

# INTEREST RATE COLLAR.

## Product Information Statement.

An Interest Rate Collar (Collar) provides the protection from up to your worst known interest rate (the Cap) while participating in favorable moves down to your best known interest rate (the Floor). The opportunity cost of the Floor Rate reduces or eliminates the Premium cost for the protection.

### Key Facts

<b>Eligibility</b>	Wholesale client only
<b>Minimum Transaction Amount</b>	AUD \$1,000,000
<b>Term</b>	1 Year to 20 Years
<b>Currency</b>	AUD
<b>Coupon Payment Frequencies</b>	Monthly, Quarterly, Semi-Annual

Issued by Westpac Banking Corporation  
(offered through its Bank of Melbourne division)  
Australian Financial Services Licence No. 233714  
ABN 33 007 457 141  
**Dated: October 2015**



**Bank of  
Melbourne**

Here to get you there

# Interest Rate Collar

## Description

- A Collar works in conjunction with a Floating Rate Bank Bill facility.
- It is an agreement between you (the buyer) and the Bank (the seller) that protects you against increases in interest rates beyond a pre-determined level known as the Cap Rate, while still allowing you to take advantage of falling interest rates down to a pre-determined level, known as the Floor Rate.
- The Cap Rate is also referred to as the 'worse case rate' because that is the highest base interest rate that you will be exposed to. Conversely, the Floor Rate is referred to as the 'best case rate' as this is the lowest possible base interest rate available to you once you establish a Collar.
- The Collar can be Exercised at either the Cap Rate or the Floor Rate, on one, or a series of rollover or Reset Dates under the agreed Term. In return, the buyer may pay the seller a Premium unless otherwise agreed. Where there is a Premium, it can be paid upfront or amortised over the series of Reset Dates.
- A Collar is not a lending facility.

## Suitability

- A Collar may be suitable if you have a good understanding of interest rate markets and would like to change your interest rate exposure, based on your underlying liabilities, interest rate view, hedging and/or cash-flow requirements.
- If you are not confident about your understanding of these things, this product may not be suitable for you and we strongly suggest you seek independent advice before making a decision about this product.
- A Collar should only be used where you have a genuine commercial need to manage interest rate risk. It should not be used for speculative purposes.

## Key Benefits

- **Flexibility** - You can tailor your Collar to your interest rate view, hedging and/or cash-flow requirements.
- **Certainty** - You can manage your interest rate exposure when you lock-in your Collar as a hedge against your floating assets/liabilities up to the pre-agreed Cap Rate while participating in favourable moves in interest rates down to your Floor Rate.

## Key Risks

- **Premium** - The Premium payable is non-refundable under any circumstances. There is a risk that the Premium is paid and that the Collar is never Exercised under the Term of the Collar.
- **Floor level** - When the Bank provides a zero cost structure or a reasonable reduction in the premium payable under the Cap, the Floor rate may need to be set at a high level. This negates the potential to take advantage of favourable market rate movements.
- **Early Termination/Variation** - You can vary or terminate a Collar early but there may be a cost if you do.
- **Counterparty and operational risk** - The Bank has performance obligations under a Collar. You need to form a judgement on our ability to meet those obligations.

## Costs

- While there are no fees and charges to enter into an interest rate Collar, depending on your circumstances and the rates applied to the Collar structure, a non-refundable premium may be payable by you.

## How does an Interest Rate Collar work?

A Collar is an interest rate management tool that can be used in conjunction with any Variable Rate Bank Bill facility, including one with another lender.

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

You will also agree a schedule of Reset Dates. These are the dates when bills of exchange will be drawn or rolled under your underlying variable rate bank bill facility (for example, you could draw/roll bills on a 30, 90 or 180 day basis).

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

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

On each Reset Date, The Bank will calculate the amount, if any, that either you or The Bank must pay for the relevant Calculation Period. Amounts payable by The Bank are calculated on the difference between the Reference Rate and the Cap Rate.

Amounts payable by you are calculated on the difference between the Floor Rate and the Reference Rate.

An example of the way these amounts are calculated is set out in the Example section in this document.

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

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

Calculation Period will be the rate applying under your bank bill facility agreement.

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

## Factors that determine the premium

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

- The Notional amounts on each Reset Date;
- The Cap Rate;
- The Floor Rate;
- The Reset Dates;
- The Maturity Date;
- Current market interest rates; and
- Market volatility.

