more than money

Australian Dollar Interest Rate

Swaps, Caps & Collars

For NAB business borrowers

December 2023

Important information

This Product Information Summary (PIS) is issued by National Australia Bank Limited (NAB) and is current as at 8 December 2023. It provides information in relation to Australian Dollar (AUD) interest rate swaps, caps and collars ("Swaps", "Caps" and "Collars") offered by NAB. Further information can be obtained by speaking to your NAB Business Markets manager. All calls to NAB Business Markets are recorded.

This PIS is intended for wholesale clients only, as defined by the Corporations Act 2001 (Cth).

Distribution of this PIS in jurisdictions outside Australia may be restricted by local law in a foreign jurisdiction and persons outside Australia who come into possession of this PIS should seek advice.

What are the conditions for dealing?

You (company, partnership, trust, non-profit organisation) must satisfy your NAB Business Banker that you have the power and authority to enter into these transactions and/or enter into the specific transaction contemplated. (Not applicable for individuals transacting in their private capacity).

You must provide a list of names of the people authorised to deal on your (company, partnership, trust, non-profit organisation) behalf.

You must have appropriate credit facilities with NAB. Please contact your NAB Business Banker if you would like to know more about this requirement.

You must execute an ISDA Master Agreement or the NAB's standard Interest Rate Derivatives Master Agreement prior to entering into an AUD Interest Rate Swap, Cap or Collar with NAB. An ISDA Master Agreement is a global industry contract for documenting over-the-counter derivatives and is negotiated by the parties. It is published by the International Swaps and Derivatives Association, Inc. The Interest Rate Derivatives Master Agreement is a contract in standard form which is not negotiable. A Master Agreement (which incorporates any confirmation) sets out the contractual terms of any transaction between you and NAB.

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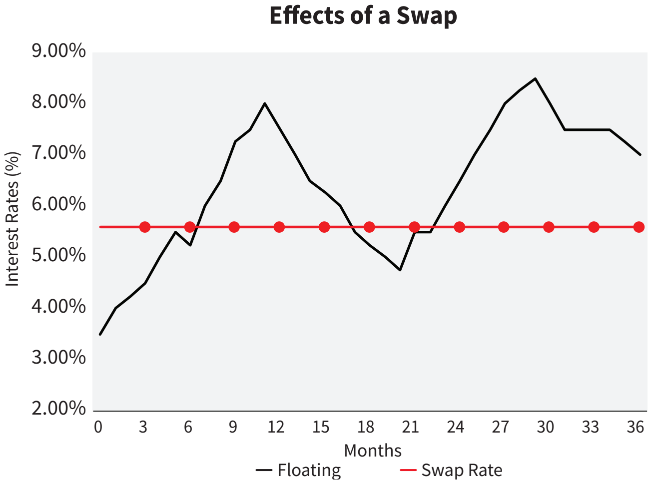
Product descriptions

There are many variations that are possible when dealing Swaps, Caps and Collars. This PIS provides selected information about the most common transactions you are likely to enter into with NAB. Please ensure you discuss the terms of the specific Swap, Cap or Collar you intend to enter into with your NAB Business Markets manager before you enter into the trade.

A Swap, Cap or Collar is a derivative transaction entered into separately to your credit facilities. NAB does not commit to lend the notional amount of the Swap, Cap or Collar to you as a result of entering into a derivative trade with you.

NAB's entry into a Swap, Cap or Collar with you will not reduce any customer credit margin or any other fees payable by you to NAB on your credit facilities.



This diagram is for illustrative purposes only.

What is the minimum notional amount of any Swap, Cap or Collar?

AUD 500,000.

The notional amount may have an amortising or accreting structure but generally cannot amortise below AUD 500,000 or, in an accreting structure, commence with a notional amount less than AUD 500,000.

What is a Swap?

