

Foreign Exchange Sold Knock-In Call Option

Supplementary Product Disclosure Statement

28 September 2009

This Supplementary Product Disclosure Statement ('SPDS') is dated 28 September 2009 and is issued by Westpac Banking Corporation (ABN 33 007 457 141 AFSL No. 233714). It supplements the Foreign Exchange Sold Knock-In Call Option Product Disclosure Statement dated 9 February 2004 ('Original PDS'). This SPDS should be read with the Original PDS – together they make up the Product Disclosure Statement ('PDS'). In particular, terms defined in the Original PDS have the same meaning in the SPDS, unless the context requires otherwise. For further information, please contact the relevant state dealing desk using the contact details listed below or visit www.westpac.com.au

From 28 September 2009 we have made the changes set out below to the Original PDS.

This SPDS amends the Original PDS by replacing the text in certain sections of the Original PDS as set out in the table below:

Relevant page number of the Original PDS	Relevant section title of the Original PDS	Replacement text
10	Dispute resolution	<p>The following text replaces the text under the section titled "Dispute resolution":</p> <p>"Getting your complaint heard</p> <p>Sometimes you may want to talk about problems you are having with us. Fixing these problems is very important to us.</p> <p>We've put in place ways of dealing with your issues quickly and fairly.</p> <p>Please talk to us first</p> <p>We aim to resolve your complaint at your first point of contact with us in a timeframe agreed with you. This is our 'Ask Once' promise. So please raise your complaint with any of the people handling your banking. Alternatively, you can contact us by phone or in writing using the details listed at the back of this PDS.</p> <p>What to do if you are still unhappy</p> <p>If we haven't been able to deal with your issues to your satisfaction, there are a number of other bodies you can go to. Our external dispute resolution provider is the Financial Ombudsman Service, our membership number is 10999 and the contact details are:</p> <p>Financial Ombudsman Service GPO Box 3 Melbourne VIC 3001 Phone 1300 780 808 Fax: (03) 9613 6399 Internet: www.fos.org.au Email: info@fos.org.au</p> <p>You can also contact the Australian Securities & Investments Commission (ASIC) to make a complaint and to obtain further information about your rights. They have a freecall Infoline on 1300 300 630 and e-mail contact address at infoline@asic.gov.au"</p>
11	Westpac Banking Corporation contact details	<p>The following text replaces the text under the section titled "Westpac Banking Corporation contact details":</p> <p>"Queensland and Northern Territory:</p> <p>Level 14, 260 Queen Street Brisbane QLD 4000 Telephone (07) 3227 2155</p>

		<p>Western Australia:</p> <p>Level 16, 109 St Georges Terrace Perth WA 6000 Telephone (08) 9426 2522</p> <p>New South Wales and ACT:</p> <p>Level 2, 275 Kent Street Sydney NSW 2000 Telephone (02) 8204 2822</p> <p>Victoria, South Australia and Tasmania:</p> <p>Level 9, 360 Collins Street Melbourne VIC 3000 Telephone (03) 9608 3950"</p>
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This SPDS amends the Original PDS by adding a new section to the Original PDS as set out in the table below:

Relevant page number of the Original PDS	New section title added to the Original PDS	New text added to the Original PDS
10	Anti-Money Laundering	<p>After the section titled "Dispute resolution" a new section titled "Anti-Money Laundering" is added. The following text is added to the new "Anti-Money Laundering" section:</p> <p>"Please be advised that in order for Westpac to meet its regulatory and compliance obligations relating to anti-money laundering and counter terrorism financing, we will be increasing the levels of control and monitoring we perform.</p> <p>You should be aware that:</p> <ul style="list-style-type: none"> • transactions may be delayed, blocked or refused where we have reasonable grounds to believe that they breach Australian law or the law of any other country; • where legally obliged to do so, we may disclose the information gathered to regulatory and/or law enforcement agencies. <p>Upon entering into any Foreign Exchange Sold Knock-In Call Option with Westpac, you agree:</p> <ul style="list-style-type: none"> • you are not and will not enter into any agreement with Westpac under an assumed name; • any funds used by you to enter into an agreement with Westpac have not been derived from or related to any criminal activities; • any payments received from Westpac will not be used in relation to any criminal activities; • if we ask, you will provide us with additional information we reasonably require from you; and • we may obtain information about you or any beneficial owner of an interest in an agreement with Westpac from third parties if we believe this is necessary to comply."

