

ISSUED BY: ST.GEORGE BANK
A DIVISION OF WESTPAC BANKING CORPORATION
ABN 33 007 457 141 AFSL 233714
EFFECTIVE DATE: 1 MARCH 2010

INTEREST RATE COLLAR

IMPORTANT NOTICE

Transactions involve various risks including movements in currency rates and interest rates. You can make losses and that is a risk you take. If you do not understand the risks or are not willing to accept the risks or make losses, you should not enter into these transactions with us.

The information set out in this document is general in nature and does not and is not intended to take into account your particular needs, objectives or financial situation. By providing it, St.George does not intend to provide financial advice or any financial recommendations. You should read this Product Disclosure Document carefully and consider whether this product is appropriate to your particular needs, objectives and financial situations. You may also seek independent expert advice before making a decision about whether or not this product is suitable for you.

PRODUCT DISCLOSURE STATEMENT



This PDS for Interest Rate Collar (Commercial) was prepared on 1st March 2010. However it is intended for use only for the financial products provided after the effective date shown on the cover.

Risk Overview

An Interest Rate Collar (**Collar**) is a product which may be used to protect you from unfavourable movements in a particular interest rate. By using this product to gain such protection, you agree to limit the benefit you may derive from favourable movements in the relevant interest rate.

Purpose

What are Collars used for?

A Collar may be used by you if you have a variable rate *bank bill facility* and would like to:

- protect yourself against an unfavourable move in interest rates, while
- maintaining some ability to participate in favourable interest rate moves.

A Collar is an interest rate management tool

This product is not a lending facility. Rather, it is an interest rate management product that can be used in conjunction with any variable rate *bank bill facility*. Your underlying *bank bill facility* will continue to be governed by the term and conditions applicable to your *bank bill facility*.

It is also important to remember that a Collar only affects the net *base interest rate* applicable to your underlying *bank bill facility*. It has no effect on any acceptance or other fees and margins payable under your *bank bill facility*. You remain obligated to pay those fees and margins regardless of the outcome of the Collar. For that reason, this document does not consider or take into account any fees and margins payable in respect of your underlying *bank bill facility*.

Suitability

Do you have sufficient knowledge about these products?

A Collar may be suitable if you have a good understanding of interest rate markets and interest rate option products and would like to manage your interest rate exposure.

If you are not confident about your understanding of these things, we strongly suggest you seek independent advice before making a decision about this product.

Description

What does a Collar do?

A Collar works in conjunction with a variable rate *bank bill facility*, and 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 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 a Collar is entered into.

How does it work?

Under a Collar, you set the *cap rate* and *floor rate* at the time of entering the transaction, as well as a *notional principal amount* (the amount upon which interest payments are calculated). You will also agree a schedule of *reset dates*. These dates correspond to the dates that *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, 60 or 90 day basis).

The *reference rate* as applied by St.George is the pre-agreed variable *reference rate*. It is set at the beginning of the transaction and can be the same as the base rate applying to your underlying *bank bill facility*. The *reference rate* applies for set periods referred to as *calculation periods*.

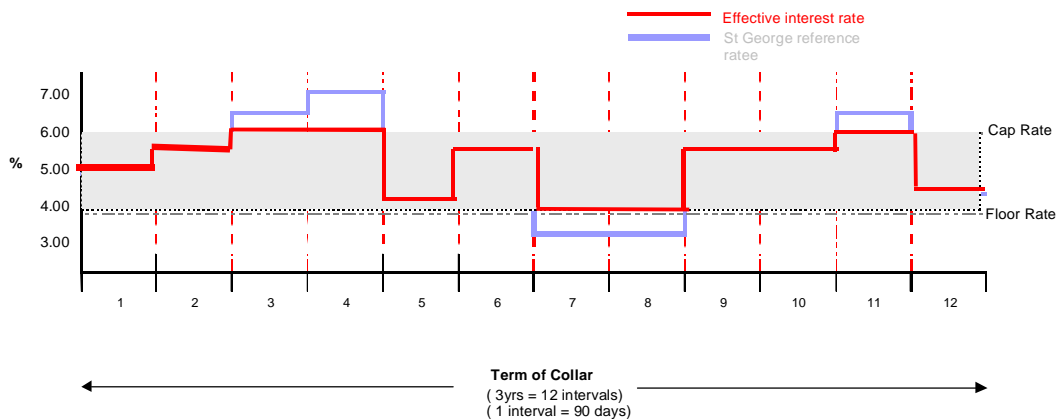
On each *reset date*, the *reference rate* is compared to the *cap rate* and *floor rate*:

- if the *reference rate* is more than the *cap rate*, then you will *exercise*, your option and the effective *base interest rate* for the *calculation period* becomes the *cap rate*; or
- if the *reference rate* is less than the *cap rate* but more than the *floor rate*, then the *base interest rate* for the *calculation period* will be the variable rate applying under your *bank bill facility* agreement; or
- if the *reference rate* is less than the *floor rate*, then you will be obliged to pay an effective *base interest rate* equal to the *floor rate* for the *calculation period*.

