# Interest Rate Caps

## Product Disclosure Statement

### Issued by Westpac Banking Corporation
### ABN 33 007 457 141
### AFSL 233714

**Dated: 25 September 2018.** *This is a replacement product disclosure statement. It replaces Westpac Banking Corporation's Interest Rate Caps Product Disclosure Statement dated 22 September 2017.*

This document provides important information about Interest Rate Caps to help you decide whether you want to enter into any of these derivatives. There is other useful information about this offer at: **www.disclose-register.companiesoffice.govt.nz**

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.

Westpac Banking Corporation acting through its New Zealand branch has prepared this document in accordance with the Financial Markets Conduct Act 2013.

# 1. Key Information Summary

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|---|---|
| **What is this?** | This is a product disclosure statement for Interest Rate Caps (**Caps**) provided by Westpac Banking Corporation (**Westpac**). Caps are derivatives, which are contracts between you and Westpac that, on payment of a premium by you, may require Westpac to make New Zealand dollar payments to you. The amounts that must be paid will depend on the level of the underlying interest rates. The contract specifies the terms on which those payments must be made. |
| **Warning** | **Your liability to make collateral payments** - Westpac may require you to make additional payments (collateral) to contribute towards your future obligations under the derivatives you enter into with Westpac, including any Cap. These payments may be required at short notice and can be substantial. You should carefully read section 5 (*How Westpac treats funds and property received from you*) about your obligations.<br><br>**Risks arising from issuer's creditworthiness** - When you enter into derivatives with Westpac you are exposed to a risk that Westpac cannot make payments as required. You should carefully read section 3 of the PDS (*Risks of these derivatives*) and consider Westpac's creditworthiness. If Westpac runs into financial difficulty, the collateral you provide may be lost. |
| **About Westpac** | Westpac Banking Corporation is incorporated in Australia with ABN 33 007 457 141 and AFSL 233714 and is a registered bank in New Zealand under the Reserve Bank of New Zealand Act 1989. Westpac, acting through its New Zealand branch, provides financial markets services in New Zealand under the Westpac Institutional Bank brand. |
| **Which derivatives are covered by this PDS?** | This PDS covers Interest Rate Caps, where you are exposed to a floating interest rate risk.<br><br>A Cap has the economic effect of allowing you to cap or limit the base interest rate component of a floating interest rate that you are exposed to under a separate financial arrangement. It is an agreement between you and Westpac where we agree that, on each agreed payment date, we will pay you if the floating rate under your Cap is higher than the cap or maximum rate that applies to your Cap. The amount payable by us (if any) is calculated by applying the difference between the floating rate and the cap or maximum rate to an agreed notional amount.<br><br>You pay us a premium to enter into a Cap.<br><br>A Cap may help you to manage the base interest rate component of a floating interest rate risk you are exposed to, without affecting your obligations under the relevant underlying financial arrangement that you are hedging. A Cap allows you to participate in any favourable floating interest rate movements below the cap or maximum rate. |

# Table of Contents

# 2. Key features of the derivatives

A glossary of some of the defined terms used in this PDS is included in section 11 (*Glossary*).

## 2.1 What is a Cap?

A Cap is a product to assist you to manage interest rate risk.

Often interest rates under financial arrangements, such as loans, vary over time. These interest rates are made up of a base interest rate that is usually set by reference to a published benchmark interest rate and a margin agreed between you and the provider of the financial arrangement. Over time both the base interest rate and the margin may change. These are known as floating interest rates.

A Cap only protects you against adverse changes in the base interest rate component of a floating interest rate. It is important you understand that a Cap **does not offer protection against adverse changes to the margin component of a floating interest rate under your underlying financial arrangement.**

Under a Cap we agree that on each payment date (the **Payment Dates**) we will pay you if the agreed floating rate (the **Reference Rate**) is higher than the agreed cap or maximum rate (the **Strike Rate**). The amount that we pay is equal to the difference between the Reference Rate for that Payment Date and the Strike Rate, applied to an agreed notional amount (the **Notional Principal**). If the Reference Rate is the same as or less than the Strike Rate no payment will be made on the relevant Payment Date.

You agree the Term, the Strike Rate, the Notional Principal and the basis for determining the Reference Rate with us before you enter into the Cap. The Reference Rate is determined by us on periodic dates called **Reset Dates**.

When you purchase a Cap, you must pay us a **Premium**. The Premium is non-refundable.

See sections 2.2 (*Key terms of a Cap*) to 2.6 (*Term*) for more details. An example of a Cap scenario appears in section 2.8 (*Example*).

**Important**

**A Cap is a separate agreement from the underlying financial arrangement you may be hedging. A Cap does not alter your obligations under your underlying financial arrangement.**

A Cap should only be used where you have a genuine commercial need to manage interest rate risk, for example, if you have an underlying loan with a member of the Westpac Group. It should not be used for trading or speculative purposes.

## 2.2 Key terms of a Cap

When you enter into a Cap you nominate the Notional Principal. Whether an amount is payable on each Payment Date is calculated using the Notional Principal. The Notional Principal is not exchanged. Usually this amount will be the same throughout the Term of the Cap. However, it is possible to set up a Cap with a Notional Principal which changes during the Term of the Cap, for example to match your anticipated cash flows under the underlying financial arrangement that you are hedging.

