully hedged position (protection against adverse currency movement), when being used to hedge a fixed amount of currency exposure. This is because the obligated amount would match the fixed currency exposure, and this amount will be a multiplier (usually two) times the protected amount.
- The use of Leverage can result in difficulties in managing currency exposure, as the amount you will be obligated for may not be known until the Expiry Date of the Structured Option.

3.1.3 Foreign exchange risk

Whenever you enter into an Option, you may be obligated to transact foreign currency transactions at unfavourable exchange rates. Also, because of the nature of Knock-Out and Knock-In Options, you may be obligated to trade at a foreign exchange rate that is significantly OTM relative to the Spot Rate at the Expiry Date.

3.1.4 Contract failure

In the event that you cannot fulfil the terms of your Option contract and you are required to offset the contract prior to the Expiry Date, you may sustain a significant financial loss. EncoreFX will provide a quote for the offsetting services based on market conditions prevailing at that time. As markets for the Options contained in this PDS and offered by EncoreFX are OTC, there may be difficulty in realising liquidity for Options at certain times.

3.1.5 No cooling off

There is no cooling off period, meaning that, after we receive your instructions and the Option contract has been agreed, there is no period of time to release yourself from any obligations without penalty.

3.2 Issuer risk

You are dealing with us as a counterparty to every transaction, so you will have a credit-related exposure to us in relation to each transaction. In all cases, you are reliant on our ability to meet our obligations to you under the terms of each transaction. You are also subject to our credit risk. If our business becomes insolvent, we may be unable to meet our obligations to you.

We must comply with the financial requirements imposed under our derivative issuers licence issued under the Financial Markets Conduct Act 2013. Our audited financial statements are available on the offer register by request to the Registrar at www.business.govt.nz/disclose.

EncoreFX's creditworthiness has not been assessed by an approved rating agency. This means that EncoreFX has not received an independent opinion of its capability and willingness to repay its debts from an approved source.

In the event of our insolvency, if you have entered into an Option with us that has not been Exercised or reached its Expiry Date, you will be an unsecured creditor with a claim against us for any amounts owing under that contract. The extent to which you may recover your proportional entitlement will be determined by applicable insolvency laws subject to any contractual arrangements that you have with EncoreFX (e.g. the set-off and netting rights of EncoreFX against client money, under our Master Terms and Conditions).

We may choose to limit our exposure to you by entering into opposite transactions as principal in the wholesale market. There is therefore also a risk that any parties with whom EncoreFX contracts to mitigate its exposure when acting as principal to the Options (by taking related offsetting or mitigating positions) may not be able to meet their contractual obligations to EncoreFX. This means that EncoreFX could be exposed to the insolvency of these counterparties and to defaults by these counterparties. If a counterparty is insolvent or defaults on its obligations to EncoreFX, the circumstances could give rise to a risk that EncoreFX defaults on its obligations to you.

3.3 Risks when entering or settling the derivatives

3.3.1 Deposit and cross default risk

An initial Margin Deposit (usually around 10%) of the total transaction may be required to enter into an Option.

If the market moves against you and your Option becomes OTM, we may require an additional payment (referred to as Additional Margin Deposit). If you fail to pay an Additional Margin Deposit, we may close out your position (and any other positions you hold with us) by entering into an equal and opposite position. You will remain liable for any negative positions which cannot be covered by the closing out of your Option(s).

4. FEES

Transaction fees or charges may apply where related services such as electronic payments are requested by you and made in connection with your Option.

Transaction fees for electronic payments are separate to fees related to the exchange rate conversion that will apply to converting one foreign currency to another. These conversion fees are payable at the time that we process an electronic payment for you or your nominated beneficiary.

The transaction and conversion fees charged by EncoreFX are a fixed fee per transaction (rather than a percentage) and take the following information into account:

- The amount and type of currency to be transferred (exotic currencies usually incur higher fees).
- The frequency of transactions that you conduct with EncoreFX (an existing relationship may result in reduced fees).
- Which country the funds are sent to (some countries are more expensive than others).

In addition to any transaction fees charged by EncoreFX, any correspondent, intermediary or beneficiary bank which facilitates the sending or payment of transfers or drafts may impose their own additional fees or charges which may be deducted from the amount paid to you or your beneficiary.