Foreign Exchange Sold Knock-In Call Option

Product Disclosure Statement

This Product Disclosure Statement relates to Foreign Exchange Sold Knock-In Call Options.

Issuer

Westpac Banking Corporation ABN 33 007 457 141

Australian Financial Services Licence Number: 233714



Institutional Bank

A division of Westpac Banking Corporation ABN 33 007 457 141

Foreign Exchange Sold Knock-In Call Option

Product Disclosure Statement

A Product Disclosure Statement is an information document. The purpose of a Product Disclosure Statement is to provide you with enough information to allow you to make an informed decision about a product's suitability for your needs. A Product Disclosure Statement is also a tool for comparing the features of other products you may be considering. If you have any questions about this product, please contact us on any of the numbers listed at the back of this Product Disclosure Statement.

Important information

This Product Disclosure Statement is issued by Westpac Banking Corporation and is current as at 9th February 2004. The information in it is subject to change. Westpac will provide updated information by issuing a supplementary or replacement Product Disclosure Statement (if this were required, such as if the change were materially adverse to you) or by posting the information on our web site. You can get a paper copy of any updated information without charge by calling us.

This Product Disclosure Statement is intended for retail clients in Australia only. Distribution of it in jurisdictions outside Australia may be restricted by law and, persons who come into possession of it, who are not in Australia, should seek advice. If you are in Australia and have received it electronically, we will give you a paper copy on request, without charge. To obtain a copy, refer to the contact details listed on the back page of this Product Disclosure Statement.

The information set out in this document is general in nature. It has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation and needs. By providing this Product Disclosure Statement, Westpac does not intend to provide financial advice or any financial recommendations. You should read and consider this Product Disclosure Statement, in its entirety, carefully and seek independent expert advice before making a decision about whether or not this product is suitable for you.

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Institutional Bank

Foreign Exchange Sold Knock-In Call Option

Issuer

Westpac Banking Corporation (**Westpac, we or us**).

Purpose

What is a Foreign Exchange Sold Knock-In Call Option?

A Sold Knock-In Call Option is an income-generating product for customers who are carrying out transactions using a foreign currency.

What are Sold Knock-In Call Options used for?

A Sold Knock-In Call Option generates income in the form of a one off premium. You earn the premium by selling the option to Westpac.

Unlike a standard Sold Call Option, the Sold Knock-In Call Option possesses an additional structural feature termed a knock-in level. The option will only come into existence if the knock-in level is reached during the term of the option.

A Sold Knock-In Call Option is not designed to provide protection against movements in the relevant currency.

Suitability

Do I have sufficient knowledge about this product?

This product will only be suitable if you have a good understanding of foreign exchange markets and the way that option products work. In particular, if Westpac exercises the option you need to understand how it will affect you financially. Westpac will not take your position into account when deciding whether or not to exercise the option.

If Westpac chooses not to exercise the option or if the knock-in level is not achieved, there will be no exchange of currencies. For this reason, selling a Sold Knock-In Call Option is **not suitable** for an investor who needs to have a particular currency exchanged at a known rate at a particular date in the future.

If you are not confident about your understanding of these things, this product may not be suitable for you and we strongly suggest you seek independent financial advice before making a decision about this product.

Description

What does a Sold Knock-In Call Option do?

A Sold Knock-In Call Option is an agreement between the seller (you) and the buyer of the Sold Knock-In Call Option (Westpac). You receive a premium for selling a Sold Knock-In Call Option to Westpac. The option comes into existence only if the predetermined knock-in level is reached before the cut-off time on the expiry date. If this knock-in level is reached, Westpac obtains the right, but not the obligation, to buy from you an agreed amount of one currency with another nominated currency at an agreed price (the **strike price**). This takes place at a specified future date, generally referred to as the **expiry date**.

If the knock-in level is not reached before the cut-off time, the option does not come into existence and Westpac has no right to exchange currencies.

Westpac will only buy European style Sold Knock-In Call Options. European style options can only be exercised on a specific date in the future, the expiry date.

The two currencies in the Sold Knock-In Call Option are referred to as the currency pair. The currency pair must be acceptable to Westpac. Please ask for further details.