We need to agree the following elements to enter into a Cap:

| | |
|---|---|
| **Term** | How long the Cap will operate for, specifying the start and end dates. |
| **Strike Rate** | The cap or maximum rate. This should be the maximum base interest rate that you are prepared to pay on your underlying financial arrangement over the Term of the Cap. Usually this will be the same throughout the Term of the Cap. However, it is possible to set up a Cap with a Strike Rate which changes during the Term of the Cap. |
| **Reference Rate** | The variable rate determined by reference to a benchmark published interest rate. See section 2.4 (*How do we determine the Reference Rate?*) for more information. |
| **Reset Dates** | The dates that divide the Term of your Cap into intervals (usually quarterly or monthly) called **Calculation Periods**. On each Reset Date, we determine the Reference Rate for the following Calculation Period and calculate whether we will need to make a payment to you on the next Payment Date. We will notify you of the result of this calculation following each Reset Date. |
| **Payment Dates** | Payment Dates are usually at the end of each Calculation Period and are when any payment calculated on the previous Reset Date is required to be paid by us under the Cap. |
| **Premium** | The amount you must pay us to enter into the Cap. See section 2.3 (*How do we set the Premium?*). |

The extent to which each of these elements (other than the Strike Rate and the Premium) matches your underlying financial arrangement will affect how well the Cap protects you from adverse changes in the base interest rate component of your floating interest rate. For example, if you did not want to hedge your interest rate risk for the full term of your underlying financial arrangement, you could choose to set a Term that is shorter than your underlying financial arrangement - see section 2.6 (*Term*) for more information.

## 2.3 How do we set the Premium?

When determining the Premium for a Cap (including our profit margin for the Cap) we take into account:

- the Strike Rate. In general, all other things being equal, the more favourable the Strike Rate is to you, the higher the Premium is likely to be.
- the Notional Principal. This is relevant in two ways. In general, all other things being equal, the greater the Notional Principal, the higher the absolute amount of Premium. However, the Notional Principal also impacts on the Premium because it is harder for us to offset smaller transactions on the inter-bank market (the market for transactions between banks and other large financial institutions). In general, all other things being equal, the smaller the Notional Principal of the Cap, the higher the Premium (as a proportion of the Notional Principal) is likely to be.
- the Term. In general, all other things being equal, the longer the Term of the Cap, the higher the Premium is likely to be.
- inter-bank market interest rates prevailing at the time. These rates are relevant in determining our costs and therefore have an impact on the pricing of our products and services. In general, all other things being equal, the higher the interest rates, the higher the Premium is likely to be.
- market volatility, meaning the pace at which interest rates move higher or lower. In general, all other things being equal, greater volatility is likely to increase the Premium.
- your creditworthiness. In general, all other things being equal, the less creditworthy you are, the higher the Premium is likely to be to you.
- our costs. Our costs will increase the Premium.

**Important**

**Each factor will impact the Premium to a different extent. Some factors will impact other factors. For example, our assessment of market volatility may change the effect of the Term on the Premium. Changing a factor in isolation will not necessarily change the Premium we offer you.**

It is important to understand that changes to the Reference Rate may mean that you pay more to Westpac (by paying us the Premium) than you receive from us under the Cap.

## 2.4 How do we determine the Reference Rate?

In New Zealand the base interest rate for banking facilities such as a loan is often (but not always) set by reference to a BKBM rate. BKBM rates are quoted on the Reuters Information Service page BKBM and based on information provided by the New Zealand Financial Markets Association. The BKBM rates are set each business day, so can be different from day to day.

The Reference Rates that are commonly used for Caps in New Zealand are also BKBM rates. This is because, in order to effectively hedge your base interest rate risk under an underlying financial arrangement, the Reference Rate for your Cap should match the applicable base interest rate for the underlying financial arrangement you are hedging. However, it is possible that due to rounding conventions in your underlying financial arrangement there may be a slight mismatch between the Reference Rate for a Cap and the base interest rate in your underlying financial arrangement.

The Reference Rate for a Cap will be determined by us at the beginning of each Calculation Period (on the Reset Date).

## 2.5 What happens at each Reset Date and each Payment Date?

### Reset Dates

On each Reset Date we:

(a) determine the Reference Rate which will apply for the following Calculation Period; and

(b) calculate whether a payment is due from us to you for the following Calculation Period using both the Strike Rate and the Reference Rate (which has been determined on that date) that apply to that Calculation Period.

If the Reference Rate is more than the Strike Rate then, on the next Payment Date, we must pay you an amount based on the difference between the two rates. We use the following formula to determine any amount payable by us to you:

$$\frac{\text{Notional Principal} \times (\text{Reference Rate} - \text{Strike Rate}) \times \text{Calculation Period}}{\text{365 days}}$$

A simple way to calculate the amount payable (and achieve the same result as the above formula) is to look at the amount payable at the Reference Rate and the amount payable at the Strike Rate. The difference between these amounts (if any) is the amount payable. Using this simplified method:

The amount payable using the Reference Rate (the **Floating Amount**) is calculated as follows:

$$\frac{\text{Notional Principal} \times \text{Reference Rate (as a percentage)} \times \text{Calculation Period}}{\text{365 days}}$$

The amount payable using the Strike Rate (the **Fixed Amount**) is calculated as follows:

$$\frac{\text{Notional Principal} \times \text{Strike Rate (as a percentage)} \times \text{Calculation Period}}{\text{365 days}}$$

If the Floating Amount is greater than the Fixed Amount, we will make a payment to you on the next Payment Date. The amount of the payment will be the Floating Amount minus the Fixed Amount.

If the Floating Amount is the same as or less than the Fixed Amount, no payment will be made on the next Payment Date.

**Payment Dates**

If we are making a payment to you on a Payment Date, we will deposit the amount we owe you in the account previously agreed with you. This must be a bank account in your name with us or another member of the Westpac Group in New Zealand nominated by you. Alternative arrangements can be made with our prior agreement.

If you have entered into more than one derivative with us and payments in the same currency are due on the same day then your master dealing agreement may permit payments to be made on a net basis in certain circumstances. Where payments are made on a net basis, whichever of you or us has the smaller obligation does not make a payment at all and the other with the greater obligation pays an amount of currency equal to the difference between the two amounts owing.

