Foreign Exchange
Knock-Out Call Option

Product Disclosure Statement

Purpose

What is a Knock-Out Call Option?
You may use a Foreign Exchange Knock-Out Call Option (KO Call Option) if you need to exchange one currency for another in the future.

What is a Knock-Out Call Option used for?
A KO Call Option helps you to protect yourself against unfavourable movements in the value of the currency you are to exchange. At the same time it will help you maintain the ability to participate in any favourable movements in that currency.

Unlike the standard Call Option, the KO Call Option possesses an additional structural feature termed a knock-out level. If triggered, this causes the KO Call Option to terminate immediately.

This knock-out feature differentiates the KO Call Option from a standard option with similar terms. For this reason, the KO Call Option can usually be bought at a considerably lower cost.

Suitability

Do I have sufficient knowledge about this product?
A KO Call Option may be suitable for you if you have a good understanding of foreign exchange markets and the way that option products work. In particular, the knock-out feature of the KO Call Option requires special attention as it does not completely eliminate exposure to movements in exchange rates.

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 financial advice before making a decision about this product.

Minimum amounts

Minimum amounts
Whilst no maximum option amount applies, a minimum option amount of (or the foreign currency equivalent of) AUD 50,000 is required to acquire a KO Call Option.

Description

What does a Knock-Out Call Option do?
A KO Call Option is an agreement between the buyer (you) and the seller of the KO Call Option (BankWest). As the buyer, you obtain the right, but not the obligation, to buy an agreed amount of currency with another
currency at an agreed price. This price is agreed at the time you enter into the contract (the **strike price**). The KO Call Option is structured so that you can exercise the option on a specified future date (the **expiry date**), provided that the pre-determined knock-out level has not been reached at any time during the life of the option.

The two currencies in the KO Call Option are referred to as the **currency pair**. The currency pair must be acceptable to BankWest. Please ask for further details.

**Appropriate usage**
A KO Call Option is most appropriate when you require relatively inexpensive protection and where there is a well defined contingency plan if knock-out occurs.

**What variables can I nominate?**
You may nominate the strike price, the expiry date, the currency pair and amount, and the knock-out level. They are tailored and fixed from the outset according to your needs. The nominations you make will affect the amount of the premium payable.

**European style only**
KO Call Options are European style options. This means that the option can only be exercised on the expiry date, provided it has not been terminated earlier due to a knock-out.

**Cost of product**

**Option premium**
**What do I pay?**
In return for BankWest selling you a KO Call Option, you pay BankWest a non-refundable option premium. We calculate the premium on a transaction by transaction basis. We will advise you of the premium to be paid for your KO Call Option before entering into the transaction.

**What important factors affect the premium at any point of time?**
When calculating the premium, BankWest takes into account several factors including:

- the strike price
- the knock-out level
- the expiry date
- current market exchange rates
- volatility of the underlying currency at that time, and
- prevailing interest rates of the countries whose currencies are being exchanged

**When do I pay this premium?**
The premium can be paid in either Australian dollars or in one of the currencies in the currency pair. Premiums are generally payable within two business days of entering into the transaction.

**Advantages/benefits**

- Unless knocked-out, a KO Call Option provides protection against adverse movements in the currency pair exchange rate for the term of
Disadvantages/risks

A KO Call Option is usually considerably cheaper than a standard Call Option.
KO Call Options are flexible. The strike price, the expiry date, the knock-out level and amount can be tailored to suit your needs.
KO Call Options can be terminated before their expiry date (however, there may be costs in doing so - see the Early termination section for details).
You know how much premium you must pay when you enter the KO Call Option.
There are no other fees.
There is no commitment/obligation to exchange currencies.

Disadvantages/risks

If a knock-out event occurs, you will lose the protection of the option and again be exposed to movements in exchange rates.
The premium is not refundable in any circumstances. This applies even when the KO Call Option is knocked-out or terminated early.
There is no cooling off period.
The KO Call Option requires a more proactive approach in managing your underlying exposure because of the possibility of a knock-out event occurring.
Depending on prevailing market rates, the total cost of the transaction, (the premium plus your ultimate currency exchange costs), might be higher than if you had not entered into the KO Call Option.
Should you wish to sell the option back to BankWest, movements in market rates and the passage of time may result in your option having a reduced value or even no value.
In the event of a knock-out, additional costs may be incurred if you seek further protection up to the expiry date.
You are reliant on the ability of BankWest to meet its obligations to you under the terms of the KO Call Option (Counterparty Risk).

When can knock-out occur?

A KO Call Option will immediately lapse if the exchange rate for the currency pair trades at or beyond the nominated knock-out level. This may occur at any time before the cut-off time on the expiry date and on any global inter-bank foreign exchange market. We will monitor the relevant foreign exchange markets to determine whether or not this occurs. We will advise you as soon as practicable if it does.

