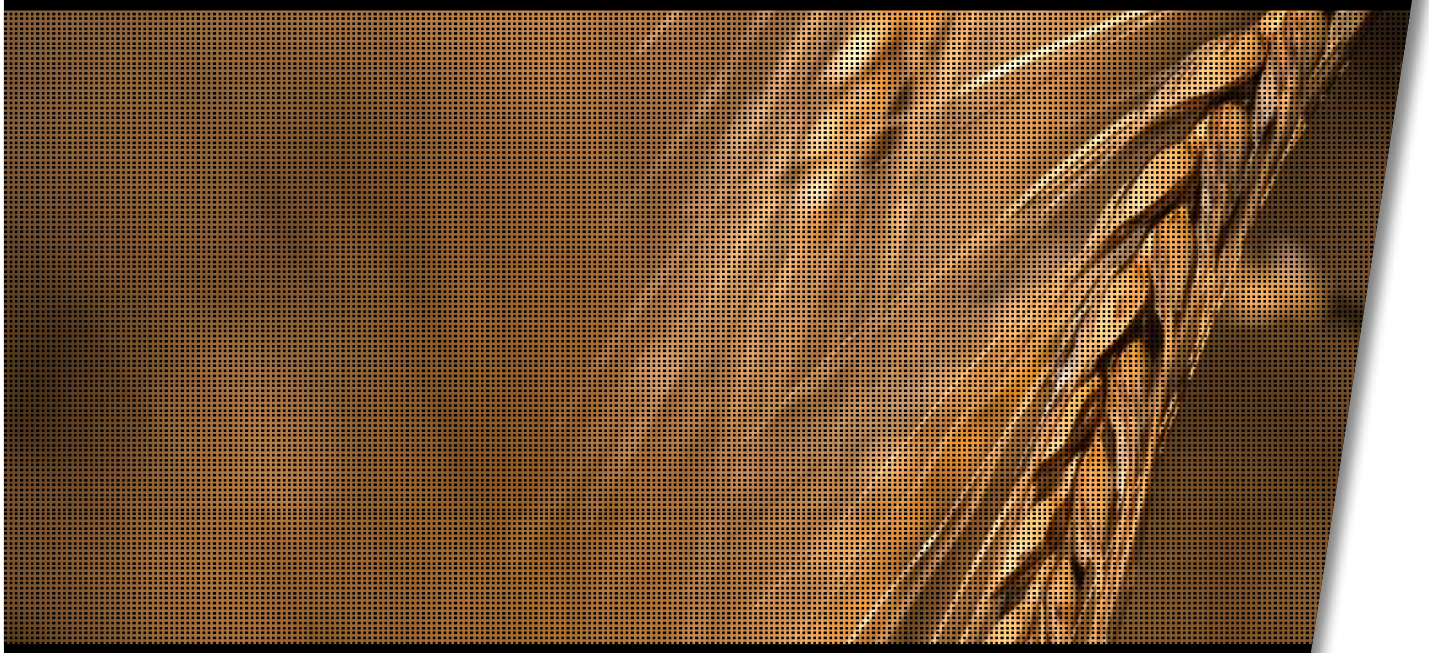
Institutional
Banking & Markets

Agricultural Commodity Risk Management Solutions

What you need to know



Product Disclosure Statement

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You should read all sections of this Product Disclosure Statement before making a decision to acquire any financial products listed in this document.

Determined to be different

Contents

General Information

Features at a glance

Agricultural Commodity Risk Management Transactions	Significant benefits	Significant disadvantages	Significant risks
Agricultural Swap (AS)	› Provides protection against adverse *commodity price* movements See "What are the significant benefits of *Agricultural Commodity Risk Management Transactions*?" on page 26 of this PDS for more information.	› Does not cover basis risk › Does not allow *you* to benefit from favourable *commodity price* movements See "What are the significant disadvantages of *Agricultural Commodity Risk Management Transactions*?" on page 26 of this PDS for more information.	There may be some basis risk, operational risk, market risk, credit risk and legal risk. *You* may not receive the benefit of favourable *commodity price* movements. See "What are the significant risks of *Agricultural Commodity Risk Management Transactions*?" on page 27 of this PDS for more information.
Agricultural Participating Swap (APS)	› Provides protection against adverse *commodity price* movements whilst giving *you* the option to participate in favourable *commodity price* movements above an agreed level See "What are the significant benefits of *Agricultural Commodity Risk Management Transactions*?" on page 26 of this PDS for more information.	› Does not cover basis risk › Fixed price of an APS differs from an AS to reflect cost of participation › *Participation level* must be reached before *you* can benefit from favourable *commodity price* movements See "What are the significant disadvantages of *Agricultural Commodity Risk Management Transactions*?" on page 26 of this PDS for more information.	There may be some basis risk, operational risk, market risk, credit risk and legal risk. *You* may not receive the benefit of favourable *commodity price* movements. See "What are the significant risks of *Agricultural Commodity Risk Management Transactions*?" on page 27 of this PDS for more information.
Agricultural Option (AO)	› Provides protection against adverse *commodity price* movements whilst also providing the potential to benefit from favourable *commodity price* movements See "What are the significant benefits of *Agricultural Commodity Risk Management Transactions*?" on page 26 of this PDS for more information.	› Does not cover basis risk › A *premium* must be paid to the *Bank* on the *trade date* (unless otherwise agreed by the *Bank*). However, on an *expiration date*, the AO *transaction* may expire worthless, resulting in all or part of the *premium* being an additional cost for *you* See "What are the significant disadvantages of *Agricultural Commodity Risk Management Transactions*?" on page 26 of this PDS for more information.	There may be some basis risk, operational risk, market risk, credit risk and legal risk. *You* may not receive the benefit of favourable *commodity price* movements. See "What are the significant risks of *Agricultural Commodity Risk Management Transactions*?" on page 27 of this PDS for more information.
Agricultural Collar (AC)	› Provides protection against adverse *commodity price* movements whilst also providing the potential to benefit from favourable *commodity price* movements See "What are the significant benefits of *Agricultural Commodity Risk Management Transactions*?" on page 26 of this PDS for more information.	› Does not cover basis risk › *Your* potential to benefit from favourable price movements maybe limited See "What are the significant disadvantages of *Agricultural Commodity Risk Management Transactions*?" on page 26 of this PDS for more information.	There may be some basis risk, operational risk, market risk, credit risk and legal risk. *You* may not receive the benefit of favourable *commodity price* movements. See "What are the significant risks of *Agricultural Commodity Risk Management Transactions*?" on page 27 of this PDS for more information.

Agricultural Swap, Agricultural Participating Swap, Agricultural Option and Agricultural Collar are sophisticated financial products which involves dealing in agricultural derivatives. The information in this Product Disclosure Statement (PDS) does not take into account *your* personal objectives, financial situation and needs. Before trading in any of these products *you* should be satisfied that such trading is suitable for *you* in view of those objectives, and *your* financial situation and needs, and we recommend that *you* consult *your* investment adviser or obtain other independent advice. **Unless you are familiar with agricultural derivative dealings and products of this type, these products may not be suitable for you.**

Option styles	Minimum *transaction amounts*	Terms	Costs	Settlement	Early termination
Not applicable	Grains – 100 metric tonnes Wool – 2,000 kilograms Cotton – 100 bales Sugar – 100 metric tonnes Cattle – 5,000 kilograms (dressed weight) Smaller *transaction amounts* and other commodities may be available on request.	3 *business days* to 3 years (5 years for sugar). Longer terms may be available on request.	See "What are the costs involved in *Agricultural Commodity Risk Management Transactions*?" on page 30 of this PDS.	*Cash settlement amount* exchanged on the *settlement date*. No *physical settlement* is permitted. The *settlement date*, once agreed, cannot be varied.	An amount may be payable to or by *you* depending on the *mark-to-market value* of the *transaction* upon termination.
Not applicable	Grains – 100 metric tonnes Wool – 2,000 kilograms Cotton – 100 bales Sugar – 100 metric tonnes Cattle – 5,000 kilograms (dressed weight) Smaller *transaction amounts* and other commodities may be available on request.	3 *business days* to 3 years (5 years for sugar). Longer terms may be available on request.	See "What are the costs involved in *Agricultural Commodity Risk Management Transactions*?" on page 30 of this PDS.	*Cash settlement amount* exchanged on the *settlement date*. No *physical settlement* is permitted. The *settlement date*, once agreed, cannot be varied.	An amount may be payable to or by *you* depending on the *mark-to-market value* of the *transaction* upon termination.
European and *American options* are available	Grains – 100 metric tonnes Wool – 2,000 kilograms Cotton – 100 bales Sugar – 100 metric tonnes Cattle – 5,000 kilograms (dressed weight) Smaller *transaction amounts* and other commodities may be available on request.	3 *business days* to 3 years (5 years for sugar). Longer terms may be available on request.	See "What are the costs involved in *Agricultural Commodity Risk Management Transactions*?" on page 30 of this PDS.	*Cash settlement amount* exchanged on *settlement date*. No *physical settlement* is permitted. For *European options*, a *settlement date*, once agreed, cannot be varied. For *American options*, a *settlement date* is the agreed number of *business days* after an *exercise date*.	An amount may be payable to *you* depending on the *mark-to-market value* of the *transaction* upon termination.
European only	Grains – 100 metric tonnes Wool – 2,000 kilograms Cotton – 100 bales Sugar – 100 metric tonnes Cattle – 5,000 kilograms (dressed weight) Smaller *transaction amounts* and other commodities may be available on request.	3 *business days* to 3 years (5 years for sugar). Longer terms may be available on request.	See "What are the costs involved in *Agricultural Commodity Risk Management Transactions*?" on page 30 of this PDS.	*Cash settlement amount* exchanged on the *settlement date*. No *physical settlement* is permitted. The *settlement date*, once agreed, cannot be varied.	An amount may be payable to or by *you* depending on the *mark-to-market value* of the *transaction* upon termination.

The information in this PDS is subject to change from time to time and is up to date as at the date stated on the cover. Where the new information is materially adverse information the *Bank* will either notify *you* or issue a new PDS or a supplementary PDS setting out the updated information. Where the new information is not materially adverse information we will not issue a new PDS or supplementary PDS to *you*, but *you* will be able to find the updated information on our web site **commbank.com.au** or *you* can call **13 2221**. If *you* ask us to, we will send *you* a paper copy of the information.

Purpose of a Product Disclosure Statement (PDS)

A PDS aims to provide *you* with enough information to help *you* decide whether any of the financial product(s) listed in this document will meet *your* needs. It also helps *you* to compare the products with others *you* may be considering.

This PDS provides information about **Agricultural Swap (AS), Agricultural Participating Swap (APS), Agricultural Option (AO)** and **Agricultural Collar (AC)** (collectively known as *Agricultural Commodity Risk Management Transactions*). If *you* decide to enter into any *Agricultural Commodity Risk Management Transactions*, *you* should keep this PDS and all other documentation relating to *your Agricultural Commodity Risk Management Transactions* for future reference.

If *you* have any questions or wish to contact us, please call **13 2221** between 8am and 8pm, Monday to Friday, visit our web site at **commbank.com.au**, call into any branch of the Commonwealth *Bank* of Australia (the *Bank*), or contact *your* relationship manager.

To assist *you* in understanding this PDS, the definitions of some words are provided in the "Definitions" section on page 33. When used in this PDS, these words usually appear in italics.

What is an Agricultural Swap (AS) transaction?

An AS transaction is an agreement between *you* and the *Bank* to swap a floating price for a fixed price for the underlying commodity on a *payment date*. AS transactions allow *you* to achieve a fixed price, being *your* level of *commodity price* protection, for an agreed quantity of a commodity on an agreed future date that is more than 3 *business days* but not more than 3 years (5 years for sugar) after the *trade date*.

The floating price or *commodity reference price* in an AS transaction is based on the settlement price of an agreed *futures contract* for the underlying commodity on an agreed *futures exchange*, or an index or on the settlement price quoted in a price guide for the underlying commodity. The fixed price in an AS transaction is determined by the *Bank*.

Where the *commodity reference price* is not in the same currency as the fixed price, the settlement price from the *futures contract*, index or price guide will be converted to the same currency as the fixed price using the *reference rate*. An example of a *reference rate* is the *Hedge Settlement Rate Average* (*HSRA*) *AUD/USD exchange rate* that is published on Reuters page *HSRA*.

Under an AS transaction, a *cash settlement amount* is payable on a *payment date*, either by the *Bank* to *you* or by *you* to the *Bank*. The *cash settlement amount* is an amount based on the difference between the fixed price and the *commodity reference price* of the underlying commodity on a *pricing date*. The *futures exchanges*, indices and price guides from which *commodity reference prices* are sourced will vary depending on the commodity underlying the AS transaction and will be agreed between *you* and the *Bank* at the *trade date*. Please refer to Appendix A for examples of some of the *futures exchanges*, indices and price guides from which *commodity reference prices* could be sourced.

Depending on the *commodity reference price* on the *pricing date*, a *cash settlement amount* may be payable by *you* to the *Bank* or by the *Bank* to *you* on the *payment date* as follows:

If *you* are seeking protection against a rise in a *commodity price* and on the *pricing date*:

- the *commodity reference price* is higher than the fixed price, the *Bank* must pay *you* the *cash settlement amount*;
- the *commodity reference price* is lower than the fixed price, *you* must pay the *Bank* the *cash settlement amount*; or
- the *commodity reference price* is equal to the fixed price, there is no further obligation between *you* and the *Bank* with respect to the *payment date* under the AS transaction.

If *you* are seeking protection against a fall in a *commodity price* and on the *pricing date*:

- the *commodity reference price* is lower than the fixed price, the *Bank* must pay *you* the *cash settlement amount*;
- the *commodity reference price* is higher than the fixed price, *you* must pay the *Bank* the *cash settlement amount*; or
- the *commodity reference price* is equal to the fixed price, there is no further obligation between *you* and the *Bank* with respect to the *payment date* under the AS transaction.

There may be one or more *pricing dates* and *payment dates* over the *transaction period*, for example *pricing dates* and *payment dates* may occur quarterly, semi-annually or annually.

The entry into each AS transaction is subject to prior credit approval by the *Bank* and *your* entering into the *master agreement* and *transactions addendum* (see page 29 for more information).

The fixed price of the underlying commodity can be denominated or expressed in *AUD, USD* or *CAD* or another currency as agreed between *you* and the *Bank*.

Details of current *commodity reference prices*, including the commodities in which the *Bank* offers AS transactions, are available on request from any branch of the *Bank* or *your* relationship manager.

Uses of AS transactions

AS transactions may be commercially useful for:

- producers of agricultural commodities such as wheat farmers;
- consumers of agricultural commodities such as dairy farmers requiring cattle feed; and
- other clients who have exposure to agricultural *commodity price* movements.