A Swap is a transaction under which you and NAB exchange floating rate payments for fixed rate payments. If you borrowed at a floating rate, a Swap transaction would allow you to achieve a fixed rate on an agreed notional amount for an agreed term.

The fixed rate payer (you) will pay a fixed rate on the notional amount and receive a floating rate on the notional amount. The floating rate payer (NAB) will receive the fixed rate on the notional amount and pay the floating rate on the notional amount. The amounts payable by each party, if payable on the same day, are usually netted off against each other. For the NAB business borrower, the floating rate payments and the fixed rate payments are usually calculated at each reset date (roll date). If the fixed rate payment is greater than the floating rate payment then you will make a net payment to NAB calculated in accordance with the settlement formulas (see "How are Swaps, Caps and Collars settled?" on Page 5). If the converse applies then NAB will make a net payment to you calculated in accordance with the settlement formulas.

What is the floating rate?

The floating rate is usually either 'BBSY Bid' or 'BBSW Mid'. **'BBSW Mid'** for a reset date will be the average mid rate, for AUD bills of exchange having a tenor of the designated maturity, that appears on the Reuters Screen BBSW Page at approximately 10.10am Sydney time on the reset date. **'BBSY Bid'** for a reset date will be the bid rate for AUD bills of exchange having a tenor of the designated maturity which appears on the Reuters Screen BBSY Page at approximately 10.10am Sydney time on the reset date.

BBSW Mid and BBSY Bid are quoted for AUD bills of exchange with tenors of 30, 60, 90, 120, 150 and 180 days. The designated maturity is usually equivalent to the period between roll dates.

Your nomination of BBSW Mid or BBSY Bid as the floating rate for your Swap should correlate with the floating reference rate of your credit facility. There is a pricing differential between BBSW Mid and BBSY Bid. Your NAB Business Markets manager can assist you with the appropriate election.

What is a Cap?

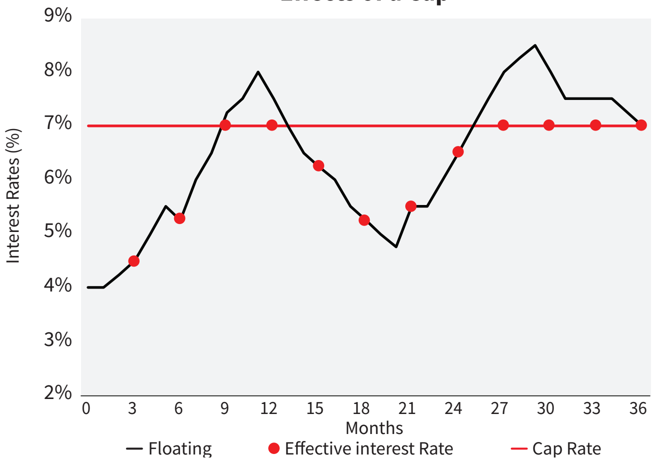
A Cap is a transaction under which you can achieve a known maximum rate (the Cap Rate) on a notional amount for an agreed term. You pay NAB a fixed amount which is also called a premium. You can benefit from floating rates below the nominated Cap Rate whilst protecting yourself from the adverse result of floating rates rising above the Cap Rate, for the term of the Cap.

You set a Cap Rate that will apply on a reset date. If the BBSW Mid or BBSY Bid rate (as applicable) is less than the Cap Rate then NAB will not make a payment to you. If however the BBSW Mid or BBSY Bid rate is higher than the Cap Rate on a reset date then NAB will make a payment to you calculated in accordance with the settlement formulas (see 'How are Swaps, Caps and Collars settled?' on page 5).

When are Cap premiums payable?

Premiums can be payable (subject to NAB approval) in advance, in arrears or by instalments in advance or arrears.

Effects of a Cap



This diagram is for illustrative purposes only.

