

# Interest Rate Collar

## Supplementary Product Disclosure Statement

### 29 September 2009

This Supplementary Product Disclosure Statement ('SPDS') is dated 29 September 2009 and is issued by Westpac Banking Corporation (ABN 33 007 457 141 AFSL No. 233714). It supplements the Interest Rate Collar 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](http://www.westpac.com.au)

#### From 29 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	<b>Dispute resolution</b>	<p>The following text replaces the text under the section titled "Dispute resolution":</p> <p><b>"Getting your complaint heard</b></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><b>Please talk to us first</b></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><b>What to do if you are still unhappy</b></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: <a href="http://www.fos.org.au">www.fos.org.au</a>  Email: <a href="mailto:info@fos.org.au">info@fos.org.au</a></p> <p>You can also contact the Australian Securities &amp; 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 <a href="mailto:infoline@asic.gov.au">infoline@asic.gov.au</a></p>
12	<b>Westpac Banking Corporation contact details</b>	<p>The following text replaces the text under the section titled "Westpac Banking Corporation contact details":</p> <p><b>"Queensland and Northern Territory:</b></p> <p>Level 14, 260 Queen Street  Brisbane QLD 4000  Telephone (07) 3227 2155</p>

		<p><b>Western Australia:</b></p> <p>Level 16, 109 St Georges Terrace Perth WA 6000 Telephone (08) 9426 2522</p> <p><b>New South Wales and ACT:</b></p> <p>Level 2, 275 Kent Street Sydney NSW 2000 Telephone (02) 8204 2822</p> <p><b>Victoria, South Australia and Tasmania:</b></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
11	<b>Anti-Money Laundering</b>	<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"> <li>• 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;</li> <li>• where legally obliged to do so, we may disclose the information gathered to regulatory and/or law enforcement agencies.</li> </ul> <p>Upon entering into any Interest Rate Collar with Westpac, you agree:</p> <ul style="list-style-type: none"> <li>• you are not and will not enter into any agreement with Westpac under an assumed name;</li> <li>• any funds used by you to enter into an agreement with Westpac have not been derived from or related to any criminal activities;</li> <li>• any payments received from Westpac will not be used in relation to any criminal activities;</li> <li>• if we ask, you will provide us with additional information we reasonably require from you; and</li> <li>• 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." </li></ul>

# Interest Rate Collar

## **Product Disclosure Statement**

This Product Disclosure Statement relates to Interest Rate Collars.

## **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

# Interest Rate Collar

## 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

# Interest Rate Collar

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## Issuer

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

## Purpose

### What is an Interest Rate Collar?

An Interest Rate Collar (**Collar**) is an interest management tool for customers who have a variable rate bank bill facility.

### What are Collars used for?

A Collar helps you to protect yourself against an unfavourable move in interest rates, while maintaining some ability to participate in favourable interest rate moves.

A Collar is not a lending facility. It is an interest rate management product that can be used in conjunction with any variable rate bank bill facility, including a bank bill facility with another lender. Your underlying bank bill facility will continue to be governed by the term and conditions set out in your facility agreement.

It is also important to remember that a Collar only affects the *base* interest rate applicable to your underlying bank bill facility. It has no effect on any acceptance or other fees and margins payable under your bill facility. You remain obliged to pay those fees and margins no matter what happens with the Collar. For that reason, this document does not consider or take into account any fees and margins payable in respect of your underlying bank bill facility.

## Suitability

### Do I have sufficient knowledge about this product?

A Collar may be suitable if you have a good understanding of interest rate markets and would like to manage your interest rate exposure.

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

## Description

### What does a Collar do?

A Collar works in conjunction with a variable rate bank bill facility. It protects you against increases in interest rates beyond a pre-determined level known at the **Cap Rate**, while still allowing you to take advantage of falling interest rates down to a pre-determined level, known as the **Floor Rate**. The Cap Rate is also referred to as the “worse case rate” because that is the highest base interest rate that you will be exposed to. Conversely, the Floor Rate is referred to as the “best case rate” as this is the lowest possible base interest rate available to you once you establish a Collar.