You may nominate the strike price, knock-in level, the expiry date and the currency pair and amount. They are tailored and fixed from the outset according to your needs. The nominations you make will affect the amount of the premium payable.

What do I receive?

Westpac pays you a premium for your Sold Knock-In Call Option. We calculate the premium we are prepared to pay for each Sold Knock-In Call Option on a transaction by transaction basis.

What important factors affect the premium at any point of time?

To calculate the premium, we take several factors into account:

- the strike price
- the knock-in level
- the expiry date
- current market exchange rates
- volatility of the underlying currency at that time, and
- prevailing interest rates of the countries whose currencies are being exchanged

When do I receive this premium?

We will advise you of the premium we are prepared to pay before entering into a Sold Knock-In Call Option. The premium can be paid in either Australian dollars or in one of the currencies in the currency pair. Premiums are generally payable within two business days of entering into a transaction.

Are there any Westpac credit requirements?

Before entering into a Sold Knock-In Call Option, Westpac will assess your financial position to determine whether or not your situation satisfies our normal credit requirements. Westpac will advise you of the outcome of this review as soon as possible.

If your application is successful, you will need to sign Westpac's standard financial documentation. This documentation sets out the terms of the credit approval and other matters relevant to your application.

Cost of product

Cost of product

You do not pay Westpac any fees or charges when you sell a Sold Knock-In Call Option to Westpac. However, you should be fully aware of, and comfortable with, the potential financial costs to you if the option is exercised. You should make sure you fully understand the financial implications of the option that you are considering selling.

Advantages/benefits

Advantages/benefits

- A Sold Knock-In Call Option enables you to earn a premium. You know how much premium you will receive when you sell the Sold Knock-In Call Option.
- A Sold Knock-In Call Option is flexible. It can be tailored to meet your particular requirements.
- A Sold Knock-In Call Option can be cancelled before its expiry date, giving you the ability to eliminate your exposure (however, there may be a cost to you in doing so - see Early termination section for further details).

Disadvantages/risks

Disadvantages/risks

- If the knock-in level has been reached and the prevailing exchange rate is worse for us than the strike price on the expiry date, the option will normally be exercised by Westpac. You must then deliver your currency to Westpac at the strike price which would be less favourable to you than the current exchange rate.
- If the option is exercised and you do not require the underlying currency and choose to convert it to another currency, you may receive less than you delivered under the option. This loss is unlimited, depending on the exchange rate for the currency pair and the strike price of the option.
- If the option is exercised and you do not have the currency you are required to deliver, you will need to purchase it in order to meet your obligations under the Sold Knock-In Call Option. As the exchange rate at which you can purchase that currency will be less favourable than the strike price of the option, this will result in a loss to you. This loss is potentially unlimited.
- A Sold Knock-In Call Option is not designed to provide protection against a movement in the relevant currency. The benefit of the product is limited to the premium received.
- Early termination may result in costs to you. Those costs may be higher than the premium you received for the Sold Knock-In Call Option.
- There is no cooling off period. Once you have sold the option, you are bound by its terms.
- We generally have performance obligations under all the financial markets products we enter into. Customers depend on us to perform our obligations. Our ability to do so is linked to our financial wellbeing. This type of risk is commonly referred to as **credit or counterparty risk**. As we are a regulated Australian bank, the risk of us failing to perform is very low.

When can knock-in occur?

When can knock-in occur?

A Sold Knock-In Call Option will immediately come into existence if the exchange rate for the currency pair trades at or beyond the knock-in level. This may occur *at any time* before the cut-off time on the expiry date and on any global inter-bank foreign exchange market. We will monitor the relevant foreign currency markets to determine whether or not this occurs. We will advise you if it does as soon as practicable.

The cut-off time will be specified in the confirmation that outlines the commercial terms of the transaction.

What happens if the knock-in level is not reached?

If the knock-in level is not reached before the cut-off time, the option does not come into existence.

What happens if the knock-in level is reached?

If the knock-in level is reached before the cut-off time, the option comes into existence. Westpac then has the right to exercise the option on the expiry date. If Westpac exercises the option, you must exchange currencies at the agreed strike price.

If Westpac does not exercise the option at expiry, it will lapse.

