Swaptions

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 Swaptions Product Disclosure Statement dated 22 September 2017.*

This document provides important information about Swaptions 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 Swaptions provided by Westpac Banking Corporation (**Westpac**). Swaptions are derivatives, which are contracts between you and Westpac that may require you and Westpac to make New Zealand dollar payments to one another. The amounts that must be paid or received (or both) will depend on whether the Swaption is exercised and the level of the underlying fixed and floating interest rates. The contract specifies the terms on which those payments must be made.
Warning	**Risk that you may owe money under the derivative** - If you exercise a Swaption and the level of the underlying floating interest 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 2.7 (*What happens under the Swap at each Reset Date and each Payment 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 Swaption. 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 Swaptions, where you are exposed to a floating interest rate risk. A Swaption gives you the right (but not the obligation) to activate an interest rate swap with us on agreed terms in the future. An interest rate swap has the economic effect of allowing you to fix the base interest rate component of a floating interest rate that you are exposed to under a separate underlying financial arrangement. It is an agreement between you and Westpac where we agree that, on each agreed payment date, one party will pay the other an amount in cash which represents the difference between: (a) an amount payable by you, calculated by applying a fixed rate to an agreed notional amount; and (b) an amount payable by us, calculated by applying a floating rate to an agreed notional amount. You pay us a premium to enter into a Swaption whether you exercise the Swaption or not. A Swaption may help you to manage a future interest rate risk you may be exposed to while allowing you to benefit from favourable interest rate movements that occur prior to the expiry of the Swaption. In addition, if you exercise a Swaption, the interest rate swap that is activated 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.

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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 Swaption?

A Swaption is a product that can 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 Swaption only protects you against adverse changes in the base interest rate component of a floating interest rate. A Swaption gives you certainty as to the maximum fixed rate (the **Swap Rate**) that will apply under an interest rate swap (the **Swap**) that you may activate in the future. Swaptions also allow you to benefit from favourable swap rate movements that occur between the time you enter into the Swaption and the specified date on which the Swaption can be exercised (the **Expiration Date**). It is important you understand that a Swaption (including the Swap) **does not offer protection against adverse changes to the margin component of a floating interest rate under your underlying financial arrangement.**

A Swaption gives you the right (but not the obligation) to activate a Swap with us on previously agreed terms on the **Expiration Date**. If you decide to activate the Swap this is called **exercising** the Swaption.

We will also determine the **Premium** that you must pay to us when you purchase a Swaption. The Premium is non-refundable, regardless of whether or not you exercise the Swaption.

If you choose to exercise the Swaption then under the Swap the parties agree that on each agreed payment date (the **Payment Dates**) one party will pay the other a cash sum equal to the difference between:

(a) an amount payable by you, calculated by applying the Swap Rate to an agreed notional amount (the **Notional Principal**); and

(b) an amount payable by us, calculated by applying a floating rate (the **Reference Rate**) to the Notional Principal.

Before you enter into a Swaption you agree the Expiration Date and terms of the Swap (including the Swap Rate). See section 2.4 (*Key terms of a Swap*) for a list of the terms of the Swap that need to be agreed to enter into a Swaption.

See sections 2.2 (*Key terms of a Swaption*) to 2.9 (*Term*) for more details. An example of a Swaption scenario appears in section 2.11 (*Example*).

Important

A Swaption:

- **gives you the right to activate the Swap at an agreed future date. You choose whether or not you want to exercise your Swaption. You do not have to exercise your Swaption if you do not want to.**
- **is a separate agreement from the underlying financial arrangement you may be hedging. Neither the Swaption (nor any Swap activated if you exercise the Swaption) alters your obligations under your underlying financial arrangement.**

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

2.2 Key terms of a Swaption

When you enter into a Swaption you nominate:

Expiration Date	The specified date in the future when the Swaption can be exercised.
some other terms of the Swap	Being, the Notional Principal, the Term and the Swap Rate, as described in section 2.4 (*Key terms of a Swap*).

We will then agree the remaining terms of the Swap with you, advise you of the Expiration Time and determine the Premium you need to pay based on all of these elements. The **Expiration Time** is the time on the Expiration Date at which you will determine whether you will exercise your Swaption.