The cut-off time will be specified in the confirmation that outlines the commercial terms of the transaction.

What happens if my KO Call Option has been knocked-out before option expiry?

If knock-out occurs and the KO Call Option is terminated, you will again be exposed to currency exchange movements and will need to consider your position. For example you may choose to:

- cover your underlying exposure in the spot or forward foreign exchange markets,
- enter into a new option, or
- do nothing and remain exposed to movements in exchange rates.
What happens at expiry if my KO Call Option has not been knocked-out?
Where the knock-out level has not been reached before the cut-off time, there are two possibilities on the expiry date:

1. If the currency pair exchange rate is less favourable to you than the strike price, it is better for you to exercise your KO Call Option. You must then exchange currencies at the strike price two business days after the expiry date.

2. If the currency pair exchange rate is more favourable to you than the strike price, you will let the KO Call Option lapse. That is because the current market rate of exchange for the currency pair would provide a better rate for exchanging your currency than the strike price. It is better for you to exchange your nominated currency at current market rates.

Settlement
Exercise and settlement can only take place if the KO Call Option has not been knocked out.

If you elect to exercise your KO Call Option, settlement will occur on the value date, that is, two business days after the expiry date. On this date, you will be required to deliver your currency to BankWest. You can provide foreign currency either by telegraphic transfer or by transferring funds from a foreign currency account/deposit. You must provide cleared funds. When we receive the funds, we will deposit any payments to a BankWest bank account (in your name) denominated in the relevant currency. Alternative arrangements can be made with BankWest's agreement.

Notification responsibility?
As the buyer of the KO Call Option, it is your responsibility to inform BankWest before expiry whether or not you intend to exercise the option.

Early termination
Can I terminate the option before expiry?
If the knock-out has not occurred, you may ask us to terminate the KO Call Option at any time up to the expiry date. BankWest will then provide you with a quote for cancelling the option.

What will be the value of the option on early termination?
Our quote will incorporate the same variables (strike price, currency pair and amount, and expiry date) used when pricing the original option. These will be adjusted for prevailing market rates over the remaining term of the option.

We will also need to consider the cost of reversing or offsetting your original transaction. When doing this, BankWest takes into account the current market rates that apply to any such offsetting transactions. Please note that the amount payable to you on termination will not be the same as the amount of the original premium paid.
What happens if I accept?
If you accept the quote, the KO Call Option will be cancelled. You should appreciate that you may lose money as a result of early termination.

Documentation
The documentation required for all option transactions is an industry standard master dealing agreement that will apply to all option transactions that you enter into with us. That agreement can also be used to cover dealings in other types of derivative products. You will need to sign and return this agreement.

The industry standard master dealing agreement governs the dealing relationship between you and us and will set out the terms and conditions that will apply to all transactions that we may enter into with you. In particular, it addresses the situations where those transactions can be terminated and the way the amount to be paid following termination is calculated. You can ask for a copy of this document and we strongly recommend that you fully consider its terms before entering into any transaction. You should obtain independent advice if you do not understand any aspect of the document.

Confirmation
Shortly after entering into a KO Call Option, BankWest will send you a confirmation outlining the commercial terms of the transaction. You will need to sign this confirmation and return it to BankWest.

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 BankWest representative as a matter of urgency.

Example
The examples below are indicative only and use rates and figures we have selected to demonstrate how the product works. In order to assess the merits of any particular option, you would need to use the actual rates and figures quoted to you at the relevant time. In addition, the examples do not take into account any funding costs associated with the payment of the premium, that is borrowing costs (where the premium has been borrowed), or forgone interest entitlements.

Scenario
Assume you are an Australian based exporter who will receive payment of 100,000 United States dollars (USD) in 3 months’ time. At that time you will need to convert the USD into Australian dollars (AUD). Assume the current AUD/USD exchange rate is 0.6450.

If I do nothing, what exchange rate risks do I face?
If you do nothing, the amount of AUD you will receive in 3 months’ time for your underlying exposure will depend on the exchange rate at that particular time.

If the AUD/USD exchange rate goes up, the USD will become less valuable and you will receive less AUD when it comes time to exchange your USD.
Assume in this example that the AUD/USD exchange rate rises to 0.6600, then you will receive:

\[ \text{AUD} 151,515.15 \ (= \text{USD} 100,000 / 0.6600) \]

If the AUD/USD exchange rate goes down, the opposite occurs and you receive more AUD when you exchange your USD. Assume the AUD/USD exchange rate falls to 0.6300, then you will receive:

\[ \text{AUD} 158,730.16 \ (= \text{USD} 100,000 / 0.6300) \]

**How will the KO Call Option change this?**

If for example you purchase a KO Call option with a strike price of 0.6550 and a knock-out level of 0.6900, you have the right to convert your USD at the strike price on the expiry date providing that the knock-out level has not been reached. Assume the option premium cost is AUD 3,000.

