

# Bendigo Interest Rate Swap Product Information Statement

This Product Information Statement is an important document. It provides you with information about certain types of Interest Rate Swaps (“swap”) so that you can decide whether to participate or enter into a swap transaction. You should read this document carefully before you decide whether or not to participate or enter into a swap transaction.

You should also keep this Product Information Statement for your future reference. If you have any questions, please contact us.

This Product Information Statement does not constitute a recommendation or opinion that a swap is appropriate for you.

The issuer of the products described in this Product Information Statement is Bendigo and Adelaide Bank Limited, ABN 11 068 049 178, AFSL No. 237879.

This Product Information Statement only applies where it is received by a person in Australia.

This Product Information Statement is current as at 2 July 2010. Information in this Product Information Statement may be subject to change from time to time. Before entering any swap transaction contemplated by this Product Information Statement you should ensure you have the most current information statement available. At any time you will be able to find the current information statement by contacting us on 1800 061 783 or by accessing the Bendigo Bank website at [www.bendigobank.com.au](http://www.bendigobank.com.au).

Any change to the Product Information Statement will only impact the product from the date of the change. Existing swap transactions will not be affected.

A paper copy of any updated information will be given to you on request without charge.

## Contact details

You can contact us at:

- > **Financial Markets**  
GPO Box 1048  
Adelaide SA 5001  
Telephone 08 7109 9522  
[www.bendigobank.com.au](http://www.bendigobank.com.au)

Alternatively you can contact us via:

- > **Bendigo Bank OnCall**  
Telephone 1300 BENDIGO  
Banking consultants who can provide you with information on accounts
  - 8am – 8pm Monday to Friday (Victorian time)
  - 9am – 4pm Saturday (Victorian time)
  - 10am – 4pm Sunday (Victorian time)
- > **The Bendigo Bank website** at [www.bendigobank.com.au](http://www.bendigobank.com.au); or
- > **Customer Help Centre**  
Telephone 1300 361 911  
8.30am – 7.30pm (Victorian time)  
Monday to Friday

Note: Telephone conversations with Bendigo and Adelaide Bank Financial Markets may be recorded for dispute resolution purposes.

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## Interest Rate Swap Contract Product Features

### What is an Interest Rate Swap?

An interest rate swap traditionally involves two legs, one variable and one fixed. The fixed rate is determined at the commencement of the transaction and the variable rate is the BBSW. BBSW is defined as “the rate for a reset date which is the average mid rate, for Australian Dollar bills of exchange, accepted by an approved bank, having a tenor with a designated maturity, that appears on an approved information vendors service (eg. Thomson Reuters Screen BBSW page) at approximately 10.08am AEST, on the reset date”.

The swap is based on a notional amount which can be either an interest only loan or a loan with an amortisation schedule. It is important to note that when matching up an interest rate swap with an amortising loan that there will need to be assumptions made in relation to the repayment schedule for the underlying exposure. These assumptions will likely only relate to the mandatory payments required under the loan and assume no voluntary pre-payments. This does not in any way affect the loan itself, only the notional underlying exposure to which the swap is matched.

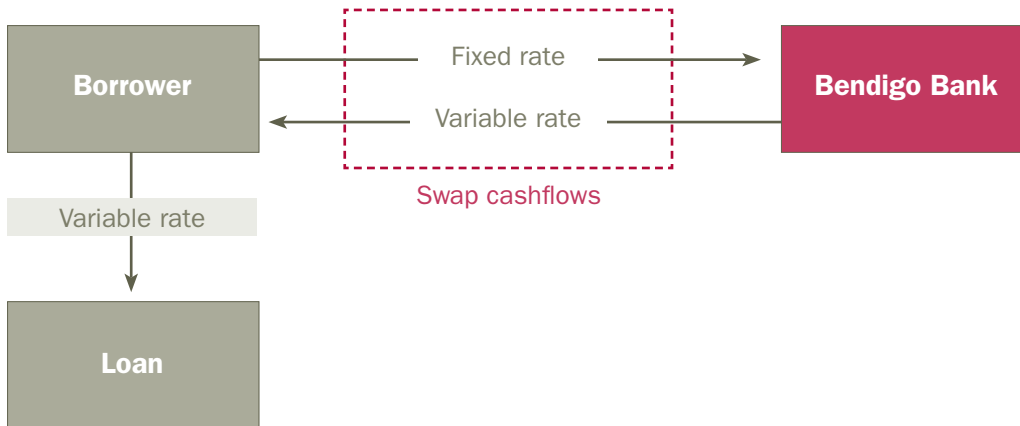
Generally the swap allows the borrower to exchange the economic effect of the variable rate interest payments they are currently paying, for the economic effect of fixed rate interest payments (fixed or variable). At each interest reset date a net amount is paid to or by the borrower to put the borrower in the same overall position as if they had converted their variable interest payments into fixed interest payments. An equivalent transaction can be performed in reverse (variable for fixed) allowing the borrower to achieve the same overall position as if they had converted their fixed interest payments into variable interest payments.