2.3 How do we set the Premium?

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

- the Swap Rate. In general, all other things being equal, the more favourable the Swap 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 Swaption, the higher the Premium (as a proportion of the Notional Principal) is likely to be.
- the Expiration Date. In general, all other things being equal, the longer you have to exercise the Swaption, 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 Expiration Date on the Premium. Changing a factor in isolation will not necessarily change the Premium we offer you.

It is important to understand that due to changes to the Market Swap Rate you may choose to let the Swaption lapse, meaning you pay more to Westpac (by paying us the Premium) than you receive from us under the Swaption.

2.4 Key terms of a Swap

When you enter into a Swaption you will nominate:

Notional Principal	Under the Swap, the amounts payable on each Payment Date are calculated using the Notional Principal. The Notional Principal is not exchanged. Usually this amount will be the same throughout the Term of the Swap. However, it is possible to set up a Swap with a Notional Principal which changes during the Term of the Swap, for example to match your anticipated cash flows under the underlying financial arrangement that you are hedging.
Swap Rate	The Swap Rate is a fixed rate. Usually this will be the same throughout the Term of the Swap. However, it is possible to set up the Swap with a Swap Rate which changes during the Term of the Swap.
Term	How long the Swap will operate for, specifying the start and end dates.

We need to agree the following terms of the Swap before you enter into a Swaption:

Reference Rate	The variable rate determined by reference to a benchmark published interest rate. See section 2.5 (*How do we determine the Reference Rate for the Swap?*) for more information.
Reset Dates	The dates that divide the Term of the Swap 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 a payment will be due to you from us, or vice versa, 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 one party to the other under the Swap.

The extent to which each element of the terms of the Swap (other than the Swap Rate) matches your underlying financial arrangement will affect how well the Swap protects you from adverse changes in the base interest rate component of your floating interest rate. For example, if you do 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 2.9 (*Term*) for more information.

2.5 How do we determine the Reference Rate for the Swap?

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 Swaps 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 Swap 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 the Swap and the base interest rate in your underlying financial arrangement.

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

It is important to understand that changes to the Reference Rate may mean exercising the Swaption and activating the Swap could result in your overall costs for your Swaption (including the Swap) and underlying financial arrangement being higher than if you had not entered into the Swaption and activated the Swap.

2.6 What are the possible outcomes of a Swaption?

If you intend to exercise the Swaption, it is your responsibility to inform us on or before the Expiration Time on the Expiration Date. Please contact your usual Westpac financial markets dealer.

On the Expiration Date for a Swaption there are two possible outcomes:

- if, at the Expiration Date, our Market Swap Rate for interest rate swaps having the same Term is the same as or less favourable to you than the Swap Rate, you may elect to exercise your Swaption; or
- if, at the Expiration Date, our Market Swap Rate for interest rate swaps having the same Term is more favourable to you than the Swap Rate, you may let the Swaption lapse. You may then enter into a separate interest rate swap with us at our Market Swap Rate if you wish to do so.

2.7 What happens under the Swap at each Reset Date and each Payment Date?

If you choose to exercise your Swaption and activate the Swap, on each Reset Date we:

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

(b) calculate the payments that are due for the following Calculation Period using both the Swap Rate and the Reference Rate (which has been determined on that date) that apply to that Calculation Period.

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 Swap Rate (the **Fixed Amount**) is calculated as follows:

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

Once the Floating Amount and the Fixed Amount have been calculated, we then compare the results of these two calculations:

- 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 less than the Fixed Amount you will make a payment to us on the next Payment Date. The amount of the payment will be the Fixed Amount minus the Floating Amount.
- if the Floating Amount and the Fixed Amount are the same for a particular Calculation Period, no amounts are payable under the Swap for that Calculation Period.

2.8 Payments

If you are required to make a payment to us under a Swaption, including under the Swap, you must provide funds that are immediately available on settlement. If we are making a payment to you, we will deposit the amounts 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 make payments when they are due under a Swaption, including under the Swap, we may exercise our rights under your master dealing agreement, including rights of early termination. Further detail on these matters is set out in section 2.22 (*Rights under a master dealing agreement to terminate a Swaption, including the Swap*).

