Participating Forward Contracts

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 Participating Forward Contracts Product Disclosure Statement dated 22 September 2017.*

This document provides important information about Participating Forward Contracts 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

What is this?	This is a product disclosure statement for Participating Forward Contracts (**PFCs**) provided by Westpac Banking Corporation (**Westpac**). PFCs are derivatives, which are contracts between you and Westpac that will require you and Westpac to make a payment of a currency to the other party to the contract. The amounts that must be paid or received (or both) will depend on the level of the underlying exchange rate. The contract specifies the terms on which those payments must be made.
Warning	**Risk that you may owe money under the derivative** - If the level of the underlying exchange rate changes, you may suffer losses. In particular, unlike most other kinds of financial products, you may end up owing significant amounts of money. You should carefully read section 2.4 (*What happens at the Maturity Date?*) on how payments are calculated. **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 PFC. 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. **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 Participating Forward Contracts. A PFC allows you to exchange one currency for another currency on an agreed date in the future at an agreed rate. The amount of one of the currencies will be either: (a) a specified amount of that currency; or (b) an agreed proportion of that specified amount. Whether the specified amount, or a proportion of the specified amount, is exchanged depends on our Market Foreign Exchange Rate at the time and date agreed with you. A PFC may help you manage a currency risk you are exposed to while allowing you to participate in favourable exchange rate movements that may occur between the time you enter into a PFC and the agreed time and date on a pre-agreed proportion of the Contract Amount.

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 PFC?

A PFC is an agreement with us to exchange one currency for another on an agreed date in the future at an agreed exchange rate (the **Contract Rate**). The two currencies are called the **Currency Pair**. The amount of one of the currencies that is exchanged will either be an agreed amount (the **Contract Amount**) or an agreed proportion of that Contract Amount.

Which amount gets exchanged depends on our Market Foreign Exchange Rate at an agreed time (the **Cut-Off Time**). Our **Market Foreign Exchange Rate** is our exchange rate for the Currency Pair after taking into account our costs and profit margins. If the Contract Rate is more favourable to you than our Market Foreign Exchange Rate at the Cut-Off Time, the full Contract Amount will be exchanged on the date agreed with you (**Maturity Date**). However, if the Contract Rate is less favourable to you than our Market Foreign Exchange Rate at the Cut-Off Time, only the agreed proportion of the Contract Amount will be exchanged.

A PFC may be useful in managing the currency risk associated with, for example, exporting or importing goods denominated in foreign currency, investing or borrowing overseas, bringing profits that are held offshore to New Zealand, converting foreign currency denominated dividends, or settling other foreign currency contractual arrangements. However, as you are only required to exchange the agreed proportion of the Contract Amount at the Contract Rate if our Market Foreign Exchange Rate at the Cut-Off Time is more favourable to you than the Contract Rate, a PFC also allows you to participate in favourable exchange rate movements on the remaining proportion of your Contract Amount.

A PFC should only be used where you have a genuine commercial need to manage currency risk. It should not be used for trading or speculative purposes.

2.2 Key terms of a PFC

When you enter into a PFC, you nominate:

Currency Pair	The two currencies to be exchanged.
Contract Amount	The amount of one of the currencies in the Currency Pair.
Maturity Date	The date you want the exchange of currencies to take place.

You will also nominate either:

Contract Rate	Your level of exchange rate protection.

or:

Participation Ratio	The nominated proportion, expressed as a percentage, of the Contract Amount for which you may participate in favourable exchange rate movements. To determine the proportion of the Contract Amount that must be exchanged if the Participation Ratio is applied, the Participation Ratio is deducted from 100%. This is explained in more detail below.

If you set the Contract Rate, we will determine the Participation Ratio. If you set the Participation Ratio, we will determine the Contract Rate. Alternatively, we can determine both the Contract Rate and the Participation Ratio if you prefer.

The Currency Pair must be acceptable to us. PFCs are available for a wide range of Currency Pairs. Your Westpac financial markets dealer can confirm if your desired Currency Pair is covered.

2.3 How do we set the Contract Rate and/or Participation Ratio?

The Contract Rate is the rate at which the Contract Amount (or the agreed proportion of the Contract Amount, calculated using the Participation Ratio) will be exchanged on the Maturity Date. It is a fixed rate that is determined before you enter into the PFC.