What is an Agricultural Swap (AS) transaction? cont.

Determining the AS fixed price

The Bank will calculate the fixed price of the underlying commodity under the AS transaction by taking the following factors into account:

- the *commodity reference price* from the agreed *futures exchange*, index or price guide. All prices and products are heavily influenced by domestic and international exchange traded commodities markets. Some of these *futures exchanges*, indices and price guides from which *commodity reference prices* could be sourced are listed in Appendix A.
- the *forward exchange rate* for the currency in which the *commodity reference price* is expressed – the *forward exchange rate* is the expression of the value of one currency in terms of another when the currencies are exchanged at a future date that is more than 2 *business days* after the contract to exchange the currencies is entered into. The fixed price of the underlying commodity can be denominated or expressed in *AUD*, *USD* or *CAD* or another currency as agreed between *you* and the *Bank*;
- the *forward exchange rate* for the currency in which the *fixed price* is expressed;
- the *transaction amount*. This is the agreed quantity of the underlying commodity;
- the *pricing date*. This is the date on which the *commodity reference price* is set and the outcome of the AS transaction is determined;
- the *transaction period*. This is the period from and including the *trade date* (date on which an agreement is reached by the relevant parties) and the final *settlement date* (the *business day* on which a *cash settlement amount* will be exchanged between the *parties to the agreement*);
- an allowance for the *Bank's* costs, both fixed and variable. These costs are dependent on the liquidity of the underlying product, ability to hedge, basis risk and whether or not there is a like future exchange traded contract; and
- the *Bank*'s profit margin. This is dependent on the client credit rating, the *Bank's* market risk exposure and the *Bank's* appetite to manage risk.

All the above factors individually and in combination will have a positive or negative impact on the fixed price.

Examples of how an AS transaction works

The examples below set out how AS transactions work for producers (sellers) of wheat and for consumers (buyers) of wheat.

It is important to note that in these examples the financial outcomes have been determined without allowing for basis risk (refer to "What are the significant risks for an *Agricultural Commodity Risk Management Transaction*" on page 27 for a further discussion of basis risk). Examples are used for illustrative purposes only and do not reflect current market prices or outcomes or the *Bank*'s (or any of its associates') view on future matters.

Example 1: *You* are a producer (seller) of wheat

You would like to receive a fixed price in *AUD* for 300 metric tonnes of wheat in 1 year's time based on the *commodity reference price* on the *futures exchange* agreed between *you* and the *Bank*. In this example the *commodity reference price* will be based on the closing *USD* price of the wheat *futures contract* on *CBOT* on the *pricing date*, converted to *AUD** at the *HSRA AUD/USD exchange rate* on the following *business day* (*HSRA date*). The *payment date* will be 2 *business days* after the *HSRA date*. Assuming the current *commodity reference price* for wheat is AUD309.00 per metric tonne, a fall in the *commodity price* in *AUD* terms would mean *you* would receive less *AUD* when *you* sell *your* wheat in the market. *You* are therefore seeking protection against a fall in the *commodity price* of wheat.

The *Bank* will calculate the fixed price of the AS transaction based on certain factors including *your* specified *transaction amount* and specified *transaction period* (for more information please see "Determining the AS fixed price" on this page).

Assume the following for Example 1:

Commodity	*CBOT* Wheat
Transaction amount	300 metric tonnes
1 year *AUD* fixed price per metric tonne at the *trade date* (calculated by the *Bank*)	300.00
Pricing date	1 year from the *trade date*
HSRA date	1 *business day* after the *pricing date*
Payment date	2 *business days* after the *HSRA date*

* In this example, if *you* agreed with the *Bank* to use the *commodity reference price* based on the closing *AUD* price of the wheat futures contracts on *ASX* on the *pricing date* instead of *CBOT*, there would be no requirement to convert the *commodity reference price* to *AUD*.

Possible outcomes on the *pricing date*	Possible price achieved**
If the *commodity reference price* is lower than the fixed price, then on the *payment date* the *Bank* must pay *you* the difference between the fixed price and the *commodity reference price*. For example, if the *commodity reference price* is AUD280.00 per metric tonne, then on the *payment date* the *Bank* will pay *you* the following *cash settlement amount*: 300 x (AUD300.00 – AUD280.00) = AUD6,000.00 This *cash settlement amount* will compensate for the lower price *you* will receive when *you* sell *your* physical wheat. For example, if *you* sell *your* physical wheat at AUD280.00 per metric tonne *you* will receive: 300 x AUD280.00 = AUD84,000.00 This means that *you* have received a total of AUD90,000.00 (AUD84,000.00 + AUD6,000.00). This equals AUD300.00 per metric tonne: AUD90,000.00 ÷ 300 metric tonnes = AUD300.00 per metric tonne	**AUD300.00 per metric tonne**
If the *commodity reference price* is higher than the fixed price, then on the *payment date you* must pay the *Bank* the difference between the fixed price and the *commodity reference price*. For example, if the *commodity reference price* is AUD320.00 per metric tonne, then on the *payment date*, *you* must pay the *Bank*: 300 x (AUD320.00 – AUD300.00) = AUD6,000.00 This *cash settlement amount* will offset the amount *you* receive when *you* sell *your* physical wheat. For example, if *you* sell *your* physical wheat at AUD320.00 per metric tonne *you* will receive: 300 x AUD320.00 = AUD96,000.00 This means that *you* have received a total of AUD90,000.00 (AUD96,000.00 – AUD6,000.00). This equals AUD300.00 per metric tonne: AUD90,000.00 ÷ 300 metric tonnes = AUD300.00 per metric tonne	**AUD300.00 per metric tonne**
If the fixed price is equal to the *commodity reference price*, *you* and the *Bank* will have no further obligations to each other with respect to the *payment date* under the AS transaction.	**AUD300.00 per metric tonne**

** Examples are used for illustrative purposes only and do not reflect current market prices or outcomes or the *Bank*'s (or any of its associates') view on future matters. If *you* have chosen more than one *pricing date* for the *transaction period*, the same calculation method will be used to determine the *cash settlement amount* on each specified *payment date*.

What is an Agricultural Swap (AS) transaction? cont.

Example 2: *You* are a consumer (buyer) of wheat

You would like to pay a fixed price in *AUD* for 300 metric tonnes of wheat in 1 year's time based on the *commodity reference price* on the *futures exchange* agreed between *you* and the *Bank*. In this example, the *commodity reference price* will be based on the closing *USD* price of the wheat *futures contract* on *CBOT* on the *pricing date*, converted to *AUD** at the *HSRA AUD/USD exchange rate* on the following *business day* (*HSRA date*). The *payment date* will be 2 *business days* after the *HSRA date*. Assuming the current *commodity reference price* for wheat is AUD309.00 per metric tonne, a rise in the *commodity price* in *AUD* terms would mean *you* would pay more *AUD* when *you* buy *your* wheat in the market. *You* are therefore seeking protection against a rise in the *commodity price* of wheat.

The *Bank* will calculate the fixed price based on *your* specified *transaction amount* and specified *transaction period*.

Assume the following for Example 2:

Commodity	*CBOT* Wheat
Transaction amount	300 metric tonnes
1 year *AUD* fixed price per metric tonne at the *trade date* (calculated by the *Bank*)	318.00
Pricing date	1 year from the *trade date*
HSRA date	1 *business day* after the *pricing date*
Payment date	2 *business days* after the *HSRA date*

Possible outcomes on the *pricing date*	**Possible price achieved****
If the *commodity reference price* is higher than the fixed price, then on the *payment date* the *Bank* must pay *you* the difference between the fixed price and the *commodity reference price*. For example, if the *commodity reference price* is AUD320.00 per metric tonne, then on the *payment date* the *Bank* will pay *you*: 300 x (AUD320.00 – AUD318.00) = AUD600.00 This *cash settlement amount* will compensate for the higher price *you* will pay when *you* buy *your* physical wheat. For example, if *you* buy *your* physical wheat at AUD320.00 per metric tonne *you* will pay: 300 x AUD320.00 = AUD96,000.00 This means that *you* have paid a total of AUD95,400.00 (AUD96,000.00 – AUD600.00). This equals AUD318.00 per metric tonne: AUD95,400.00 ÷ 300 metric tonnes = AUD318.00 per metric tonne	**AUD318.00 per metric tonne**
If the *commodity reference price* is lower than the fixed price, then on the *payment date you* must pay the *Bank* the difference between the fixed price and the *commodity reference price*. For example, if the *commodity reference price* is AUD280.00 per metric tonne, then on the *payment date you* must pay the *Bank*: 300 x (AUD318.00 – AUD280.00) = AUD11,400.00 This *cash settlement amount* will offset the price *you* pay when *you* buy *your* physical wheat. For example, if *you* buy *your* physical wheat at AUD280.00 per metric tonne *you* will pay: 300 x AUD280.00 = AUD84,000.00 This means that *you* have paid a total of AUD95,400.00 (AUD84,000.00 + AUD11,400.00). This equals AUD318.00 per metric tonne: AUD95,400.00 ÷ 300 metric tonnes = AUD318.00 per metric tonne	**AUD318.00 per metric tonne**
If the fixed price is equal to the *commodity reference price*, *you* and the *Bank* will have no further obligations to each other with respect to the *payment date* under the AS transaction.	**AUD318.00 per metric tonne**

* In this example, if *you* agreed with the *Bank* to use the *commodity reference price* based on the closing *AUD* price of the wheat futures contracts on *ASX* on the *pricing date* instead of *CBOT*, there would be no requirement to convert the *commodity reference price* to *AUD*.

** Examples are used for illustrative purposes only and do not reflect current market prices or outcomes or the *Bank*'s (or any of its associates') view on future matters. If *you* have chosen more than one *pricing date* for the *transaction period*, the same calculation method will be used to determine the *cash settlement amount* on each specified *payment date*.

What is an Agricultural Participating Swap (APS) transaction?

An APS transaction is an agreement between *you* and the *Bank* to swap a floating price for a fixed price for the underlying commodity whilst providing the opportunity to participate in some additional benefit if prices move beyond the *participation level*. APS transactions allow *you* to achieve a fixed price, being *your* level of *commodity price* protection, for an agreed quantity of a commodity on an agreed future date whilst enabling *you* to participate in favourable *commodity price* movements if the *participation level* is exceeded. The term of the APS will be more than 3 *business days* but not more than 3 years (5 years for sugar) after the *trade date*.

The floating price or *commodity reference price* in an APS transaction is based on the settlement price of an agreed *futures contract* for the underlying commodity on an agreed *futures exchange*, or an index or on the settlement price quoted in a price guide for the underlying commodity. The fixed price in an APS transaction is determined by the *Bank*. The APS transaction enables *you* to select the *participation level* and degree of participation (*participation quantity*) *you* require, as well as the *transaction amount* and term.

Where the *commodity reference price* is not in the same currency as the fixed price, the settlement price from the *futures contract*, index or price guide will be converted to the same currency as the fixed price using the *reference rate*. An example of a *reference rate* is the *Hedge Settlement Rate Average* (*HSRA*) *AUD/USD exchange rate* that is published on Reuters page *HSRA*.

APS transactions involve a *cash settlement amount* between *you* and the *Bank*. The *cash settlement amount* is an amount based on the difference between the fixed price and the *commodity reference price* of the underlying commodity on the *pricing date*. The *cash settlement amount* on an APS may also include an amount to account for profit from the *participation level* (if applicable). The *futures exchanges*, indices and price guides from which *commodity reference prices* are sourced will vary depending on the commodity underlying the APS transaction and will be agreed between *you* and the *Bank* at the *trade date*. Please refer to Appendix A for examples of some of the *futures exchanges*, indices and price guides from which *commodity reference prices* are sourced.

Depending on the *commodity reference price* on the *pricing date*, a *cash settlement amount* may be payable by *you* to the *Bank* or by the *Bank* to *you* on the *settlement date* as follows:

- If *you* are seeking protection against a rise in a *commodity price* and on the *pricing date*:
  - the *commodity reference price* is higher than the fixed price, the *Bank* must pay *you* the *cash settlement amount* (in this case, the *participation amount* is not applicable);
  - the *commodity reference price* is lower than the fixed price but equal to or higher than the *participation level*, *you* must pay the *Bank* the *cash settlement amount* (in this case, the *participation amount* is not applicable);
  - the *commodity reference price* is lower than the fixed price and lower than the *participation level*, *you* must pay the *Bank* the *cash settlement amount*. However the calculation of the *cash settlement amount* takes into account the *participation amount* payable to *you* by the *Bank* (please refer to the examples on page 12 for further details); or
  - the *commodity reference price* is equal to the fixed price, there is no further obligation between *you* and the *Bank* with respect to the APS transaction (in this case, the *participation amount* is not applicable).
- If *you* are seeking protection against a fall in a *commodity price* and on the *pricing date*:
  - the *commodity reference price* is lower than the fixed price, the *Bank* must pay *you* the *cash settlement amount* (in this case, the *participation amount* is not applicable);
  - the *commodity reference price* is higher than the fixed price but equal to or lower than the *participation level*, *you* must pay the *Bank* the *cash settlement amount* (in this case, the *participation amount* is not applicable);
  - the *commodity reference price* is higher than the fixed price and higher than the *participation level*, *you* must pay the *Bank* the *cash settlement amount*. However the calculation of the *cash settlement amount* takes into account the *participation amount* payable to *you* (please refer to the examples on page 10 for further details); or
  - the *commodity reference price* is equal to the fixed price, there is no further obligation between *you* and the *Bank* with respect to the APS transaction (in this case, the *participation amount* is not applicable).

The *participation amount* is payable to *you*:

(a) in the case of a consumer transaction, only when the *commodity reference price* is lower than the *participation level*. The *participation amount* is calculated as the difference between the *commodity reference price* and the *participation level*, multiplied by the *participation quantity*; and

(b) in the case of a producer transaction, only when the *commodity reference price* is higher than the *participation level*. The *participation amount* is calculated as the difference between the *commodity reference price* and the *participation level*, multiplied by the *participation quantity*.

What is an Agricultural Participating Swap (APS) transaction? cont.

You can choose, with the agreement of the *Bank*, the *transaction amount*, to which *you* wish the *participation level* to apply. This is called the *participation quantity*.

The entry into each APS transaction is subject to prior credit approval by the *Bank* and *your* entering into the *master agreement* and *transactions addendum* (see page 29 for more information).

The fixed price of the underlying commodity can be denominated or expressed in *AUD, USD* or *CAD* or another currency as agreed between *you* and the *Bank*.

Details of current *commodity reference prices*, including the commodities in which the *Bank* offers APS transactions, are available on request from any branch of the *Bank* or *your* relationship manager.