### How does it work?

Under a Collar, you set the Cap and Floor Rates at the time of entering the transaction, as well as the **Notional Amount** (the amount on which payments are calculated).

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You will also agree a schedule of **Reset Dates**. These are the dates when bills of exchange will be drawn or rolled under your underlying variable rate bank bill facility (for example, you could draw/roll bills on a 30, 60 or 90 day basis).

The **Reference Rate** to be used is also set at the beginning of the transaction. The Reference Rate provides a benchmark interest rate. Westpac commonly uses the Bank Bill Swap Rate (**BBSW**) or the Bank Bill Swap Bid Rate (**BBSY**). These are market reference rates for Australian dollar bills of exchange for particular terms published on Reuters Information Service. (Reuters is an information service that is widely used by institutional market participants).

The Reference Rate is usually the same as the base rate applying to your underlying bank bill facility. The Reference Rate applies for set periods, called **Calculation Periods**.

On each Reset Date, Westpac will calculate the amount, if any, that either you or Westpac must pay for the relevant Calculation Period. Amounts payable by Westpac are calculated on the difference between the Reference Rate and the Cap Rate. Amounts payable by you are calculated on the difference between the Floor Rate and the Reference Rate. An example of the way these amounts are calculated is set out in the Example section in this document.

If the Reference Rate applying to a Calculation Period is more than the Cap Rate, Westpac will pay an amount to you. When this amount is used to offset the higher base interest rate applicable to your underlying bill facility, your effective base interest rate for the Calculation Period becomes the Cap Rate (excluding any fees and margins payable under your bill facility).

If the Reference Rate applying to a Calculation Period is less than the Cap Rate but more than the Floor Rate, then no amount will be payable by either party for the Calculation Period. The base interest rate for the Calculation Period will be the rate applying under your bank bill facility agreement.

If the Reference Rate applying to a Calculation Period is less than the Floor Rate, you will pay an amount to Westpac. This amount, together with interest payable under your bill facility agreement, will result in you paying an effective base interest rate equal to the Floor Rate (excluding any fees and margins payable under your bill facility).

#### **Are there any Westpac credit requirements?**

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

If your application is successful, you will be required to sign Westpac's standard finance documentation. That documentation sets out the terms of the credit approval and other matters relevant to your application.

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## Cost of product

### Cost of product

Generally, Westpac sets the Cap Rate and Floor Rate at particular levels in order to create a zero cost structure. When setting those rates, Westpac takes several factors into account including:

- the size and term of the Collar
- the inter-bank market rates prevailing at the time, and
- market volatility

Where a zero cost structure is created, there is no up-front premium payable for the Collar. If however, you wish to nominate a different Cap Rate or Floor Rate, an up-front non-refundable premium may be payable. Westpac will determine the amount of the premium and advise you of the amount before entering into the transaction.

When calculating the premium, we take several factors into account including:

- the Cap Rate, the Floor Rate, the Notional Amount, the Reference Rate, the term and the Reset Dates selected
- current market interest rates, and
- market volatility

Premiums must usually be paid in clear funds within two business days of entering into the transaction. With Westpac's approval, premiums can be amortised over the term of the Collar. This may incur extra costs. The full amount of an amortised premium is always payable, even in the case of early termination. You must apply to amortise any premium before entering into the transaction. Premiums cannot be amortised over periods greater than the term of the Collar.

Where the transaction is structured on a zero cost basis, Westpac still derives a financial benefit. Westpac obtains that benefit by incorporating a margin into the Cap Rate and the Floor Rate. This means that these rates are different to the base market interest rates prevailing at the time. In effect, you pay for the Collar by accepting the Cap Rate and Floor Rate quoted by Westpac.

## Advantages/benefits

### Advantages/benefits

- Collars provide you with protection against unfavourable interest rate movements above the Cap Rate while allowing you to participate in some interest rate decreases.
- Collars can be structured so that there is no up-front premium payable. While you can also set your own Cap Rate and Floor Rate, a premium may be payable in these circumstances.
- The term of a Collar is flexible and does not have to match the term of the underlying bill facility. A Collar may be used as a form of short-term interest rate protection in times of uncertainty.
- Collars can be cancelled (however there may be a cost in doing so - see the Early termination section for further details).