The *cap rate*, *floor rate*, *reset dates*, *reference rate* and the *notional principal amount* are all set at the time the Collar is entered into.

Diagrammatic Display of a Collar based on using the St.George Reference Rate

The following diagram provides an illustration of how a Collar may affect your effective interest rate for a given period based on hypothetical movements in St.George *reference rate*



The figures used in the above graph are provided to show how a collar will work in a hypothetical situation. The figures do not constitute a forward prediction of how rates will or are likely to move.

Are there any St.George credit requirements prior to dealing?

Before entering into a Collar, St.George will need to assess your financial position to determine whether or not your situation satisfies our normal credit requirements. St.George will advise you of the outcome of its review as soon as possible. Our assessment of your financial position is made only to determine your credit worthiness. By doing this, we are not making any assessment of the suitability of this product for you.

If your application is successful, you will be required to sign St.George's standard finance documentation. That documentation will set out the terms of the credit approval and other matters relevant to your application.

Cost of Product

Generally, St.George sets the *cap rate* and *floor rate* at particular levels so that there is no up-front premium payable for the Collar. If you wish to nominate a different *ceiling rate* and/or *floor rate*, an up-front non-refundable *premium* may be payable. St.George will determine the amount of the *premium* and you will be advised of the amount prior to entering into the transaction.

When calculating the *premium*, we take into account various factors which may include:

- the *cap rate*, the *floor rate*, the *notional principal amount*, the *reference rate*, the term and the *reset dates* selected
- current market interest rates; and
- market volatility

Premiums are generally payable in cleared funds within two *business days* of entering into the transaction. However, *premiums* (if applicable in a non zero-premium situation) can be amortised over the term of the Collar, subject to St.George approving an application to allow this. If your Collar *premium* has been amortised, the full amount of the *premium* is payable even in the case of early termination. An application to amortise any *premium* must be made to your St.George contact prior to entering into the transaction, and may incur extra costs.

St.George also derives a financial benefit by incorporating a margin into the *cap rate* and the *floor rate*. In effect, you pay for the Collar by accepting the *cap rate* and *floor rate* quoted by St.George. This benefit is obtained even when you are not required to pay a *premium*.

Advantages/Benefits

- Collars provide you with protection against unfavourable interest rate movements above the *cap rate* while allowing you to participate in some interest rate decreases.
- Collars can be structured so that there is no up-front *premium* payable. While you can also set your own *cap rate* and *floor rate*, a *premium* may be payable in these circumstances.
- Collars can be cancelled (however there may be a cost in doing so (see Early Termination section for further details).

Disadvantages/Risks

- While a Collar provides you with some ability to participate in interest rate decreases, that potential benefit is limited to the *floor rate*.

- You will be exposed to interest rate movements if the term of the Collar is shorter than that of the underlying *bank bill facility*.
- There is no cooling off period.
- St.George, as the counterparty to a Collar, must fulfil its contractual obligations to you in the manner set out in the relevant contract. If St.George is unable to fulfil those obligations, you will be exposed to market fluctuations as if you had not entered into a Collar. However, as an Australian Authorised Deposit-Taking Institution, we are subject to prudential regulation, which is intended to reduce the likelihood of St.George not being able to fulfil its contractual obligations.

Settlement

Any amount that you are required to deliver to St.George must be delivered in clear funds in accordance with St.George's instructions. St.George will deposit any amounts owing to you to a St.George bank account (in your name) nominated by you. Alternative arrangements can be made with St.George's prior approval.

Early Termination

You can request St.George to cancel the Collar at any time up to the *maturity date*. At the time of the request, St.George will calculate and quote a price where it would be willing to cancel the Collar. St.George will take into account its normal considerations, including market conditions, at the time the price is determined. The termination price will be a cost or a benefit to you. If the termination quotation is acceptable to you, then the cost or benefit will be paid and the Collar will be cancelled.

If your Collar *premium* (if applicable in a non zero-cost situation) has been amortised over the term of the Collar, the *premium* is payable in full immediately upon termination.