An interest rate swap does not affect the terms of the underlying loan facility. In particular it does not affect the borrower’s obligations to repay the principal of the loan, to pay interest on the loan to the lender or to pay fees and charges to the lender, in each case in accordance with the terms and conditions of the underlying loan facility.

Managing your risk:  
now and for the future.

**Diagram**

The following diagram illustrates the practical effect of a swap where the customer is swapping a variable interest rate



The diagram outlines the following:

- > The borrower pays variable interest on the loan
- > The borrower receives variable interest on the swap
- > The borrower pays fixed interest on the swap

The net effect is that the borrower now pays fixed interest.

**Examples**

**(a) Interest Only**

The borrower has a 3 year \$1 million Bendigo and Adelaide Bank Commercial Solutions Interest Only Term Loan (a variable interest rate loan), where the rate resets on a quarterly basis at a rate which is calculated at the applicable BBSW (plus customer margin). To protect against the customer’s exposure

to adverse movements in interest rates, the customer enters a swap to lock in the base borrowing rate at 7.00% per annum (prior to the customer margin).

The example below illustrates how the swap protects the borrower against interest rate movements in two separate cases where the variable base borrowing rate is at either 8% or 6% and the customer has locked in at 7.00% pa.

<b>Current Borrower Rate: BBSW, reset on a 90 day period “Variable Rate”</b>	<b>8.00%</b>	<b>6.00%</b>
<b>New Borrower Rate: Fixed Interest Amount</b>	Due to Bank = \$1m * 7% * 90/365 = (\$17,260.27)	Due to Bank = \$1m * 7% * 90/365 = (\$17,260.27)
<b>Variable Interest Amount</b>	Receivable from Bank = \$1m * 8% * 90/365 = \$19,726.03	Receivable from Bank = \$1m * 6% * 90/365 = \$14,794.52
<b>Net Settlement Amount</b>	= (\$17,260.27) + \$19,726.03 RECEIVE \$2,465.75	= (\$17,260.27) + \$14,794.52 PAY \$2,465.75
<b>Effective Rate for Borrower</b>	= (\$19,726.03 - \$2,465.75)/\$1m * 365/90 = 7.00%	= (\$14,794.52 + \$2,465.75)/\$1m * 365/90 = 7.00%

**Note** that only a net payment is made to or by the Bank. The Borrower still pays the variable interest payment on the underlying loan.

**(b) Amortising Schedule**

The example below illustrates the same details as above, updated for a straight line amortising schedule.

The following details are relevant to this example:

- > 90 days have expired from the above example
- > Loan amortises every 90 days, therefore new principal amount is \$1m less ( $\$1m * 90 / [90 \text{ days} * 4 \text{ quarters} * 3 \text{ years}] = \$916,667$ )

<b>Current Borrower Rate:</b> <b>BBSW, reset on a 90 day period</b> <b>“Variable Rate”</b>	<b>8.00%</b>	<b>6.00%</b>
<b>New Borrower Rate:</b> <b>Fixed Interest Amount</b>	Due to Bank = $\$916,667 * 7\% * 90/365$ = $(\$15,821.92)$	Due to Bank = $916,667 * 7\% * 90/365$ = $(\$15,821.92)$
<b>Variable Interest Amount</b>	Receivable from Bank = $916,667 * 8\% * 90/365$ = $\$18,082.19$	Receivable from Bank = $916,667 * 6\% * 90/365$ = $\$13,561.64$
<b>Net Settlement Amount</b>	= $(\$15,821.92) + \$18,082.19$ RECEIVE $\$2,260.27$	= $(\$15,821.92) + \$13,561.64$ PAY $\$2,260.27$
<b>Effective Rate for Borrower</b>	= $(\$18,082.19 - \$2,260.27) / \$916,667 * 365/90$ = 7.00%	= $(\$13,561.64 + \$2,260.27) / \$916,667 * 365/90$ = 7.00%

**Note** that only a net payment is made to or by the Bank. The Borrower still pays the variable interest payment on the underlying loan.

The examples specified above relate only to a swap of a variable interest rate into a fixed interest rate. The borrower can also swap an existing fixed interest referable to their underlying obligation into the variable interest rate. If you would like to see an example of a fixed to variable swap, please ask your Bendigo and Adelaide Bank contact.