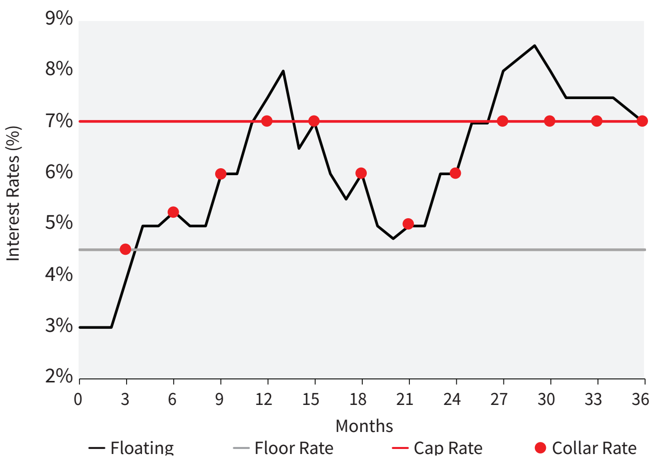
What is a Collar?

A Collar is a transaction that has a Floor Rate and a Cap Rate. The Floor Rate is the minimum rate to be applied to the transaction during the agreed term. A Collar is usually structured using a Floor Rate so that you don't need to pay a net premium. You don't receive the benefit of floating rates that fall below the Floor Rate.

If BBSW Mid or BBSY Bid (as applicable) sets between the Cap Rate and the Floor Rate then neither party makes any payments. If however BBSW Mid or BBSY Bid (as applicable) sets higher than the Cap Rate then NAB will pay you an amount calculated in accordance with the settlement formulas (see "How are Swaps, Caps and Collars settled" on Page 5). If BBSW Mid or BBSY Bid (as applicable) sets below the Floor Rate then you will pay NAB an amount calculated in accordance with the settlement formulas.

A Collar offers protection against the adverse result of floating rates rising above the Cap rate whilst limiting the benefit to you of floating rates setting below the Cap Rate.

Effects of a Collar



This diagram is for illustrative purposes only.

Uses of Swaps, Caps and Collars

Swaps, Caps and Collars are best suited to borrowers that have floating rate debt facilities with interest rates closely correlated to BBSW Mid or BBSY Bid rates. A Swap, Cap or Collar may be a useful method of limiting the direct financial impact of adverse movements in interest rates. Caps and Collars will also allow you to receive some, or all, of the benefit from falls in interest rates.

What is the maximum term?

The terms available to you will depend on the credit facilities available to you from NAB.

How are Swaps, Caps and Collars settled?

On each reset date settlement is usually determined using an "interest in arrears basis" or a "discount in advance basis (FRA basis)".

- On an "interest in arrears basis" (most likely to be used by borrowers with an underlying loan charged interest in arrears) the relevant amount is paid on the next reset date (end of the current reset period).

  notional amount

  X

  (difference between fixed, Cap or Floor rate and BBSW Mid or BBSY Bid)   *100*

  X

  days until next reset   *365*

- On a "discount in advance basis (FRA basis)", (most likely to be used by borrowers with an underlying bill facility) the relevant amount is paid on the current reset date (beginning of the current reset period).

  notional amount x 36500 x [1/ (36500 + (BBSW Mid or BBSY Bid x days until next reset)) - 1/ (36500 + (fixed, Cap or Floor rate x days until next reset))]

Swap: If the fixed rate is greater than BBSW Mid or BBSY Bid (as applicable) then you will make payment to NAB. If the fixed rate is less than BBSW Mid or BBSY Bid (as applicable) then NAB will make a payment to you.

Cap: If the Cap Rate is greater than BBSW Mid or BBSY Bid (as applicable) then there is no payment made by either party. If the Cap Rate is less than BBSW Mid or BBSY Bid (as applicable) then NAB will make a payment to you. Premiums may still be payable.

Collar: If BBSW Mid or BBSY Bid (as applicable) is greater than the Floor Rate, but less than the Cap Rate then there is no payment made by either party under the Collar. If the Cap Rate is less than BBSW Mid or BBSY Bid (as applicable) then the NAB will make a payment to you. If the Floor Rate is greater than the floating rate then you will make payment to NAB. Premiums may still be payable.