Uses of APS transactions

APS transactions may be commercially useful for:

- producers of agricultural commodities such as wheat farmers;
- consumers of agricultural commodities such as dairy farmers requiring cattle feed; and
- other clients who have exposure to agricultural *commodity price* movements.

Determining the APS fixed price

The Bank will calculate the fixed price of the underlying commodity under the APS transaction by taking the following factors into account:

- the *commodity reference price* from the agreed *futures exchanges*, index or price guide. All prices and products are heavily influenced by domestic and international exchange traded commodities markets. Some of these *futures exchanges*, indices and price guides from which *commodity reference prices* could be sourced are listed in Appendix A;
- the *forward exchange rate* for the currency in which the *commodity reference price* is expressed – the *forward exchange rate* is the expression of the value of one currency in terms of another when the currencies are exchanged at a future date that is more than 2 *business days* after the contract to exchange the currencies is entered into. The fixed price of the underlying commodity can be denominated or expressed in *AUD*, *USD* or *CAD* or another currency as agreed between *you* and the *Bank;*
- the *forward exchange rate* for the currency in which the *fixed price* is expressed;
- the *participation level* (including the currency in which the *participation level* will be determined). This is the agreed price of the commodity which is *your* specified level of *commodity price* protection;
- a *volatility factor*. This is the expected degree of fluctuation in *exchange rates,* interest rates and *commodity reference price* during the *transaction period* as calculated by the *Bank;*
- the *participation quantity*. This is the volume of commodity that will apply at the *participation level*;
- the *transaction amount*. This is the agreed quantity of the underlying commodity;
- the *pricing date*. This is the date on which the *commodity reference price* is set and the outcome of the APS transaction is determined;
- the *transaction period*. This is the period from and including the *trade date* (date on which an agreement is reached by the relevant parties) and the final *settlement date* (the *business day* on which a *cash settlement amount* will be exchanged between the *parties to the agreement*);
- an allowance for the *Bank*'s costs, both fixed and variable. These costs are dependent on the liquidity of the underlying product, ability to hedge, basis risk and whether or not there is a like future exchange traded contract; and
- the *Bank*'s profit margin. This is dependent on the client credit rating, the *Bank's* market risk exposure and the *Bank's* appetite to manage risk.

All the above factors individually and in combination will have a positive or negative impact on the fixed price.

Examples of how an APS transaction works

The examples below set out how APS transactions work for producers (sellers) of wheat and for consumers (buyers) of wheat.

It is important to note that in these examples the financial outcomes have been determined without allowing for basis risk (refer to "What are the significant risks of *Agricultural Commodity Risk Management Transactions*?" on page 27 for a further discussion on basis risk). Examples are used for illustrative purposes only and do not reflect current market prices or outcomes or the *Bank*'s (or any of its associates') view on future matters.

Example 3: *You* are a producer (seller) of wheat

You would like to receive a fixed price in *AUD* for 300 metric tonnes of wheat in 1 year's time based on the *commodity reference price* on the *futures exchange* agreed between *you* and the *Bank*. In this example the *commodity reference price* will be based on the closing *USD* price of the wheat *futures contract* on *CBOT* on the *pricing date*, converted to *AUD** at the *HSRA AUD/USD exchange rate* on the following *business day* (*HSRA date*). The *settlement date* will be 2 *business days* after the *HSRA date*.

The current *commodity reference price* for wheat is AUD309.00 per metric tonne. A fall in the *commodity price* in *AUD* terms would mean *you* would receive less *AUD* when *you* sell *your* wheat in the market. *You* are therefore seeking protection against a fall in the *commodity price* of wheat. However, *you* would also like to participate if there is an upward movement of prices. As such, *you* request a *participation level* of AUD320.00 per metric tonne. *You* also want this *participation level* to apply to the full *transaction amount*.

The *Bank* will calculate the fixed price of the APS transaction based on certain factors including *your* specified *transaction amount*, the *participation level* and specified *transaction period* (for more information please see "Determining the APS fixed price" on this page).

* In this example, if *you* agreed with the *Bank* to use the *commodity reference price* based on the closing *AUD* price of the wheat futures contracts on *ASX* on the *pricing date* instead of *CBOT*, there would be no requirement to convert the *commodity reference price* to *AUD.*

Assume the following for Example 3:

Commodity	*CBOT* Wheat
Transaction amount	300 metric tonnes
1 year *AUD* fixed price per metric tonne at the *trade date* (calculated by the *Bank*)	285.00
***Participation level* (in *AUD*)**	320.00
Participation quantity	300 metric tonnes

Pricing date	1 year from the *trade date*
HSRA date	1 *business day* after the *pricing date*
Settlement date	2 *business days* after the *HSRA date*

Possible outcomes on the *pricing date*	**Possible price achieved****
If the *commodity reference price* is lower than the fixed price, then on the *settlement date* the *Bank* must pay *you* the difference between the fixed price and the *commodity reference price*. The *participation amount* will not apply. For example, if the *commodity reference price* is AUD265.00 per metric tonne, then on the *settlement date* the *Bank* will pay *you* the following *cash settlement amount*: 300 x (AUD285.00 – AUD265.00) = AUD6,000.00 This *cash settlement amount* will compensate for the lower price *you* will receive when *you* sell *your* physical wheat. For example, if *you* sell *your* physical wheat at AUD265.00 per metric tonne *you* will receive: 300 x AUD265.00 = AUD79,500.00 This means that *you* have received a total of AUD85,500.00 (AUD79,500.00 + AUD6,000.00). This equals AUD285.00 per metric tonne: AUD85,500.00 ÷ 300 metric tonnes = AUD285.00 per metric tonne	**AUD285.00 per metric tonne**
If the *commodity reference price* is higher than the fixed price, but equal to or lower than the *participation level*, then on the *settlement date you* must pay the *Bank* the difference between the fixed price and the *commodity reference price*. The *participation amount* will not apply. For example, if the *commodity reference price* is AUD310.00 per metric tonne, then on the *settlement date*, *you* must pay the *Bank*: 300 x (AUD310.00 – AUD285.00) = AUD7,500.00 This *cash settlement amount* will offset the amount *you* receive when *you* sell *your* physical wheat. For example, if *you* sell *your* physical wheat at AUD310.00 per metric tonne *you* will receive: 300 x AUD310.00 = AUD93,000.00 This means that *you* have received a total of AUD85,500.00 (AUD93,000.00 – AUD7,500.00). This equals AUD285.00 per metric tonne: AUD85,500.00 ÷ 300 metric tonnes = AUD285.00 per metric tonne	**AUD285.00 per metric tonne**

What is an Agricultural Participating Swap (APS) transaction? cont.

Possible outcomes on the *pricing date*	Possible price achieved**
If the *commodity reference price* is higher than the fixed price and higher than the *participation level*, then *you* must pay the *Bank* the difference between the fixed price and the *commodity reference price*. However the *Bank* will also pay *you* a *participation amount*, which will reduce the *cash settlement amount* payable by *you*. For example, if the reference price is AUD330.00 per metric tonne, the *cash settlement amount* will be calculated in two steps as follows: 1. To settle the fixed price component, *you* will have to pay the *Bank* 300 x (AUD330.00 – AUD285.00) = AUD13,500.00 2. To settle the *participation amount* component, the *Bank* will have to pay *you* 300 x (AUD330.00 – AUD320.00) = AUD3,000.00 This will give a *cash settlement amount* payable to the *Bank* of AUD13,500.00 – AUD3,000.00 = AUD10,500.00 This *cash settlement amount* will offset the amount *you* receive when *you* sell *your* physical wheat. For example, if *you* sell *your* physical wheat at AUD330.00 per metric tonne *you* will receive: 300 x AUD330.00 = AUD99,000.00 This means that *you* have received a total of AUD88,500.00 (AUD99,000.00 – AUD10,500.00). This equals AUD295.00 per metric tonne: AUD88,500.00 ÷ 300 metric tonnes = AUD295.00 per metric tonne	**AUD295.00 per metric tonne**
If the fixed price is equal to the *commodity reference price*, *you* and the *Bank* will have no further obligations to each other in respect of the APS transaction. The *participation amount* will not apply.	**AUD285.00 per metric tonne**

** Examples are used for illustrative purposes only and do not reflect current market prices or outcomes or the *Bank*'s (or any of its associates') view on future matters.

Issues to consider

When *you* set *your participation level* and *participation quantity* there are various issues *you* need to consider. Using Example 3, these can be summarised as follows:

1. The closer *you* set the *participation level* to the current *commodity reference price*, *your* exposure to being able to participate in a favourable price movement is increased. However the fixed price calculated will be lower than if the *participation level* were set higher.
2. The higher *you* set *your participation quantity*, *your* exposure to being able to participate in favourable price movements increases. However the fixed price will be set lower than if the *participation quantity* was less.

Example 4: *You* are a consumer (buyer) of wheat

You would like to pay a fixed price in *AUD* for 300 metric tonnes of wheat in 1 year's time based on the *commodity reference price* on the *futures exchange* agreed between *you* and the *Bank*. In this example, the *commodity reference price* will be based on the closing *USD* price of the wheat *futures contract* on *CBOT* on the *pricing date*, converted to *AUD** at the *HSRA AUD/USD exchange rate* on the following *business day* (*HSRA date*). The *settlement date* will be 2 *business days* after the *HSRA date*.

The current *commodity reference price* for wheat is *AUD* 309.00 per metric tonne. A rise in the *commodity price* in *AUD* terms would mean *you* would pay more *AUD* when *you* buy *your* wheat in the market. *You* are therefore seeking protection against a rise in the *commodity price* of wheat. However, *you* would also like to participate if there is a downward movement of prices. As such, *you* request a *participation level* of AUD285.00 per metric tonne. However *you* only want this to apply to 75% of the *transaction amount* (i.e. to 225 metric tonnes).

The *Bank* will calculate the fixed price based on *your* specified *transaction amount*, the *participation level* and specified *transaction period*.

* In this example, if *you* agreed with the *Bank* to use the *commodity reference price* based on the closing *AUD* price of the wheat futures contracts on *ASX* on the *pricing date* instead of *CBOT*, there would be no requirement to convert the *commodity reference price* to *AUD*.

Assume the following for Example 4:

Commodity	*CBOT* Wheat
Transaction amount	300 metric tonnes
1 year *AUD* fixed price per metric tonne at the *trade date* (calculated by the *Bank*)	310.00
***Participation level* (in *AUD*)**	285.00
Participation quantity	225 metric tonnes

Pricing date	1 year from the *trade date*
HSRA date	1 *business day* after the *pricing date*
Settlement date	2 *business days* after the *HSRA date*

Possible outcomes on the *pricing date*	**Possible price achieved****
If the *commodity reference price* is higher than the fixed price, then on the *settlement date* the *Bank* must pay *you* the difference between the fixed price and the *commodity reference price*. The *participation amount* will not apply. For example, if the *commodity reference price* is AUD320.00 per metric tonne, then on the *settlement date* the *Bank* will pay *you*: 300 x (AUD320.00 – AUD310.00) = AUD3,000.00 This *cash settlement amount* will compensate for the higher price *you* will pay when *you* buy *your* physical wheat. For example, if *you* buy *your* physical wheat at AUD320.00 per metric tonne *you* will pay: 300 x AUD320.00 = AUD96,000.00 This means that *you* have paid a total of AUD93,000.00 (AUD96,000.00 – AUD3,000.00). This equals AUD310.00 per metric tonne: AUD93,000.00 ÷ 300 metric tonnes = AUD310.00 per metric tonne	**AUD310.00 per metric tonne**
If the *commodity reference price* is lower than the fixed price but equal to or higher than the *participation level* then on the *settlement date you* must pay the *Bank* the difference between the fixed price and the *commodity reference price*. The *participation amount* will not apply. For example, if the *commodity reference price* is AUD300.00 per metric tonne, then on the *settlement date you* must pay the *Bank*: 300 x (AUD310.00 – AUD300.00) = AUD3,000.00 This *cash settlement amount* will offset the price *you* pay when *you* buy *your* physical wheat. For example, if *you* buy *your* physical wheat at AUD300.00 per metric tonne *you* will pay: 300 x AUD300.00 = AUD90,000.00 This means that *you* have paid a total of AUD93,000.00 (AUD90,000.00 + AUD3,000.00). This equals AUD310.00 per metric tonne: AUD93,000.00 ÷ 300 metric tonnes = AUD310.00 per metric tonne	**AUD310.00 per metric tonne**

What is an Agricultural Participating Swap (APS) transaction? cont.

Possible outcomes on the *pricing date*	Possible price achieved**
If the *commodity reference price* is lower than the fixed price and lower than the participation level, then *you* must pay the *Bank* the difference between the fixed price and the *commodity reference price*, However the *Bank* will also pay *you* a *participation amount*, which will reduce the *cash settlement amount* payable by *you*. For example, if the reference price is AUD280.00 per metric tonne, the *cash settlement amount* will be calculated in two steps as follows: 1. To settle the fixed price component, *you* will have to pay the *Bank* 300 x (AUD310.00 – AUD280.00) = AUD9,000.00 2. To settle the *participation amount* component the *Bank* will have to pay *you* 225 x (AUD285.00 – AUD280.00) = AUD1,125.00 This will give a *cash settlement amount* payable to the *Bank* of AUD9,000.00 – AUD1,125.00 = AUD7,875.00 This *cash settlement amount* will add to the amount *you* pay when *you* buy *your* physical wheat. For example, if *you* buy *your* physical wheat at AUD280.00 per metric tonne *you* will pay: 300 x AUD280.00 = AUD84,000.00 This means that *you* have paid a total of AUD91,875.00 (AUD84,000.00 + AUD7,875.00). This equals AUD306.25 per metric tonne: AUD91,875.00 ÷ 300 metric tonnes = AUD306.25 per metric tonne	**AUD306.25 per metric tonne**
If the fixed price is equal to the *commodity reference price*, *you* and the *Bank* per will have no further obligations to each other in respect of the APS transaction. The *participation amount* will not apply.	**AUD310.00 per metric tonne**

** Examples are used for illustrative purposes only and do not reflect current market prices or outcomes or the *Bank*'s (or any of its associates') view on future matters.

Issues to consider

When *you* set *your participation level* and *participation quantity* there are various issues *you* need to consider. Using Example 4, these can be summarised as follows:

- The closer *you* set the *participation level* to the current *commodity reference price*, *your* exposure to being able to participate in a favourable price movement is increased. However the fixed price calculated will be higher than if the *participation level* were set lower.
- The higher *you* set *your participation quantity*, *your* exposure to being able to participate in favourable price movements increases. However the fixed price will be set higher than if the *participation quantity* was less.

What is an Agricultural Option (AO) transaction?