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## Disadvantages/risks

### Disadvantages/risks

- While a Collar provides you with some ability to participate in interest rate decreases, your interest rate cannot fall to less than the Floor Rate.
- To provide a zero cost structure or a reasonable reduction in premium payable under the Cap, the Floor Rate may need to be set at a high level. This negates the potential to take advantage of favourable market rate movements.
- You will be exposed to interest rate movements if the term of the Collar is shorter than that of the underlying bank bill facility.
- There is no cooling off period.
- 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.

## Settlement

### Settlement

Any amount that you are required to deliver to Westpac must be delivered in clear funds in accordance with Westpac's instructions. Westpac will deposit any amounts owing to you to a Westpac bank account (in your name) nominated by you. Alternative arrangements can be made with Westpac's prior approval.

## Early termination

### Can I terminate the Collar before maturity?

You may ask us to terminate the Collar at any time up to the maturity date. Westpac will then provide you with a quote for cancelling the Collar.

### What will be the value of the Collar on early termination?

Our quote will incorporate the same variables (Cap Rate, Floor Rate, Notional Amount, Reference Rate, Reset Dates and maturity date), used when pricing the original Collar. These will be adjusted for prevailing market rates over the remaining term of the Collar.

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 such offsetting transactions.

### What happens if I accept?

If you accept the termination quote, the Collar will be cancelled. You should appreciate that you may lose money as a result of early termination.

## Documentation

### Documentation

You will be required to sign an industry standard master dealing agreement called an International Swaps and Derivatives Association Master Dealing Agreement. This agreement is generally used where a person intends to enter into derivative transactions. It can also be used to document foreign exchange transactions.

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The master dealing agreement governs the dealing relationship between you and Westpac and sets out the terms and conditions that apply to all transactions that we enter into with you. In particular, it documents the situations where those transactions can be terminated and the way the amount payable following termination is calculated.

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

### **Confirmation**

Shortly after entering in to a Collar, 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 example below is indicative only and uses rates and figures that we have selected to demonstrate how the product works. In order to assess the merits of any particular Collar, you would need to use the actual rates and figures quoted to you at the relevant time. It should be noted that BBSW movements in the example have been exaggerated to give effect to the example. Also note that the calculations below include rounding of decimal places.

### **Scenario**

You are a borrower with a 3 year Australian dollar (\$) 1,000,000 variable rate bank bill facility with quarterly rollover dates. The base interest rate is BBSW. In the current economic environment, interest rates look as though they will be rising and your borrowing costs may exceed 6.00%. You would like to confine your borrowing costs within an acceptable range for the term of the underlying bank bill facility.

### **If I do nothing, what interest rate risks do I face?**

If you do nothing, the interest rate you will pay on each rollover date will depend on what BBSW is at that time. You are exposed to unlimited risk if interest rates rise.

### **How will a Collar change this?**

Assume that you purchase from Westpac a 3 year Collar with:

- a Cap Rate of 6.00%
- a Floor Rate of 4.00%
- a Notional Amount of \$1,000,000
- quarterly Reset Dates
- BBSW as the Reference Rate

In this example, it is assumed that you would pay Westpac a non-refundable premium for the Collar.

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If BBSW is above 6.00% on a Reset Date, Westpac will compensate you on the basis of the difference between BBSW and the Cap Rate.

If BBSW is below 4.00% on a Reset Date, you will be required to compensate Westpac on the basis of the difference between BBSW and the Floor Rate.

If BBSW is between the Cap Rate and the Floor Rate on a Reset Date no settlement will take place under the Collar.

As the amount of funds you will receive at drawdown on your variable rate bank bill facility is calculated on an interest in arrears, yield to maturity basis (i.e. a discount to face value), the same methodology is used to calculate the amount payable under the Collar.