We either determine the Contract Rate or the Participation Ratio (or both) (including our profit margin for the PFC) taking into account:

- the Contract Rate or Participation Ratio set by you. In general, all other things being equal:
  - (a) if you set the Contract Rate, the more favourable the Contract Rate is to you the lower the Participation Ratio will be; and
  - (b) if you set the Participation Ratio, the greater the Participation Ratio the less favourable the Contract Rate will be to you.
- the Contract Amount, which is relevant because it is harder for us to offset smaller transactions on the inter-bank market (the market for trading currencies between banks and other large financial institutions).
- the Maturity Date of the PFC. In general, all other things being equal, the longer the term of the PFC the less favourable the Contract Rate and/or Participation Ratio is likely to be.
- market volatility, meaning the pace at which exchange rates move higher or lower. In general, all other things being equal, greater volatility is likely to make the Contract Rate and/or Participation Ratio less favourable to you.
- the difference in global interest rates for your currencies. In general, all other things being equal, where the interest rates available for the currency you are buying are lower than for the currency you are selling, this is likely to make the Contract Rate and/or Participation Ratio less favourable to you.
- your creditworthiness. In general, all other things being equal, the less creditworthy you are, the less favourable the Contract Rate and/or Participation Ratio is likely to be to you.
- our costs. Our costs will make the Contract Rate and/or Participation Ratio less favourable to you.

Important

Each factor will impact the Contract Rate and/or Participation Ratio to a different extent. Some factors will impact other factors. For example, our assessment of global interest rates may change the effect of the Maturity Date on the Contract Rate and/or the Participation Ratio. Changing a factor in isolation will not necessarily change the Contract Rate and/or Participation Ratio we offer you.

Neither the Contract Rate nor the Participation Ratio represents a forecast that we have made, nor do they guarantee what future exchange rates will be.

Generally, there are no upfront fees or charges to enter into a PFC. Once the other variables are agreed with you we will usually determine the Contract Rate and/or Participation Ratio in order to create a **zero premium structure**. This means a structure where the Contract Rate and/or the Participation Ratio are set so that there are no upfront costs payable by you. In certain circumstances, where we are unable to create a zero premium structure we may charge you a **premium** to enter into a PFC, see section 4 (*Fees*) for more information.

2.4 What happens at the Maturity Date?

On the Maturity Date the currency exchange must occur. How much of the Contract Amount that is exchanged will be determined as follows:

- if the Contract Rate was the same as or more favourable to you than our Market Foreign Exchange Rate at the Cut-Off Time, the full Contract Amount must be exchanged at the Contract Rate; or
- if the Contract Rate was less favourable to you than our Market Foreign Exchange Rate at the Cut-Off Time, only a proportion of the Contract Amount must be exchanged at the Contract Rate. We calculate the amount that must be exchanged using the following formula:

(100% - Participation Ratio) x the Contract Amount

For example, if the Participation Ratio is 60% and the Contract Amount is 100,000.00 New Zealand dollars (**NZD**), the calculation of the amount to be exchanged would be:

(100% - 60%) x NZD 100,000.00 = NZD 40,000.00

You may enter into a **spot transaction** with us to exchange the remaining proportion of the Contract Amount (in this example, NZD 60,000.00) at our current Market Foreign Exchange Rate if you wish to do so. The spot transaction is separate to the PFC so you must contact us if you want to enter into a spot transaction.

Once the amount to be exchanged has been determined on the Maturity Date one of us must pay either the Contract Amount or the proportion of the Contract Amount to the other party in the relevant currency. The other party will pay an amount of the other currency in the Currency Pair, determined by either multiplying or dividing the Contract Amount (or proportion of the Contract Amount, if applicable) by the Contract Rate. The calculation for each Currency Pair will depend on how the relevant exchange rate is quoted and the currency of the Contract Amount.

For example, if the Currency Pair is NZD and Australian dollars (**AUD**), the exchange rate is quoted NZD/AUD and the Contract Rate is 0.8970 AUD per NZD:

- if the Contract Amount is AUD 100,000.00, the calculation would be:

Contract Amount ÷ Contract Rate

in this case:

$$\frac{\text{AUD } 100{,}000.00}{0.8970} = \text{NZD } 111{,}482.72$$

- if the Contract Amount is NZD 100,000.00, the calculation would be:

Contract Amount x Contract Rate

in this case:

NZD 100,000.00 x 0.8970 = AUD 89,700.00

There are market conventions as to how the exchange rate for most Currency Pairs are quoted. If you are unsure which calculation should apply, please ask your Westpac financial markets dealer.