The bank can set the Cap Rate and Floor Rate at particular levels in order to create a zero cost structure. Where a zero cost structure is created, there is no up-front premium payable for the Collar. However, you may wish to nominate a different Cap Rate or Floor Rate which may require an up-front premium to be payable. The Bank will advise you the amount before entering into the transaction.

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

## When do I pay the premium?

Where Premiums are payable, they are usually paid with cleared funds within two business days of entering into the transaction.

With the Bank's approval, the Premium can be amortised over the term of the Collar. This may incur extra costs. The full amount of an amortised premium is always payable, even in the case of early termination.

You must apply to amortise any premium before entering into the transaction. The Premium cannot be amortised over a period greater than the term of the Collar.

## Example

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

Also note that the calculations below include rounding of decimal places.

## Scenario

You have a 3 year AUD \$1,000,000 Variable Rate Bank Bill Facility with quarterly rollover dates. The base interest rate is BBSW. Given the current economic environment, interest rates look as though they will be rising and your cost of funds may exceed 3.00%.

You would like to limit your cost of funds to a maximum rate of 3.00% for the term of the underlying bank bill facility.

## If I do nothing, what interest rate risk do I face?

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

## How will a Cap change this?

Assuming you entered into a 3 year Collar with:

- A Cap Rate of 3.00%
- A Floor Rate of 2.00%
- A Notional Amount of \$1,000,000.00
- Quarterly Reset Dates, and
- BBSW as the Reference Rate

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

If BBSW is above 3.00% on a Reset Date, The Bank will compensate you for the difference between BBSW and the Cap Rate for the ensuing Calculation Period. For example, if BBSW is 3.50%, The Bank will compensate you on the basis of a difference of 0.50% for the Calculation Period.

If BBSW is below 2.00% on a Reset Date, you will be required to compensate The Bank on the basis of the difference between BBSW and the Floor Rate

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

As the amount of funds you will receive at drawdown on your Floating Rate Bank Bill facility is calculated on an a discounted (to Notional Amount) or Bank Bills basis, the same method is used to calculate the amount payable under the Collar. If you prefer, a simple interest in arrears methodology can be used for calculation purposes.

The Bank uses the following formula to determine any amount payable:

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

Where:

R1 = the Reference Rate.

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

ND = the actual number of days in the Calculation Period.

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

Amount Payable at Reference Rate:

$$\frac{\$1,000,000.00 \times 36500}{(3.50\% \times 90) + 36500} = \$991,443.71$$

Amount Payable at Strike Rate:

$$\frac{\$1,000,000.00 \times 36500}{(3.00\% \times 90) + 36500} = \$992,657.06$$

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

$$= \$992,657.06 - \$991,443.71$$

$$= \$1,213.35$$

If BBSW is below the Floor Strike Rate say at 1.75%, you must compensate The Bank based on the following:

Amount Payable at Reference Rate:

$$\frac{\$1,000,000.00 \times 36500}{(1.75\% \times 90) + 36500}$$

$$= \$995,703.47$$

Amount Payable at Strike Rate:

$$\frac{\$1,000,000.00 \times 36500}{(2.00\% \times 90) + 36500}$$

$$= \$995,092.69$$

The payment The Bank receives from you is the difference between the above amounts, that is:

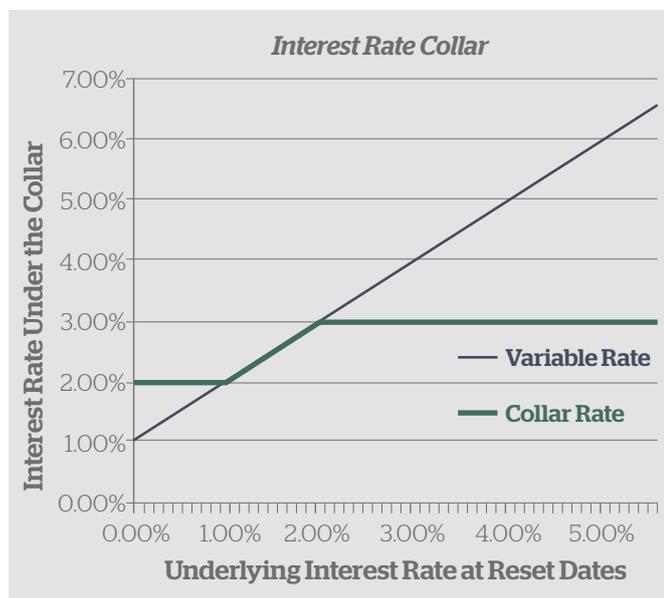
$$= \$995,703.47 - \$995,092.69$$

$$= \$610.78$$

### Pay-off chart

The chart below illustrates the potential outcomes under the Term of the Collar and for that reason is often called a 'pay-off diagram'. As can be seen from the chart below, The Bank will provide compensation where the interest rate is above 3.00%, while you will compensate The Bank if interest rates fall below 2.00%

This means that between 2.00% and 3.00% your **base interest rate** will be the same as the market interest rate.



### Early Termination/Variation

You can terminate or vary your Collar early but there will be a cost to you resulting in a possible early termination or variation payment. You may, however, realise a net benefit depending on the prevailing market conditions upon variation or early termination. Any outstanding premiums due under the Collar, if any, that are still payable to the Bank are to be paid at the termination date. With these risks in mind, please consider your circumstances carefully when selecting the terms of your Collar.

### Documentation

You will be required to sign a standard master dealing agreement. The Bank commonly uses either an International Swaps and Derivatives Association (ISDA) Master Agreement to document interest rate transactions or a Master Agreement for Derivative Transactions. This standard master dealing agreement will govern your trading relationship with us. In particular, it documents the situations in which transactions can be terminated and the way the amount payable following termination is calculated.

You will be provided with a copy of the relevant master dealing agreement and we strongly recommend that you fully consider the terms prior to entering into any transaction. You should obtain independent legal advice if you do not understand any aspect of it.

### Credit Approval

Before entering into any Collar, the Bank will assess your financial position to determine whether or not your situation satisfies our normal credit requirements. The Bank will advise you of the outcome of its review as soon as possible.

### Confirmation

Shortly after entering into a Collar, the Bank will send you a Confirmation outlining the commercial terms of the transaction, including:

- The Notional Amount of your Collar;
- The Commencement Date;
- The Maturity Date;
- The Fixed Rate;
- The Reference Rate;
- Whether you are the Payer or Receiver;
- The Reset and Payment Dates; and
- The variation (if any) of the Notional Amount during the Term.

It is extremely important that you check the Confirmation to make sure that it accurately records the terms of the transaction. If so, please sign and return the Confirmation as directed. In the case of a discrepancy, you will need to raise the matter with your the Bank representative as a matter of urgency.

## Privacy

We collect personal information from you to process your application, provide you with your product or service, and manage your product or service. We may also use your information to comply with legislative or regulatory requirements in any jurisdiction, prevent fraud, crime or other activity that may cause harm in relation to our products or services and help us run our business. We may also use your information to tell you about products or services we think may interest you.

If you do not provide all the information we request, we may need to reject your application or we may no longer be able to provide a product or service to you.

We may disclose your personal information to other members of the Westpac Group, anyone we engage to do something on our behalf and other organisations that assist us with our business.

We may disclose your personal information to an entity which is located outside Australia. Details of the countries where the overseas recipients are likely to be located are in our privacy policy.

As a provider of financial services, we have obligations to disclose some personal information to government agencies and regulators in Australia, and in some cases offshore. We are not able to ensure that foreign government agencies or regulators will comply with Australian privacy laws, although they may have their own privacy laws. By using our products or services, you consent to these disclosures.

We are required or authorised to collect personal information from you by certain laws. Details of these laws are in our privacy policy.

Our privacy policy is available at [www.bankofmelbourne.com.au](http://www.bankofmelbourne.com.au) or by calling 132 266.

It covers:

- how you can access the personal information we hold about you and ask for it to be corrected;
- how you may complain about a breach of the Australian Privacy Principles or a registered privacy code and how we will deal with your complaint; and
- how we collect, hold, use and disclose your personal information in more detail.

We will update our privacy policy from time to time.

We will use your personal information to contact you or send you information about other products and services offered by the Bank or its preferred suppliers. Please call us on 13 22 66 or visit any of our branches if you do not wish to receive marketing communications from us.

In addition to our duties under legislation, we have a general duty of confidentiality towards you, except where disclosure is made in a manner consistent with this PIS.