**What if no knock-out occurs?**

If during the life of the option the knock-out level has not been triggered and the AUD/USD exchange rate goes up, then on the expiry date you would exercise your KO Call Option and receive:

\[ \text{AUD} 152,671.76 \ (= \text{USD} 100,000 / 0.6550) \]

This however is not the overall cost of the transaction, as the AUD 3,000 premium paid for the option must be taken into account. Adjusted for the option premium, your net proceeds will be:

\[ \text{AUD} 149,671.76 \ (= \text{AUD} 152,671.76 - \text{AUD} 3,000) \]

which equates to an effective exchange rate of:

\[ 0.6681 \ (= \text{USD} 100,000 / \text{AUD} 149,671.76) \]

If however the AUD/USD exchange rate goes down (for example, to 0.6200), below the strike price of 0.6550, you will allow the option to lapse and convert your USD 100,000 into AUD at the prevailing market exchange rate (0.6200). You will receive:

\[ \text{AUD} 161,290.32 \ (= \text{USD} 100,000 / 0.6200) \]

and adjusted for the cost of the option:

\[ \text{AUD} 158,290.32 \ (= \text{AUD} 161,290.32 - \text{AUD} 3,000) \]

This equates to an effective exchange rate of:

\[ 0.6318 \ (= \text{USD} 100,000 / \text{AUD} 158,290.32) \]

**What if there is a knock-out?**

If the AUD/USD exchange rate trades at or above 0.6900 (the knock-out level) before the option expires, the option automatically ceases to exist, leaving you without cover. At this point you can enter into a spot or forward foreign exchange transaction, select new option cover, or simply do nothing.
Assume in the example above that the AUD trades at 0.6905 and the knock-out level has been triggered. Assume also that you have instructed your BankWest representative to exchange your underlying exposure at exactly the same time and level that knock-out occurs. You will receive:

\[
\text{AUD 144,822.59} \quad (= \text{USD 100,000} / 0.6905)
\]

and adjusted for the cost of the option:

\[
\text{AUD 141,822.59} \quad (= \text{USD 144,822.59} - \text{AUD 3,000})
\]

This equates to an effective exchange rate of

\[
0.7051 \quad (= \text{USD 100,000} / \text{AUD 141,822.59})
\]

Based on the example, the graph below charts the impact of a knock-out on the protection provided by the option. As can be seen, protection is lost when knock-out occurs. Should the market rise above 0.6900, then the option lapses, leaving you exposed to movements in exchange rates.

At what point am I better off with a KO Call Option compared to doing nothing?
If knock-out has not occurred, at expiry date you will always be better off when the prevailing exchange rate is lower than the effective exchange rate. When this occurs, the amount of AUD you would receive is greater than the amount of AUD you would have received if you had not entered into a KO Call Option.

However, should the AUD rise, then the KO Call Option will protect you against this rise until the knock-out level is reached. This is because you will be able to purchase your AUD at the strike price, which is lower than the prevailing market price, provided the knock-out level has not been reached.

At what point am I worse off with a KO Call Option compared to doing nothing?
If the prevailing exchange rate is any higher than the effective exchange rate, you are worse off. However, the KO Call Option will provide you with a maximum effective exchange rate at which you will be able to purchase your AUD provided the knock-out level is not reached. As the AUD continues to rise you are protected until the knock-out level is reached.
**Taxation**

Taxation law is complex and its application will depend on a person’s individual circumstances. When determining whether or not this product is suitable for you, you should consider the impact it will have on your own taxation position and seek professional advice on the tax implications it may have for you.

**Changes to terms and conditions**

We may at any time change the terms and conditions of your Knock-Out Call Option, however, we will not change any matter recorded in the confirmation letter signed by you.

We will notify you of changes as follows:

- If we make any change we will give you notice of the change no later than the day on which it takes effect. We will either advertise the change in the national or local media or write to you.
- If any government introduces or changes a tax or fee which affects this product but does not publicise the change, we will either advertise the change in the national or local media or write to you.

**Changes to particulars**

You must inform us immediately of a change in your name or address.

We will not be responsible for any errors or losses associated with a change in your particulars if we do not receive notice or adequate notice of the change.

**Service of notices**

Where we have agreed to write to you or send you a notice or statement, or should we otherwise seek to communicate with you, the communication may be sent to you by mail addressed to you at your last known address or business address as the case may be.

If you agree to us doing so, we may provide such communications to you by:

- electronic communication to your nominated electronic address; or
- making the information available on our website after first notifying you by electronic communication to your electronic address that the information is available for retrieval by you.