**Documentation****Terms and conditions**

A swap is a legally binding bilateral obligation between you and us. Terms and conditions applicable are set out under standard documentation established by the professional markets called an ISDA Master Agreement. To enter into the ISDA Master Agreement (and the applicable schedule to the Master Agreement) it is signed by both you and us. Signing the ISDA Master Agreement and accompanying schedule does not constitute an interest rate swap. These documents set out the terms and conditions that will govern any swap transaction that you enter into with us. The actual interest rate swap transaction itself will be detailed in a confirmation notice.

**Dealing with Bendigo and Adelaide Bank – entering into an interest rate swap**

We offer swaps to customers who have a formal ‘swap limit’ in place with us facilitating these transactions, or in some circumstances on a cash secured basis.

Swaps may be entered into or booked through any of the following channels:

- > over the phone with your Financial Markets dealer at Bendigo and Adelaide Bank; or
- > through your Business Banker at Bendigo and Adelaide Bank.

On each occasion, you will receive a confirmation of the transaction, which should be carefully checked. Any disagreement with the confirmation should be acted upon immediately to ensure the commercial terms of the transaction are accurately recorded.

A confirmation notice for each swap transaction must be signed by a person authorised to enter into the swap transaction (either as an individual or as an authorised representative of the relevant company) as you, the counterparty, and must be faxed back to Treasury Settlements within one business day of the swap being booked.

A swap transaction may only be entered into in relation to an initial notional amount of not less than \$500,000 (that is, where the initial principal amount of the underlying borrowing is at least \$500,000).

## Benefits and risks

### Benefits

- > Allows the borrower to manage their interest rate risk and their exposure to movements in interest rates. This is achieved by effectively switching their interest payments from variable to fixed (or vice versa) through the use of an interest rates swap.
- > This product allows a borrower to tailor their risk management policy in respect to interest rate movements without affecting the underlying borrowing.
- > No up front fees or payments – refer below to the Fees and Commissions section for further information.
- > If the borrower decides to terminate the swap prior to the maturity date, if the prevailing interest rates are favourable to the borrower, a break benefit will be calculated. Refer below to the Fees and Commissions section for further information.
- > Allows the borrower to novate their existing interest rate swap with another bank to Bendigo and Adelaide Bank and vice versa.

### Risks

- > Once the swap is transacted, the borrower has locked in a fixed rate (or conversely exposed themselves to the variable rate). This is a risk to the borrower if interest rates decline (or conversely rise). Essentially, this product may be used to protect the borrower from unfavourable movements in a particular interest rate. By entering into the swap to gain such protection, the borrower is agreeing to limit any potential upside from a favourable movement in interest rates.
- > Where a borrower has entered into an interest rate swap and the underlying exposure is an amortising loan, the underlying notional exposure applicable to the swap will be determined by assuming a schedule of mandatory payments. Where a borrower makes voluntary pre-payments under the amortising loan, the underlying notional exposure for the swap may no longer match up precisely with the borrower's actual exposure. This may result in the borrower not being effectively hedged for the interest rate exposure on the underlying loan, or conversely hedged at a greater notional amount than the actual underlying exposure.

- > If the borrower decides to terminate the swap prior to the maturity date, this early termination may incur a break cost. This is calculated at the prevailing market interest rates. Refer below to the Fees and Commissions section for further information.
- > Bendigo and Adelaide Bank will be the counter party to the borrower's interest rate swap transaction. If Bendigo and Adelaide Bank is unable to fulfil its obligations under the interest rate swap contract, the borrower will not be effectively hedged against its interest rate exposure, and will be exposed to market fluctuations. As an authorised deposit taking institution Bendigo and Adelaide Bank is subject to the prudential regulations and controls of APRA (Australian Prudential Regulation Authority) which are intended to reduce the likelihood of default by a regulated entity under its contracts and agreements.

## Fees and commissions

### Upfront cost of product

There are no upfront fees and commissions, as the fees are incorporated in the price of the swap. This is performed by Bendigo and Adelaide Bank via the incorporating a margin into the fixed leg of the swap (or conversely the variable leg where appropriate). The margin Bendigo and Adelaide Bank uses is determined from a range of factors including (but not limited to) notional amount, term, payment frequency, market volatility and inter bank pricing.

### Break Cost

If the borrower decides to terminate the swap prior to the maturity date, this early termination will incur a break cost. Break cost formula:

$$F = P \times R\% \times T$$

Where:

- F** is the fee (break cost)
- P** is the amount outstanding under the underlying facility at the time of termination. In relation to an amortising facility, this will be the amount outstanding assuming only mandatory payments made in accordance with the amortisation schedule in the facility (not necessarily the actual amount outstanding under the facility).
- R%** is the difference between the fixed rate used for the swap when it was entered into and the equivalent fixed rate at the time of termination (the same analysis applies where a variable rate is used).
- T** is the remainder of the Term of the Facility.