If you fail to pay us the Premium when it is due under a Cap, we may exercise our rights under your master dealing agreement, including rights of early termination. Further details on these matters is set out in section 2.18 (*Rights under a master dealing agreement to terminate a Cap*).

**Important**

**A Cap:**

- **can only relate to changes in the base interest rate for your underlying financial arrangement. It will not protect against changes in the margin for that financial arrangement.**
- **is not a lending facility. It does not alter the terms of your other financial arrangement. You remain liable to make all payments of interest due under your underlying financial arrangement in full.**
- **has no effect on any fees payable under your underlying financial arrangement.**

## 2.6 Term

The Term of a Cap is the period of time between the first day of the Cap and the last day of the Cap. Caps are usually available for Terms of between one and five years in length. Usually the maximum Term will be aligned with the term of your underlying financial arrangement.

It is possible to enter into a Cap with us for a Term starting at some point in the future. This is called a "forward starting Cap". You are bound by the Cap from the time you enter into the Cap with us, even if the Term does not begin until a future date.

Requests for a Term that is longer than your underlying financial arrangement and/or longer than five years may be subject to our credit approval process and may be subject to additional conditions.

The Term of any Cap and any additional conditions will be agreed with you before the Cap is entered into.

## 2.7 What are the key benefits of a Cap?

**Protection**
A Cap can help provide you with protection against adverse interest rate movements in the Reference Rate above the Strike Rate for the Term of your Cap.

**Participation in favourable interest rate movements**
A Cap allows you to participate in favourable interest rate movements that may occur during the Term of your Cap, while having the certainty of an agreed maximum Strike Rate.

**Certainty**
A Cap can give you certainty about the maximum base interest rate component of a floating interest rate, where you have underlying financial arrangements subject to interest calculated by reference to a variable benchmark (floating) interest rate.

**Tailored terms**
Key variables, including the Notional Principal, Reset Dates, Payment Dates, Term, Reference Rate, Strike Rate and/or Premium of your Cap can be tailored to meet your particular needs. For example, if your underlying financial arrangement is a loan you may choose only to protect part of an amount you have borrowed by choosing a Notional Principal amount that is lower than the amount of your loan. The amount of the Premium is affected by the level of protection you choose.

**Limited cost**
You know how much Premium you must pay when you enter the Cap. There are no other fees payable to Westpac. There is no cost to you to terminate a Cap. However, the Premium you pay to enter into a Cap is not refundable if your Cap is terminated early.

## 2.8 Example

The example below provides an example of one situation only and uses rates and figures that we have selected to demonstrate how a Cap works. The example does not reflect the specific circumstances or the obligations that may arise under a Cap you enter into with us. Depending on the commercial terms we agree with you, each Cap we enter into with you may be different from the example given and you may have different obligations.

In order to assess the merits of any particular Cap, you would need to use the actual rates and figures we quote to you at the time. Note that the calculations below do not take into account any tax consequences and may include rounding of decimal places.

In addition, the calculations below do not take into account the Premium paid for the Cap. The Premium 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 Cap protection, in which case the Premium cost will exceed the compensation benefit you receive over the life of the Cap.

**Scenario – Three year Cap**

You have borrowed 3,000,000.00 New Zealand dollars (**NZD**) under a floating rate loan, which is due to be repaid in three years' time. Interest under your floating rate loan is payable quarterly (that is, every three months). The base interest rate component of your floating rate loan is the three month BKBM bid rate, which is currently 3.00% per annum. The total floating interest rate under your floating rate loan also includes a margin. That is, your floating interest rate will be the three month BKBM bid rate plus a margin.

In this example you are not sure if interest rates will rise or fall in the future. However, you would like to know your maximum borrowing costs but would still like to benefit from favourable interest rate movements during the term of your floating rate loan.

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

If, on a future reset date for your floating rate loan, the three month BKBM bid rate has increased to 4.00% per annum, the base interest rate component of the floating interest rate that would apply to your floating rate loan is 4.00% per annum.

You would then have to pay more interest under the floating rate loan than you did when you first entered into the floating rate loan and the three month BKBM bid rate was 3.00% per annum.

However, if the three month BKBM bid rate decreases to 2.00% per annum on a future reset date for your floating rate loan, the base interest rate component of the floating interest rate that would apply to your floating rate loan is 2.00% per annum. You would then have to pay less interest under the floating rate loan than you did when you first entered into the floating rate loan and the three month BKBM bid rate was 3.00% per annum.

The interest rate risk you face is uncertainty over the base interest rate component of your floating interest rate. This rate may change over time. The changes could be favourable or unfavourable to you.

**How can a Cap change this?**

In this example, you think floating interest rates will rise in the future but are not sure and, as a result, your base interest rate under your floating rate loan may exceed 3.00% per annum. To protect yourself against the risk of the three month BKBM bid rate increasing, you can enter into a Cap. You would like to lock in the maximum base interest rate component of your borrowing costs at 3.00% per annum, which requires you to select a Strike Rate of 3.00% per annum.