Documentation

You will be required to sign a dealing agreement with St.George. There are two types of agreements that are commonly used to document interest rate transactions:

- A facility agreement with St.George which incorporates either St.George's Standard Terms for Financial Markets Transactions or St.Georges General Standard Terms (of which this product disclosure statement forms part); or
- An International Swaps and Derivatives Association Master Dealing Agreement (ISDA)

We will advise you which of these we will require, based on what is most suitable for you.

Each of the abovementioned documents governs the contractual relationship between you and us in relation to the Collar. The terms of that document may also set out the terms and conditions that apply to other transactions that we enter with you.

In particular, it documents the situations where those transactions can be terminated and the way the amount payable following termination is calculated. A copy of the agreement is available on request and we strongly recommend that you fully consider its terms prior to entering into any transaction. You should obtain independent advice if you do not understand any aspect of the document.

Confirmation

Shortly after entering in to a Collar, St.George will send you a *confirmation* outlining the commercial terms of the transaction. This *confirmation* will need to be signed by you and returned to St.George.

Warning

It is extremely important that you check the *confirmation* to make sure that it accurately records the terms of the transaction. In the case of a discrepancy, you will need to raise the matter with your St.George contact as a matter of urgency.

Example

The example below is indicative only and use rates and figures selected by us 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.

Scenario

You are a borrower with a 3 year AUD 1,000,000 variable rate *bank bill facility* with quarterly *rollover* dates. The *base interest rate* is St.George *reference rate*.

The current economic environment is such that interest rates look as though they will be rising and your borrowing costs may exceed 6.00%. You would like to confine your borrowing costs within an acceptable range for the term of the underlying *bank bill facility*.

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

If you do nothing, the interest rate you will pay on each rollover date will depend on what St.George reference rate is at that time. You are exposed to the risk of interest rates rising and will benefit if interest rates fall.

How will a Collar change this?

You purchase from St.George a 3 year Collar with a *cap rate* of 6.00% , a *floor rate* of 4.00%, a *notional principal amount* of \$1,000,000, quarterly *reset dates*, and St.George *reference rate* as the *reference rate*:

- If St.George *reference rate* is above 6.00% on a *reset date*, you will *exercise* your option to pay the *cap rate* for the *calculation period*; or
- If St.George *reference rate* is below 4.00% on a *reset date*, you will be required to pay the *floor rate* for the *calculation period*; or
- If St.George *reference rate* is between the *cap rate* and the *floor rate* on a *reset date* then the current variable *reference rate* will apply for the calculation period.

As the amount of funds you will receive at drawdown on your variable rate *bank bill facility* is calculated on an interest in arrears, yield to maturity basis (i.e., a discount to face value) the same methodology is used to calculate the amount payable under the Collar.

Important Consideration

Please note that the above descriptions have not factored in any *premium* amounts that may have been paid in connection with the Collar. You should also be aware that interest rate movements may result in little or no need for Collar protection. In either of these cases, any *premium* paid will be an additional cost for you.

Code of Banking Practice compliance

If you are an individual or a *small business*, the relevant provisions of the Code of Banking Practice will apply to this product.

This PDS contains the general descriptive information we are required to make available to customers and potential customers under the Code of Banking Practice and it is advisable that you inform us promptly when you are in financial difficulty

Significant taxation implications

Taxation law is complex and its application will depend on each person's individual circumstances. When determining whether or not his product is suitable for you, you should consider the impact it will have on your own taxation position and we encourage you to seek independent tax advice on the tax implications it may have for you.

Factors that may influence our advice

This document has been designed to help you choose the right product for you. When you ask for a recommendation, please be assured that our staff members will always explain your choices and point you to the product that best suits your needs.

Sometimes our staff may be eligible for incentives, including cash incentives, for achieving or exceeding sales targets.