Important

If a Swaption is exercised, the Swap:

- **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.**

2.9 Term

The term of a Swaption is the period of time from the time you enter into the Swaption until the last day of the Swap or, if you allow the Swaption to lapse, the Expiration Date.

There are potentially two parts to the term of a Swaption. The first is the period from the time you enter into the Swaption until the Expiration Date. The second period arises if you exercise the Swaption and is the period between the first day of the Swap and the last day of the Swap. Swaps 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.

Requests for a Term that is longer than your underlying financial arrangement and/or longer than five years will be subject to our credit approval process and may be subject to additional conditions (including, for example, a right to break the Swap early).

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

2.10 What are the key benefits of a Swaption?

Protection

A Swaption can help provide you with protection against adverse interest rate movements until the Expiration Date of your Swaption. This is because a Swaption is able to provide you with a "worst case" Swap Rate that can apply to your Swap. This can assist you in managing a floating interest rate exposure. You gain certainty that on the Expiration Date, you will be able to activate the Swap on agreed terms of the Swap.

In addition, if you choose to exercise your Swaption, the Swap you activate can help provide you with protection against adverse base interest rate movements above the Swap Rate for the Term of the Swap.

Certainty

If you exercise a Swaption, the Swap that is activated can give you certainty about the 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) rate.

Participation in favourable interest rate movements

A Swaption allows you to participate in favourable interest rate movements that may occur up to the Expiration Date.

Tailored terms

Key variables of your Swaption, including the terms of the Swap (such as the Notional Principal and the Swap Rate) and the Expiration Date of your Swaption 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, under the Swap, that is lower than the amount of your loan.

Limited cost

You know how much Premium you must pay when you enter the Swaption. There are no other fees payable to Westpac in respect of the Swaption. Unless you exercise your Swaption, you are not committed or obliged to make any payments under the Swap.

2.11 Example

The example below provides an example of one situation only and uses rates and figures that we have selected to demonstrate how a Swaption works. The example does not reflect the specific circumstances or the obligations that may arise under a Swaption you enter into with us. Depending on the commercial terms we agree with you, each Swaption 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 Swaption, 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 Swaption. 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 you deciding not to exercise a Swaption, in which case the Premium cost will exceed the financial benefit you receive over the life of the Swaption.

Scenario – 12 month Swaption

You are planning to enter into a floating rate loan in 12 months' time for 3,000,000.00 New Zealand dollars (**NZD**), which will be due to be repaid in three years' time from the date of the initial drawdown. Once you have drawn down the floating rate loan, interest will be 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 3.25% 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.

You would like to enter into an interest rate swap in 12 months' time to hedge your payment obligations under your floating rate loan. Our current three year Market Swap Rate 12 months forward is 3.25% per annum.

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

If our three year Market Swap Rate increases over the next 12 months then you may only be able to enter into an interest rate swap with a Swap Rate that is less favourable to you than 3.25% per annum. This will increase your interest costs relative to what they would be using our current 12 month forward Market Swap Rate.

However, if our Market Swap Rate decreases over the next 12 months you may be able to enter into an interest rate swap with a Swap Rate that is more favourable to you than 3.25% per annum at this time.

How can a Swaption change this?

In this example, you think floating interest rates will rise in the future and, as a result, your total borrowing costs once you drawdown your floating rate loan may exceed 3.25% per annum. To protect yourself against the three year Market Swap Rate increasing before you drawdown your floating rate loan, you can enter into a Swaption now.

Assume that you can enter into a Swaption with the following features:

Expiration Date	12 months from today	**Premium paid by you**	NZD 27,495.00
Premium payment date	Two business days after the date you enter into the Swaption	**Notional Principal**	NZD 3,000,000.00
Swap Rate	3.25% per annum	**Reference Rate**	Three month BKBM bid rate
Reset Dates	Quarterly	**Calculation Periods**	90 days
Term	Three years	**Payment Dates**	The final day of each Calculation Period

Outcome 1: You allow the Swaption to lapse

If our Market Swap Rate is lower (more favourable to you) than the Swap Rate of 3.25% per annum on the Expiration Date, then you are not likely to exercise the Swaption. Instead, you may enter into a separate three year interest rate swap with us at our current Market Swap Rate as our current Market Swap Rate is more favourable to you than the Swap Rate under the Swaption.