Settlement

Settlement

Exercise and settlement can only take place if the Sold Knock-In Call Option has been knocked-in.

What happens when an option is exercised?

Westpac will inform you whether or not we intend to exercise the option on the expiry date.

If Westpac exercises the option settlement will occur on the **value date**, that is two business days after the expiry date. On this date, you will be required to deliver your currency to Westpac. You can provide foreign currency either by telegraphic transfer or by transferring funds from a foreign currency account/deposit. You must provide Australian dollars in clear funds. When we receive the funds, we will deposit any payments into a Westpac bank account (in your name) denominated in the relevant currency. Alternative arrangements can be made with Westpac's approval.

Early termination

Can I terminate the option before expiry?

You may ask us to terminate the Sold Knock-In Call Option at any time up to the expiry date. Westpac will then provide you with a quote for cancelling the option.

What will be the value of the option on early termination?

Our quote will incorporate the same variables (the strike price, knock-in level, currency, amount and expiry date) used when pricing the original option. These will be adjusted for prevailing market rates over the remaining term of the option.

We will also need to consider the cost of reversing or offsetting your original transaction. When doing this Westpac takes into account the current market rates that apply to any offsetting transactions.

What happens if I accept?

If you accept the quote, we will cancel the option. You should appreciate that you may lose money as a result of early termination.

Documentation

Documentation

The documentation required for all option transactions will be either:

- a standard set of Westpac terms and conditions that will apply to all option transactions that you enter into with us; or

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- an industry standard master dealing agreement that will apply to all option transactions that you enter into with us. This agreement can also be used to cover dealings in other types of derivative products. You will need to sign and return this agreement.

We will advise you which of these we require, based on what is most suitable for you.

Each of the above documents governs the dealing relationship between you and us and sets out the terms and conditions that apply to all option transactions that we enter into with you. In particular, they document the situations where those transactions can be terminated and the way in which the amount payable on termination is calculated.

You can ask for copies of these documents and we strongly recommend that you fully consider their terms before entering into any transaction. You should obtain independent advice if you do not understand any aspect of the documents.

Confirmation

Shortly after entering into a Sold Knock-In Call Option, Westpac will send you a confirmation outlining the commercial terms of the transaction. You will need to sign this confirmation and return it to Westpac.

Warning

It is extremely important that you check the confirmation to make sure that it accurately records the terms of the transaction. In the case of a discrepancy, you will need to raise the matter with your Westpac representative as a matter of urgency.

Example

Example

The examples below are indicative only and use rates and figures we have selected to demonstrate how the product works. In order to assess the merits of any particular option, you would need to use the actual rates and figures quoted to you at the time. Note that the calculations below include rounding of decimal places.

Scenario

Assume that you are an Australian based importer due to pay 100,000 United States dollars (USD) in three months' time for goods purchased from overseas. At that time you will need to purchase USD 100,000 with Australian dollars (AUD). Assume also that the current AUD/USD exchange rate is 0.6450.

If I do nothing, what exchange rate risks do I face?

If you do nothing, the amount of AUD you will need in 3 months' time for your underlying exposure will depend on the exchange rate at that particular time.

If the AUD/USD exchange rate goes down, you will need more AUD to purchase the USD. Assume in this example that the AUD falls to 0.6200, then you will need:

$$\text{AUD } 161,290.32 \text{ (= USD } 100,000 \text{ / } 0.6200 \text{)}$$

If however the AUD/USD exchange rate goes up, the opposite occurs and you will need less AUD to purchase the USD. If we assume that the AUD/USD exchange rate rises to 0.6900, then you will need:

$$\text{AUD } 144,927.54 \text{ (= USD } 100,000 \text{ / } 0.6900 \text{)}$$

How will the Sold Knock-In Call Option change this?

Assume that you sell a Sold Knock-In Call option with a strike price of AUD/USD 0.6500 and a knock-in level of 0.6700 for a total premium of USD 3,000. This premium equates to 3.0% of the face value of the transaction (being USD 100,000). You wish to receive the premium in AUD. To calculate the AUD premium, Westpac converts the USD amount at its current exchange rate. In this case the exchange rate is USD 0.6450, so the premium paid to you is AUD 4,651.16.