An AO transaction is an agreement between *you* and the *Bank* where, in exchange for the payment of a *premium* by *you* to the *Bank*, *you* have the right but not the obligation to sell or buy a specified amount of a commodity at a *strike price* on an *exercise date*.

There are 2 types of AO transactions, a *Put* and a *Call*. When *you* buy a *Put*, *you* have the right but not the obligation to sell a specified amount of a commodity. When *you* buy a *Call*, *you* have the right but not the obligation to buy a specified amount of a commodity.

AO transactions are cash settled only. No physical delivery of the underlying commodity will take place. This means that, instead of the parties having to physically deliver an underlying commodity, a *cash settlement amount* is determined and payable on the *settlement date*.

AO transactions also allow *you* to select the *strike price you* require, being *your* level of *commodity price* protection, as well as the *transaction amount*, *start date*, *expiration date* and *option style*. The *strike price you* select can be expressed in *AUD, USD* or *CAD,* or another currency as agreed between *you* and the *Bank*, to match the currency of *your* underlying exposure.

If *you* are seeking protection against a rise in a *commodity price you* will purchase a *Call*. If, on the *exercise date* the *commodity reference price* is:

- higher than the *call strike price you* can *exercise* the *Call*. This will result in the *Bank* paying *you* a *cash settlement amount*; or
- equal to or lower than the *call strike price*, *you* and the *Bank* have no further obligations to each other in the AO transaction. This means *you* may be able to benefit from a *commodity price* that is equal to or more favourable to *you* than the *call strike price*.

If *you* are seeking protection against a fall in a *commodity price you* will purchase a *Put*. If, on the *exercise date* the *commodity reference price* is:

- lower than the *put strike price you* can *exercise* the *Put*. This will result in the *Bank* paying *you* a *cash settlement amount*; or
- equal to or higher than the *put strike price*, *you* and the *Bank* have no further obligations to each other in the AO transaction. This means *you* may be able to benefit from a *commodity price* that is equal to or more favourable to *you* than the *put strike price*.

Exercise and *cash settlement amount*

If *you exercise your Put* or *Call* on the *exercise date you* will receive a *cash settlement amount* from the *Bank*. This *cash settlement amount* is determined on the *exercise date*, based on the difference between the *put* or *call strike price* and the *commodity reference price* on the *exercise date* and is paid to *you* on the *settlement date*.

For a *European option* AO transaction, the *exercise date* will be an *expiration date*. For an *American option* AO transaction an *exercise date* can be any *business day* between the *start date* and the *expiration date*. An *American option* AO transaction may be suitable for *you* if *you* are not certain of the exact *exercise date you* require.

Unless *you* specify otherwise, the *Bank* will automatically *exercise* the AO transaction on the *expiration date* if the *put* or *call strike price* is more favourable to *you* than the *commodity reference price*. For the avoidance of doubt, in case of automatic *exercise* by the *Bank you* do not have to provide the *Bank* with a notice of *exercise*.

The *cash settlement amount* for a *Put* is calculated as follows:

Transaction Amount x (*Put Strike Price – Commodity Reference Price*)

The *cash settlement amount* for a *Call* is calculated as follows:

Transaction Amount x (*Commodity Reference Price – Call Strike Price*)

If *you* require payment of the *cash settlement amount* in a different currency to the *commodity reference price*, on the *trade date you* must agree with the *Bank* the *reference rate* that will be used to convert the *commodity reference price* to the same currency as the *strike price* on the *exercise date*.

Where the *commodity reference price* is not in the same currency as the *strike price*, the settlement price from the *futures contract*, index or price guide will be converted to the same currency as the *strike price* using the *reference rate*. An example of a *reference rate* is the *Hedge Settlement Rate Average* (*HSRA*) *AUD/USD exchange rate* that is published on Reuters page *HSRA*.

Whether or not *you exercise your* AO transaction, *you* forego the *premium* paid to the *Bank*. If *you* have instructed the *Bank* not to *exercise* automatically on the *expiration date* and *you* do not *exercise your* AO transaction on or before the *expiration date*, *you* forego *your* right to *exercise your* AO transaction and *you* will not be able to recover any *cash settlement amount* that could have been payable if *you* had *exercised your* AO transaction.

What is an Agricultural Option (AO) transaction? cont.

Commodity reference prices are sourced from various *futures exchanges*, indices or price guides depending on the commodity underlying the AO transaction, and will be agreed between *you* and the *Bank* at the *trade date*. Please refer to Appendix A for examples of some of the *futures exchanges*, indices and price guides from which *commodity reference prices* could be sourced.

The *commodity reference price* can also be calculated using the *average rate method*. Under this method, the sum of the closing prices of a particular *futures contract*, index or price guide on each *commodity business day* in an *average rate period* is divided by the number of *commodity business days* in the *average rate period*.

Details of current *commodity reference prices*, including the commodities in which the *Bank* offers AO transactions, are available on request through any branch of the *Bank* or *your* relationship manager.

Before *you* enter into an AO transaction with the *Bank*, *you* are required to enter into the *master agreement* and *transactions addendum* with the *Bank* (see page 29 of this PDS for more information). A credit approval may also need to be in place.

Uses of AO transactions

AO transactions may be commercially useful for:

- producers of agricultural commodities such as wheat farmers;
- consumers of agricultural commodities such as dairy farmers requiring cattle feed; and
- other clients who have exposure to agricultural *commodity price* movements.

Determining the AO *premium*

You will specify to the *Bank* the required *transaction type*, the *option style* (*European option* or *American option*), the *put* or *call strike price* (including the currency in which the *put* or *call strike price* will be denominated), the *transaction amount*, the *settlement date*, the *start date* and the *expiration date*.

The Bank will calculate the *premium* by taking the following factors into account:

- the *commodity reference price* from the agreed *futures exchange*, index or price guide. All prices and products are heavily influenced by domestic and international exchange traded commodities markets. Some of these *futures exchanges*, indices and price guides from which *commodity reference prices* could be sourced are listed in Appendix A;
- the *transaction type* – whether the transaction is a *call* or *put*;
- the *option style* – whether the transaction is an *American option* or *European option*. *American options* can be *exercised* on any *business day* between the *start date* and *expiration date*. *European options* can only be *exercised* on the *expiration date*;
- the *forward exchange rate* for currency in which the *commodity reference price* is expressed – the *forward exchange rate* is the expression of the value of one currency in terms of another when the currencies are exchanged at a future date that is more than 2 *business days* after the contract to exchange the currencies is entered into. The fixed price of the underlying commodity can be denominated or expressed in *AUD*, *USD* or *CAD* or another currency as agreed between *you* and the *Bank;*
- the *forward exchange rate* for the currency in which the *strike price* is expressed;
- the *put* or *call strike price.* This is the price at which the underlying commodity *cash settlement amount* will be determined;
- a *volatility factor*. This is the expected degree of fluctuation in *exchange rates*, interest rates and *commodity reference price* during the *transaction period* as calculated by the *Bank*;
- the *transaction amount.* This is the agreed quantity of the underlying commodity;
- the *start date*. This is the first date on which an *American option* can be *exercised*;
- the *expiration date.* For a *European option*, this is the *exercise date*. For an *American option*, this is the last day on which the transaction can be *exercised*;
- an allowance for the *Bank*'s costs, both fixed and variable. These costs are dependent on the liquidity of the underlying product, ability to hedge, basis risk and whether or not there is a like future exchange traded contract; and
- the *Bank*'s profit margin. This is dependent on the client credit rating, the *Bank's* market risk exposure and the *Bank's* appetite to manage risk.

All the above factors individually and in combination will have a positive or negative impact on the premium. The individual impact of some of the factors are listed in the tables on the next page.

Impact of various factors on the AO *premium* for a commodity seller:

Option style	*American options* have higher *premiums* than *European options*
Strike price	A higher *strike price* results in a higher *premium* and a lower *strike price* results in a lower *premium*
Volatility factor	Higher volatility results in a higher *premium* and lower volatility results in a lower *premium*
Transaction amount	A higher *transaction amount* results in a higher *premium* and a lower *transaction amount* results in a lower *premium*
Expiration date	An *expiration date* further in the future results in a higher *premium* and an *expiration date* closer in the future results in a lower *premium*

Impact of various factors on the AO *premium* for a commodity buyer:

Option style	*American options* and *European options* have the same *premium*
Strike price	A lower *strike price* results in a higher *premium* and a higher *strike price* results in a lower *premium*
Volatility factor	Higher volatility results in a higher *premium* and lower volatility results in a lower *premium*
Transaction amount	A higher *transaction amount* results in a higher *premium* and a lower *transaction amount* results in a lower *premium*
Expiration date	An *expiration date* further in the future results in a higher *premium* and an *expiration date* closer in the future results in a lower *premium*

Examples of how an AO transaction works

The examples below set out how AO transactions work for producers (sellers) of wheat and for consumers (buyers) of wheat. It is important to note that in these examples, the financial outcomes have been determined without allowing for basis risk (refer to "What are the significant risks of *Agricultural Commodity Risk Management Transactions*?" on page 27 for a further discussion of basis risk). Examples are used for illustrative purposes only and do not reflect current market prices, outcomes or the *Bank*'s (or any of its associates') view on future matters.

Example 5: *You* are a producer (seller) of wheat

You would like to receive an agreed minimum amount in *AUD* for 300 metric tonnes of wheat in 1 year's time based on the *commodity reference price* on the *futures exchange* agreed between *you* and the *Bank*. In this example the *commodity reference price* will be based on the closing *USD* price of the wheat *futures contract* on *CBOT* on the *exercise date*, converted to *AUD** at the *HSRA AUD/USD exchange rate* on the following *business day* (the *HSRA date*). The *settlement date* will be 2 *business days* after the *HSRA date*.

Assuming the current *commodity reference price* of wheat is AUD309.00 per metric tonne, a fall in the *commodity price* would mean *you* would receive less *AUD* when *you* sell *your* physical wheat. *You* are therefore seeking protection against a fall in the *commodity price*. *You* would also like the potential to benefit if the *commodity price* rises.

You would like to buy a *Put* with a *strike price* at AUD300.00 per metric tonne to protect *you* against any fall in the *commodity reference price* below AUD300.00 per metric tonne. The *Bank* will determine the *premium* that *you* must pay for the *Put*.

Assume the following for Example 5:

Commodity	*CBOT* Wheat
Transaction amount	300 metric tonnes
Transaction type	*Put*
AO *option style*	*European option*
***AUD strike price* per metric tonne (specified by *you*)**	300.00
***Premium* (calculated by the *Bank*)**	*AUD* 9.20 per metric tonne (*AUD* 2,760.00 in total)
Start date	Today
Expiration date	1 year from the *trade date*
HSRA date	1 *business day* after the *expiration date*
Settlement date	2 *business days* after the *HSRA date*

* In this example, if *you* agreed with the *Bank* to use the *commodity reference price* based on the closing *AUD* price of the wheat *futures contracts* on *ASX* on the *exercise date* instead of *CBOT*, there would be no requirement to convert the *commodity reference price* to *AUD*.

What is an Agricultural Option (AO) transaction? cont.

Possible outcomes on the *expiration date*	Possible price achieved** (excluding the *premium*)
If the *commodity reference price* is lower than the *strike price* and the AO transaction is *exercised*, then on the *settlement date* the *Bank* must pay *you* the difference between the *strike price* and the *commodity reference price*. For example, if the *commodity reference price* is AUD280.00 per metric tonne then on the *settlement date* the *Bank* will pay *you*: 300 x (AUD300.00 – AUD280.00) = AUD6,000.00 This *cash settlement amount* will compensate *you* for the lower price *you* will receive when *you* sell *your* physical wheat. For example, if *you* sell *your* physical wheat at AUD280.00 per metric tonne *you* will receive: 300 x AUD280.00 = AUD84,000.00 This means that *you* have received a total of AUD90,000.00 (AUD84,000.00 + AUD6,000.00). However, after taking the *premium* of AUD2,760.00 into account *you* have effectively received a total of AUD87,240.00: AUD90,000.00 – AUD2,760.00 = AUD87,240.00 This equals an *effective commodity price* of AUD290.80 per metric tonne: AUD87,240.00 ÷ 300 metric tonnes = AUD290.80 per metric tonne	**AUD300.00 per metric tonne**
If the *commodity reference price* is equal to or higher than the *strike price*, then on the *settlement date you* and the *Bank* will have no further obligations to each other with respect to this AO transaction. The result will be that *you* can sell *your* physical wheat at a price which is equal to or more favourable than the *strike price*. For example, if *you* sell *your* physical wheat at AUD320.00 per metric tonne *you* will receive: 300 x AUD320.00 = AUD96,000.00 However, after taking the *premium* of AUD2,760.00 into account *you* have effectively received a total of AUD93,240.00: AUD96,000.00 – AUD2,760.00 = AUD93,240.00 This equals an *effective commodity price* of AUD310.80 per metric tonne: AUD63,240.00 ÷ 300 metric tonnes = AUD310.80 per metric tonne	**Equal to or higher than AUD300.00 per metric tonne**

** Examples are used for illustrative purposes only and do not reflect current market prices, outcomes or the *Bank*'s (or any of its associates') view on future matters.

If this AO *transaction type* was an *American option* the same calculations would be used to determine the outcomes on the *exercise date*.

If this AO *transaction* used the *average rate method* the same outcomes would be possible, the only difference being that the *commodity reference price* would have been calculated using the *average rate method*.

Issues to consider

In setting *your strike price* for a *Put* there are various issues *you* need to consider. Using Example 5 these can be summarised as follows:

- A higher *strike price* means *your* exposure to a falling *commodity price* is reduced, however, it also means the *premium* will be higher.
- A lower *strike price* means *your* exposure to a falling *commodity price* is increased, however, it also means the *premium* will be lower.

Example 6: *You* are a consumer (buyer) of wheat

You would like to pay an agreed maximum amount in *AUD* for 300 metric tonnes of wheat in 1 year's time based on the *commodity reference price* on the *futures exchange* agreed between *you* and the *Bank*. In this example the *commodity reference price* will be based on the closing *USD* price of the wheat *futures contract* on *CBOT* on the *exercise date*, converted to *AUD** at the *HSRA AUD/USD exchange rate* on the following *business day* (the *HSRA date*). The *settlement date* will be 2 *business days* after the *HSRA date*.

Assuming the current *commodity reference price* for wheat is AUD309.00 per metric tonne, a rise in the *commodity price* would mean *you* would have to pay more *AUD* when *you* buy *your* physical wheat. *You* are therefore seeking protection against a rise in the *commodity price*. *You* would also like the potential to benefit if the *commodity price* falls.

You would like to buy a *Call* with a *strike price* of AUD300.00 per metric tonne to protect *you* against any rise in the *commodity reference price* above AUD300.00 per metric tonne. The *Bank* will determine the *premium* that *you* must pay for the *Call*.