Assume that you enter into a Cap with the following features:

| | | | |
|---|---|---|---|
| **Strike Rate** | 3.00% per annum | **Reference Rate** | Three month BKBM bid rate |
| **Reset Dates** | Quarterly | **Notional Principal** | NZD 3,000,000.00 |
| **Calculation Periods** | 90 days | **Term** | Three years |
| **Payment Dates** | The final day of each Calculation Period | **Premium paid by you** | NZD 31,301.00 |
| **Premium payment date** | Two business days after the date you enter into the Cap | | |

*If the three month BKBM bid rate increases to 4.00% per annum (meaning it is higher than the Strike Rate):*

As the Reference Rate is higher than the Strike Rate, on the next Payment Date we will compensate you on the basis of a difference of 1.00% per annum (being, the Reference Rate less the Strike Rate) of the Notional Principal, for the Calculation Period. We will calculate the amount payable by us on the next Payment Date as follows:

$$\frac{\text{NZD } 3{,}000{,}000.00 \times (4.00\% - 3.00\%) \times 90}{365} = \text{NZD } 7{,}397.26$$

← We pay this amount to you

For explanation purposes only, a simple way to calculate the amount payable (and achieve the same result from the above formula), is to look at the amount payable calculated using the Reference Rate and the amount payable calculated using the Strike Rate. The difference between these amounts (if any) is the amount payable by us for the relevant Calculation Period. In this example, this is calculated as follows:

The Floating Amount using the current three month BKBM bid rate as the Reference Rate:

$$\frac{\text{NZD } 3{,}000{,}000.00 \times 4.00\% \times 90}{365} = \text{NZD } 29{,}589.04$$

The Fixed Amount using the Strike Rate:

$$\frac{\text{NZD } 3{,}000{,}000.00 \times 3.00\% \times 90}{365} = \text{NZD } 22{,}191.78$$

In this scenario, the Floating Amount is greater than the Fixed Amount, so we must pay you the difference between the two amounts on the next Payment Date, calculated as follows:

| | |
|---|---|
| | NZD 29,589.04 |
| less | NZD 22,191.78 |
| | NZD 7,397.26 |

← We pay this amount to you

By entering into a Cap with a Strike Rate of 3.00% per annum, you will receive an amount of NZD 7,397.26 from us on the next Payment Date under the Cap. This amount can be used to offset the increased interest payable (due to the increased base interest rate) under your underlying floating rate loan.

By entering into the Cap you have certainty that 3.00% per annum is the maximum base interest rate you will be exposed to on your underlying floating rate loan. The Cap will not assist you with any changes to the margin component of your floating interest costs under your floating rate loan.

*If the three month BKBM bid rate reduces to 2.00% per annum (meaning it is lower than the Strike Rate):*

If, on the Reset Date, the three month BKBM bid rate is below 3.00% per annum (the Strike Rate), no payment will be made under the Cap on the next Payment Date.

You will pay interest on your floating rate loan for the relevant period that is calculated using a base interest rate of the three month BKBM bid rate at 2.00% per annum.

Irrespective of whether interest rates move higher or lower, by entering into a Cap you have removed the uncertainty of the base interest rate component of your floating interest rate exceeding the Strike Rate. However, you do not get any return from the Premium you paid to enter into the Cap.

## 2.9 What general terms apply to a Cap?

We will have provided you with a copy of our Derivatives General Terms. The Derivatives General Terms apply to derivative transactions between us. You agree to the Derivatives General Terms by entering into pricing discussions with us for a derivative (including a Cap). You may also be asked to communicate your agreement to the Derivatives General Terms to us in other ways, such as in writing. A copy of our Derivatives General Terms are available on the offer register at **www.disclose-register.companiesoffice.govt.nz** and on request (our contact details are set out in section 6 (*About Westpac*)).

**Important**

**We strongly recommend that you fully consider the Derivatives General Terms before deciding whether to enter into pricing discussions with us for a Cap. This is because you are agreeing to our Derivatives General Terms by entering into pricing discussions with us. You should obtain independent advice if you do not understand any aspect of the Derivatives General Terms or any other documents we require you to enter into.**

## 2.10 Are there any Westpac credit requirements before dealing?

Before entering into a Cap, we will assess your financial position to determine whether or not you satisfy our credit requirements. We will advise you of the outcome of our review as soon as possible.

If your application is successful, you may need to sign our required finance documentation. This documentation sets out the terms of your credit approval and other matters relevant to your application.

## 2.11 How is a Cap entered into?

In addition to any finance documentation, you will need to have a signed master dealing agreement before entering into a derivative with us. One of the master dealing agreements that we use for Caps is the International Swaps and Derivatives Association Master Agreement with its associated schedule. (In this PDS, **ISDA** means that Master Agreement and (unless specified otherwise) the associated schedule.) We may use other forms of master dealing agreement from time to time, such as Westpac's **Master Agreement for Derivative Transactions**. We will provide you with a copy of the master dealing agreement we need you to sign.

**Important**

**We strongly recommend you fully consider the terms of the master dealing agreement before deciding whether to enter into it. You should obtain independent advice if you do not understand any aspect of the master dealing agreement or any other documents we require you to enter into.**

## 2.12 Client Agreement

Your master dealing agreement, together with the Derivatives General Terms form your **Client Agreement**. Your Client Agreement sets out terms and conditions that apply to derivative transactions between us.

The commercial terms agreed in relation to any specific Cap will be contained in a document called a **Confirmation** - see section 2.15 (*What about Confirmations?*) for more information.

## 2.13 Email, facsimile and telephone indemnity

If you want to provide us with email, facsimile or telephone instructions in relation to Caps, we may require you to complete an indemnity form. The purpose of this indemnity is to protect us against the consequences of acting on instructions which may not represent your genuine wishes but which appear to us to be genuine.

## 2.14 Other documentation

You may be asked to complete additional documentation before you enter into a Cap depending on the outcome of our assessment of your creditworthiness. We will tell you if any further documentation is required at that time.

## 2.15 What about Confirmations?

The commercial terms of a particular Cap will be agreed before you enter into the Cap.

This may occur during a telephone call. Once we reach an agreement with you, both parties are bound by the terms of the Cap.

Shortly after entering into a Cap, we will send you a Confirmation outlining the commercial terms of your Cap that were agreed between us. In most cases you will need to sign this Confirmation and return it to us. This Confirmation evidences the Cap that we entered into with you.