## Code of Banking Practice

The relevant provisions of the Code of Banking Practice 2004 ('Code') apply if you are an individual or a small business as defined in the Code. It's our commitment to make all the details about your banking as clear as we possibly can.

## Financial Crimes Monitoring

You should be aware that:

- transactions may be delayed, blocked or refused where the Bank has reasonable grounds to believe that they breach Australian law or the law of any other country; and
- where transactions are delayed, blocked, frozen or refused, the Bank is not liable for any loss you may suffer (including consequential loss).

The Bank is bound by laws that impose regulatory and compliance obligations, including obligations in relation to the prevention of money laundering and the financing of terrorism, under the Anti-Money Laundering and Counter Terrorism Financing Act 2006 (**AML/CTF Laws**).

In order for the Bank to meet its regulatory and compliance obligations, we perform certain control and monitoring activities.

Upon entering into a Collar with the Bank, you agree and provide the following undertakings and agree to indemnify the Bank against any potential loss arising from any breach by you of such undertakings that:

- you are not and will not enter into any agreement with the Bank under an assumed name;
- any funds used by you to enter into an agreement with the Bank have not been derived from or related to any criminal activities;
- any payments received from the Bank will not be used in relation to any criminal activities;
- if we ask, you will provide us with additional information we reasonably require from you for the purposes of meeting our regulatory and compliance obligations, including the obligations under AML/CTF Laws (including information about the source of funds used to settle a Collar); and
- you and your Collar with the Bank will not initiate, engage or effect a transaction that may be in breach of Australian law or sanctions (or the law or sanctions of any other country).

You should be aware that:

- we may obtain information about you or any beneficial owner of an interest in an agreement with the Bank from third parties if we believe this is necessary to comply with our regulatory and compliance obligations, including the AML/CTF Laws;
- transactions may be delayed, blocked, frozen or refused where we have reasonable grounds to believe that they breach Australian law or sanctions or the law or sanctions of any other country;
- where transactions are delayed, blocked, frozen or refused, the Bank and other members of the Westpac Group are not liable for any loss you suffer (including consequential loss) in connection with a Collar; and
- where legally obliged to do so, we will disclose the information gathered to regulatory and/or law enforcement agencies and we may also disclose the information gathered to other banks, other members of the Westpac Group, service providers or to other third parties.

## Our reporting obligations under FATCA

We are required to identify certain US persons in order to meet account information reporting requirements under local and international laws.

If you or (where you are an entity) any office bearer (director of a company, partner in a partnership, trustee of a trust, chairman, secretary or treasurer of an association or co-operative) of the entity and/or any individual who holds an interest in the entity of more than 25% (a **Controlling Person**) are a US citizen or US tax resident, you must telephone us on 1300 667 156 at the time of entering into a Collar. When you contact us you will be asked to provide additional information about your US tax status and/or the US tax status of any Controlling Person which will constitute certification of US tax status for the purposes of the application to which the Collar relates.

Unless you notify us that you and/or any Controlling Person are a US citizen or US tax resident as specified above, entering into a Collar with us constitutes certification that you and/or any Controlling Person are not a US citizen or US tax resident.

If at any time after entering into a Collar information in our possession suggests that you and/or any Controlling Person may be a US citizen or US tax resident, you may be contacted to provide further information on your US tax status and/or the US tax status of any Controlling Person. Failure to respond may lead to certain reporting requirements applying to the Collar.

## Telephone Conversations

The terms of a Collar are usually agreed verbally over the phone or electronically over an on-line system. Once we have reached an agreement, both you and the Bank are bound by the terms of the Collar.

Conversations with our dealing room and settlements 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 and for staff training and monitoring purposes.

You will need to advise our dealer if you do not wish to be recorded. However, we will not enter into any transaction over the telephone unless the conversation is recorded.