Westpac uses the following formula to determine the amount payable (if any):

$$\text{Notional Amount} \times 36500 \times \left[ \frac{1}{36500 + (R1 \times ND)} - \frac{1}{36500 + (R2 \times ND)} \right]$$

Where:

R1 = the Reference Rate

R2 = the Strike Price, which will be the Cap Rate (where the Reference Rate is greater than that rate), or the Floor Rate (where the Reference Rate is less than that rate)

ND = the actual number of days in the Calculation Period

For explanation purposes only, a simple way to calculate the amount payable (and achieve the same result as the above formula) is to look at the discounted amount payable at the Reference Rate and the discounted amount payable at the Strike Price. The difference between these amounts is the amount payable. Using the figures in the example, this is calculated as follows:

If BBSW is above the Cap Rate say at 7.00%, Westpac will compensate you based on the following:

Amount payable at Reference Rate:

$$\frac{\$1,000,000 \times 36500}{(7.00 \times 90) + 36500} \\ = \$983,032.59$$

Amount payable at Cap Rate:

$$\frac{\$1,000,000 \times 36500}{(6.00 \times 90) + 36500} \\ = \$985,421.17$$

The payment Westpac makes to you is the difference between the above amounts, that is:

$$\begin{aligned}
 & \$985,421.17 \text{ less} \\
 \text{Less } & \$983,032.59 \\
 & = \$2,388.58
 \end{aligned}$$

If BBSW is below the Floor Rate say at 3.00%, you must compensate Westpac based on the following:

Amount payable at Reference Rate:

$$\begin{aligned}
 & \frac{\$1,000,000 \times 36500}{(3.00 \times 90) + 36500} \\
 & = \$992,657.06
 \end{aligned}$$

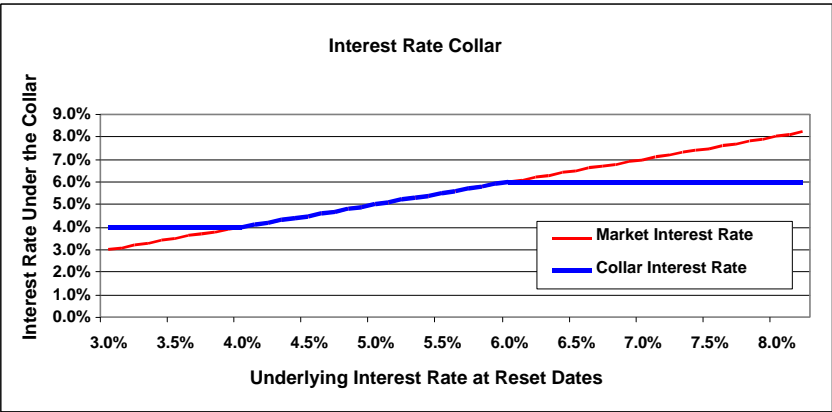
Amount payable at Floor Rate:

$$\begin{aligned}
 & \frac{\$1,000,000 \times 36500}{(4.00 \times 90) + 36500} \\
 & = \$990,233.32
 \end{aligned}$$

The payment you make to Westpac is the difference between the above amounts, that is:

$$\begin{aligned}
 & \$992,657.06 \\
 \text{Less } & \$990,233.32 \\
 & = \$2,423.74
 \end{aligned}$$

The chart below shows the Floor Rate of 4.0% and the Cap Rate of 6.0%. The base interest rate, where BBSW is below 4% and above 6%, remains fixed. Between 4% and 6%, your base interest rate will be the same as the market interest rate.



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### **Important consideration**

Please note that the above calculations do not take into account the premium paid for the Collar. The premium paid must be considered when determining the overall cost of your transaction. You should also be aware that interest rate movements might result in little or no need for Collar protection, and may even result in you paying an amount to Westpac under the Collar. In either of these cases, any premium paid will be an additional cost for you.

## **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 Collar are usually agreed verbally over the telephone. Once we have reached an agreement, both you and Westpac are bound by the terms of the Collar.

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:

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- calling Telephone Banking (on 132 032)
  - contacting any of our branches
  - visiting our web site at [www.westpac.com.au](http://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/>

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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.

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**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  
Western Australia  
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  
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Victoria, South Australia and Tasmania:

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Level 9 360 Collins Street  
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Telephone (03) 9608 3950