Assume the following for Example 6:

Commodity	*CBOT* Wheat
Transaction amount	300 metric tonnes
Transaction type	*Call*
AO *option style*	*European option*
***AUD strike price* per metric tonne (specified by *you*)**	300.00
***Premium* (calculated by the *Bank*)**	*AUD* 9.20 per metric tonne (*AUD* 2,760.00 in total)
Start date	Today
Expiration date	1 year from the *trade date*
HSRA date	1 *business day* after the *expiration date*
Settlement date	2 *business days* after the *HSRA date*

* In this example, if *you* agreed with the *Bank* to use the *commodity reference price* based on the closing *AUD* price of the wheat *futures contracts* on *ASX* on the *expiration date* instead of *CBOT*, there would be no requirement to convert the *commodity reference price* to *AUD*.

Possible outcomes on the *expiration date*	Possible price achieved** (excluding the *premium*)
If the *commodity reference price* is higher than the *strike price* and the AO transaction is *exercised*, then on the *settlement date* the *Bank* must pay *you* the difference between the *strike price* and the *commodity reference price*. For example, if the *commodity reference price* is AUD320.00 per metric tonne then on the *settlement date* the *Bank* will pay *you*: 300 x (AUD320.00 – AUD300.00) = AUD6,000.00 This *cash settlement amount* will compensate for the higher price *you* will pay when *you* buy *your* physical wheat. For example, if *you* buy *your* physical wheat at AUD320.00 per metric tonne *you* will pay: 300 x AUD320.00 = AUD96,000.00 This means that *you* have paid a total of AUD90,000.00 (AUD96,000.00 – AUD6,000.00). However, after taking the *premium* of AUD2,760.00 into account *you* have effectively paid a total of AUD92,760.00: AUD90,000.00 + AUD2,760.00 = AUD92,760.00 This equals an *effective commodity price* of AUD309.20 per metric tonne: AUD92,760.00 ÷ 300 metric tonnes = AUD309.20 per metric tonne	**AUD300.00 per metric tonne**

What is an Agricultural Option (AO) transaction? cont.

Possible outcomes on the *expiration date*	Possible price achieved** (excluding the *premium*)
If the *commodity reference price* is equal to or lower than the *strike price*, then on the *settlement date you* and the *Bank* will have no further obligations to each other with respect to this AO transaction. The result will be that *you* can buy *your* physical wheat at a price which is equal to or more favourable than the *strike price*. For example, if *you* bought *your* physical wheat at AUD280.00 per metric tonne *you* will pay: 300 x AUD280.00 = AUD84,000.00 However, after taking the *premium* of AUD2,760.00 into account *you* have effectively paid a total of AUD86,760.00: AUD84,000.00 + AUD2,760.00 = AUD86,760.00 This equals an *effective commodity price* of AUD289.20 per metric tonne: AUD86,760.00 ÷ 300 metric tonnes = AUD289.20 per metric tonne	**Equal to or higher than AUD300.00 per metric tonne**

** Examples are used for illustrative purposes only and do not reflect current market prices, outcomes or the *Bank*'s (or any of its associates') view on future matters.

If this AO *transaction type* was an *American option* the same calculations would be used to determine the outcomes on the *exercise date*.

If this AO *transaction* used the *average rate method* the same outcomes would be possible, the only difference being that the *commodity reference price* would have been calculated using the *average rate method*.

Issues to consider

In setting *your strike price* for a *Call* there are various issues *you* need to consider. Using Example 6 these can be summarised as follows:

- A lower *strike price* means *your* exposure to a rising *commodity price* is reduced, however, it also means the *premium* will be higher.
- A higher *strike price* means *your* exposure to a rising *commodity price* is increased, however, it also means the *premium* will be lower.

What is an Agricultural Collar (AC) transaction?

An AC transaction is an agreement between *you* and the *Bank* where *you* can sell or buy a specified commodity at either an agreed *call strike price* or an agreed *put strike price* on an *exercise date*.

An AC transaction is made up of two option *transactions*, a *Put* and a *Call*. A *Put* is an option where the buyer has the right but not the obligation to sell the underlying commodity at the *put strike price*. A *Call* is an option where the buyer has the right but not the obligation to buy the underlying commodity at the *call strike price*.

An option may be cash settled or physically delivered. AC transactions are cash settled only. No physical delivery of the underlying commodity will take place. This means that, instead of the parties having to physically deliver an underlying commodity, a *cash settlement amount* is determined and payable on the corresponding *settlement date*.

If *you* buy a *Put* or *Call* transaction from the *Bank you* are required to pay a *premium* to the *Bank*. If *you* sell a *Put* or *Call transaction* to the *Bank you* will receive a *premium*.

An AC transaction consists of two *strike prices*, i.e. the *call strike price* and the *put strike price*. If on the *exercise date*, the *commodity reference price* is equal to the *call strike price* or the *put strike price*, or is trading between the *call strike price* and the *put strike price*, *you* and the *Bank* have no further obligations to each other under the AC transaction.

An AC transaction allows *you* to select the *put strike price* or *call strike price you* require, being *your* level of *commodity price* protection, as well as the *transaction amount* and *expiration date*. The *put strike price* or *call strike price* can be expressed in *AUD, USD* or *CAD,* or another currency agreed between *you* and the *Bank*, to match the currency of *your* underlying exposure.

If *you* are seeking protection against a fall in a *commodity price your* AC transaction will involve *you* simultaneously buying a *Put* from the *Bank* and selling a *Call* to the *Bank*. AC transactions are usually structured so that the *premium* of *your* bought *Put* is of equal value to the *premium* of *your* sold *Call* with the result that the net *premium* is zero (this is also known as zero *premium*). The *Bank* will protect *your commodity price* at the *put strike price*. However, in exchange for a zero *premium your* potential to take advantage of favourable *commodity price* movements is limited to the *call strike price*.

If, on the *exercise date* the *commodity reference price* is:

- lower than the *put strike price*, *you* can *exercise your Put*. This will result in the *Bank* paying *you* a cash settlement amount;
- higher than the *call strike price*, the *Bank* will *exercise* the *Call*. This will result in *you* paying a *cash settlement amount* to the *Bank*; or
- equal to the *put strike price* or the *call strike price* or between the *put strike price* and the *call strike price*, *you* and the *Bank* have no further obligations to each other in the AC transaction. This means *you* may be able to benefit from a *commodity price* that is equal to or more favourable to *you* than the *put strike price*, but equal to or less favourable to *you* than the *call strike price*.

If *you* are seeking protection against a rise in a *commodity price your* AC transaction will involve *you* simultaneously purchasing a *Call* from the *Bank* and selling a *Put* to the *Bank*. AC transactions are usually structured so that the *premium* of *your* bought *Call* is of equal value to the *premium* of *your* sold *Put* with the result that the net *premium* is zero (this is also known as zero *premium*). The *Bank* will protect *your commodity price* at the *call strike price*. However, in exchange for a zero *premium your* potential to take advantage of favourable *commodity price* movements is limited to the *put strike price*.

If, on the *exercise date* the *commodity reference price* is:

- higher than the *call strike price you* can *exercise your Call*. This will result in the *Bank* paying *you* a *cash settlement amount*;
- lower than the *put strike price*, the *Bank* will *exercise* the *Put*. This will result in *you* paying a *cash settlement amount* to the *Bank*; or
- equal to the *put strike price* or the *call strike price* or between the *call strike price* and the *put strike price*, *you* and the *Bank* have no further obligations to each other in the AC transaction. This means *you* may be able to benefit from a *commodity price* that is equal to or more favourable to *you* than the *call strike price* but equal to or less favourable to *you* than the *put strike price*.

Exercise and *cash settlement amount*

If *you exercise your* bought *Put* or *Call* on the *exercise date you* will receive a *cash settlement amount* from the *Bank*. This *cash settlement amount* is determined on the *exercise date*, based on the difference between the *strike price* of *your* bought *Put* or *Call* and the *commodity reference price* on the *exercise date* and is paid to *you* on the *settlement date*. *You* can only *exercise* on an *expiration date* in an AC transaction.

Unless *you* specify otherwise, the *Bank* will automatically *exercise your* bought *Put* or *Call* if the *strike price* is more favourable to *you* than the *commodity reference price*. For the avoidance of doubt, in case of automatic *exercise* by the *Bank you* do not have to provide the *Bank* with a notice of *exercise*.

What is an Agricultural Collar (AC) transaction? cont.

The *cash settlement amount* for a *Put* is calculated as follows:

Transaction Amount x (*Put Strike Price – Commodity Reference Price*)

The *cash settlement amount* for a *Call* is calculated as follows:

Transaction Amount x (*Commodity Reference Price – Call Strike Price*)

If *you* require payment of the *cash settlement amount* in a different currency to the *commodity reference price*, then *you* must agree on the *trade date* with the *Bank* the *reference rate* that will be used to convert the *commodity reference price* to the same currency as the currency of the *strike price*.

Where the *commodity reference price* is not in the same currency as the *strike price*, the settlement price from the *futures contract*, index or price guide will be converted to the same currency as the *strike price* using the *reference rate*. An example of a *reference rate* is the *Hedge Settlement Rate Average* (*HSRA*) *AUD/USD exchange rate* that is published on Reuters page *HSRA*.

Whether or not *you exercise your* bought *Put* or *Call*, *you* forgo any *premium* paid to the *Bank*. If *you* have instructed the *Bank* not to *exercise your* bought *Put* or *Call* automatically on the *expiration date* and *you* do not *exercise your* bought *Put* or *Call* on the *expiration date*, *you* forgo *your* right to *exercise your* AC transaction with respect to that *expiration date* and *you* will not be able to recover any *cash settlement amount* which would have been payable to *you* if *you* had *exercised* the AC transaction.

AC transactions are usually structured on a zero *premium* basis based on the *premium* of *your* bought *Put* or *Call* being of equal value to the *premium* of the *Put* or *Call* that the *Bank* simultaneously buys from *you*. Where the *premiums* are not of equal value one of the parties to the agreement will be required to make a *premium* payment to the other on the *trade date*. Refer to "Determining AC prices" on this page for details on how *premiums* are determined.

Commodity reference prices are sourced from various *futures exchanges*, indices or price guides depending on the commodity underlying the AC transaction, and will be agreed between *you* and the *Bank* at the *trade date*. Please refer to Appendix A for examples of some of the *futures exchanges*, indices and price guides from which *commodity reference prices* could be sourced.

Details of current *commodity reference prices*, including the commodities in which the *Bank* offers AC transactions, are available on request through any branch of the *Bank* or *your* relationship manager.

The entry into each AC transaction is subject to prior credit approval by the *Bank* and *your* entering into the *master agreement* and *transactions addendum* (see pages 29 for more information).

Uses of AC transactions

AC transactions may be commercially useful for:

- producers of agricultural commodities such as wheat farmers;
- consumers of agricultural commodities such as dairy farmers requiring cattle feed; and
- other clients who have exposure to agricultural *commodity price* movements.

Determining AC prices

AC prices include a *put strike price* and a *call strike price*.

If *you* are seeking protection against a fall in a *commodity price you* will specify to the *Bank* the *put strike price you* require, being *your* level of *commodity price* protection, the currency, *transaction amount* and *expiration date*. The *Bank* will determine the *call strike price*.

If *you* are seeking protection against a rise in a *commodity price you* will specify to the *Bank* the *call strike price you* require, being *your* level of *commodity price* protection, the currency, *transaction amount* and *expiration date*. The *Bank* will determine the *put strike price*.

The *call strike price* or *put strike price* to be determined by the *Bank* and the *premiums* will be calculated by taking the following factors into account:

- the *commodity reference price* from the agreed *futures exchange*, index or price guide. All prices and products are heavily influenced by domestic and international exchange traded commodities markets. Some of these *futures exchanges*, indices and price guides from which *commodity reference prices* could be sourced are listed in Appendix A;
- the *forward exchange rate* for currency in which the *commodity reference price* is expressed – the *forward exchange rate* is the expression of the value of one currency in terms of another when the currencies are exchanged at a future date that is more than 2 *business days* after the contract to exchange the currencies is entered into. The fixed price of the underlying commodity can be denominated or expressed in *AUD*, *USD* or *CAD* or another currency as agreed between *you* and the *Bank*;
- the *forward exchange rate* for the currency in which the *put* and *call strike price* is expressed;
- the *put* and *call strike price*. This is the price at which the underlying commodity *cash settlement amount* will be determined;
- *a volatility factor*. This is the expected degree of fluctuation in *exchange rates*, interest rates and *commodity reference price* during the *transaction period* as calculated by the *Bank*;
- the *transaction amount*. This is the agreed quantity of the underlying commodity;

- the *transaction period*. This is the period from and including the *trade date* (date on which and agreement is reached by the relevant parties) and the final *settlement date* (the *business day* on which a *cash settlement amount* will be exchanged between the *parties to the agreement*);
- an allowance for the *Bank's* costs, both fixed and variable. These costs are dependent on the liquidity of the underlying product, ability to hedge, basis risk and whether or not there is a like future exchange traded contract; and
- the *Bank's* profit margin. This is dependent on the client credit rating, the *Bank's* market risk exposure and the *Bank's* appetite to manage risk.

All the above factors individually and in combination will have a positive or negative impact on the prices. The individual impact of some of the factors are listed in the tables below.

Impact of various factors on the AC *premium* for a commodity seller:

Call strike price	Keeping the *put strike price* constant, a lower *call strike price* results in a lower AC *premium*, and a higher *call strike price* results in a higher AC *premium*.
Put strike price	Keeping the *call strike price* constant, a lower *put strike price* results in a lower AC *premium* and a higher *put strike price* results in a higher AC *premium*.
Volatility factor	Higher volatility results in a higher AC *premium* and lower volatility results in a lower AC *premium*.
Transaction amount	A higher *transaction amount* results in a higher AC *premium* and a lower *transaction amount* results in a lower AC *premium*.
Expiration date	An *expiration date* further in the future results in a higher AC *premium* and an *expiration date* closer in the future results in a lower AC *premium*.

Impact of various factors on the AC *premium* for a commodity buyer:

Call strike price	Keeping the *put strike price* constant, a lower *call strike price* results in a higher AC *premium* and a higher *call strike price* results in a lower AC *premium*.
Put strike price	Keeping the *call strike price* constant, a lower *put strike price* results in a higher AC *premium* and a higher *put strike price* results in a lower AC *premium*.
Volatility factor	Higher volatility results in a higher AC *premium* and lower volatility results in a lower AC *premium*.
Transaction amount	A higher *transaction amount* results in a higher AC *premium* and a lower *transaction amount* results in a lower AC *premium*.
Expiration date	An *expiration date* further in the future results in a higher AC *premium* and an *expiration date* closer in the future results in a lower AC *premium*.