## Dispute Resolution

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

We've put in place ways of dealing 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. Our contact details are set below:

## Interest Rate Pricing and Structuring Desk

Address: Level 2, 275 Kent St  
Sydney NSW 2000  
Phone: (02) 8253 4463  
Email: [treasuryirrm@stgeorge.com.au](mailto:treasuryirrm@stgeorge.com.au)

## What to do if you are still unhappy

If we still haven't been able to deal with your issues to your satisfaction, there are a number of other bodies you can go to. Our external dispute resolution provider is the Financial Ombudsman Service, our membership number is 10999 and the contact details are:

## Financial Ombudsman Service Limited

Address: GPO Box 3 Melbourne VIC 3001  
Phone: 1800 367 287  
Fax: (03) 9613 6399  
Internet: [www.fos.org.au](http://www.fos.org.au)  
Email: [info@fos.org.au](mailto:info@fos.org.au)

You can also contact the Australian Securities & Investments Commission (ASIC) to make a complaint and to obtain further information about your rights. They have a freecall Infoline on 1300 300 630 or visit [www.asic.gov.au](http://www.asic.gov.au)

## Glossary

**Bank, Westpac, we, our** and **us** means refers to Westpac Banking Corporation ABN 33 007 457 141 Australian Financial Services Licence No. 233714 (and includes the Bank of Melbourne division).

**BBSW** means the Australian Bank Bill Swap Rate, being the average mid-rate for Australian Dollar bills of exchanges having various tenors which appear on the Reuters Screen BBSW Page at approximately 10:10am Sydney time on the relevant Payment Date. If such a rate does not appear, then a rate will be determined by the Bank, acting in good faith and in a commercially reasonable manner. You can see the current BBSW in the Market Data section of the website of the Australian Financial Markets Association located at [www.afma.com.au](http://www.afma.com.au).

**BBSY** means the Australian Bank Bill Swap Bid Rate, being the average bid rate for Australian Dollar bills of exchange having various tenors which appear on the Reuters Screen BBSY Page at approximately 10:10am Sydney time on the relevant Payment Date. If such a rate does not appear, then a rate will be determined by the Bank, acting in good faith and in a commercially reasonable manner. You can see the current BBSW in the Market Data section of the website of the Australian Financial Markets Association located at [www.afma.com.au](http://www.afma.com.au).

**Calculation Period** refers to the number of days in the relevant period from one Reset Date until the next Reset Date.

**Cap Rate** refers to the maximum effective interest rate expressed as a percentage p.a. payable under the Collar.

**Collar** refers to the band structure between the Cap Rate and the Floor Rate which determines the buyer's effective interest rate at every Reset Date under the Term of the facility.

**Commencement Date** means the date on which your Collar commences. This will be referred to as the 'Effective Date' in your confirmation

**Confirmation** means the document issued to you by The Bank following receipt (and subject to acceptance) of your completed Documentation and Credit approval.

**Coupon Payment** means the net payment made on each Payment Date in respect of the Notional Amount. Designated Maturity refers to the designated term the Reference Rate used in your Collar.

**Exercised** means to put into effect the right specified under a contract.

**Floor Rate** refers to the minimum effective interest rate effective payable under the Collar.

**ISDA** stands for International Swaps and Derivatives Association and is a shorthand reference to the ISDA Master Agreement, one of the two standard master dealing agreements used to document your Collar.

**Master Agreement** means the Master Agreement for Derivative Transactions, one of the two standard agreements used to document your Collar.

**Maturity Date** means the date on which your Collar expires. This will be referred to as the Termination Date in your Confirmation.

**Notional Amount** means the amount left at the beginning of each coupon period during the Term and on which the Fixed Rate Coupon Payments and Floating Rate Coupon Payments are calculated. The Notional Amount does not have to be a fixed amount for the full Term, it can vary over the Term.

**Payer** refers to the payer of the Fixed Rate.

**Payment Date** refers to each date on which a Coupon Payment will be made by us in respect of your Notional Amount. The specific Payment Dates applying to your Collar will be specified in your Confirmation. If a Payment Date does not fall on a business day, the payment will be processed on the following business day.

**PIS** means Product Information Statement.

**Receiver** refers to the receiver of the Fixed Rate.

**Reference Rate** means the Australian Bank Bill Swap Rate with a Designated Maturity of one month (1m BBSW), three month (3m BBSW) or six months (6m BBSW), or the Australian Bank Bill Swap Bid Rate with a Designated Maturity of one month (1m BBSY), three months (3m BBSY) or six months (6m BBSY).

**Reset Date** refers to each date on which the Floating Rate is set. The Specific Reset Dates applying to your Collar will be specified in your Confirmation. If a Reset Date does not fall on a business day, the Floating Rate will be set on the following business day.

**Term** means the period between the Commencement Date and the Maturity Date.

**Transaction Date** means the original date that the contract was entered into.

**Westpac Group** means Westpac and its related bodies corporate.