...no knock-in occurs

If during the term of the option, the knock in level (0.6700) is not reached, the option does not come into existence and you have no obligations to Westpac.

You will have earned a premium of AUD 4,651.16. You may choose to offset this against any costs you incur in connection with your underlying exposure.

...knock-in level reached and AUD is below strike price

If, on the expiry date, the AUD/USD exchange rate is below the strike price of 0.6500, Westpac will not exercise the option and it will lapse. You will have no obligation to provide AUD to Westpac in exchange for USD. Again, you will have earned a premium of AUD 4,651.16.

...knock-in level reached and AUD is above strike price

If, on the expiry date, the AUD/USD exchange rate is above the strike price of 0.6500 (assume it is 0.6550), Westpac will exercise the Sold Knock-In Call Option. You will then need to exchange USD 100,000 at the strike price (0.6500). You will need to provide AUD 153,846.15 (= USD 100,000 / 0.6500) to Westpac in exchange for USD 100,000. Your exchange rate will therefore be less favourable than it would have been if you had not entered into the Sold Knock-In Call Option.

If you had not entered into the Sold Knock-In Call Option, you would have exchanged currencies at the prevailing exchange rate of 0.6450. You would then have needed AUD 155,038.76 (= USD 100,000 / 0.6450), to obtain USD 100,000. The premium of AUD 4,651.16 you earned by selling the option will be depleted as a result.

The following illustrates:

- the effective rate of exchange if Westpac exercises the option (after taking into account the premium you receive), and
- the level at which exchange rate movements negate the premium you receive for selling the Sold Knock-In Call Option

In this example, if the option is exercised, the effective rate at which you will exchange AUD for USD will be:

$$\begin{aligned}
 & \frac{\text{USD face value of option}}{\text{*AUD face value of option} - \text{** AUD premium}} \\
 = & \frac{\text{USD 100,000}}{\text{AUD 153,846.15} - \text{AUD 4,651.16}} \\
 = & \frac{\text{USD 100,000}}{\text{AUD 149,194.99}} \\
 = & 0.6703
 \end{aligned}$$

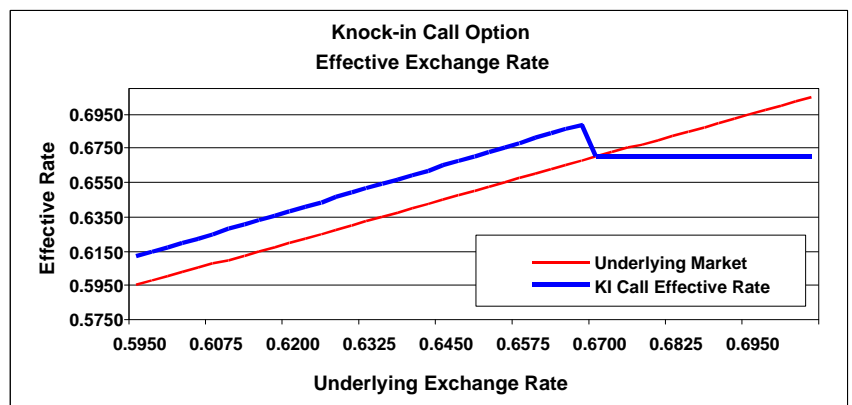
*AUD face value of option is the USD value divided by the strike price of 0.6500.

**AUD Premium is USD premium divided by the AUD/USD exchange rate at the time the option was entered into (being 0.6450).

As a result of Westpac exercising the option, you are required to exchange currencies at the rate of 0.6500. However when you factor in the amount of the premium you have received, your *effective rate of exchange* becomes 0.6703.

Given the effective rate of exchange of 0.6703, if the AUD/USD exchange rate at expiry is higher than 0.6703, the premium you receive will be fully negated. A rate above 0.6703 will result in you suffering an actual loss (if you no longer need the USD and need to re-exchange it for AUD), or an opportunity cost (if you still need the USD, as you would have been better off had you not entered into the Sold Knock-In Call Option). If the AUD/USD exchange rate on the expiry date is between 0.6500 and 0.6703, the premium received by you will be partially negated.

The graph below charts the effective rate discussed above.



Taxation

Taxation

Taxation law is complex and its application will depend on a person's individual circumstances. When determining whether or not this product is suitable for you, you should consider the impact it will have on your own taxation position and seek professional advice on the tax implications it may have for you.