Should you agree, you may at any time by notice to us terminate your agreement to receive information by electronic communication or change your electronic address.
Code of Banking Practice compliance

The Code applies to your Knock-Out Call Option provided that you are an individual or a small business. For the purposes of this PDS, reference to "small business" means a business having:

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

This PDS details your rights and obligations and our responsibilities to you under the Code. For further details, you should obtain a copy of the Code which you may request from us at any time. It can also be viewed on our website (www.bankwest.com.au).

We recommend that you read carefully this PDS before you accept the terms and conditions contained in this PDS. If you do not fully understand the terms and conditions, or any document we may provide to you which applies to a banking service or product, please ask one of our Customer Service Officers to help you.

General descriptive information about our banking services is available on request in the form of a booklet issued by us called "Banking Services Rights and Obligations". It includes, in particular, information about account opening procedures, our obligations regarding the confidentiality of your information, our complaint handling procedures, bank cheques, and on the advisability of you reading the terms and conditions applying to our banking services and of informing us promptly when you are in financial difficulty.

Privacy and confidentiality compliance

We respect the privacy and confidentiality of your information.

When we obtain personal information about you, its collection, use and disclosure is governed by our Privacy Policy, a copy of which can be viewed on our website (www.bankwest.com.au) or made available to you on request. Personal information, for the purpose of our Privacy Policy, refers to information about and which identifies individuals. It includes information obtained from any source and, in respect of individual credit applicants and guarantors (if any), includes anything about credit worthiness, standing, history and capacity which, under and in accordance with the Privacy Act 1988, may lawfully be exchanged.

In general, we will not use or disclose personal information collected about you otherwise than for a purpose set out in our Privacy Policy, for a purpose you would reasonably expect, a purpose required or permitted by law, or a purpose otherwise disclosed to, or authorised by, you.

You may contact our Customer Help Centre on 13 17 18 at any time to find out what personal information we hold about you and, if necessary, to correct any inaccurate or incomplete information.

We appreciate that you may not wish us to use or disclose your personal information for promotional or market research purposes. You may at any
time contact our Customer Help Centre and request that you be excluded from such communications.

Our Privacy Policy does not apply to small business customers who are not individuals. However, information provided to us by small business customers will be treated as confidential and will not be disclosed except where the disclosure is compelled by law, there is a duty to the public to do so, our interests require disclosure, or the disclosure is made with your consent.

Dispute resolution

At BankWest, we believe in listening to our customers. This is the only way to continually improve our products and services to meet your needs. If you have a complaint about our services, products, facilities or any other aspect of BankWest, we’d like to hear from you. Please contact our Customer Help Centre on 13 17 18.

You can also give feedback in the following ways:

- verbally or in writing at any one of our Customer Service Centres;
- by calling our toll free number – Freecall 1800 650 111;
- by completing our feedback form (available from Customer Service Centres and through our Customer Help Centre); or

Our staff will do everything they can to rectify your problem immediately. We strive, wherever possible, to resolve your complaint within 5 working days.

If you are still not satisfied, you can ask our Service Quality Department to review the matter. Contact them by writing to:

Manager Service Quality
GPO Box E237
Perth WA 6841
or phone or fax to:
Telephone: Freecall 1800 650 111
Fax: (08) 9449 2555

You will be advised of the details (including the timeframes) of our internal dispute resolution process and an officer with the appropriate authority to resolve the dispute will investigate your complaint thoroughly. We will do our best to resolve any complaint promptly and to your satisfaction.

In the unlikely event that the matter cannot be resolved directly with BankWest, you can seek assistance from the Banking and Financial Services Ombudsman ("BFSO").

The BFSO provides an independent dispute resolution service and is approved by the Australian Securities and Investments Commission ("ASIC") as an external dispute resolution scheme.

A brochure outlining the BFSO scheme is available from all our Customer Service Centres or by phoning the Customer Help Centre on 13 17 18.
The BFSO's contact details are as follows:

Banking and Financial Services Ombudsman
GPO Box 3
Melbourne VIC 3001
Telephone: 1300 780 808
Facsimile: (03) 9613 7345
Website: www.bfso.org.au

BankWest contact details

Western Australia:
Financial Markets
Level 7, BankWest Tower
108 St George’s Terrace
Perth WA 6000
Telephone (08) 9449 7678

New South Wales:
Financial Markets
Level 7, Grosvenor Place
225 George Street
Sydney NSW 2000
Telephone (02) 9253 6244

Victoria:
Financial Markets
Level 22, Qantas House
114 William Street
Melbourne VIC 3000
Telephone (03) 9641 2784

Queensland:
Financial Markets
Level 32, Waterfront Place
1 Eagle Street
Brisbane QLD 4000
Telephone (07) 3004 2415