Depending on the terms agreed with you, on the Maturity Date you will need to provide us with either foreign currency or NZD. You must provide funds that are immediately available on settlement.

When we receive the funds that are due from you under a PFC, we will deposit the amounts we owe you in the account previously agreed with you. This must be a bank account with us or another member of the Westpac Group in New Zealand nominated by you, which is in your name and denominated in the relevant currency. 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 (see section 2.10 (*How is a PFC entered into?*)) 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 deliver currency or make payments when they are due under a PFC, 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 2.16 (*Rights under a master dealing agreement to terminate a PFC*).

2.5 Term

The term of a PFC is the period between the time you enter into the PFC and the Maturity Date. PFCs are available for terms of up to two years in length (although longer terms may be available on request). The term of any PFC will be agreed with you before the PFC is entered into.

2.6 What are the key benefits of a PFC?

Protection

A PFC can help provide you with protection against unfavourable foreign exchange rate movements for the term of your PFC. This is because a PFC is able to provide you with a "worst case" rate that can apply to your exchange of the full Contract Amount. This can assist you in managing your foreign currency exposures. You gain certainty that at the Cut-Off Time, you will be protected at the Contract Rate for the Contract Amount.

Cash flow certainty

The Contract Rate provided under a PFC also gives you certainty of cash flows. This may assist you in settling contractual arrangements denominated in a foreign currency.

Participation in favourable exchange rate movements

A PFC allows you to participate in favourable exchange rate movements that may occur up to the Cut-Off Time on a proportion of the Contract Amount, while retaining the certainty of an agreed minimum or maximum Contract Rate (as applicable) that can apply to the exchange of the full Contract Amount.

Tailored terms

Key variables, including the Maturity Date, the Contract Amount and either the Contract Rate or Participation Ratio can be tailored to meet your particular needs.

2.7 Examples

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

In order to assess the merits of any particular PFC, 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.

Scenario 1 – Importer – Foreign Currency Payment – Maturity in six months

You are a New Zealand based importer due to pay 100,000.00 United States dollars (**USD**) in six months' time for goods that you have bought overseas. At that time, you need to convert your NZD into USD 100,000.00.

Assume that our present NZD/USD Market Foreign Exchange Rate is 0.7500 USD per NZD and our six-month forward exchange rate is 0.7440. By **forward exchange rate**, we mean our price of one currency in terms of another currency for delivery on a specified date in the future taking into account our costs and our profit margin.

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

If you do nothing, the amount of NZD you will need to buy the fixed amount of USD 100,000.00 in six months' time will depend on our NZD/USD Market Foreign Exchange Rate at that time.

If the NZD appreciates (meaning it becomes stronger) against the USD, you will need less NZD when it comes time to pay for the fixed USD 100,000.00 amount. Assume in this example that our NZD/USD Market Foreign Exchange Rate is 0.8100 USD per NZD, then you will pay:

$$\frac{\text{USD } 100{,}000.00}{0.8100} = \text{NZD } 123{,}456.79$$

If the NZD depreciates (meaning it becomes weaker) against the USD, the opposite occurs and you will need more NZD to buy the fixed USD 100,000.00 amount when it comes time to exchange. Assume our NZD/USD Market Foreign Exchange Rate is 0.7100 USD per NZD, then you will pay:

$$\frac{\text{USD } 100{,}000.00}{0.7100} = \text{NZD } 140{,}845.07$$

How can a PFC change this?

To protect yourself against the NZD depreciating against the USD while still participating in favourable exchange rate movements in relation to a proportion of the Contract Amount, you can enter into a PFC. Assume that you enter into a PFC with the following features:

Contract Amount	USD 100,000.00	**Maturity Date**	Six months' time
Contract Rate	0.7200 USD per NZD	**Participation Ratio**	50%
Currency Pair	NZD/USD		

This means your "worst case" exchange rate for buying the USD 100,000.00 is 0.7200.