Your privacy

- (a) When you apply for this product from us, the application form contains a privacy statement which sets out in more detail how we use and when we disclose your personal information in relation to the product.
- (b) We handle your personal information in accordance with the privacy statement in the application form for the product applied for or our privacy brochure, entitled "Protecting Your Privacy". You can obtain a copy of the brochure by asking at any branch or by calling 13 33 30. Our privacy policy is also available by visiting our website at stgeorge.com.au
- (c) We acknowledge that, as well as our duties under legislation, we owe a general duty of confidentiality to you. However, in some cases we may disclose your personal information if:
 - (i) disclosure is compelled or permitted by law; or
 - (ii) there is a duty to the public to disclose; or
 - (iii) our interests require disclosure; or
 - (iv) disclosure is made with your express or implied consent.
- (d) You agree that we may disclose to a *related entity*:

- (i) information about you that is necessary to enable an assessment to be made of your total liabilities (present and future) to us and that *related entity*; and
 - (ii) any other information concerning you, if the *related entity* provides financial services related or ancillary to those provided by us, unless you tell us not to in writing.
- (e) We, or any *related entity* to whom we disclose information pursuant to paragraph (d), may disclose information about or provided by you to employees or outside contractors for the purpose of our or the *related entity's* businesses. Any outside contractor to whom we or a *related entity* disclose information will have access to that information only for the purpose of our or the *related entity's* business and will be strictly prohibited from using that information for any other purpose.
- (f) You agree that we may disclose information about you in those cases where the Privacy Act 1988 (Cth) permits disclosure of such information.
- (g) On a written request by you, we will provide you with our record of your address, occupation, marital status, age, sex, products or accounts you hold with us and statements relating to those products and accounts. We may charge you our reasonable costs of supplying this information. Any fee is shown in the "Fees and Charges and how to minimise them" booklet. You may request the correction of any of this information concerning you that we hold. We will deal with your request for access to information or correction of information within a reasonable time.
- (h) You must promptly inform us of any change of your name or address.
- (i) Unless you give us a written instruction not to do so, we may from time to time send you information concerning financial and other services offered by us or *related entities*.
- (j) You may from time to time be contacted by representatives of us or *related entities*. Those representatives may be either employees of, or contractors to us or the *related entity*. Any person who contacts you will have access to information about or provided by you only for the purpose of our or the *related entity's* business and will be strictly prohibited from using that information for any other purpose.

Appropriate use of our services

- (a) You warrant that your use of the services we provide will not breach any law of Australia or any other country.
- (b) Where we consider it necessary for us to meet our regulatory and compliance obligations:
 - (i) you must provide us with any information we reasonably request;
 - (ii) we will disclose information we hold to regulatory and law enforcement agencies, other financial institutions, third parties and members of the St George Group; and
 - (iii) we may delay, block or refuse to provide any of our services.

We will not be liable to you or any other person for any loss or damage of any kind that may be suffered as a result of us exercising our rights under this clause.

Problems, Disputes and Complaints

- (a) If you believe an error has been made, please notify us by contacting your nearest branch. We will, as soon as possible, correct any error that is found to be ours.
- (b) If you have a problem or complaint about a banking service, you should speak to our Customer Service personnel. You can do this by calling the General Customer Enquiries on 13 33 30.
- (c) To assist us in resolving your problem or complaint, you should:
 - (i) report it promptly;
 - (ii) state clearly the nature of the problem or your particular grievance; and
 - (iii) have available all documents and background information.

Disputes

- (d) If the matter is not resolved to your immediate satisfaction, you can follow the complaints procedures set out below. Please also refer to our “Customer Satisfaction” brochure for further information about disputes. It is available at any of our branches.

Complaints

- (e) You can lodge a complaint at any of our branches or telephone or write to the Senior Manager, Customer Relations at our head office in Sydney as follows:

Locked Bag 1
Kogarah NSW 1485
Telephone: (02) 9553 5173 (metropolitan) or
1800 804 728 (if outside metropolitan area)

- (f) If we do not immediately resolve your complaint to your satisfaction, we will advise you in writing of our procedures for investigating and handling complaints. We will notify you of the name and contact number of the person who is investigating your complaint.
- (g) If it is unclear whether you have contributed to any loss that is the subject of any complaint you make to us, we will consider all reasonable evidence, including all reasonable explanations for a transaction occurring.
- (h) Normally, we will complete the investigation of your complaint and inform you of the results of our investigation within 21 days of receiving a complaint. Unless there are exceptional circumstances, we will complete our investigation within 45 days.
- (i) Where an investigation continues beyond 45 days, we will inform you of the reasons for the delay, give you monthly updates on the progress of the investigation and a date when a decision can reasonably be expected. We will not do this if we have requested a response from you and we are waiting for that response.
- (j) The next available step is the Financial Ombudsman Service (FOS). This is a free, external and independent process for resolving disputes between banks and customers, provided the Financial Ombudsman Service has the power to deal with your dispute. In addition, if your complaint relates to the way we handle your personal information, then you have a right to complain to the Ombudsman. The contact details of the Financial Ombudsman Service are as follows:

GPO Box 3
Melbourne VIC 3001
Telephone: 1300 780 808
Facsimile: (03) 9613 6399

- (k) There are other external avenues for dealing with disputes. Your State or Territory Government has a consumer rights protection agency such as the Department of Consumer Affairs.