In some instances, EncoreFX may charge a monthly or annual fee to users on its platform. This may be a flat fee per user or a fee based on the number of transactions entered into by each user.

Whilst there are no fees charged for entering into a derivative contract, a Retail Mark-Up may apply. For more information refer to Section 2.5.2 of this PDS (‘Retail Mark-Up’).

For more information regarding the fees that may be applicable to you, contact EncoreFX using the details contained in Section 6 of this PDS (‘About EncoreFX’).

5. HOW ENCOREFX TREATS FUNDS AND PROPERTY RECEIVED FROM YOU

5.1 Treatment of client monies

The EncoreFX Trust Account and the EncoreFX Client Funds Account (both terms are defined below) are client money accounts operated in accordance with the requirements of our derivative issuers licence issued under the Financial Markets Conduct Act 2013 and the terms of our Master Terms and Conditions.

5.1.1 EncoreFX Trust Account

Any New Zealand dollar amounts that you pay to EncoreFX in relation to Margin Deposits or Additional Margin Deposits, will be paid into EncoreFX’s trust account (**EncoreFX Trust Account**). The EncoreFX Trust Account is a segregated trust account held in EncoreFX’s name with ANZ Bank Zealand Limited. The EncoreFX Trust Account operates in the following way:

- The only monies paid into the EncoreFX Trust Account are monies related to Margin Deposits or Additional Margin Deposits and interest on such monies. EncoreFX does not pay any of its own money into the EncoreFX Trust Account.
- Client monies held in the EncoreFX Trust Account are held on trust by EncoreFX for the benefit of clients who have paid Margin Deposits or Additional Margin Deposits to EncoreFX. In the unlikely event that EncoreFX is placed under management or put into receivership or liquidation, client monies held in the EncoreFX Trust Account will remain the

property of the clients on whose behalf the funds are held unless those monies qualify for payment out of the EncoreFX Trust Account under this Section.

- All monies held in the EncoreFX Trust Account are combined into one account; the EncoreFX Trust Account.
- Payments out of the EncoreFX Trust Account can be made only in limited circumstances, including:
  - making payments in accordance with any directions received from clients;
  - paying EncoreFX monies that it is owed and defraying proper charges (including for client OTM positions and any other circumstances outlined in the Master Terms and Conditions); and
  - making a payment that is otherwise authorised by law.

5.1.2 EncoreFX Client Funds Account

Monies paid for the execution, clearing and settlement of your Options and any additional money that you pay to EncoreFX in connection with trading in Options, will be paid into EncoreFX's segregated client funds account (**EncoreFX Client Funds Account**).

The EncoreFX Client Funds Account is a segregated account held in EncoreFX's name with ANZ Bank Zealand Limited. The EncoreFX Client Funds Account operates in the same manner as the EncoreFX Trust Account except that the EncoreFX Client Funds Account is not a trust account. This means that monies held in the EncoreFX Client Funds Account will be available to pay any liability of ours, including general creditors in the unlikely event that EncoreFX is placed under management or put into receivership or liquidation.

6. ABOUT ENCOREFX

EncoreFX (NZ) Limited (FSP 461386) is the issuer of this PDS and of the derivative products described in this PDS.

EncoreFX was launched in 2016 by a team of foreign exchange professionals who share a vision for how corporate foreign exchange business should be done. The EncoreFX group was first established in Canada in 2015. The company operates a branch network throughout Canada and is also incorporated in the United States and Australia. We take great pride in helping clients achieve their unique foreign exchange operational and risk management goals.

The EncoreFX Group which operates across Canada, Australia and New Zealand is built on many years of foreign exchange market experience and professional knowledge. The EncoreFX Group has helped thousands of businesses enjoy greater success through their foreign exchange operations.

EncoreFX empowers businesses to make smarter financial decisions through access to premier foreign exchange transaction and risk management solutions. We offer a full suite of foreign exchange services and hedging solutions - all tailored to each client's unique needs - giving our clients more certainty over their exchange rates.

Our approach and technical sophistication provide our clients with foreign exchange solutions typically reserved for large multi-national corporations. Further information about EncoreFX can be found at www.encorefx.co.nz or you can contact us using the details below.