On the Maturity Date, the possible outcomes are:

- if our NZD/USD Market Foreign Exchange Rate is at or below the 0.7200 Contract Rate at the Cut-Off Time you must exchange the full amount of your NZD for USD at the Contract Rate of 0.7200. You will pay:

$$\frac{\text{USD } 100{,}000.00}{0.7200} = \text{NZD } 138{,}888.89$$

- if our NZD/USD Market Foreign Exchange Rate is above the 0.7200 Contract Rate, you must exchange 50% of the Contract Amount (100% minus the Participation Ratio of 50%, which equals USD 50,000.00) at the Contract Rate of 0.7200. You will pay:

$$\frac{\text{USD } 50{,}000.00}{0.7200} = \text{NZD } 69{,}444.44$$

By entering into a PFC you have removed the uncertainty of exchange rate fluctuations by fixing your "worst case" exchange rate. At the same time the PFC has maintained your opportunity to take advantage of any favourable exchange rate movements on a proportion of your Contract Amount.

You can then contact Westpac to enter into a spot transaction to exchange the remaining USD 50,000.00 (or 50% of the Contract Amount) at our current Market Foreign Exchange Rate.

For example, if you choose to do this and you accept our NZD/USD Market Foreign Exchange Rate of 0.7500 for the spot transaction, then you will pay:

$$\frac{\text{USD } 50{,}000.00}{0.7500} = \text{NZD } 66{,}666.67$$

In this scenario, the total amount of NZD you will pay for the USD 100,000.00 will be:

	NZD 69,444.44
plus	NZD 66,666.67
	NZD 136,111.11

This means that, taking the PFC and the spot transaction together, your effective exchange rate will be:

$$\frac{\text{USD } 100{,}000.00}{\text{NZD } 136{,}111.11} = 0.7347$$

Scenario 2 – Exporter – Foreign Currency Receipt – Maturity in six months

You are a New Zealand based exporter due to receive USD 100,000.00 in six months' time for goods that you have sold overseas. At that time, you need to convert the USD 100,000.00 into NZD.

Assume our present NZD/USD Market Foreign Exchange Rate is 0.7500 USD per NZD and our six-month forward exchange rate is 0.7445.

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

If you do nothing, the amount of NZD you will receive from us if you converted your USD in six months' time will depend on our NZD/USD Market Foreign Exchange Rate at that time.

If the NZD appreciates (meaning it becomes stronger) against the USD, the fixed USD 100,000.00 amount will generate relatively less NZD when it comes time to exchange. Assume in this example that our NZD/USD Market Foreign Exchange Rate is 0.8100 USD per NZD, then you will receive:

$$\frac{\text{USD } 100{,}000.00}{0.8100} = \text{NZD } 123{,}456.79$$

If the NZD depreciates (meaning it becomes weaker) against the USD, the opposite occurs and the fixed USD 100,000.00 amount will generate relatively more NZD when it comes time to exchange. Assume our NZD/USD Market Foreign Exchange Rate is 0.7100 USD per NZD, then you will receive:

$$\frac{\text{USD } 100{,}000.00}{0.7100} = \text{NZD } 140{,}845.07$$

How can a PFC change this?

To protect yourself against the NZD appreciating against the USD, while still participating in favourable exchange rate movements in relation to a proportion of the Contract Amount you can enter into a PFC. Assume that you enter into a PFC with the following features:

Contract Amount	USD 100,000.00	**Maturity Date**	Six months' time
Contract Rate	0.7700 USD per NZD	**Participation Ratio**	50%
Currency Pair	NZD/USD		

This means your "worst case" NZD/USD exchange rate for selling the USD 100,000.00 is 0.7700.

On the Maturity Date, the possible outcomes are:

- if our NZD/USD Market Foreign Exchange Rate is at or above the 0.7700 Contract Rate at the Cut-Off Time, you must exchange the full amount of your USD for NZD at the Contract Rate of 0.7700. You will receive:

$$\frac{\text{USD } 100{,}000.00}{0.7700} = \text{NZD } 129{,}870.13$$

- if our NZD/USD Market Foreign Exchange Rate is below the 0.7700 Contract Rate at the Cut-Off Time you must exchange 50% of the Contract Amount (100% *minus* the Participation Ratio of 50%, which equals USD 50,000.00) at the Contract Rate of 0.7700. You will receive:

$$\frac{\text{USD } 50{,}000.00}{0.7700} = \text{NZD } 64{,}935.06$$

By entering into a PFC you have removed the uncertainty of exchange rate fluctuations by fixing your "worst case" exchange rate. At the same time the PFC has maintained your opportunity to take advantage of any favourable exchange rate movements on a proportion of your Contract Amount.