Therefore, while you benefit from the fall in interest rates, you do not get any return from the Premium you paid, other than the risk minimisation benefits over the 12 months of the Swaption.

Outcome 2: You exercise the Swaption

If our Market Swap Rate is higher (less favourable to you) than the Swap Rate of 3.25% per annum on the Expiration Date, then you may choose to exercise the Swaption and activate the Swap with us on the agreed terms of the Swap.

The payment that will be made on each Payment Date following the activation of the Swap will depend on the Reference Rate set on the previous Reset Date.

If the three month BKBM bid rate increases to 4.25% per annum (meaning it is higher than the Swap Rate):

- on the Reset Date, we will calculate the Floating Amount using the current three month BKBM bid rate as the Reference Rate, as follows:

$$\frac{\text{NZD } 3{,}000{,}000.00 \times 4.25\% \times 90}{365} = \text{NZD } 31{,}438.36$$

- we will also calculate the Fixed Amount using the Swap Rate, as follows:

$$\frac{\text{NZD } 3{,}000{,}000.00 \times 3.25\% \times 90}{365} = \text{NZD } 24{,}041.10$$

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 31,438.36	
less	NZD 24,041.10	
	NZD 7,397.26	← We pay this amount to you

As a result of exercising your Swaption, with a Swap Rate of 3.25% per annum, you will receive an amount of NZD 7,397.26 from us on the next Payment Date under the Swap. This amount can be used to offset the increased interest payable (due to the increased base interest rate) under your underlying floating rate loan. The Swap 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 2.25% per annum (meaning it is lower than the Swap Rate):

- on the Reset Date, we will calculate the Floating Amount using the current three month BKBM bid rate as the Reference Rate, as follows:

$$\frac{\text{NZD } 3{,}000{,}000.00 \times 2.25\% \times 90}{365} = \text{NZD } 16{,}643.84$$

- we will also calculate the Fixed Amount using the Swap Rate, as follows:

$$\frac{\text{NZD } 3{,}000{,}000.00 \times 3.25\% \times 90}{365} = \text{NZD } 24{,}041.10$$

In this scenario, the Floating Amount is less than the Fixed Amount, so you will be required to pay us the difference between the two amounts on the next Payment Date, calculated as follows:

	NZD 24,041.10	
less	NZD 16,643.84	
	NZD 7,397.26	← You pay this amount to us

As a result of exercising your Swaption, with a Swap Rate of 3.25% per annum, you must pay an amount of NZD 7,397.26 to us on the next Payment Date under the Swap. In addition, you must pay interest on your underlying floating rate loan.

Irrespective of whether interest rates move higher or lower, by exercising the Swaption and activating the Swap you have removed the uncertainty of fluctuations in the base interest rate component of your floating interest rate. However, in exchange for this cash-flow certainty you have also lost the opportunity to take advantage of any favourable base interest rate movements.

2.12 What general terms apply to a Swaption, including the Swap?

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 Swaption). 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 Swaption. 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.

2.13 Are there any Westpac credit requirements before dealing?

Before entering into a Swaption, 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.

2.14 How is a Swaption 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 Swaptions 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.

2.15 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 Swaption will be contained in a document called a **Confirmation** - see section 2.18 (*What about Confirmations?*) for more information.

2.16 Email, facsimile and telephone indemnity

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

2.17 Other documentation

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

2.18 What about Confirmations?

The commercial terms of a particular Swaption, including the Swap, will be agreed before you enter into the Swaption. This may occur during a telephone call. Once we reach an agreement with you, both parties are bound by the terms of the Swaption.

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

2.19 Rights to alter terms of a Swaption, including the Swap

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 Swaption and/or any Swap you activate under it. In all other circumstances, the terms and conditions applying to a particular Swaption, including the Swap, can only be altered if we both agree.