Address: EncoreFX (NZ) Ltd, Level 18, QBE Centre, 125 Queen St, Auckland, 1010
Email: encorefxnz@encorefx.com
Phone: (09) 941 4050

7. HOW TO COMPLAIN

If you have a complaint about any aspect of our services or products, please contact EncoreFX using the details below:

Address: Complaints Officer, EncoreFX (NZ) Ltd, Level 18, QBE Centre, 125 Queen St, Auckland, 1010
Email: complaintsnz@encorefx.com
Phone: (09) 941 4050

We are a member of, and participate in, the Financial Services Complaints Limited (**FSCL**), Member # 6066, an independent complaints resolution organisation. If you feel your complaint has not been satisfactorily resolved, you are entitled to make a complaint to FSCL using the details below. All complaints, to either EncoreFX or FSCL, will not incur a fee for the investigation or resolution of that complaint.

Address: Financial Services Complaints Limited, PO BOX 5967, Lambton Quay, Wellington 6145
Email: complaints@fscl.org.nz
Phone: 0800 347 257

8. WHERE YOU CAN FIND MORE INFORMATION

Further information relating to EncoreFX and the derivatives EncoreFX offers is available from the offer register, including copies of our latest audited financial statements and the Master Terms and Conditions. A copy of the information on the offer register is available on request to the Registrar at www.business.govt.nz/disclose.

Copies of this PDS are available free of charge. You can download a copy of this PDS from our website at www.encorefx.co.nz or request a copy by either email at encorefxnz@encorefx.com or by phone (09) 941 4050.

A separate product disclosure statement is available for Forward Exchange Contracts. Please contact EncoreFX if you require a different product disclosure statement using the contact information contained in Section 6 of this PDS ('About EncoreFX') or you can download the it from our website at www.encorefx.co.nz.

The Master Terms and Conditions are available by contacting EncoreFX using the contact information contained in Section 6 of this PDS ('About EncoreFX').

EncoreFX is committed to complying with all privacy laws and regulations. You have the right to ask us for a copy of your information. You can also correct, erase or limit our use of personal information which is incomplete, inaccurate or out of date. Further information about EncoreFX's privacy practices can be found at www.encorefx.co.nz. If you would like further information about the way that EncoreFX manages the handling of personal information, please contact our privacy officer at:

Address: Privacy Officer / Compliance Department, Level 18, QBE Centre, 125 Queen St, Auckland, 1010
Email: compliance@encorefx.com
Phone: (09) 941 4050

9. HOW TO ENTER INTO A CLIENT AGREEMENT

You can request an application form by contacting EncoreFX using the contact information contained in Section 6 of this PDS ('About EncoreFX').

Each Option that you enter into with us will be subject to the terms of the application form and the Master Terms and Conditions. You will be required to sign the application form and the Master Terms and Conditions before entering into an Option with us for the first time.

The Master Terms and Conditions set out the terms and conditions that are applicable to our relationship regarding the Options described in this PDS. The Master Terms and Conditions are important and you should read them carefully before entering into any Options. They cover a number of important terms including how transactions are executed, each of our respective rights and obligations, events of default and rights of termination.

In addition to signing the application form and the Master Terms and Conditions, you will also need to provide us with certain other documents which will enable us to assess the suitability of you entering into an Option with us. The other information required to be provided to us is set out in the application form and can be obtained by contacting us as outlined in Section 6 of this PDS ('About EncoreFX').

Following the completion and return of all requisite documents to us, we will conduct an assessment of your suitability to become a client of EncoreFX. Acceptance of a new client is at our sole discretion. The matters considered by us when assessing the suitability of a person to become a client of EncoreFX are set out in the Master Terms and Conditions. Following the acceptance of an application by EncoreFX, a client may apply for an Option in accordance with the Master Terms and Conditions.

We recommend that you seek your own professional advice in order to fully understand the consequences of entering into an Option with us.

Section 2.6 of this PDS ('How to enter an Option') sets out the process for entering into an Option with us.