You can then contact Westpac to enter into a spot transaction to exchange the remaining USD 50,000.00 (or 50% of the Contract Amount) at our current Market Foreign Exchange Rate.

For example, if you choose to do this and you accept our NZD/USD Market Foreign Exchange Rate of 0.7000 for the spot transaction, then you will receive:

$$\frac{\text{USD } 50{,}000.00}{0.7000} = \text{NZD } 71{,}428.57$$

In this scenario, the total amount of NZD you will receive for the USD 100,000.00 will be:

	NZD 64,935.06
plus	NZD 71,428.57
	NZD 136,363.63

This means that, taking the PFC and the spot transaction together, your effective exchange rate will be:

$$\frac{\text{USD } 100{,}000.00}{\text{NZD } 136{,}363.63} = 0.7333$$

2.8 What general terms apply to a PFC?

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 PFC). 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 PFC. 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.

2.9 Are there any Westpac credit requirements before dealing?

Before entering into a PFC, 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.

2.10 How is a PFC 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. The master dealing agreements that we use are:

- a New Zealand Financial Markets Association Foreign Exchange Master Agreement (**FXMA**). This is a simple agreement and is used only for foreign currency transactions; and
- an 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.) This is a more complicated agreement and is generally used where a person intends to enter into a variety of other derivative transactions as well as foreign currency transactions.

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.

2.11 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 PFC will be contained in a document called a **Confirmation** - see section 2.14 (*What about Confirmations?*) for more information.

2.12 Email, facsimile and telephone indemnity

If you want to provide us with email, facsimile or telephone instructions in relation to PFCs, 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.

2.13 Other documentation

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

2.14 What about Confirmations?

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

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

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

2.15 Rights to alter terms of a PFC

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 PFC. In all other circumstances, the terms and conditions applying to a particular PFC can only be altered if we both agree.

If we both agree to alter the terms of a PFC, we will effect the alteration by terminating the existing PFC and entering into a new PFC with you on new terms. We will provide you with a termination quote. This represents any cost or gain to you for terminating the PFC early. See section 2.17 (*What happens if I ask Westpac to terminate a PFC early?*) for more information on how we calculate the termination quote.

Any cost or gain to you resulting from terminating early will be payable on the termination date. The remaining terms of your new PFC (including the new Contract Rate and/or Participation Ratio) will also need to be agreed before we can enter into a new PFC with you - see section 2.3 (*How do we set the Contract Rate and/or Participation Ratio?*) for more information on how we set the Contract Rate and/or the Participation Ratio.

2.16 Rights under a master dealing agreement to terminate a PFC

Your master dealing agreement with us will document the situations where derivatives can be terminated and the way 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 PFC 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 PFC.

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 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).

FXMA

If a particular PFC is subject to the terms of an FXMA, we can terminate a PFC (and other derivative transactions entered into under that agreement) if:

- you fail to make a payment or breach any other obligation under that agreement or any other agreement you have entered into with us;
- you become insolvent; or
- a representation you have made to us is false or misleading in any material respect.

Master Agreement for Derivative Transactions

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

- we wish to terminate the PFC 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 PFC 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.

If at any time you experience any financial difficulty or are concerned that you may not be able to meet your obligations under a PFC, please let us know. Our contact details are provided in section 6 (*About Westpac*).

2.17 What happens if I ask Westpac to terminate a PFC early?

You may ask us to terminate a PFC at any time up to the Cut-Off Time. We will provide you with a termination quote. There may be a cost or gain to you as a result of a PFC being terminated early. If there is a cost to you for terminating the PFC, it may be significant. If you accept the termination quote and pay any cost, we will terminate your PFC.

In section 4 (*Fees*), we describe how Westpac receives a financial benefit from entering into a PFC. Our quote to terminate a PFC will incorporate the same variables we used when pricing the original PFC (see section 2.3 (*How do we set the Contract Rate and/or Participation Ratio?*)). These variables will be adjusted for the then current market rates for the remaining term of that PFC.