What reset date frequencies are available?

Reset dates are agreed at the time of negotiating your transaction. They can be for any available BBSW Mid or BBSY Bid term. Commonly they are set at quarterly intervals and should match the interest rate reset dates on your underlying floating rate debt facility.

How do you transact?

On the trade date you and NAB agree to the following key terms:

- Whether the transaction is a Swap, Cap or Collar
- Notional amount (including any amortisation or accretion)
- Cap Rate and Floor Rate (if applicable)
- Premium payable (if applicable)
- Fixed rate (if applicable)
- Floating rate (BBSY Bid or BBSW Mid)
- Effective date
- Floating rate reset dates
- Maturity date
- Whether settlement is determined on an “interest in arrears basis” or a “discount in advance basis (FRA basis)”.

Confirmation of transactions

Shortly after entering into a Swap, Cap or Collar NAB will send you a confirmation outlining the commercial terms of the particular transaction.

It is extremely important that you check the confirmation as soon as possible to make sure that it accurately records the terms agreed by you and NAB. In the case of any discrepancy, you will need to raise the matter with your NAB Business Markets manager immediately.

Examples

Swap

The following example shows the impact (for one reset date) on a borrower entering into a Swap.

A borrower with a $5,000,000 loan rolling every quarter at an interest rate of BBSY Bid plus facility fee and a liquidity margin currently totalling 2.00% p.a. enters into a Swap as the fixed rate payer at a fixed rate of 7.00% p.a. for a term of 3 years. The floating rate is set as BBSY Bid. The result of this Swap should be to fix an effective borrowing cost on the borrower's floating rate debt of the fixed rate plus the facility fee and liquidity margin. This is 9.00% p.a. The effective borrowing cost is only fixed for the term of the Swap if the facility fee and liquidity margin do not change during the term of the Swap.

1 – Effective borrowing rate if BBSY Bid is 6.67% p.a. and there are 92 days until the next reset date.

BBSY Bid rate set	Swap fixed rate	Swap net settlement	Interest on loan	Net borrowing cost	Effective interest rate
6.67% p.a.	7.00% p.a.	Borrower pays $5,000,000 x .33% p.a. x 92/365 **= $4,158.90**	$5,000,000 x (6.67% + 2.00%) p.a. x 92/365 **= $109,265.75**	Interest on loan plus Swap net settlement is $109,265.75 + $4,158.90 **= $113,424.65**	$113,424.65 x 365/$5,000,000/92 **= 9.00% p.a.**

2 – Effective borrowing rate if BBSY Bid is 7.42% p.a. and there are 92 days until the next reset date.

BBSY Bid rate set	Swap fixed rate	Swap net settlement	Interest on loan	Net borrowing cost	Effective interest rate
7.42% p.a.	7.00% p.a.	NAB pays $5,000,000 x .42% p.a. x 92/365 **= $5,293.15**	$5,000,000 x (7.42% + 2.00%) p.a. x 92/365 **= $118,717.81**	Interest on loan less Swap net settlement is $118,717.81 - $5,293.15 **= $113,424.66**	$113,424.66 x 365/$5,000,000/92 **= 9.00% p.a.**

Examples are used for illustrative purposes only and do not reflect current prices or outcomes.

Cap

The following example shows the impact (for one reset date) on a borrower entering into a Cap.

A borrower with a $5,000,000 loan rolling every quarter at an interest rate of BBSY Bid plus facility fee and a liquidity margin currently totalling 2.00% p.a. enters into a Cap with a Cap Rate of 7.00% p.a. for a term of 3 years. The floating rate is set as BBSY Bid. The result of this Cap should be to fix an effective maximum borrowing cost on the borrower's floating rate debt of the Cap Rate plus the facility fee and liquidity margin plus the Cap premium. The effective borrowing cost is only fixed for the term of the Cap if the facility fee and liquidity margin do not change during the term of the Cap. If BBSY Bid sets below the Cap Rate on any reset date the borrower will still benefit from these rates. The maximum effective interest rate before the premium should be 9.00% p.a. if the facility fee and liquidity margin do not change.