It is extremely important that you check your Confirmation to make sure that it accurately records the commercial terms of your Cap. If there is a discrepancy between your understanding and the Confirmation, or you do not receive a Confirmation from us, please contact your Westpac financial markets dealer as a matter of urgency.

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

## 2.16 Rights to alter terms of a Cap

Westpac has certain rights to alter the Derivatives General Terms and any Master Agreement for Derivative Transactions with you without your consent. If Westpac exercises any of these rights, the alterations could result in an alteration to the terms of your Cap. In all other circumstances, the terms and conditions applying to a particular Cap can only be altered if we both agree.

## 2.17 Can I change the Term or Notional Principal of my Cap?

At any time up to the end of the Term, you may ask us to change the Term and/or Notional Principal of your Cap. You may ask to shorten or lengthen the Term, increase or decrease the Notional Principal, or a combination of those changes.

We can agree to change your Cap in our absolute discretion. Changes are not automatically agreed and may be subject to our credit approval process. We will only allow changes for genuine commercial reasons and not for speculative purposes. Even where you have genuine commercial reasons to change your Cap, we may not always be willing to agree a change. As part of the change process we may require you to sign additional documentation.

If we agree to change your Cap, we will need to agree a new Premium with you. Our determination of the new Premium takes into account the same factors that impacted the Premium when originally determined, applied at the time you request the change and having regard to the changed terms of your Cap (see section 2.3 (*How do we set the Premium?*)). The new Premium will be payable two business days after the date that we agree the new terms of the Cap with you.

If you accept the new Premium that we quote to you to change your Cap, we will send you a Confirmation which details the new terms.

## 2.18 Rights under a master dealing agreement to terminate a Cap

Your master dealing agreement with us will document the situations where derivatives can be terminated and the way in which the amount to be paid following termination is calculated.

**ISDA**

The standard ISDA (excluding any schedule) gives both parties to that agreement the right to terminate a particular derivative (and other derivative transactions entered into under that agreement) if any of the events of default or termination events set out in that agreement occur.

Your ISDA will be a negotiated agreement that sets out further details of the events of default and termination events and the consequences of those events. It may not apply all the events of default or termination events set out in the standard ISDA (excluding any schedule) to us or you. You should read your ISDA carefully.

The events of default and termination events in the standard ISDA (excluding any schedule) include:

- either you or Westpac fails to make a payment or breaches any other obligation under the agreement;
- either you or Westpac becomes insolvent;
- either you or Westpac fails to make a payment or comply with its obligations under another derivative transaction or in respect of borrowed money;
- either you or Westpac fails to comply with obligations under any "Credit Support Document" (these are security or guarantee documents);
- a representation made by either you or Westpac to the other in connection with the agreement or a derivative is not correct or is misleading in any material respect;
- the relevant derivative transaction becomes illegal;
- either you or Westpac amalgamates or merges with a second entity, or transfers all or substantially all of the relevant party's assets to a second entity and:
    - the creditworthiness of the second entity is materially weaker than the relevant party or the second entity does not assume all of the relevant party's obligations under the agreement; or
    - either you or Westpac will be required to pay more, or will receive less, under a Cap as a result;

- a "force majeure event" occurs, meaning an event or act of state that is beyond both parties' control that makes it impossible or impracticable for either you or Westpac to comply with our respective obligations under the agreement, including making or receiving payments; and
- a "tax event" occurs, meaning there is a change in tax law or an action taken by a taxing authority or brought in a court which will, or is likely to, result in either you or Westpac being required to pay more, or receive less, under a Cap.

In addition to the standard events of default and termination events, your ISDA may include additional events of default or termination events agreed between you and Westpac. Additional events of default and termination events may also be specified in your Confirmation.

If there are any "Credit Support Providers" (for example, a guarantor) specified or other persons named as "Specified Entities" (for example, your subsidiaries) in your ISDA in relation to either you or Westpac, some of these events also apply in relation to those Credit Support Providers or Specified Entities.

This is only a summary of the events of default and termination events provided for in the standard ISDA (excluding any schedule).

### Master Agreement for Derivative Transactions

If a particular Cap is subject to the terms of our Master Agreement for Derivative Transactions, we can terminate a Cap (and other derivative transactions entered into under that agreement) if any of the following events occur:

- we wish to terminate the Cap for any regulatory, legal or tax reason (provided we give you five business days' notice of our intention to terminate);
- we are unable to comply with our obligations under the Cap for reasons beyond our control or it is impracticable for us to do so;
- you fail to make a payment or breach any other obligation under the agreement or any other agreement you have entered into with us or any other member of the Westpac Group;
- a representation you have made to us in connection with the agreement or any other agreement you have entered into with us is not correct or is misleading in any material respect;
- certain events occur in relation to any lending facility you have with us or any other member of the Westpac Group, including:
    - a default occurs or an undertaking is breached or potentially breached;
    - a demand for payment is made or the facility terminates or becomes unenforceable; or
    - monies loaned under the facility are repaid, required to be repaid early, terminated or cancelled for any reason;
- you become insolvent;
- any security granted over your assets becomes enforceable;
- you do not provide us with satisfactory security or other credit support in connection with the agreement, if we have requested it;
- you do not pay on time any amount you owe to anyone else, or breach, or an event of default or similar event occurs under, the terms on which you owe that amount;
- it is unlawful for any party to perform its obligations under the agreement or any guarantee or security granted to us for your obligations under the agreement, or you challenge the validity of the agreement or any guarantee or security or any of those documents ceases to have effect;
- any event occurs that we consider may materially adversely affect you, your ability to perform any of your financial obligations to us or our ability to exercise our rights or enforce obligations under the agreement or any guarantee or security;
- if you are an individual, you die or become insane or incapacitated; or
- if you enter into the agreement as trustee of a trust and certain events occur in relation to the trust which are adverse to us.

Additional events of default and termination events may also be specified in your Confirmation.