We will also consider the cost, or gain, to us of reversing or offsetting your original transaction and any loss of profit. When doing this, we take into account the current market rates that apply to any such offsetting transactions. (An offsetting transaction is a transaction that has the opposite payment obligations to an existing transaction and has the economic effect of cancelling the existing transaction.)

2.18 How much could be payable if the PFC terminates for another reason?

If a PFC is terminated early other than due to your request, we may have the right to terminate any other derivative transactions you have entered into with us as well. We will determine the mark-to-market value of that PFC (and any other derivative transactions affected by the termination). The "mark-to-market value" 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 and depending on the values of those transactions will result in a net amount 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 2.10 (*How is a PFC entered into?*)) for full details on amounts that may be payable on early termination, including how the mark-to-market value of affected transactions and the net amount payable are determined.

3. Risks of these derivatives

3.1 Product risks

Opportunity cost

By entering into a PFC you will forgo any benefit of a favourable exchange rate movement between the time you enter into the PFC and the Maturity Date on an agreed proportion of your Contract Amount. That is, you are obliged to exchange a proportion of the Contract Amount (determined by multiplying the Contract Amount by (100% *minus* the Participation Ratio)) at the Contract Rate on the Maturity Date.

The exchange rate you receive under a PFC may not be as favourable as the exchange rate you could have received if you had entered into a different product to manage your foreign exchange risk or if you had not entered into a PFC at all.

Variation / early termination

Termination or variations of your PFC may result in a cost to you. Those costs may be significant. See sections 2.15 (*Rights to alter terms of a PFC*) and 2.17 (*What happens if I ask Westpac to terminate a PFC early?*) 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 PFC, you cannot terminate or vary the PFC without our consent even if you no longer need the PFC or have changed your mind about the PFC. Variations and/or termination may result in a cost to you. Any costs may be significant. See sections 2.15 (*Rights to alter terms of a PFC*) and 2.17 (*What happens if I ask Westpac to terminate a PFC early?*) for more information.

Breach of obligations

Failure to make any payment to us under your PFC will be a breach of your master dealing agreement with us. If you do not comply with your payment obligations or any other obligation under your master dealing agreement, we may choose to exercise our right to terminate your PFC 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 2.16 (*Rights under a master dealing agreement to terminate a PFC*) and 2.18 (*How much could be payable if the PFC terminates for another reason?*) for more information on the costs that arise in the event that a PFC 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 PFC, you are exposed to the risk that we become insolvent and are unable to meet our obligations under the PFC.

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

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 PFCs to you. Unexpected performance of an email, facsimile or telephone service or computer system may result in a delay or failure to either enter into or settle a PFC as intended. In particular, if you are entering into a PFC by email, technology issues may delay the receipt of emails between us. This unexpected underperformance may mean that a PFC is not entered into when you intended (meaning, for example, you may not be able to enter into a PFC at the Contract Rate 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 PFC is indicative only. This means that you may not be able to enter into a PFC with the Contract Rate and/or Participation Ratio referred to in our email.

Use of agents and correspondent banks

To deliver some currencies (other than NZD), we may use agents and/or correspondent banks. We will use reasonable care in the selection of such agents and/or correspondent banks. These agents and correspondent banks may not be part of the Westpac Group and, in that case, we will not always be able to ensure that these organisations will fulfil their obligations to deliver currencies to us. Although this does not affect our obligations under the PFC, it may result in you not receiving currency under your PFC at the time you had anticipated.

If the agent or correspondent bank fails to deliver the required currency when due, we will work with the agent or correspondent bank to effect delivery or make alternative arrangements with you.

4. Fees

4.1 What fees or charges apply?

Other than as described below, there are no upfront costs with a PFC.

Once the other variables of a PFC are agreed with you we will usually determine the remaining factor (that is, the Contract Rate and/or Participation Ratio) in order to create a **zero premium structure**. This means a structure where the Contract Rate and/or Participation Ratio are set so that there are no upfront costs payable by you. We derive a financial benefit from PFCs either by incorporating our profit margin into the Contract Rate, having regard to the agreed Participation Ratio or adjusting the Participation Ratio, having regard to the agreed Contract Rate. In effect, you pay for the PFC by accepting the Contract Rate and Participation Ratio quoted by us and exchanging the Currency Pair with us on the Maturity Date.