**Example**

An example of this can be applied to the previous example above. 2 years after the swap was entered into, there is a significant drop in variable rates so the borrower inquires about breaking the swap. The equivalent fixed rate now is 5.80%, a difference of 1.20% from the original 7.00%.

Using the formula above, a rough estimate of the swap break cost to the borrower in this scenario is:

$$\begin{aligned} F &= P \times R\% \times T \\ &= \$1m \times (1.20\%) \times 1 \text{ year} \\ &= (\$12,000) \end{aligned}$$

**Break Benefit**

Conversely where an interest rate movement has been favourable to the borrowers swap position, the borrower may be entitled to a break benefit upon terminating the interest rate swap.

Using the example above but in a scenario where fixed rates increase by 1.20% a break benefit would apply. Therefore for the above example, the equivalent fixed rate now is 8.20%, a difference of 1.20% from the original 7.00%.

Using the formula above, a rough estimate of the swap break benefit to the borrower in this scenario is:

$$F = P \times R\% \times T$$

$$\begin{aligned} &= \$1m \times (1.20\%) \times 1 \text{ year} \\ &= \$12,000 \end{aligned}$$

**Privacy**

- 1 This applies if you are an individual or, if you are not an individual, to individuals about whom we collect personal information in relation to your account. You agree to show this clause to all individuals who you have authorised to deal with us in relation to your account.

We are committed to ensuring your privacy is protected and understand your concerns regarding the confidentiality and security of personal information you provide to us.

**Collection, use and disclosure of information**

- 2 We collect and use your personal information in order to provide you with financial products and services. To do that, we may disclose your personal information to regulatory bodies or government agencies in order to verify your identity or to authenticate a document you provide to us.

- 3 We may also disclose your personal information to organisations that carry out functions on Bendigo and Adelaide Bank Group's behalf such as mailing houses and information technology service providers. Confidentiality agreements with these entities ensure this information is only used to carry out functions on the Group's behalf.
- 4 This information may also be shared with the Bendigo and Adelaide Bank Group and our joint venture partners so that you can be told about other financial products and services offered or distributed by us.

**Access and correction**

- 5 In most cases, you will be able to gain access to personal information about you held by the Bendigo and Adelaide Bank Group. We will take reasonable steps to amend or correct your personal information to keep it accurate and up-to-date. Our Customer Help Centre will co-ordinate requests relating to access and correction of your personal information.

**Opting out of product promotions**

- 6 You can opt at any time not to receive any marketing material from us about other financial products and services. If you do opt out, we will continue to make contact with you to provide information in relation to your existing accounts only (including information about new features or products related to these accounts).

**Privacy concerns or complaints**

- 7 If you have concerns or wish to make a complaint regarding the treatment of your personal information by Bendigo and Adelaide Bank Group please contact our Customer Help Centre for assistance on 1300 361 911.

**Further information**

- 8 You can obtain more information about privacy in our Privacy Policy which is available upon request at any of our branches or on our website [www.bendigobank.com.au](http://www.bendigobank.com.au)

## Tax

You should consult your own independent professional adviser regarding the tax consequences of acquiring, holding or terminating of a swap, to take into account your own personal circumstances.

## Anti money laundering

We are committed to the regulatory requirements for anti-money laundering and counter terrorism financing (AML).

To comply with these requirements we may:

- > require you to provide to us, or otherwise obtain, any additional documentation or other information;
- > suspend, block or delay transactions on your account, or refuse to provide services to you;
- > report any, or any proposed, transaction or activity to any body authorised to accept such reports relating to AML or any other law.

## Problem and dispute resolution

We have an internal dispute resolution process. You can access this process by contacting us at:

### Customer Help Centre

Phone 1300 361 911

8.30am – 7.30pm (Victorian time)

Monday to Friday

When we receive a request for the resolution of a dispute, we will:

- > acknowledge receipt of that request promptly;
- > investigate the dispute; and
- > if necessary, decide upon appropriate action.

At your request we will provide you with more detailed information about this dispute resolution process including details of the time in which we will respond to you.

If the dispute has not been resolved in a manner acceptable to you, we will provide you with a written statement of reasons for the decision and inform you of any recourse available to you, including any avenue of appeal against our decision to an independent external dispute resolution service. We are a member of the Financial Ombudsman Service.

You can contact the Ombudsman at:

GPO Box 3

Melbourne VIC 3001

Phone: 1800 78 08 08

Fax: 03 9613 6399

Website: [www.fos.org.au](http://www.fos.org.au)

Email: [info@fos.org.au](mailto:info@fos.org.au)

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