Examples of how an AC transaction works

The examples below set out how AC transactions work for producers (sellers) of wheat and for consumers (buyers) of wheat.

It is important to note that in these examples, the financial outcomes have been determined without allowing for basis risk (refer to "What are the significant risks of an *Agricultural Commodity Risk Management Transaction*?" on page 27 for a further discussion of basis risk). Examples are used for illustrative purposes only and do not reflect current market prices, outcomes or the *Bank*'s (or any of its associates') view on future matters.

Example 7: *You* are a producer (seller) of wheat

You would like to receive an agreed minimum amount in *AUD* for 300 metric tonnes of wheat in 1 year's time based on the *commodity reference price* on the *futures exchange* agreed between *you* and the *Bank*. In this example the *commodity reference price* will be based on the closing *USD* price of the wheat *futures contract* on *CBOT* on the *exercise date* converted to AUD* at the *HSRA AUD/USD exchange rate* on the following *business day* (the *HSRA date*). The *settlement date* will be 2 *business days* after the *HSRA date*.

Assuming the current *commodity reference price* of wheat is AUD309.00 per metric tonne, a fall in the *commodity price* would mean *you* would receive less *AUD* when *you* sell *your* physical wheat. *You* are therefore seeking protection against a fall in the *commodity price*. *You* would also like the potential to benefit if the *commodity price* rises.

You would like a *put strike price* at AUD300.00 per metric tonne to protect *you* against any fall in the *commodity reference price* below AUD300.00 per metric tonne. The *Bank* will determine the *call strike price*.

What is an Agricultural Collar (AC) transaction? cont.

Assume the following rates for Example 7

Commodity	*CBOT* wheat
Transaction amount	300 metric tonnes
***AUD put strike price* per metric tonne (specified by *you*)**	300.00
***AUD call strike price* per metric tonne (calculated by the *Bank*)**	325.00
Expiration date	1 year from the *trade date*
HSRA date	1 *business day* after the *expiration date*
Settlement date	2 *business days* after the *HSRA date*

* In this example, if *you* agreed with the *Bank* to use the *commodity reference price* based on the closing *AUD* price of the wheat *futures contracts* on *ASX* on the *exercise date* instead of *CBOT*, there would be no requirement to convert the *commodity reference price* to *AUD*.

Possible outcomes on the *expiration date*	Possible price achieved**
If the *commodity reference price* is lower than the *put strike price*, then on the *settlement date* the *Bank* must pay *you* the difference between the *put strike price* and the *commodity reference price*. For example, if the *commodity reference price* is AUD280.00 per metric tonne, then on the *settlement date* the *Bank* will pay *you*: 300 x (AUD300.00 – AUD280.00) = AUD6,000.00 This *cash settlement amount* will compensate for the lower price *you* will receive when *you* sell *your* physical wheat. For example, if *you* sold *your* physical wheat at AUD280.00 per metric tonne *you* will receive: 300 x AUD280.00 = AUD84,000.00 The cash payment from the *Bank* of AUD6,000.00 means that *you* have received a total of AUD90,000.00. This equals AUD300.00 per metric tonne: AUD90,000 ÷ 300 metric tonnes = AUD300.00 per metric tonne	**AUD300.00 per metric tonne**
If the *commodity reference price* is higher than the *call strike price*, then on the *settlement date you* must pay to the *Bank* the difference between the *commodity reference price* and the *call strike price*. For example, if the *commodity reference price* is AUD345.00 per metric tonne then on the *settlement date you* will pay the *Bank*: 300 x (AUD345.00 – AUD325.00) = AUD6,000.00 This *cash settlement amount* will offset the higher price *you* will receive when *you* sell *your* physical wheat. For example, if *you* sold *your* physical wheat at AUD345.00 per metric tonne *you* will receive: 300 x AUD345.00 = AUD103,500.00 The *cash settlement amount* payable by *you* to the *Bank* of AUD6,000.00 means that *you* have received a total of AUD97,500.00. This equals AUD325.00 per metric tonne: AUD97,500.00 ÷ 300 metric tonnes = AUD325.00 per metric tonne	**Equal to or higher than AUD325.00 per metric tonne**
If the *commodity reference price* is equal to or higher than the *put strike price* and equal to or lower than the *call strike price*, then on the *settlement date you* and the *Bank* will have no further obligations to each other with respect to this AC transaction. The result will be that *you* can sell *your* physical wheat at a price that is equal to or higher than the *put strike price* but equal to or lower than the *call strike price*.	**Equal to or higher than AUD300.00 per metric tonne but equal to or lower than AUD325.00 per metric tonne**

** Examples are used for illustrative purposes only and do not reflect current market prices, outcomes or the *Bank*'s (or any of its associates') view on future matters

Issues to consider

In setting *your put strike price* and agreeing to the *call strike price* there are various issues *you* need to consider. Using Example 7 these can be summarised as follows:

- A higher *put strike price* means *your* exposure to a falling *commodity price* is reduced, however, it also means the resultant *call strike price* will be lower meaning *your* potential to benefit from a rise in the *commodity price* is reduced; and
- A lower *put strike price* means *your* exposure to a falling *commodity price* is increased, however, it also means the resultant *call strike price* will be higher meaning *your* potential to benefit from a rise in the *commodity price* is increased.

Example 8: *You* are a consumer (buyer) of wheat

You would like to pay an agreed maximum amount in *AUD* for 300 metric tonnes of wheat in 1 year's time based on the *commodity reference price* on the *futures exchange* agreed between *you* and the *Bank*. In this example the *commodity reference price* will be based on the closing *USD* price of the wheat *futures contract* on *CBOT* on the *exercise date* converted to AUD* at the *HSRA AUD/USD exchange rate* on the *business day* (the *HSRA date*) following the *exercise date*. The *settlement date* will be 2 *business days* after the *HSRA date*.

Assuming the current *commodity reference price* for wheat is AUD309.00 per metric tonne, a rise in the *commodity price* would mean *you* would have to pay more *AUD* when *you* buy *your* physical wheat. *You* are therefore seeking protection against a rise in the *commodity price*. *You* would also like the potential to benefit if the *commodity price* falls.

You would like a *call strike price* at AUD325.00 per metric tonne to protect *you* against any rise in the *commodity reference price* above AUD325.00 per metric tonne. The *Bank* will determine the *put strike price*.

Assume the following rates for Example 8

Commodity	*CBOT* Wheat
Transaction amount	300 metric tonnes
***AUD call strike price* per metric tonne (specified by *you*)**	325.00
***AUD put strike price* per metric tonne (calculated by the *Bank*)**	295.00
Expiration date	1 year from the *trade date*
HSRA date	1 *business day* after the *expiration date*
Settlement date	2 *business days* after the *HSRA date*

* In this example, if *you* agreed with the *Bank* to use the *commodity reference price* based on the closing *AUD* price of the wheat *futures contracts* on *ASX* on the *expiration date / exercise date* instead of *CBOT*, there would be no requirement to convert the *commodity reference price* to *AUD*.

Possible outcomes on the *expiration date*	Possible price achieved**
If the *commodity reference price* is higher than the *call strike price*, then on the *settlement date* the *Bank* must pay *you* the difference between the *call strike price* and the *commodity reference price*. For example, if the *commodity reference price* is AUD345.00 per metric tonne, then on the *settlement date* the *Bank* will pay *you*: 300 x (AUD345.00 – AUD325.00) = AUD6,000.00 This *cash settlement amount* will compensate for the higher price *you* will pay when *you* buy *your* physical wheat. For example, if *you* bought *your* physical wheat at AUD345.00 per metric tonne *you* will pay: 300 x AUD345.00 = AUD103,500.00 The *cash settlement amount* from the *Bank* of AUD6,000.00 means that *you* have paid a total of AUD97,500.00. This equals AUD325.00 per metric tonne: AUD97,500 ÷ 300 metric tonnes = AUD325.00 per metric tonne	**AUD325.00 per metric tonne**

What is an Agricultural Collar (AC) transaction? cont.

Possible outcomes on the *expiration date*	Possible price achieved**
If the *commodity reference price* is lower than the *put strike price*, then on the *settlement date you* must pay to the *Bank* the difference between the *commodity reference price* and the *put strike price*. For example, if the *commodity reference price* is AUD275.00 per metric tonne, then on the *settlement date you* will pay the *Bank*: 300 x (AUD295.00 – AUD275.00) = AUD6,000.00 This *cash settlement amount* will be offset by the lower price *you* will pay when *you* buy *your* physical wheat. For example, if *you* bought *your* physical wheat at AUD275.00 per metric tonne *you* will pay: 300 x AUD275.00 = AUD82,500.00 The cash payment to the *Bank* of AUD6,000.00 means that *you* have paid a total of AUD88,500.00. This equals AUD295.00 per metric tonne: AUD88,500.00 ÷ 300 metric tonnes = AUD295.00 per metric tonne	**AUD295.00 per metric tonne**
If the *commodity reference price* is equal to or higher than the *put strike price* and equal to or lower than the *call strike price*, then on the *settlement date you* and the *Bank* will have no further obligations to each other with respect to this AC transaction. The result will be that *you* can buy *your* physical wheat at a price that is equal to or higher than the *put strike price* but equal to or lower than the *call strike price*.	**Equal to or lower than AUD325.00 per metric tonne but equal to or higher than AUD295.00 per metric tonne**

** Examples are used for illustrative purposes only and do not reflect current market prices, outcomes or the *Bank*'s (or any of its associates') view on future matters.

Issues to consider

In setting the *call strike price* and agreeing to the *put strike price* there are various issues *you* need to consider. Using Example 8 these can be summarised as follows:

- A lower *call strike price* means *your* exposure to a rising *commodity reference price* is reduced, however, it also means the resultant *put strike price* will be higher meaning *your* potential to benefit from a fall in the *commodity price* is reduced, and
- A higher *call strike price* means *your* exposure to a rising *commodity reference price* is increased, however, it also means the resultant *put strike price* will be lower meaning *your* potential to benefit from a fall in the *commodity price* is increased.

Agricultural Commodity Risk Management Solutions – Additional Information

What are the significant benefits of *Agricultural Commodity Risk Management Transactions*?

Agricultural Swap

The benefits include:

- the ability for *you* to receive or pay a fixed price for an agreed quantity of a commodity on an agreed future date;
- the ability for *you* to set the agreed *transaction amount* and the *transaction period* to match the level of *commodity price* protection that *you* require; and
- the ability for *you* to set the currency *you* require as agreed between *you* and the *Bank*.

Agricultural Participating Swap

The benefits include:

- the ability for *you* to receive or pay a fixed price for an agreed quantity of a commodity on an agreed future date, however with the flexibility to benefit from favourable *commodity price* movements (once the *participation level* is exceeded);
- the ability for *you* to set not only the *participation level*, but also to determine the volume of participation at that level (*participation quantity*).
- the cost of participation is embedded within the cost of the APS;
- the ability for *you* to set the agreed *transaction amount* and the *transaction period* to match the level of *commodity price* protection that *you* require; and
- the ability for *you* to set the currency *you* require as agreed between *you* and the *Bank*.

Agricultural Option

The benefits include:

- the provision of *commodity price* protection via a strike price;
- the potential to benefit from favourable *commodity price* movements; and
- the ability for *you* to determine the *transaction type*, the *option style*, the *put* or *call strike price*, the *transaction amount*, the currency, the *settlement date*, *start date* and *expiration date* to match the level of *commodity price* protection that *you* require as agreed between *you* and the *Bank*.

Agricultural Collar

The benefits include:

- the provision of *commodity price* protection via a *call strike price* (if *you* are a buyer (consumer) of agricultural commodities) or a *put strike price* (if *you* are a seller (producer) of agricultural commodities);
- some potential to benefit from favourable commodity price movements;
- the ability to structure on a zero *premium* basis; and
- the ability for *you* to determine the *call strike price* or the *put strike price*, the *transaction amount*, the currency and *expiration date* to match the level of commodity price protection that *you* require as agreed between *you* and the *Bank*.

What are the significant disadvantages of *Agricultural Commodity Risk Management Transactions*?

Agricultural Swap

Disadvantages include:

- an AS transaction does not cover the basis risk, which is the risk arising from entering into an AS transaction that is not identical with the risk being covered (see "Basis risk" on page 27);
- it does not allow *you* to benefit from future favourable *commodity price* movements; and
- there may be a cost if the AS is terminated before the *termination date* (see "Terminating an *Agricultural Commodity Risk Management Transaction*" on page 30 of this PDS).

Agricultural Participating Swap

Disadvantages include:

- an APS transaction does not cover the basis risk, which is the risk arising from entering into an APS transaction that is not identical with the risk being covered (see "Basis risk" on page 27);
- the fixed price of an APS will differ from a standard Agricultural Swap to reflect the cost of the participation;
- the *participation level* must be reached before *you* can benefit from favourable *commodity price* movements; and
- there may be a cost if the APS is terminated before the *termination date* (see "Terminating an *Agricultural Commodity Risk Management Transaction*" on page 30 of this PDS).

Agricultural Commodity Risk Management Solutions – Additional Information cont.

Agricultural Option

Disadvantages include:

- *you* must pay the *premium* to the *Bank* on the *trade date*;
- the AO transaction does not cover the basis risk (refer to "Basis risk" on this page), which is the risk arising from entering into an AO transaction that is not identical with the risk being covered;
- on an *expiration date*, the AO transaction in relation to that *expiration date* may expire worthless resulting in all or part of the *premium* being an additional cost for *you*; and
- if automatic *exercise* does not apply and *you* do not *exercise* the AO transaction on or before an *expiration date*, *you* will not be able to recover any *cash settlement amount* which would have been payable if *you* had *exercised* the AO transaction and *you* forego *your* right to *exercise your* AO transaction.

Agricultural Collar

If *you* are a seller (producer) of agricultural commodities, the disadvantages include:

- *your* potential to benefit from favourable price movements is limited to the *call strike price*;
- an AC transaction does not cover the basis risk, which is the risk arising from entering into an AC transaction that is not identical to the risk being covered (see "What are the significant risks of *Agricultural Commodity Risk Management Transactions*?" on this page for a further discussion of basis risk);
- there may be a cost if the AC transaction is terminated before the last *settlement date*. (See "Terminating an *Agricultural Commodity Risk Management Transaction*" and "What are the costs involved in *Agricultural Commodity Risk Management Transactions*?" on page 30 for more information); and
- if automatic *exercise* does not apply and *you* do not *exercise* the AC transaction on an *expiration date*, *your exercise* rights will be forgone and *you* will not be able to recover any *cash settlement amount* which might have been payable if *you* had *exercised* the AC transaction.