If there are any guarantors and security providers in connection with your obligations under the Master Agreement for Derivative Transactions, some of these events also apply in relation to them.

This is only a summary of the events of default and termination events provided for in the Master Agreement for Derivative Transactions.

### 2.19 What happens if I ask Westpac to terminate a Cap early?

You may ask us to terminate a Cap at any time during the Term of your Cap. As long as you have paid the Premium in full, no additional amounts will be payable by you. However, the Premium that you paid to enter into the Cap will not be refunded to you.

### 2.20 How much could be payable if the Cap terminates for another reason?

If a particular Cap is terminated early other than due to your request, as long as you have paid the Premium, no additional amount will be payable by you in relation to the Cap.

If you have entered into other derivative transactions with us we may have the right to terminate those derivative transactions as well.

We will determine the mark-to-market value of that Cap (and any other derivative transactions affected by the termination). The "mark-to-market value" of a derivative is what we consider to be the current value of that derivative. The values of all derivative transactions affected by the termination will be aggregated. Although no additional amount is payable by you in relation to the Cap, depending on the values of any other transactions being terminated, a net amount will be payable either by you to us or by us to you. The amount payable on termination may be significant.

You should refer to your master dealing agreement described above in section 2.11 (*How is a Cap entered into?*) for full details on amounts that may be payable on early termination, including details of how the mark-to-market value of affected transactions and the net amount payable are determined.

The Premium that you paid to enter into the Cap with us will not be refunded to you.

## 3. Risks of these derivatives

### 3.1 Product risks

**Loss of Premium**
The Premium is not refundable. This applies even when the Reference Rate never exceeds the Strike Rate and no payments are made under the Cap or the Cap is terminated early for any reason. Accordingly, you may pay more to Westpac (by paying us the Premium) than you receive from us over the Term of the Cap.

**Variation**
Variation of your Cap may result in a cost to you. See sections 2.17 (*Can I change the Term or Notional Principal of my Cap?*) and 4 (*Fees*) for more information.

**No cooling-off period**
There is no cooling-off period. This means that, except in certain circumstances, once you enter into a Cap, you cannot terminate or vary the Cap without our consent even if you no longer need the Cap or have changed your mind about the Cap. You must still pay the Premium. This is the case even where the Term of your Cap has not yet started. A variation may result in a cost to you. That cost may be significant. See section 2.16 (*Rights to alter terms of a Cap*) and 2.17 (*Can I change the Term or Notional Principal of my Cap?*). In relation to termination, see section 2.19 (*What happens if I ask Westpac to terminate a Cap early?*) for more information.

**Breach of obligation**
Failure to pay the Premium to us under your Cap will be a breach of your master dealing agreement with us. If you do not comply with your obligation to pay the Premium or any other obligation under your master dealing agreement, we may choose to exercise our right to terminate your Cap and/or any other derivative transactions

with us under your master dealing agreement. This may result in a cost to you, which may be significant. See sections 2.18 (*Rights under a master dealing agreement to terminate a Cap*) and 2.20 (*How much could be payable if the Cap terminates for another reason?*) for more information on the costs that arise in the event that a Cap is terminated early, other than as a result of a request by you.

## 3.2 Issuer risks

**Westpac's creditworthiness**

When you enter into a Cap, you are exposed to the risk that we become insolvent and are unable to meet our obligations under the Cap.

As is the case with most financial markets products we enter into, we have performance obligations under a Cap. If we are unable to perform our obligations under your Cap, you will be exposed to interest rate fluctuations as if you had not entered into a Cap.

Our ability to fulfil our obligations is linked to our financial wellbeing. This is commonly referred to as credit or counterparty risk.

You must make your own assessment of our ability to meet our obligations. However, as an "authorised deposit-taking institution" in Australia and a registered bank in New Zealand, we are subject to prudential regulation which is intended to reduce the risk of us failing to perform our obligations.

In order to assist your assessment of Westpac's creditworthiness you should refer to the disclosure statements we are required to prepare under the Reserve Bank of New Zealand Act 1989 and Westpac's annual reports. These disclosure statements and annual reports are available here:
**www.westpac.co.nz/who-we-are/about-westpac-new-zealand/westpac-disclosure-statements**.
The disclosure statements prepared under the Reserve Bank of New Zealand Act 1989 relate primarily to Westpac's operations in New Zealand. Westpac's annual reports relate to Westpac's operations worldwide.

## Credit Ratings

Westpac Banking Corporation has the following credit ratings with respect to its long-term senior unsecured obligations:

| | |
|---|---|
| **Standard & Poor's Financial Services LLC** | **AA-, Outlook Negative** |
| **Fitch Ratings Incorporated** | **AA-, Outlook Stable** |
| **Moody's Investors Service** | **Aa3, Outlook Stable** |

In addition, Moody's Investors Service provides a local currency and foreign currency long-term counterparty risk rating (**CRR**). This is an opinion on the ability of Westpac Banking Corporation to honour the uncollateralised portion of non-debt counterparty financial liabilities (such as the uncollateralised portion of financial liabilities arising from derivatives) and also reflects the expected financial losses in the event such liabilities are not honoured.