1 – Effective borrowing rate (before Cap premium) if BBSY Bid is 6.67% p.a. and there are 92 days until the next reset date.

BBSY Bid rate set	Cap rate	Swap net settlement	Interest on loan	Net borrowing cost	Effective interest rate
6.67% p.a.	7.00% p.a.	**nil**	$5,000,000 x (6.67% + 2.00%) p.a. x 92/365 **= $109,265.75**	**$109,265.75**	$109,265.75 x 365/$5,000,000/92 **= 8.67% p.a.**

2 – Effective borrowing rate (before Cap premium) if BBSY Bid is 7.42% p.a. and there are 92 days until the next reset date.

BBSY Bid rate set	Cap rate	Swap net settlement	Interest on loan	Net borrowing cost	Effective interest rate
7.42% p.a.	7.00% p.a.	NAB pays $5,000,000 x .42% p.a. x 92/365 **= $5,293.15**	$5,000,000 X (7.42% + 2.00%) p.a. x 92/365 **= $118,717.81**	Interest on loan less Cap settlement is $118,717.81 - $5,293.15 **= $113,424.66**	$113,424.66 x 365/$5,000,000/92 **= 9.00% p.a.**

Examples are used for illustrative purposes only and do not reflect current prices or outcomes.

Collar

The following example shows the impact (for one reset date) on a borrower entering into a zero premium collar.

A borrower with a $5,000,000 loan rolling every quarter at an interest rate of BBSY Bid plus facility fee and a liquidity margin currently totalling 2.00% p.a. enters into a Collar with a Cap Rate of 7.25% p.a. and a Floor Rate of 6.70% p.a. for a term of 3 years with zero net premium payable. The floating rate is set at BBSY Bid. The result of this Collar should be to fix in an effective maximum borrowing cost on the borrower's floating rate debt of the Cap Rate plus the facility fee plus the liquidity margin. It will also lock in an effective minimum borrowing cost of the Floor Rate plus the facility fee plus the liquidity margin. The effective maximum interest rate should be 9.25% p.a. The effective minimum interest rate should be 8.70% p.a. The effective maximum and effective minimum interest rates will change if the facility fee and liquidity margin change during the term of the Collar.

1 – Effective borrowing rate if BBSY Bid is 6.67% p.a. and there are 92 days until the next reset date.

BBSY Bid rate set	Floor rate	Swap net settlement	Interest on loan	Net borrowing cost	Effective interest rate
6.67% p.a.	6.70% p.a.	Borrower pays $5,000,000 x .03% p.a. x 92/365 **= $378.08**	$5,000,000 x (6.67% + 2.00%) p.a. x 92/365 **= $109,265.75**	Interest on loan plus Collar settlement is $109,265.75 + $378.08 **= $109,643.83**	$109,643.83 x 365/$5,000,000/92 **= 8.70% p.a.**

2 – Effective borrowing rate if BBSY Bid is 7.42% p.a. and there are 92 days until the next reset date.

BBSY Bid rate set	Cap rate	Swap net settlement	Interest on loan	Net borrowing cost	Effective interest rate
7.42% p.a.	7.25% p.a.	NAB pays ($5,000,000 x .17% p.a. x 92/365) **= $2,142.47**	$5,000,000 x (7.42% + 2.00%) p.a. x 92/365 **= $118,717.81**	Interest on loan less Collar settlement is $118,717.81 - $2,142,47 **= $116,575.34**	$116,575.34 x 365/$5,000,000/92 **= 9.25% p.a.**

Examples are used for illustrative purposes only and do not reflect current prices or outcomes.

