

Interest Rate Floor

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 Floor 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 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 |
|--|--|---|
| 8 | 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> |
| 10 | 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> |
|--|--|---|

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 |
|--|---|---|
| 9 | 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 Interest Rate Floor 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." |

Interest Rate Floor

Product Disclosure Statement

This Product Disclosure Statement relates to Interest Rate Floors.

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 Floor

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 Floor

Issuer

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

Purpose

What is an Interest Rate Floor?

An Interest Rate Floor (**Floor**) is an interest rate management tool for customers who have an investment with returns linked to a market bank bill reference rate.

What are Floors used for?

A Floor helps you to protect yourself against a fall in interest rates and maintain the ability to participate in a rise in interest rates.

A Floor is an interest management tool that is used with an investment that has returns linked to a market bank bill reference rate. This includes investments offered by other organisations. Your underlying investment continues to be governed by the terms and conditions applying to that investment.

Suitability

Do I have sufficient knowledge about this product?

A Floor 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 Floor do?

A Floor works in conjunction with a variable rate investment. It protects you against decreasing interest rates by setting a minimum interest rate payable on your investment. This minimum interest rate is known as the **Strike Rate**. In exchange for the protection of a Floor, you pay a premium. This can either be paid as a one-off up-front premium or, with Westpac's approval, can be amortised over the term of the Floor. This may incur an extra charge.

How does it work?

When you establish a Floor, you set the Strike Rate - the minimum interest rate that you are prepared to receive on your investment during the term of the Floor. You will also set the **Notional Amount** (the amount on which payments are calculated) and agree to a schedule of **Reset Dates**. These are generally the dates interest is paid on your underlying investment.

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 investment. The Reference Rate applies for set periods, called **Calculation Periods**.

On each Reset Date, Westpac will compensate you if the Strike Rate exceeds the prevailing Reference Rate. Westpac will calculate any amount payable using the formula shown in the example.

If the Strike Rate is more than the Reference Rate for a Calculation Period, then Westpac will pay an amount to you based on the difference between these rates. When this amount is used to offset the lower base interest rate applying to your investment, your effective base interest rate for the Calculation Period becomes the Strike Rate.

If the Strike Rate is less than the Reference Rate for a Calculation Period, then Westpac will not pay you anything for that Calculation Period and the base interest rate applicable to your investment will be the rate applying under the agreed terms of your investment.

Cost of product

Cost of product

In return for the Floor, you pay Westpac a non-refundable premium. We calculate the premium on a transaction by transaction basis at the time you establish the Floor. We will advise you of the premium for your Floor before you enter the transaction.

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

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

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

When do I pay this premium?

Premiums must usually be paid in clear funds within two business days of entering into the transaction.

Can the premium be paid in instalments?

With Westpac's approval, the premium can be amortised over the term of the Floor. 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. The premium cannot be amortised over a period greater than the term of the Floor.

Advantages/benefits

Advantages/benefits

- Floors provide you with protection against unfavourable interest rate moves below the Strike Rate, while allowing you unlimited participation in favourable moves.
- Floors are flexible. The Strike Rate can be positioned to reflect the level of protection you seek. However, the amount of premium payable is affected by the choice you make.

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- The term of the Floor is flexible and does not have to match the term of the underlying investment. A Floor may be used as a form of short term interest rate protection in times of uncertainty.
 - Floors can be cancelled (however there may be a cost to you in doing so - see the section Early termination for further details).
 - As a Floor does not form part of the underlying investment, the protection afforded can apply to any investment with similar commercial terms.
 - The cost is limited to the premium paid.

Disadvantages/risks

Disadvantages/risks

- The premium is not refundable in any circumstances. This includes situations where the Reference Rate always exceeds the Strike Rate and no payments are made.
- If your premium has been amortised the full amount of the premium is payable even in the case of early termination.
- You will be exposed to interest rate movements if the term of the Floor is shorter than that of the underlying investment.
- 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

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 agreement.