The CRR is intended to be distinct from the ratings assigned to long-term senior unsecured obligations.

| | |
|---|---|
| **Westpac Banking Corporation's CRR is** | **Aa2, no Outlook provided** |

The following is a summary of the major rating categories available, and Westpac's placement within those rating categories for its long-term senior unsecured obligations and its CRR.

| Standard & Poor's | AAA | AA | A | BBB | BB | B | CCC | CC to C | D |
|---|---|---|---|---|---|---|---|---|---|
| Fitch | AAA | AA | A | BBB | BB | B | CCC | CC to C | RD & D |
| Moody's | Aaa | Aa | A | Baa | Ba | B | Caa | Ca to C * | - |
| Description of the issuer's capacity to meet its financial commitments** | Extremely strong | Very strong | Strong | Adequate | Less vulnerable | More vulnerable | Currently vulnerable | Currently highly vulnerable | In default |
| Default probability*** | 1 in 600 | 1 in 300 | 1 in 150 | 1 in 30 | 1 in 10 | 1 in 5 | 1 in 2 | | |

**Westpac's credit ratings in relation to its long-term senior unsecured obligations are:**

AA- (Standard & Poor's)
AA- (Fitch)
Aa3 (Moody's)

The Standard & Poor's rating is "Outlook Negative"
The Fitch and Moody's ratings are "Outlook Stable"
**Westpac's CRR from Moody's is Aa2, no "Outlook"**

* If a rating of "C" is given by Moody's Investors Service, the issuer is typically in default.

** Summary description of Standard & Poor's ratings.

*** The approximate median likelihood that an investor will not receive repayment on a five-year investment on time and in full based upon historical default rates published by each agency, as at 2008 (source: Reserve Bank of New Zealand publication "Explaining Credit Ratings", dated November 2008).

Standard & Poor's ratings from "AA" to "CCC" and Fitch ratings from "AA" to "B" may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. Moody's adds numerical modifiers 1, 2 and 3 to each generic rating classification from "Aa" to "Caa". A "1" indicates that the obligation ranks in the higher end of the rating category; a "2" indicates a mid-range ranking; and a "3" indicates a ranking in the lower end of that rating category. Ratings may also be subject to positive, negative or stable outlooks.

**A credit rating is an independent opinion of the capability and willingness of an entity to meet its financial obligations (in other words, its creditworthiness). It is not a guarantee that the issuer will be able to meet its obligations under derivatives.**

### 3.3 Risks when entering or settling the derivatives

We use internal and external systems and services to provide Caps to you. Unexpected performance of an email, facsimile, telephone service or computer system may result in a delay or failure to either enter into or settle a Cap as intended. This unexpected underperformance may mean that a Cap is not entered into when you intended (meaning, for example, you may not be able to enter into a Cap for the Premium that you had wanted) or that you do not receive a payment on the date it is due.

Pricing we offer you in an email for a particular Cap is indicative only. This means that you may not be able to enter into a Cap with the Premium and/or Strike Rate referred to in our email.

## 4. Fees

### 4.1 What fees or charges apply?

In return for us selling you a Cap, you must pay us a non-refundable Premium.

The Premium is determined on an individual client basis for each Cap before you enter into the particular Cap. The factors that are relevant to determining the Premium (including our profit margin), and the impact of each of those factors on the Premium (including our profit margin), are explained in section 2.3 (*How do we set the Premium?*).

If we agree to change the Term or Notional Principal of your Cap we will need to agree a new Premium with you. We determine the new Premium on the date we agree the terms of the Cap with you. See section 2.17 (*Can I change the Term or Notional Principal of my Cap?*) for more information on how we determine the new Premium.

### 4.2 When is the Premium paid?

The Premium is payable on the premium payment date. This will be two business days after the date that we enter into a Cap, subject to adjustment at our discretion where banks are not open for business in Sydney, Australia and/or Auckland, New Zealand on that date.

The premium payment date for a Cap will be included in your Confirmation.

If you do not pay the Premium when due, Westpac may exercise its rights under your master dealing agreement. That may include rights of early termination in respect of the Cap and other products transacted under your master dealing agreement.

## 5. How Westpac treats funds and property received from you

### 5.1 Our processes for receiving payments from you

Amounts due to us in respect of a Cap can be paid in several ways, such as by making a direct debit payment or payment through another electronic delivery mechanism operated by a member of the Westpac Group in New Zealand. Please contact your usual Westpac financial markets dealer for more information.

### 5.2 Amounts received from you

Amounts paid to us in satisfaction of your obligations under a Cap become our property on payment.

In general, there is no requirement for you to deliver any form of cash collateral or other security in support of a Cap. However, in certain circumstances we may require you to enter into such arrangements as a condition of your credit approval in respect of other derivative transactions you enter into with us. If you enter into any such arrangement with us and are required to provide us with cash collateral under that arrangement, that cash collateral you provide will become our property. However, we will have a contractual obligation to deliver an equivalent amount of cash to you when the cash collateral is no longer required under the terms of the collateral arrangement.

# 6. About Westpac

Westpac is incorporated in Australia. Westpac is an "authorised deposit-taking institution" in Australia and is a registered bank in New Zealand under the Reserve Bank of New Zealand Act 1989. Westpac operates in New Zealand through its New Zealand branch and among other things provides financial markets products and services to customers of the Westpac Group in New Zealand.

Westpac is located at:

**Westpac on Takutai Square**
**Level 8**
**16 Takutai Square**
**Auckland 1010**

Any enquiries about Caps can be made to your Westpac financial markets dealer or by contacting us during normal business hours on:

**0800 659 307**

or in writing to:

**PO Box 934**
**Auckland 1140**

or to our Takutai Square address set out above.

# 7. How to complain

Sometimes you may want to talk about problems you are having with us or a Cap. Fixing these problems is very important to us.

We have put in place processes to deal with your issues quickly and fairly.

**Please talk to us first**
We aim to resolve your complaint at your first point of contact with us so please contact your usual Westpac financial markets dealer in the first instance. Alternatively, you can write to us at:

**Attention: Branch Operating Officer, Westpac Banking Corporation – New Zealand Branch**
**PO Box 934**
**Auckland 1140**

or at:

**Attention: Branch Operating Officer, Westpac Banking Corporation – New Zealand Branch**
**Westpac on Takutai Square**
**Level 8**
**16 Takutai Square**
**Auckland 1010**

or call:

**0800 659 307**

We subscribe to the New Zealand Bankers' Association Code of Banking Practice, which sets out the minimum standards for resolving complaints.