If *you* are a buyer (consumer) of agricultural commodities, the disadvantages include:

- *your* potential to benefit from favourable price movements is limited to the *put strike price*;
- an AC transaction does not cover the basis risk, which is the risk arising from entering into an AC transaction that is not identical to the risk being covered (see "Basis risk" on this page);
- there may be a cost if the AC is terminated before the last *settlement date*. (See "Terminating an *Agricultural Commodity Risk Management Transaction*" and "What are the costs involved in *Agricultural Commodity Risk Management Transactions*?" on page 30 for more information); and
- if automatic *exercise* does not apply and *you* do not *exercise* the AC transaction on an *expiration date*, *your exercise* rights will be forgone with respect to that *expiration date* and *you* will not be able to recover any *cash settlement amount* which would have been payable if *you* had *exercised* the AC transaction with respect to that *expiration date*.

What are the significant risks of *Agricultural Commodity Risk Management Transactions*?

Risks derive from factors that are beyond *your* control. Starting from the time at which *you* enter into an *Agricultural Commodity Risk Management Transaction* with the *Bank*, risk factors may lead to changes in the financial outcomes that are unfavourable to *you*. Monitoring any risks associated with this product is *your* responsibility (subject to the responsibility of the *Bank* for its own operational processes, see "Operational risk" on page 28).

Basis risk

Basis risk is the risk arising from entering into an *Agricultural Commodity Risk Management Transaction* that is not identical with the risk being covered. The risk is a result of the difference between the *commodity reference price* and the *commodity price* for which *you* will buy or sell *your* physical commodity in the market. For example, an AO wheat *transaction* uses a *commodity reference price* sourced from a *futures exchange*. However, the *commodity price* which a producer will receive upon the sale of their physical wheat takes into account the grade of the wheat, transportation costs and other factors. As such the fluctuations in the *commodity reference price* may not match those for the *commodity price*.

Market risk

In *Agricultural Commodity Risk Management Transactions*, the key market risk to *you* is that *you* do not receive any benefit after *you* enter into an *Agricultural Commodity Risk Management Transaction* with the *Bank*. This will occur if,

- for an AS: the fixed price is equal to the *commodity reference price* on the *pricing date* or if *you* must pay a *cash settlement amount* to the *Bank* on a *payment date* because the *commodity reference price* is more favourable to *you* than the fixed price;

- for an APS: the fixed price is equal to the *commodity reference price* on the *pricing date* or if *you* must pay a *cash settlement amount* to the *Bank* on a *settlement date* because the *commodity reference price* is more favourable to *you* than the fixed price;
- for an AO: on every *expiration date* the *commodity reference price* is more favourable to *you* than the *put* or *call strike price*;
- for an AC: on every *settlement date*, *you* are required to pay the *Bank* a *cash settlement amount*, that is, on every *expiration date* the *commodity reference price* is more favourable than the *call strike price* or *put strike price*.

Early termination of an *Agricultural Commodity Risk Management Transaction* may result in:

- for an AS or APS: *you* paying more or receiving less than the fixed price;
- for an AO: (if *you* purchased a *Call*) *you* paying more than the *call strike price*; and (if *you* purchased a *Put*) *you* receiving less than the *put strike price*. If *you* choose an *American option*, there is also the possibility that if *you* had *exercised your* option at a different time, *you* would have received a larger *cash settlement amount*;
- for an AC: *you* paying more than the *call strike price* or receiving less than the *put strike price*.

Additionally, *you* may also risk that *you* will pay more or receive less than *you* would have if no *Agricultural Commodity Risk Management Transaction* had been entered into at all.

The *Bank* expects that *Agricultural Commodity Risk Management Transactions* will be used for managing *your* total exposure in both commodity and currency terms. As shown in Example 1, the *commodity price* is managed by choosing a fixed price, and the currency is managed through the fixed price being denominated in *AUD.* If *you* enter into an *Agricultural Commodity Risk Management Transaction* for a purpose other than the management of *your* total exposure i.e. *you* hedge the commodity and not the currency, *you* may be directly exposed to changes in the foreign exchange market. For example, if the fixed price is denominated in *USD you* will be exposed to changes in the *exchange rate* between *AUD* and *USD* if *you* wish to convert any *USD* received from the *Bank* on the *settlement date* into *AUD.* These changes may result in losses to *you*.

Credit risk

Credit risk is common to all financial markets products that *you* may enter into with the *Bank*. In all cases, *you* are reliant on the ability of the *Bank* to meet its obligations to *you* under the terms of each *Agricultural Commodity Risk Management Transaction*. This risk is sometimes described as "counterparty risk".

You can also view additional information about the Commonwealth Bank, including financial statements and annual reports, at **www.commbank.com.au**

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events.

You are reliant on the ability of the *Bank* to price and settle *your Agricultural Commodity Risk Management Transaction* in a timely and accurate manner. The *Bank* in turn is dependent on the reliability of its own operational processes that include communications, computers and computer networks. Disruptions in the *Bank*'s processes may lead to delays in the execution, settlement or determination of price of *your Agricultural Commodity Risk Management Transaction*. If for any reason the *commodity reference price* cannot be determined the relevant price will be determined by the *Bank* acting in good faith. Such disruptions may result in outcomes that are less favourable to *you*.

However, once *you* have entered into the *Agricultural Commodity Risk Management Transaction*, the management of risks associated with its own operational processes is the responsibility of the *Bank*.

Legal Risk

Australia, as a member state of the United Nations, is obliged to implement United Nations Security Council sanctions. Australia also may be required to implement other international sanctions and sometimes imposes unilateral sanctions. Sanctions can cover various subject matters including financial restrictions. Consequently, the *Bank* may be prohibited from dealing with certain persons or entities.

This means that if the *Bank* is aware that *you* are a proscribed person or entity, then the *Bank* may be required to suspend, cancel or refuse *you* services or close or terminate any account, facility, transaction, arrangement or agreement with *you*. We may also be required to freeze *your* assets. *You* could incur significant costs as a result of these actions.

The risks described here may not include all risk considerations that may be relevant to *you* when entering into an *Agricultural Commodity Risk Management Transaction*. Please also refer to the section "What are the significant disadvantages of *Agricultural Commodity Risk Management Transactions*?" on page 26. Before transacting in any of these products *you* should be satisfied that the product is suitable for *you*. We recommend that *you* consult *your* investment adviser or obtain other independent advice.

Agricultural Commodity Risk Management Solutions – Additional Information cont.

Entering into and settling *Agricultural Commodity Risk Management Transactions*

Following credit approval by the *Bank* and *your* entering into the *master agreement* and the appropriate *transactions addendum* (see "*Agricultural Commodity Risk Management Transactions* documentation" below) *you* may enter into an *Agricultural Commodity Risk Management Transaction* with the *Bank*.

The minimum *transaction amount* of an *Agricultural Commodity Risk Management Transaction* is 100 metric tonnes of grains, 2,000 kilograms of wool, 100 bales of cotton, 100 metric tonnes of sugar or 5,000 kilograms (dressed weight) of cattle. The term is from 3 *business days* to 3 years (5 years for sugar). *Transactions* for smaller *transaction amounts*, other commodities or longer terms may be available on request.

The next steps are:

For an AS Transaction:

1. *You* should contact the *Bank* and ask for an AS transaction for a specified *transaction amount* of an agricultural commodity for a specified *payment date*.
2. The *Bank* will determine the fixed price. If the *Bank* offers *you* an AS transaction, and *you* accept the offer (which can be done verbally), an AS transaction will be entered into between *you* and the *Bank*. All telephone conversations between *you* and the *Bank* will be recorded.
3. The *Bank* will send *you* a *confirmation letter* setting out the details of *your* AS transaction. *You* must sign and return this *confirmation letter* to the *Bank*. However, even if you don't do this, the AS Transaction will be binding on you.

For an APS Transaction:

1. *You* should contact the *Bank* and ask for an APS transaction for a specified *transaction amount* of an agricultural commodity and *your* preferred *participation level* and *participation quantity* for a specified term.
2. The *Bank* will determine the fixed price. If the *Bank* offers *you* an APS transaction, and *you* accept the offer (which can be done verbally), an APS transaction will be entered into between *you* and the *Bank*. All telephone conversations between *you* and the *Bank* will be recorded.
3. The *Bank* will send *you* a *confirmation letter* setting out the details of *your* APS transaction. *You* must sign and return this *confirmation letter* to the *Bank*. However, even if you don't do this, the APS Transaction will be binding on you.

For an AO Transaction:

1. *You* should contact the *Bank* and ask for an AO transaction for a specified *transaction amount* of an agricultural commodity. *You* will specify the *transaction type*, *option style*, *strike price*, *start date*, *expiration date* and the method to be used to calculate the *commodity reference price* on an *exercise date*.
2. The *Bank* will determine the *premium*.
3. If the *Bank* offers *you* an AO transaction, and *you* accept the offer (which can be done verbally), an AO transaction will be entered into between *you* and the *Bank*. All telephone conversations between *you* and the *Bank* will be recorded.
4. The *Bank* will send *you* a *confirmation letter* setting out the details of *your* AO transaction. *You* must sign and return this *confirmation letter* to the *Bank*. However, even if you don't do this, the AO Transaction will be binding on you.

For an AC Transaction:

1. *You* contact the *Bank* and ask for an AC transaction for a quantity of an agricultural commodity. Depending on whether *you* are buying or selling, *you* will specify to the *Bank* either the *call strike price* or *put strike price you* require as well as the currency, *transaction amount* and *expiration date* before the *Bank* can offer *you* an AC transaction.
2. The *Bank* will determine the corresponding *call strike price* or *put strike price*. If *you* accept the offer (which can be done verbally), an AC transaction is entered into between *you* and the *Bank*. All telephone conversations between *you* and the *Bank* will be recorded.
3. The *Bank* will send *you* a *confirmation letter* setting out the details of *your* AC transaction. *You* must sign and return this *confirmation letter* to the *Bank*. However, even if you don't do this, the AC Transaction will be binding on you.

Agricultural Commodity Risk Management Transaction documentation

The *Agricultural Commodity Risk Management Transaction* documentation consists of a *master agreement* and *transactions addendum* and a *confirmation letter*. These documents set out in full the terms and conditions and the particulars of an *Agricultural Commodity Risk Management Transaction you* have entered into.

Samples of the *Agricultural Commodity Risk Management Transaction* documentation can be obtained from the *Bank* on request.

Settling an AS, APS or AC Transaction:

Subject to the terms and conditions of the AS, APS or AC documentation, a *cash settlement amount* may be payable by or to *you* on a *payment date*. In the event that *you* must pay to the *Bank* a *cash settlement amount*, *you* must ensure that *you* have sufficient *cleared funds* accessible to the *Bank*.

Settling an AO Transaction:

Subject to the terms and conditions of the AO documentation, a *cash settlement amount* may be payable to *you* on a *settlement date*.

Variations to the *settlement date*(s)

For AS, APS, AC and *European options* under an AO, variations to *settlement date* are not available after the *Agricultural Commodity Risk Management Transaction* has been entered into.

For *American options* under and AO, a *settlement date* is the agreed number of *business days* after each *exercise date*.

Terminating an *Agricultural Commodity Risk Management Transaction*

An *Agricultural Commodity Risk Management Transaction* may be terminated prior to the last *settlement date* either:

- by agreement between *you* and the *Bank*; or
- as set out in the *Agricultural Commodity Risk Management Transaction* documentation.

At termination, the *Bank* will calculate the mark-to-market value of the transaction using prevailing market rates chosen by the *Bank* in good faith. If the transaction has a *mark-to-market value* in *your* favour then the *Bank* must pay *you* an amount equal to that *mark-to-market value*. If the transaction has a *mark-to-market value* in the *Bank*'s favour then the *you* must pay the *Bank* an amount equal to that *mark-to-market value*. The *Bank* will notify *you* as soon as practicable after making this calculation.

If more than one *Agricultural Commodity Risk Management Transaction* is terminated, the sum of all *mark-to-market values* of those transactions in *your* favour and any other transactions in *your* favour also terminated under the *master agreement and transactions addenda* governing the transactions will be set-off against the sum of all *mark-to-market values* of such transactions in the *Bank*'s favour. If, as a result of this calculation, the overall sum is in the *Bank*'s favour, *you* must pay the *Bank* an amount equal to that total sum. Alternatively, if as a result of this calculation, the overall sum is in *your* favour then the *Bank* must pay *you* an amount equal to that total sum. The *Bank* will notify *you* as soon as practicable after making these calculations.

Payments netting

In accordance with the *Agricultural Commodity Risk Management Transaction* documentation, if *you* have more than one transaction under these documentation, with the same *settlement date* and for the same currency, the payments and receipts may be "net settled". This means that all settlements are combined to a single net payment between *you* and the *Bank*.

What are the costs involved in an *Agricultural Commodity Risk Management Transaction*?

Fees and charges

Agricultural Swap and Agricultural Participating Swap

There are no fees and charges for entering into an AS or APS transaction. *Your* AS or APS transaction may also be subject to Government taxes and duties (if any). These may vary from State to State.

The factors used in determining the fixed price, including an allowance for the *Bank*'s costs and profit margin, are set out in the section "Determining the AS fixed price" on page 6 and section "Determining the APS fixed price" on page 10.

Agricultural Option and Agricultural Collar

There are no fees and charges for entering into an AO and AC transaction except for the *premium*. "Determining the AO *premium*" on page 16 and "Determining AC prices" on page 21 set out the factors which the *Bank* takes into account in order to calculate the *premium*.

Your AO or AC transaction may be subject to Government taxes and duties (if any). These may vary from State to State.

Are there any tax implications *you* should be aware of?

Agricultural Commodity Risk Management Transactions may have tax implications. These can be complex and are invariably specific to *your* circumstances. The outcomes may vary depending on the type of entity transacting and whether *you* have made any elections in relation to foreign currency. Therefore, *you* should discuss any taxation issues with *your* independent tax adviser before entering into an *Agricultural Commodity Risk Management Transaction*.

Agricultural Commodity Risk Management Solutions – Additional Information cont.

Code of Banking Practice

The relevant provisions of the Code of Banking Practice apply to *Agricultural Commodity Risk Management Transactions*. *You* should read the *Bank*'s information booklet "The Better Banking Book", which may be obtained by telephoning the *Bank* on **13 22 21** (between 8am and 8pm, Monday to Friday), contacting *your* relationship manager, visiting our website at **www.commbank.com.au** or from any branch of the *Bank*.

The Better Banking Book contains useful information on a range of banking matters. These include the rights and obligations that arise out of the banker and customer relationship, account opening procedures, the *Bank*'s obligations regarding confidentiality of *your* information, complaint handling procedures, bank cheques, the advisability of *you* informing the *Bank* promptly when *you* are in financial difficulty, and the advisability of *you* reading the terms and conditions applying to any banking service provided to *you* or in which *you* are interested.