Electronic Communications

- (a) You will be requested to agree to us providing you with statements, notices and other information relating to your product either:
- (i) by e-mail; and /or
 - (ii) by making the statement, notice or information available at our website, provided:
 - (i) we alert you by e-mail of the availability of this information; and
 - (ii) we provide you with the ability to readily retrieve and retain the information.
- (b) If you do agree to receive paper copies of the relevant statements, notices and other information relating to your product by e-mail or other electronic form:
- you will not receive a paper copy of the relevant statements, notices and other information relating to your product,
 - you will need to regularly check to see if you have received any e-mails from us;
 - you will need to maintain and check your electronic equipment through which you will receive e-mail and your e-mail address regularly to ensure it is always capable of receiving an e-mail; and
 - you will be responsible for printing and saving important information- and we strongly recommend that you do so.
- (c) You may cancel your authorisation to receive statements, notices or other information relating to your product by e-mail at any time by contacting us.
- (d) We will send you all statements and other notices and information to the most recent e-mail address you have supplied to us. You must ensure you notify us of any change in your e-mail as soon as possible. You may do this by contacting us at our Treasury Departments on the telephone number (between 8.00 am and 5.00 pm Monday to Friday), on the fax number or the address listed on the back of this booklet.
- (e) You may request a paper copy of any statement, notice or other information relating to your product provided to you by e-mail or electronic form within 6 months from the date of receipt of a statement or electronic communication. We will not charge you a fee for this.

Glossary

The following definitions apply in this PDS.

business day means day St. George is open in New South Wales unless otherwise specified in the *confirmation*. A business day does not include a weekend day, public or bank holiday within the designated financial centre.

bank bill facility means a *bills of exchange* facility allowing the drawer to borrow funds over a period of time.

base interest rate means the interest rate applicable to a *bank bill facility* excluding any acceptance fees and margins payable under the *bank bill facility*.

bills of exchange means a negotiable instrument usually sold at a discount. An unconditional order in writing, addressed by the drawer to the drawee, requiring the drawee to pay a sum of money on demand or at a specified future time to the payee or to the bearer.

calculation period means the term (from one *reset date* to the next *reset date*) over which interest payments are calculated.

cap rate means the maximum (worst-case) possible interest rate payable under a Collar.

confirmation means the record of commercial terms of the relevant contract between you and St.George to be prepared by St.George following entry into of a contract.

exercise means to convert an option into its underlying product or transaction.

floor rate means the minimum (best-case) possible interest rate payable under a Collar

maturity date means the date on which the Collar ceases to have an effect on the underlying *bank bill facility* and specified as such in the *confirmation*.

notional principal amount means the amount specified as such in the *confirmation*. (Neither party has any entitlement to receive any part of the *notional principal amount* from the other).

premium means the cost of the option to the buyer and specified as such in the *confirmation*.

reference rate means the rate that is compared to the *cap rate* and the *floor rate* and specified in the *confirmation*.

related entity means a company owned by us.

reset date means the date the interest rate is reset for the designated *rollover* period. The reset date also signifies the start of a new *calculation period*.

rollover means the date a *bank bill facility* is “renewed” for a new term and the interest rate revised.

small business means a business employing:

- (a) less than 100 full-time (or equivalent) people, if the business is or includes the manufacture of goods; or
- (b) in any other case, less than 20 full-time (or equivalent) people,

but does not include a business that obtains this product for use in connection with a business that does not meet the elements in (a) or (b) above.

Sydney:

Level 11, 55 Market Street
Sydney NSW 2000
GPO Box 4444 Sydney 2001
Telephone: (02) 9320 5555
Facsimile: (02) 9320 5589

Melbourne:

Level 8,
530 Collins Street
Melbourne VIC 3000
Telephone: (03) 9640 8666
Facsimile: (03) 9640 8633

Perth:

Level 11,
152-158 St. Georges Tce
Perth WA 6000
Telephone: (08) 9265 7553
Facsimile: (08) 9265 7556

Brisbane:

Level 4,
345 Queen Street,
Brisbane QLD 4000
Telephone: (07) 3232 8841
Facsimile: (07) 3232 8838

Adelaide:

Level 3,
97 King William St,
Adelaide SA 5000
Telephone: (08) 8424 5597
Facsimile: (08) 8424 4119

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