10. GLOSSARY

In this document, unless the context requires otherwise, the following words have the following meaning:

Additional Margin Deposit has the meaning given to it in Section 2.5.5 of this PDS ('Additional Margin Deposit').
American Barrier means a Barrier applicable throughout the entire Term of the Option.
ATM or "At-the-Money" means an Option that has zero market value when measured against the current market.
Barrier has the meaning given to it in Section 2.10.21 of this PDS ('Knock-In and Knock-Out Barriers').
Barrier Period means the period for which a Barrier Rate within a Structured Option may be reached on the Spot Rate causing it to be Triggered.

Barrier Rate means the foreign exchange rate at which an Exotic Option contract's non-standard feature(s) is activated or terminated (please see Knock-In Barrier Rate and Knock-Out Barrier Rate).
Call or **Call Option** means an option that provides the right, but not the obligation, to buy the underlying currency.
Collar or **Collar Option** has the meaning given to that term in Section □ of this PDS ('Collar').
Convertible Forward has the meaning given to that term in Section 2.10.11 of this PDS ('Convertible Forward').
Dynamic Rate means the average foreign exchange rate outcome for a Structured Option product.
EncoreFX means EncoreFX (NZ) Limited.
EncoreFX Client Funds Account has the meaning given to it in Section 5.1.2 of this PDS ('EncoreFX Client Funds Account').
Encore Knock-In has the meaning given to that term in Section 2.10.16 of this PDS ('Encore Knock-In').
EncoreFX Trust Account has the meaning given to it in Section 5.1.1 of this PDS ('EncoreFX Trust Account').
Enhanced Rate is an alternative term for Strike Rate used in some Structured Options, and refers to the Strike Rate that is achievable on certain Structured Options where the holder receives a Strike Rate that is more favourable than the comparable alternative.
European Barrier means a Barrier Rate that is applicable only on the Expiry Date of the Option contract.
Exchange Rate means the rate at which one currency is converted into another currency.
Exercise means the decision of the Option holder to transact at the contracted Strike Rate. EncoreFX considers all ITM Options to be exercised at the Expiry Date.
Exotic Option means an Option contract that contains one or more non-standard features that affect the possible outcomes at or before the Expiry Date. It may assign to the holder the right (or obligation) to buy / sell the underlying currency if certain conditions have (or have not) been met.
Expiry Date means the day on which the Option expires.
Expiry Time means the agreed time on which the Option expires on the Expiry Date. Times available are 10am New York, USA; 3pm Tokyo, Japan; 10am Sydney, Australia; 3pm Wellington, New Zealand.
Forward Exchange Contract means a contract to exchange a fixed amount of currency, at a fixed future date, at a fixed rate. Please refer to our separate product disclosure statement for Forward Exchange Contracts.
HRRE has the meaning given to that term in Section 2.9.1 of this PDS ('Historical Rate Rollover Extensions').
Inverse Collar has the meaning given to that term in Section 2.10.20 of this PDS ('Inverse Collar').
ITM or "In-the-Money" means a Vanilla Option which would produce positive proceeds if exercised, or a Structured Option that would produce positive proceeds if cancelled at current market rates.
Knock-In Barrier Rate means the exchange rate at which a knock-in feature will become active.
Knock-In Collar has the meaning given to that term in Section 2.10.3 of this PDS ('Knock-In Collar').
Knock-In Forward has the meaning given to that term in Section 2.10.4 of this PDS ('Knock-In Forward').
Knock-In Reset has the meaning given to that term in Section 2.10.10 of this PDS ('Knock-In Reset').
Knock-Out Barrier Rate means the exchange rate at which a knock-out feature will become active.
Knock-Out Collar has the meaning given to that term in Section 2.10.18 of this PDS ('Knock-Out Collar').
Knock-Out Forward has the meaning given to that term in Section 2.10.17 of this PDS ('Knock-Out Forward').
Leverage means a process where a client sells a Notional Amount for one or more underlying Options, which is larger than the Notional Amount for the underlying Options that are purchased. This means the client is potentially obligated for a larger Notional Amount (on the sold Options) than the protected amount (on the bought Options).
Margin Deposit has the meaning given to that term in Section 2.5.4 of this PDS ('Margin Deposit).
Master Terms and Conditions means the terms and conditions, including all documents required thereby, or included therein, that govern the relationship between EncoreFX and the counterparty entering into foreign exchange transactions with EncoreFX.
Notional Amount means the amount of underlying currency to be bought or sold.
Option means an option contract and includes any Vanilla Option and / or Structured Option (or part thereof) offered under this PDS.
Option Variables has the meaning given to it in Section 2.3 of this PDS ('How Options Work').
OTM or "Out-of-the-Money" means a Vanilla Option which would provide no benefit to the holder if exercised, or a Structured Option which would cost the holder if cancelled at current market rates.
Over-The-Counter or **OTC** means a financial contract (e.g., an Option), that is arranged between two parties, a buyer and a seller, via a dealer network rather than on a centralised exchange.
Overlay Rate is an alternative term for Strike Rate used in some Structured Options, and is used to define the exchange rate that applies to the bought leg of the Structured Option which offsets against the sold leg of the Structured Option to limit potential obligation on the sold option.
Participating Collar has the meaning given to that term in Section 2.10.7 of this PDS ('Participating Collar').
Participating Forward has the meaning given to that term in Section 2.10.6 of this PDS ('Participating Forward').
Participating Knock-In has the meaning given to that term in Section 2.10.8 of this PDS ('Participating Knock-In').