2.20 Can I change the terms of my Swaption prior to the Expiration Date?

At any time up to the Expiration Date you may ask us to change the Expiration Date of your Swaption, shorten or lengthen the Term of the Swap, increase or decrease the Notional Principal of the Swap, or a combination of those changes.

We can agree to change your Swaption (including the terms of the Swap) prior to the Expiration Date 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 Swaption (including the terms of the Swap), 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 Swaption (including the terms of the Swap) prior to the Expiration Date, 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 Swaption (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 Swaption with you.

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

2.21 Can I change the Term or Notional Principal of the Swap after the Swap has been activated?

If you have exercised your Swaption and activated the Swap, at any time up to the end of the Term, you may ask us to change the Term and/or Notional Principal of your Swap. 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 Swap 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 Swap, we may not always be willing to agree a change. As part of the change process we may require you to sign additional documentation.

There will typically be a cost or gain to you if we agree a change. This cost or gain may be an amount payable by one of us to the other or it could be incorporated as an adjustment to your existing Swap Rate or a combination of the two as discussed below.

We may provide you with a quote to change your existing Swap. This represents any cost or gain to you for changing the Swap based on entering into an offsetting transaction as if you had asked us to terminate your Swap early, as described in section 2.25 (*What happens if I ask Westpac to terminate a Swap early?*). In this case any cost or gain to you resulting from changing the Swap will be payable on a date that we agree with you.

Alternatively we may agree a new Swap Rate (including our profit margin for the new Swap) with you. Our determination of the new Swap Rate takes into account:

- the Term of the Swap. In general, all other things being equal, the longer the Term of the Swap the less favourable the Swap Rate may be to you.
- the frequency of the Reset Dates and the Payment Dates under the Swap. In general, all other things being equal, the less frequent your Reset Dates and Payment Dates, the less favourable the Swap Rate may be to you.
- inter-bank market 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, higher interest rates are likely to make the Swap Rate less favourable to you.
- 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 make the Swap Rate less favourable to you.
- your creditworthiness. In general, all other things being equal, the less creditworthy you are, the less favourable the Swap Rate is likely to be to you.
- our costs. Our costs will make the Swap Rate less favourable to you.

These factors will be adjusted by the cost or gain to us of reversing or offsetting your original transaction and any loss of profit, as if you had asked us to terminate your Swap early as described in section 2.25 (*What happens if I ask Westpac to terminate a Swap early?*).

Important

The new Swap Rate offered to you will be impacted by each of these factors to a different extent. Some factors will impact on other factors. For example, assessment of market volatility may change the effect of the Term on the Swap Rate. Changing a factor in isolation will not necessarily change the new Swap Rate we offer you.

The new Swap Rate does not represent a forecast that we have made, nor does it guarantee what future interest rates will be.

If we agree to a new Swap Rate, some or all of the cost or gain to you for changing your Swap is built into the new Swap Rate. The new Swap Rate will apply to your Swap from a date that we agree with you. In effect, you will pay any cost that results from amending the Swap by making any required payments under the amended Swap. If there is a cost to you, it may be significant.

We may also agree to you paying or receiving a proportion of the cost or gain to you (as applicable) immediately on the date we agree the changed terms of the Swap with you. The balance of the cost, or gain, will be incorporated as an adjustment to your amended Swap Rate. If you accept the quote and/or the new Swap Rate that we quote to you, we will send you a Confirmation which details the new terms.

Important

You should make your own assessment and obtain your own advice regarding the risks and costs of changing the terms of the Swap. The costs may be significant. You should obtain independent advice if you do not understand any aspect of your obligations when changing the Swap.

2.22 Rights under a master dealing agreement to terminate a Swaption, including the Swap

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 Swaption 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 Swaption.

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. For example, we may require additional rights to terminate your Swaption, including the Swap, as part of our credit approval process, if your underlying financial arrangements are secured loan facilities provided by a member of the Westpac Group, and you repay those loan facilities.

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

- we wish to terminate the Swaption 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 Swaption 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 Swaption, please let us know. Our contact details are provided in section 6 (*About Westpac*).

2.23 What happens if I ask Westpac to terminate a Swaption prior to the Expiration Date?

You may ask us to terminate a Swaption at any time prior to the Expiration Date. 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 Swaption will not be refunded to you.