Early termination

Can I terminate the Floor before maturity?

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

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

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

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 Floor will be cancelled. You should appreciate that you may lose money as a result of early termination.

Documentation

Documentation

You will need 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.

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 into a Floor, 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 contact as a matter of urgency.

Example

Example

The example below is indicative only and uses rates and figures we have selected to demonstrate how the product works. In order to assess the merits of any particular Floor, 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 an investor with a 3 year Australian dollar (\$) 1,000,000 investment with returns linked to BBSW that rolls over on a quarterly basis. In the current economic environment interest rates look as though they may fall and diminish the return on your investment. You would like to establish a base return for your investment but still be able to take advantage of any favourable move in interest rates.

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

If you do nothing, the interest rate you will receive on each reset date will depend on what BBSW is at that time. As an investor you are exposed to unlimited risk if interest rates fall.

How will a Floor change this?

Assume that you enter into a 3 year Floor with:

- a Strike Rate of 5.00%
- a Notional Amount of \$1,000,000
- quarterly Reset Dates, and
- BBSW as the Reference Rate

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

If BBSW is below 5.00% Westpac will compensate you for the difference between the Strike Rate and BBSW for the ensuing Calculation Period. For example, if BBSW is 4.00% Westpac will compensate you on the basis of a difference of 1.00% for the Calculation Period.

As the amount of funds you will receive on your investment is calculated on an interest in-arrears, yield to maturity basis (i.e. a discount to face value), the same method is used to calculate the amount payable.

Westpac uses the following formula to determine any amount payable:

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

Where:

R1 = the Reference Price

R2 = the Strike 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 using the above formula), is to look at the discounted amount payable at the Strike Rate and the discounted amount payable at the Reference Rate. The difference between these amounts (if any) is the amount payable. Using the figures in the example, this is calculated as follows.

Amount Payable at Reference Rate:

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

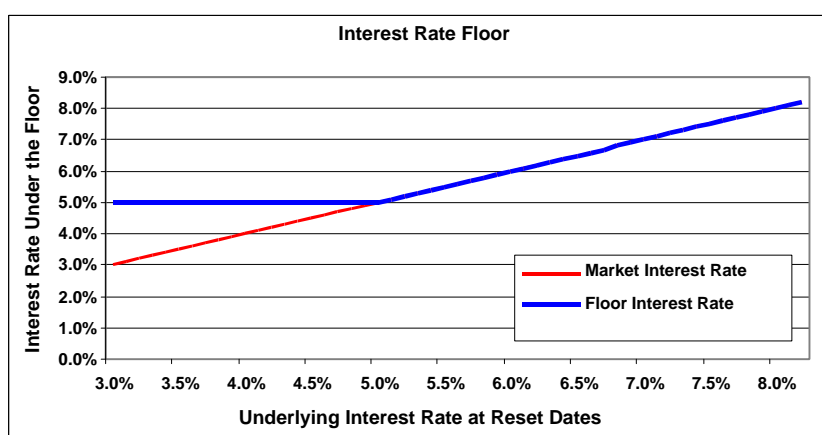
Amount Payable at Strike Rate:

$$\begin{aligned} & \frac{\$1,000,000 \times 36500}{(5.00 \times 90) + 36500} \\ & = \$987,821.38 \end{aligned}$$

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

$$\begin{aligned} & \$990,233.32 \\ \text{Less } & \$987,821.38 \\ & = \$2,411.94 \end{aligned}$$

As can be seen from the chart below, Westpac will provide compensation where the interest rate is below 5.00%. This means that 5% is the lowest interest rate that you will be exposed to.



What happens if interest rates rise?

If on a Reset Date BBSW is above 5.00%, then nothing is payable under the Floor and no settlement takes place.

Important consideration

Please note that the above calculations do not take into account the premium paid for the Floor. 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 Floor protection. In this case the premium cost will exceed the compensation benefit you receive over the life of the Floor.

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

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:

- where 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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