Benefits & risks

Benefits

- Swaps, Caps and Collars may be used as protection by floating rate borrowers against the financial impact of adverse movements in interest rates if their underlying debt facility has its interest rate benchmarked against BBSW Mid or BBSY Bid.
- Caps and Collars allow the borrower to benefit from falls in floating rates on their underlying debt facility although the benefit may be limited in a Collar transaction.
- Subject to NAB approval and the payment of any costs determined by NAB, Swaps, Caps and Collars are usually liquid and can be unwound prior to maturity to suit your changing requirements.

Risks/Costs

- Swaps and Collars remove all or some of the direct benefits to a borrower from falls in floating rates on their underlying debt.
- Premiums are paid to purchase Caps and Collars.
- Early termination may result in a significant cost to you. Please refer to 'Early Termination of Transactions' Section below for details.
- If the terms of your underlying debt facility are not closely matched to your Swap, Cap or Collar with respect to amount, reset dates and floating reference rate the effectiveness of these products may be reduced and may even mean you incur a cost. This is called basis risk which is explained in more detail below and should be discussed with your NAB Business Markets manager or banker before using a Swap, Cap or Collar.

Examples of Basis Risk

- The floating rate payable on your underlying debt facility will normally have fees for the provision of the debt facility added on to a floating reference rate. If these fees are not fixed for the term of the Swap, Cap or Collar the effective borrowing rate on your debt facility will change with changes in the add-on fees.
- The floating rate applied to your underlying debt facility although using BBSW 'mid' or BBSY 'bid' as the principal determinant of the floating interest rate may also have a variable liquidity margin or other margins added to it by the lender. This is usually done because floating reference rates do not reflect the true cost of borrowing term funds. If these margins change during the term of your Swap, Cap or Collar then your final effective borrowing cost may be worse than what you expected when you entered into the Swap, Cap or Collar.
- The floating rate applied to your underlying debt facility may not be closely linked to the floating reference rate used in your Swap, Cap or Collar. In this instance you should re-consider whether a Swap, Cap or Collar are appropriate products for managing your borrowing costs. Your NAB Business Markets representative or banker may be able to advise you on this.

Example

A borrower with a loan rolling every quarter at an interest rate of BBSY Bid plus facility fee and a liquidity margin currently totalling 2.00% p.a. enters into a Swap as the fixed rate payer at a fixed rate of 7.00% p.a. for a term of 3 years. The floating rate is set as BBSY Bid. The result of this Swap should be to fix an effective borrowing cost on the borrower's floating rate debt of the fixed rate plus the facility fee and liquidity margin. This is 9.00% p.a. After the first roll the facility fee and liquidity margin increases to a total of 2.25% p.a. This means that for the next roll, the effective borrowing cost will be 9.25% p.a. not the 9.00% p.a. anticipated when the Swap was entered into. The effect of the Swap is only to protect the borrower against adverse movements in the reference rate.

Early termination of transactions

You can ask your NAB Business Markets manager to vary or terminate the Swap, Cap, or Collar prior to the maturity date. NAB may, in its sole discretion, agree to meet your request with or without conditions.

If NAB consents to terminate your transaction early, either in whole or part, or vary the transaction in any way you may need to make a payment to NAB or NAB may need to make a payment to you based on the market value of the Swap, Cap or Collar for its remaining term.

If the remaining notional amount after a partial termination would be less than the minimum notional amount, NAB may require the whole Swap, Cap or Collar to be terminated.

The market value of any Cap or Collar transaction will be adjusted for any premiums that have not yet been paid by you. **Any unpaid premiums will still need to be paid to NAB**.

The cost or benefit to you can be significant. NAB's calculation of any cost or benefit will depend on the type of transaction you have entered into, the specific terms of your transaction and prevailing interest rate market conditions. You can get an estimate of the applicable cost or benefit at any time by contacting your NAB Business Markets manager.