The Contract Rate and Participation Ratio are determined on an individual basis for each PFC before you enter into the particular PFC. The factors that are relevant to determining the Contract Rate and/or Participation Ratio (or both) (including our profit margin), and the impact of each of those factors on the cost of acquiring a PFC, are explained in section 2.3 (*How do we set the Contract Rate and/or Participation Ratio?*).

Very occasionally we may be prepared to agree a Contract Rate and/or Participation Ratio which we believe does not adequately reflect the risks we are to undertake or we may not be able to create a zero premium structure that meets your requirements. In such circumstances, we may charge you a premium for entering into the PFC. Each of the factors described in section 2.3 (*How do we set the Contract Rate and/or Participation Ratio?*) that are relevant to determining the Contract Rate and/or Participation Ratio (or both) (including our profit margin) will also be relevant in determining the premium we agree with you and will have the same impact on our determination of the premium as they do on the Contract Rate and/or Participation Ratio. The premium will be agreed with you before you enter into a PFC with us. If we charge you a premium we will still also incorporate our profit margin into the Contract Rate of your PFC or adjust the Participation Ratio (having regard to the agreed Contract Rate). The Contract Rate, Participation Rate and any premium we charge you will be included in your Confirmation.

4.2 When is any premium paid?

If we charge you a premium for a PFC it is payable on the **premium payment date**. This will be two business days after the date that we enter into a PFC, 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 PFC, if applicable, will be included in your Confirmation.

If you do not pay a premium when it is due, Westpac may exercise its rights under your master dealing agreement. That may include rights of early termination in respect of the PFC 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

NZD amounts due to us in respect of a PFC 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. You can provide foreign currency either by telegraphic transfer or by transferring funds from a foreign currency account or deposit. 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 PFC 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 PFC. However, in certain circumstances we may require you to enter into such arrangements as a condition of your credit approval. 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 PFCs 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 PFC. 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 PFCs 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 PFC, you must enter into a Client Agreement with us. More information about our forms of Client Agreement and the process that must be completed before you enter into a Client Agreement is set out in sections 2.8 (*What general terms apply to a PFC*) to 2.13 (*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 PFC, 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 PFC. If you are not in New Zealand, Westpac is not inviting you to apply for a PFC 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 PFC, 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.

AUD	Australian dollars.
Client Agreement	The agreement between you and us relating to the issue of a PFC 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 PFC including the Contract Amount, Participation Ratio, Currency Pair, Contract Rate, Maturity Date and premium (if applicable).
Contract Amount	The agreed amount of one of the currencies in the Currency Pair to be exchanged under a PFC. The amount that is actually exchanged will depend on our Market Foreign Exchange Rate at the Cut-Off Time.
Contract Rate	The agreed exchange rate at which the Currency Pair will be exchanged on the Maturity Date under a PFC.
Currency Pair	The two currencies to which a PFC relates. The Currency Pair must be acceptable to us.
Cut-Off Time	The time and date at which the outcome of the PFC will be determined by us. It will be set out in the Confirmation.
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.
forward exchange rate	The price of one currency in terms of another currency for delivery on a specified date in the future taking into account our costs and our profit margin.
FXMA	The New Zealand Financial Markets Association Foreign Exchange Master Agreement.
ISDA	The International Swaps and Derivatives Association Master Agreement and (unless specified otherwise) its associated schedule.
Market Foreign Exchange Rate	The price we quote for one currency in terms of another currency for delivery on the relevant day after taking into account our costs and profit margin.
Master Agreement for Derivative Transactions	Westpac's Master Agreement for Derivative Transactions.
Maturity Date	The date agreed between us. It is the date on which the Currency Pair will be exchanged under a PFC.
NZD	New Zealand dollars.
Participation Ratio	The nominated proportion, expressed as a percentage, of the Contract Amount for which you may participate in favourable exchange rate movements.
PDS	This product disclosure statement.

PFC	A Participating Forward Contract, being the product that is the subject of this PDS.
premium	An amount payable on the premium payment date.
spot transaction	An agreement to exchange two currencies at our Market Foreign Exchange Rate for settlement in two business days or less after the date on which the transaction is entered into.
USD	United States dollars.
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.
zero premium structure	A structure where the Contract Rate and/or Participation Ratio in relation to a PFC is set so that there are no upfront out-of-pocket costs payable by you.