2.24 How much could be payable if the Swaption terminates prior to the Expiration Date for another reason?

If a particular Swaption 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 Swaption.

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 Swaption (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 Swaption, 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 2.14 (*How is a Swaption 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 Swaption with us will not be refunded to you.

2.25 What happens if I ask Westpac to terminate a Swap early?

You may ask us to terminate a Swap which you have activated under a Swaption at any time during the Term of your Swap. We will provide you with a termination quote. There may be a cost or gain to you as a result of a Swap being terminated early. If there is a cost to you for terminating the Swap, it may be significant. If you accept the termination quote and pay any cost, we will terminate your Swap.

Our quote to terminate the Swap will incorporate the same variables that are used to determine the new Swap Rate where we agree to change the terms of the Swap (see section 2.21 (*Can I change the Term or Notional Principal of the Swap after the Swap has been activated?*)). These variables will be adjusted for the then current market interest rates for the remaining Term of that Swap.

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 interest 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.)

2.26 How much could be payable if a Swap terminates for another reason?

If a particular Swap (which has been activated under a Swaption) 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 Swap (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 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 2.14 (*How is a Swaption 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.

3. Risks of these derivatives

3.1 Product risks

Loss of Premium

The Premium is not refundable. This applies even when the Swaption lapses or is terminated before exercise 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 Swaption.

Opportunity cost

If you exercise the Swaption, you will be "locked in" to the Swap Rate. This means you will forgo any benefit of favourable movements in the base interest rate component of a floating interest rate you are exposed to during the Term of the Swap. Importantly, this could result in you having to pay more in total than if you had entered into a different product to manage your interest rate risk or if you had not exercised the Swaption at all.

Variation

Variation of your Swaption (including the Swap) may result in a cost to you. Those costs may be significant. See sections 2.19 (*Rights to alter terms of a Swaption, including the Swap*), 2.20 (*Can I change the terms of my Swaption prior to the Expiration Date?*), 2.21 (*Can I change the Term or Notional Principal of the Swap after the Swap has been activated?*) and 4 (*Fees*) for more information.

Early termination after exercise

If you have exercised your Swaption and activated the Swap, termination of the Swap may result in a cost to you. Those costs may be significant. See sections 2.25 (*What happens if I ask Westpac to terminate a Swap early?*) 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 Swaption, you cannot terminate or vary the Swaption without our consent even if you no longer need the Swaption or have changed your mind about the Swaption. You must still pay the Premium. This is the case even where the Expiration Date has not yet occured. Variations and/or termination may result in a cost to you. Any costs may be significant. See sections 2.19 (*Rights to alter terms of a Swaption, including the Swap*), 2.20 (*Can I change the terms of my Swaption prior to the Expiration Date?*), 2.21 (*Can I change the Term or Notional Principal of the Swap after the Swap has been activated?*), 2.25 (*What happens if I ask Westpac to terminate a Swap early?*) and 4 (*Fees*) for more information.

Independent contract

Your Swaption is independent from any underlying financial arrangement you have entered into.

Exercising your Swaption will not alter the terms of your underlying financial arrangement. You will remain liable to make all payments of interest due under your separate financial arrangement in full. In addition, neither your Swaption nor any Swap activated under it protects you against changes in any margin payable under your underlying financial arrangement.

If you exercise the Swaption, your obligations under the Swap will continue for the Term of the Swap regardless of any changes to, or early termination of, your underlying financial arrangement. If your underlying financial arrangement ends this may mean that you are required to make payments under the Swap when it no longer has any commercial purpose for you.

Termination of your underlying financial arrangement (for example, by repaying the relevant secured loan facilities) may lead to termination of your Swaption, including any Swap activated under it, which may result in a cost to you. See sections 2.24 (*How much could be payable if the Swaption terminates prior to the Expiration Date for another reason?*) and 2.26 (*How much could be payable if a Swap terminates for another reason?*) for more information on the costs that arise in the event that a Swaption (including the Swap), is terminated early, other than as a result of a request by you.