Participating Convertible has the meaning given to that term in Section 2.10.9 of this PDS ('Participating Convertible').
Participation Rate is an alternative term for Strike Rate used in some Structured Options, and is used to define a Strike Rate on the sold Option(s), at which you are obligated to trade if the Spot Rate at the Expiry Date is more favourable than the Strike Rate on the Option.
PDS means this product disclosure statement.
Premium means the amount of money paid (if buying) or received (if selling) to enter into an Option.
Premium Date means the agreed date on which the Premium is to be paid.
Protection Rate is an alternative term for Strike Rate used in some Options, and means the Strike Rate on the bought Option(s) which provide the holder with protection from adverse currency movements.
Put or Put Option provides the right, but not the obligation, to sell an underlying currency at a contracted Strike Rate.
Range Reset has the meaning given to that term in Section 2.10.19 of this PDS ('Range Reset').
Ratio Forward has the meaning given to that term in Section 2.10.5 of this PDS ('Ratio Forward').
Relief Forward has the meaning given to that term in Section 2.10.12 of this PDS ('Relief Forward').
Reset Protection Rate is an alternative term for Strike Rate used in a Venture Forward, and means the exchange rate that will apply to the exchange of a currency pair where an applicable Knock-In or Knock-Out Barrier Rate has been Triggered.
Reset Rate is an alternative term for Strike Rate used in some Structured Options, and means the exchange rate that will apply to the exchange of a currency pair where an applicable Knock-In or Knock-Out Barrier Rate has been Triggered in a Structured Option.
Retail Mark-Up has the meaning given to it in Section 2.5.2 of this PDS ('Retail Mark-Up').
Seagull Forward has the meaning referred to in Section 2.10.14 of this PDS ('Seagull Forward').
Section means a numbered section of this PDS.
Spot Rate means the exchange rate applied to transactions settled within two business days.
Strike Rate means the exchange rate at which the Notional Amount may be bought or sold. The Strike Rate may be referred to as the Protection Rate, the Participation Rate, the Enhanced Rate, the Reset Protection Rate, the Overlay Rate or the Reset Rate within this PDS, depending on the particular structure involved.
Structured Option has the meaning given to that term in Section 2.2.2 of this PDS ('Structured Options').
Term means the length of time of an Option contract, from the date it was entered to the Expiry Date.
Triggered means the Spot Rate has reached a level during the Barrier Period at which a Barrier event occurs and either activates or terminates the underlying Option.
Vanilla Option has the meaning given to that term in Section 2.10.1 of this PDS ('Vanilla Option').
Venture Forward has the meaning given to that term in Section 0 of this PDS ('Venture Forward').
Window Barrier means a Barrier that is active only for a specified period of time during the term of the Option contract (e.g. for one month prior to the Expiry Date).
Zero-Premium means a Structured Option that involves the sale and purchase of two or more Options in which the Premium paid for the bought Option(s) equals the Premium received for the sold Option(s).