Telephone conversations

Telephone conversations

The terms of a Sold Knock-In Call Option are usually agreed verbally over the telephone. Once we have reached an agreement, both you and Westpac are bound by the terms of the Sold Knock-In Call Option.

Conversations with our dealing room and settlement departments are taped. This is standard market practice. We do this to make sure that we have complete records of the details of all transactions. Taped conversations are retained for a limited period and are usually used where there is a dispute and for staff monitoring purposes.

You will need to advise our dealer if you do not wish to be recorded. However, we will not enter into any transaction over the telephone unless the conversation is recorded.

Factors that may influence our advice

Factors that may influence our advice

This document has been designed to help you choose the right product for your needs. When you ask for a recommendation, please be assured that our staff members will always explain your choices and suggest a suitable product.

Sometimes our staff may be eligible for incentives, including cash incentives, for achieving or exceeding sales targets.

Code of Banking Practice compliance

Code of Banking Practice compliance

The Code of Banking Practice is a voluntary code for banks dealing with individuals and small businesses. Its purpose is to set standards of good banking practice for banks to follow when dealing with these customers. Copies of the Code are available on request.

If you are a retail client, each relevant provision of the Code will apply to this product from the date we adopt that provision. If you would like to discuss whether or not the Code will apply to you, please contact Westpac on the numbers set out at the back of this document.

Privacy and confidentiality compliance

Privacy and confidentiality compliance

Westpac's Privacy Policy explains our commitment to the protection of your personal information. You may obtain a copy of our Privacy Policy by:

- calling Telephone Banking (on 132 032)
- contacting any of our branches
- visiting our web site at www.westpac.com.au

In addition to Westpac's duties under legislation, it has a general duty of confidentiality towards you, except:

- when disclosure is compelled by law
- where there is a duty to the public to disclose
- where the interests of Westpac require disclosure
- where disclosure is made with your express or implied consent

Dispute resolution

Dispute resolution

Problem resolution is a priority for us. We have established complaint resolution procedures that aim to deal with complaints quickly and fairly. Our complaint handling procedures are in accordance with the Australian Standard on Complaints Handling. This service is free and covers verbal and written complaints.

If you have a complaint about this product, its operation or the service that we are providing, please contact us. Your first point of contact should be your Westpac representative.

We will aim to resolve the matter when you first contact us. If we cannot resolve your issue there and then, we will commit to taking the following steps:

- Step 1 - Let you know who is handling the complaint.
- Step 2 - Keep you informed of what is happening.
- Step 3 - Aim to resolve your complaint within 5 working days.

Once your complaint has been resolved, we will check with you to make sure you are satisfied with how your complaint was handled.

If you feel your complaint has not been properly handled or resolved, we invite you to contact our Customer Advocate on 1300 301 977 for a further review. The Customer Advocate's role is to understand and represent your interests within Westpac and help us ensure you have the best possible experience.

If you remain dissatisfied with the outcome, you can refer your complaint to either of the external organisations listed below.

The Finance Industry Complaints Service Limited
PO Box 579
Collins Street West
Melbourne VIC 8007
Phone 1300 780 808
Fax: +61 3 9621 2291
Internet: <http://www.fics.asn.au/>

Australian Banking and Financial Services Ombudsman Ltd
GPO Box 3A
Melbourne VIC 3001
Phone 1300 780 808
Fax: +61 3 9613 7345
Internet: <http://www.abio.org.au>

The Australian Securities and Investments Commission also has a free call Infoline on 1300 300 630. You can use this number to make a complaint and to obtain further information about your rights.

**Westpac Banking
Corporation contact
details**

Queensland and Northern Territory:

Financial Markets
Queensland
Level 15 260 Queen Street
Brisbane QLD 4000
Telephone (07) 3227 2155

Western Australia:

Financial Markets
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Level 14 109 St Georges Terrace
Perth WA 6000
Telephone (08) 9426 2522

New South Wales and ACT:

Financial Markets
New South Wales
Level 5 255 Elizabeth Street
Sydney NSW 2000
Telephone (02) 9284 8422

Victoria, South Australia and Tasmania:

Financial Markets
Victoria
Level 9 360 Collins Street
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