Breach of obligations

Failure to make any payment to us under your Swaption (including the Swap) 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 Swaption (including the Swap) 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 2.22 (*Rights under a master dealing agreement to terminate a Swaption, including the Swap*), 2.24 (*How much could be payable if the Swaption terminates prior to the Expiration Date for another reason?*) and 2.26 (*How much could be payable if a Swap terminates for another reason?*) for more information on the costs that arise in the event that a Swaption (including the Swap) 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 Swaption, you are exposed to the risk that we become insolvent and are unable to meet our obligations under the Swaption.

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

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 Swaptions 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 Swaption as intended. This unexpected underperformance may mean that a Swaption is not entered into when you intended (meaning, for example, you may not be able to enter into a Swaption having the terms of the Swap, including the Swap 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 Swaption is indicative only. This means that you may not be able to enter into a Swaption for the Premium or having the terms for the Swap referred to in our email.

4. Fees

4.1 What fees or charges apply?

Premium

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

The Premium is determined on an individual basis for each Swaption before you enter into the particular Swaption. 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 prior to the Expiration Date we agree to change the Expiration Date of your Swaption or the Term or Notional Principal of your Swap we will need to agree a new Premium with you. We determine the new Premium on the date we agree the terms of the Swaption with you. See section 2.20 (*Can I change the terms of my Swaption prior to the Expiration Date?*) for more information on how we determine the new Premium.

Swap Rate

After you have exercised your Swaption and entered into the Swap, if we agree to change the Term or Notional Principal of your Swap, we will need to agree a new Swap Rate with you and/or we will provide you with a quote for any cost or gain for changing your Swap which you must pay (if applicable) on the date that we agree with you.

See section 2.21 (*Can I change the Term or Notional Principal of the Swap after the Swap has been activated?*) for more information on how we determine the new Swap Rate and/or calculate any amount you must pay (if applicable).

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 Swaption, 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 Swaption 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 Swaption 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 Swaption 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 Swaption 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 Swaption. 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 Swaptions 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 Swaption. 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 Swaptions 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 Swaption, 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 2.12 (*What general terms apply to a Swaption, including the Swap?*) to 2.17 (*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 Swaption, 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 Swaption. If you are not in New Zealand, Westpac is not inviting you to apply for a Swaption 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 Swaption, 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 under the Swap and, for the purpose of the first Reset Date, the number of days between the date you activate the Swap with us and the first Reset Date.
Client Agreement	The agreement between us relating to the issue of a Swaption 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 Swaption, including the terms of the Swap.
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.
Expiration Date	The date on which you choose whether to exercise a Swaption.
Expiration Time	The time on the Expiration Date at which you will determine whether you will exercise your Swaption.
Fixed Amount	An amount calculated for the purposes of the Swap by multiplying the Notional Principal by the Swap Rate (expressed as a percentage) and the Calculation Period and dividing the result by 365 days.
Floating Amount	An amount calculated for the purposes of the Swap 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.
Market Swap Rate	The price we quote to enter into an interest rate swap on the same day after taking into account our costs and profit margin.
Master Agreement for Derivative Transactions	Westpac's Master Agreement for Derivative Transactions.
Notional Principal	An agreed notional amount that is used to calculate payments under the Swap. This will be agreed with you before you enter into a Swaption with us.
NZD	New Zealand dollars.
Payment Dates	The Payment Dates are usually at the end of each Calculation Period and are when a payment calculated on a Reset Date is required to be paid by one party to the other under a Swap.
PDS	This product disclosure statement.
Premium	An amount payable to us in consideration of our entering into a Swaption with you.
Reference Rate	The variable interest rate that is usually determined by reference to a BKBM rate. We use the Reference Rate to calculate the Floating Amount.

Reset Dates	Reset Dates divide the Term into intervals (usually quarterly or monthly) called Calculation Periods and are the dates on which we calculate the payments due, on the next Payment Date, to each other (if any).
Swap	The interest rate swap that you activate if you choose to exercise your Swaption.
Swaption	A Swaption, being the product that is the subject of this PDS.
Swap Rate	The fixed rate that is agreed between you and us before a Swaption is entered into. It is possible to agree a Swaption with a Swap Rate which changes during the Term. We use the Swap Rate to calculate the Fixed Amount.
Term	How long the Swap 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.