**What to do if you are still unhappy**

If we are not able to deal with your issues to your satisfaction, you may contact our external dispute resolution provider, the Office of the Banking Ombudsman. The Office of the Banking Ombudsman is an approved dispute resolution scheme and may be able to consider your complaint. The Office of the Banking Ombudsman may be contacted by writing to:

**Freepost 218002**
**PO Box 25327**
**Featherston Street**
**Wellington 6146**

or by calling:

**0800 805 950**

The Office of the Banking Ombudsman will not charge a fee to any complainant to investigate or resolve a complaint.

# 8. Where you can find more information

Further information about us and Caps is available from the offer register. The offer register can be accessed at: **www.disclose-register.companiesoffice.govt.nz**

A copy of information on the offer register is available on request from the Registrar of Financial Service Providers.

Other information about Westpac's financial markets services in New Zealand is available (free of charge) at: **www.westpac.co.nz/wib/financial-markets**

Westpac is a listed issuer in both Australia and New Zealand and is subject to regular reporting and disclosure obligations under the listing rules of the Australian Securities Exchange (**ASX**) and the New Zealand Exchange (**NZX**). Copies of documents lodged by Westpac with ASX or NZX can be obtained (free of charge) from the section on Westpac on the ASX and NZX websites.

# 9. How to enter into Client Agreement

Before you can enter into a Cap, you must enter into a Client Agreement with us. More information about our Client Agreement and the process that must be completed before you enter into a Client Agreement is set out in sections 2.9 (*What general terms apply to a Cap?*) to 2.14 (*Other documentation*).

To start the process of entering into a Client Agreement, please contact your Westpac financial markets dealer.

# 10. General information

## 10.1 Additional important information about this PDS

If you decide to enter into a Cap, you should keep a copy of this PDS and any associated documentation.

The information set out in this PDS is general in nature. It has been prepared without taking into account your specific objectives, financial situation or needs. Because of this, you should consider its appropriateness having regard to your specific objectives, financial situation and needs. By providing this PDS, Westpac does not intend to provide financial advice or any financial recommendations.

## 10.2 New Zealand investors

Only investors in New Zealand are invited to apply for a Cap. If you are not in New Zealand, Westpac is not inviting you to apply for a Cap under this PDS.

Supply of this PDS does not create a "regulated offer" for the purposes of the Financial Markets Conduct Act 2013. Whether or not an offer is a "regulated offer" depends on your investor status under the Financial Markets Conduct Act 2013.

## 10.3 Taxation

Taxation law is complex and may have significant consequences for investments. If you have any queries on the tax consequences of entering into a Cap, you should obtain professional advice on those consequences. Westpac is not responsible or liable for any such consequences.

## 10.4 Changes to this PDS

Information in this PDS may change over time. The PDS will not necessarily be updated and/or resent to you. Please refer to the offer register **www.disclose-register.companiesoffice.govt.nz** for the latest information.

## 11. Glossary

To help you to understand this PDS, the meanings of some words used in it are set out below.

| | |
|---|---|
| **Calculation Period** | The number of days between Reset Dates and, for the purpose of the first Reset Date, means the number of days between the first day of the Term and the first Reset Date. |
| **Cap** | An Interest Rate Cap, being the product that is the subject of this PDS. |
| **Client Agreement** | The agreement between us relating to the issue of a Cap by us to you. The terms of this agreement are our Derivatives General Terms and the master dealing agreement we agree. |
| **Confirmation** | A letter from us to you which confirms the terms of a particular Cap including the Notional Principal, Strike Rate, Reference Rate, Payment Dates, Reset Dates and the Term. |
| **Derivatives General Terms** | The general terms applying to derivatives issued by Westpac, an additional copy of which can be obtained from the offer register: **www.disclose-register.companiesoffice.govt.nz** or on request from Westpac. |
| **Fixed Amount** | An amount calculated by multiplying the Notional Principal by the Strike Rate (expressed as a percentage) and the Calculation Period and dividing the result by 365 days. |
| **Floating Amount** | An amount calculated by multiplying the Notional Principal by the Reference Rate (expressed as a percentage) and the Calculation Period and dividing the result by 365 days. |
| **ISDA** | The International Swaps and Derivatives Association Master Agreement and (unless specified otherwise) its associated schedule. |
| **Master Agreement for Derivative Transactions** | Westpac's Master Agreement for Derivative Transactions. |
| **Notional Principal** | An agreed notional amount that is used to calculate the amount of any payment due from us, to you, under a Cap. |
| **NZD** | New Zealand dollars. |
| **Payment Dates** | Payment Dates are usually at the end of each Calculation Period and are when any payment calculated on a Reset Date is required to be paid by us, to you, under the Cap. |
| **PDS** | This product disclosure statement. |
| **Premium** | An amount payable to us in consideration of our entering into a Cap with you. |
| **Reference Rate** | The variable rate under your Cap that is usually determined by reference to a BKBM rate. |
| **Reset Dates** | Reset Dates divide the Term of your Cap into intervals (usually quarterly or monthly) called Calculation Periods and are the dates on which we calculate whether a payment is due, from us, to you, on the next Payment Date. |
| **Strike Rate** | The cap or maximum rate under your Cap that is agreed between you and us before a Cap is entered into. |

| | |
|---|---|
| **Term** | How long a Cap will operate for. |
| **Westpac, we, our** or **us** | (unless the context requires otherwise) Westpac Banking Corporation, incorporated in Australia (ABN 33 007 457 141, AFSL 233714). |
| **Westpac Group** | Westpac Banking Corporation and its subsidiaries. |
| **You, your** | The customer receiving this PDS. |