What if *you* have a complaint?

Please contact *your* relationship manager or the manager of the department that handled the matter and explain the problem.

Our staff will review the situation and, if possible, resolve it immediately. If the matter has not been resolved to *your* satisfaction, please contact our Customer Relations team via:
Our web site at: **commbank.com.au/contactus/comment.asp**

Telephone: **1800 805 605**

Facsimile: **1800 028 542**

Writing to: Customer Relations
Commonwealth Bank
Reply Paid 41 Sydney
NSW 2001

Dispute Resolution

We expect that our front line staff, managers or Customer Relations team will completely resolve the issue *you* raise. If, despite our best efforts, *you* believe *your* complaint has not been dealt with in a satisfactory manner, *you* may wish to pursue the issue with the Financial Ombudsman Service (FOS).

The FOS is an impartial, independent and free alternative dispute resolution option. Before the FOS can investigate the matter, *you* must have given the *Bank* an opportunity to first resolve the issue.

Generally, the FOS will consider *your* dispute if:

- *You* are an individual or a small business (a Small Business is defined as a business with less than 100 full-time employees in manufacturing, or less than 20 employees in any other industry);
- The amount *you* are claiming is less than $500,000; and
- The dispute does not concern the *Bank*'s general policy or practice such as the level of interest rates or fees.

You can contact the Ombudsman by:

Telephone: **1300 780 808**
Facsimile: **03 9613 6399**
Website: **www.fos.org.au**

Writing to the address below:

Financial Ombudsman Service Limited
GPO Box 3
Melbourne VIC 3001

Customer information and privacy

Collection and verification of customer information

"Customer information" is information about a customer. It includes personal information.

The law requires us to identify customers. We do this by collecting and verifying information about *you*. We may also collect and verify information about persons who act on *your* behalf. The collection and verification of information helps to protect against identity theft, money-laundering and other illegal activities.

We use *your* customer information to manage our relationship with *you*, provide *you* with the goods and services *you* request and also tell *you* about the products and services offered by the Commonwealth Bank Group ("Group") and external providers for whom we act as agent. If *you* have given us *your* electronic contact details, we may provide marketing information to *you* electronically.

The collection and verification of customer information may be carried out in different ways and we will advise *you* of the most acceptable methods of doing this. We may disclose *your* personal information in carrying out verification – eg, we may refer to public records to verify information and documentation, or we may verify with an employer that the information *you* have given us is accurate.

Depending on whether *you* are an individual or an organisation, the information we collect will vary. For instance, if *you* are an individual, the type of information we may collect and verify includes *your* full name, date of birth and residential address. If *you* are commonly known by 2 or more different names, *you* must give us full details of *your* other name or names.

If *you* are a company, we may collect and verify company incorporation and registration details, as well as details of the company's officers and its major shareholders.

If *you* are acting as a trustee, we may ask *you* for information on the beneficiaries of the trust.

If *you* are a partnership, we may require evidence of the fact that the partnership exists, as well as the full name of the partnership, the names of the partners and any business name owned by the partnership.

For other organisations, the kind of information we collect and verify will depend on the type of organisation *you* are.

In addition, during *your* relationship with us, we may also ask for and collect further information about *you* and about *your* dealings with us.

You must provide us with accurate and relevant information

If *you* provide the *Bank* with incomplete or inaccurate information, the *Bank* may not be able to provide *you* with the products or services *you* are seeking.

Other members of the Group

We disclose customer information to other members of the Group (including overseas Members), so that the Group may have an integrated view of its customers and to facilitate the integrated treatment of our customers.

Other disclosures

At common law, banks are permitted to disclose customer information in the following circumstances:

(a) where disclosure is compelled by law; or

(b) where there is a duty to the public to disclose; or

(c) where our interests require disclosure; or

(d) where disclosure is made with *your* express or implied consent.

So that we can manage our relationships, customer information may be disclosed to:

- brokers and agents who refer *your* business to us; any person acting on *your* behalf, including *your* financial adviser, solicitor or accountant, executor, administrator, trustee, guardian or attorney;
- if *you* have borrowed from the *Bank* to purchase property: valuers and insurers (so that the *Bank* can obtain a valuation of *your* property, and confirm that it is insured);
- if *you* have life insurance: medical practitioners (to verify or clarify, if necessary, any health information *you* may provide), claims investigators and reinsurers (so that any claim *you* make can be assessed and managed), insurance reference agencies (where the *Bank* is considering whether to accept a proposal of insurance from *you* and, if so, on what terms);
- if *you* have superannuation or managed investments: external product providers into which *you* might direct some of *your* investment, other product providers to which *your* investment might be transferred; and
- organisations, to whom we outsource certain functions.

In all circumstances where the *Bank*'s contractors, agents and outsourced service providers become aware of customer information, confidentiality arrangements apply. Customer information may only be used by our agents, contractors and outsourced service providers for our purposes.

The *Bank* may also disclose customer information to other financial institutions and organisations at their request if *you* seek credit from them.

We may send customer information overseas if:

- that is necessary to complete a transaction, or
- we outsource certain functions overseas.

The *Bank* may also be permitted, as distinct from required, to disclose information in other circumstances. For more information, please refer to our Privacy Policy.

Access to *your* personal information

The law allows *you* (subject to permitted exceptions) to access *your* personal information. *You* can do this by contacting:

Customer Relations
Commonwealth *Bank*
Reply Paid 41 Sydney
NSW 2001

We may charge *you* for providing access.

Further information

For further information on our privacy and information handling practices, please refer to the Group's Privacy Policy, which is available at **commbank.com.au** or upon request from any branch of the *Bank*.

Definitions

"Agricultural Commodity Risk Management Transaction"

An Agricultural Swap, Agricultural Participating Swap, Agricultural Option or Agricultural Collar transaction.

"American option"

An AO *option style* where *you* can *exercise* the AO *transaction* on any *business day* between the *start date* and *expiration date*.

"ASX"

Australian Securities Exchange.

"AUD"

Australian dollars.

"Australian Wool Exchange's Micron Price Guide (AWEX MPG)"

Part of the AWEX WOOLTRAK market reporting system and a primary source of price information for the wool industry. Quotes are in *AUD* cents per kilogram (c/kg) clean, based on wool sales held at auction in all the major wool-selling centres of Australia. An AWEX MPG is reported for most microns from 17 to 32 and is recalculated for each region at the end of every sale day. Each of the AWEX MPGs is an average for a range of fleece wools that reflect the most common types for each micron, sold on that particular day.

"average rate method"

Under this method, the sum of the closing prices of a particular *futures contract*, index or price guide on each *commodity business day* in an *average rate period* is divided by the number of *commodity business days* in the *average rate period*.

"average rate period"

The specified period within the term of an AO transaction during which the *commodity reference price* will be calculated using the average rate method.

the "Bank"

Commonwealth Bank of Australia ABN 48 123 123 124.

"business day"

A day on which the *Bank* is open for the transaction of business in relation to an *Agricultural Commodity Risk Management Transaction*.

"CAD"

Canadian dollars.

"call"

An option where the buyer has the right but not the obligation to buy the underlying commodity at the *call strike price*.

"call strike price"

The agreed strike price of a *Call* at which the underlying commodity *cash settlement amount* will be determined on a *settlement date*. The *call strike price* must remain constant through out the *transaction period*.

"cash settlement amount"

For an AS: The amount payable on a *payment date* by one party to the agreement to the other based on the difference between the fixed price and the *commodity reference price* for the underlying commodity.

For an APS: The amount payable on the *settlement date* by one party to the agreement to the other, based on the difference between the fixed price, the *participation level* and the *commodity reference price* for the underlying commodity, taking into account the *participation quantity* (if appropriate).

For an AO: A payment made by the *Bank* to *you* if, on an *exercise date*, the transaction is *exercised*.

For an AC: A payment made by the *Bank* to *you* or by *you* to the *Bank* if a *Put* or *Call*, on an *exercise date*, is *exercised*.

"CBOT"

Chicago Board of Trade.

"Cleared funds"

Funds that are immediately available to *you* for settlement of *your Agricultural Commodity Risk Management Transaction*.

"commodity business day"

A day on which the *commodity reference price* is published or is otherwise available.

"commodity price"

The price that a producer or consumer will receive or pay in exchange for the sale or purchase of their physical commodity.

"commodity reference price"

The price that will be used to determine the outcome of *your Agricultural Commodity Risk Management Transaction* on an *exercise date* or *pricing date*. The *commodity reference price* is determined by reference to the price of a particular *futures contract* on a particular *futures exchange*, index or price guide depending on the underlying currency of the *Agricultural Commodity Risk Management Transaction* .

"confirmation letter"

A letter confirming the particulars of an *Agricultural Commodity Risk Management Transaction* entered into between *you* and the *Bank* on a *trade date*.

"Eastern Young Cattle Indicator (EYCI)"

A seven-day rolling average of 24 young cattle categories from 26 saleyards across Queensland, New South Wales and Victoria, expressed in cents per kilogram dressed weight in *AUD* cents per kg of dressed weight, rounded to the nearest quarter cent. The EYCI is produced daily by the National Livestock Reporting Service (NLRS), an independent market intelligence service provided by Meat and Livestock Australia (MLA).

"effective commodity price"

The *commodity price* that is the *strike price* adjusted for the *premium*.

"European option"

An AO *option style* where *you* can only *exercise* the AO transaction on an *expiration date*.

"exchange rate"

The expression of the value of one currency in terms of another. For example, in the *exchange rate AUD/USD*0.6500, 1 Australian dollar is equal to 65 United States cents (AUD1.0000 = USD0.6500).

"exercise", "exercised"

The process by which *you* provide a notice of *exercise* to the *Bank* notifying *your* intention to buy or sell the underlying commodity at the strike price resulting in a *cash settlement amount* being exchanged on the *settlement date*.

"exercise date"

For a *European option* the *exercise date* is the *expiration date*. For an *American option* an *exercise date* is the *business day* between the *start date* and *expiration date* on which the AO transaction is *exercised*.

"expiration date"

For a *European option*, the *expiration date* is the *exercise date* as specified in the AO documentation. For an *American option*, the last day of on which an AO transaction can be *exercised* as specified in the AO documentation.

"forward exchange rate"

The expression of the value of one currency in terms of another where the currencies are exchanged at a future date that is more than 2 *business days* after the contract to exchange the currencies is entered into.

"futures contract"

A contract to purchase a specific asset or financial instrument at a specified time in the future at a specified price. Nearly all *futures contracts* are traded on a *futures exchange* and are standardised in terms of delivery date, amount and contract terms.

"futures exchange"

A market in which *futures contracts* are bought and sold, traditionally in a central, physical location, i.e. a trading floor. Increasingly though, *futures exchanges* are operated by dispersed traders using computer links to post prices to buy and sell the *futures contracts*.

"Hedge Settlement Rate Average (HSRA)"

An *AUD/USD* reference rate set at 9.45am each *business day* and published on Reuters page *HSRA*. The *HSRA* rates are compiled by the Reserve Bank of Australia by averaging the *AUD/USD exchange rates* of a sample of market participants in the foreign exchange market. When calculating the average the highest and lowest rates are removed from the sample prior to computation.

"HSRA date"

For *Agricultural Commodity Risk Management Transaction*s where the strike price or fixed price is denominated in *AUD,* 1 *business day* after an *exercise/pricing date*.

"mark-to-market value"

A valuation method where an existing *Agricultural Commodity Risk Management Transaction* is valued against current market rates to calculate any potential profit or loss on termination.

"master agreement and transactions addendum"

The *Bank*'s Derivatives Master Agreement and the Commodity Derivatives Addendum.

"notice of exercise"

An irrevocable notice given by *you* to the *Bank* which may be given orally (including by telephone) or in writing by means of which *you exercise* the AO or AC transaction on an *exercise date*.

"option style"

European or *American options*.

"participation amount"

(a) in the case of a consumer transaction, only applies when the *commodity reference price* is lower than the *participation level*. The *participation amount* is calculated as the difference between the *commodity reference price* and the *participation level*, multiplied by the *participation quantity*; and

(b) in the case of a producer transaction, only applies when the *commodity reference price* is higher than the *participation level*. The *participation amount* is calculated as the difference between the *commodity reference price* and the *participation level*, multiplied by the *participation quantity*.

Definitions cont.

"participation level"

The agreed price of the underlying commodity which is *your* specified level of *commodity price* protection.

"participation quantity"

The volume of the commodity agreed between *you* and the *Bank* that will apply at the *participation level*.

"parties to the agreement"

The parties to an *Agricultural Commodity Risk Management Transaction* are *you* and the *Bank*.

"physical settlement"

Settlement by delivering the *transaction amount* of the underlying commodity.

"premium"

The amount paid by the buyer of an AO or AC transaction to the seller in consideration entering into the AO or AC transaction.

"pricing date"

The date the *commodity reference price* is determined with respect to a *payment date*.

"put"

An option where the buyer has the right but not the obligation to sell the underlying commodity at the *put strike price*.

"put strike price"

The agreed strike price of a *Put* at which the underlying commodity *cash settlement amount* will be determined on a *settlement date*. The *put* strike price must remain constant through out the *transaction period*.

"reference rate"

The benchmark *exchange rate you* agree with the *Bank* on the *trade date* to convert the *commodity reference price* to the same currency as the *strike price* on each *exercise date*. An example is the *HSRA*.

"settlement date"

A *business day* on which a *cash settlement amount* will be exchanged between the parties to the agreement. For *Agricultural Commodity Risk Management Transactions* where the strike price or fixed price is denominated in *USD* or *CAD* the *settlement date* will be 2 *business days* after each *exercise date*. For *Agricultural Commodity Risk Management Transactions* where the strike price or fixed price is denominated in *AUD* the *settlement date* will be 3 *business days* after the *exercise date*.

"start date"

For an *American option*, the first day on which an AO can be *exercised* as specified in the AO documentation.

"termination date"

The last day of the *transaction period* of the *Agricultural Commodity Risk Management Transaction* .

"trade date"

The date on which an *Agricultural Commodity Risk Management Transaction* is entered into by the parties to the agreement.

"transaction amount"

The agreed quantity of the underlying commodity of the *Agricultural Commodity Risk Management Transaction*.

"transaction period"

The period from and including the *trade date* to and including the final *settlement date*.

"transaction type"

A *Put* or a *Call*.

"USD"

United States dollars.

"volatility factor"

The expected degree of fluctuation in *exchange rates*, interest rates and *commodity reference prices* during the *transaction period* as calculated by the *Bank*.

"you", "your"

The customer who is one of the *parties to the agreement*.

Appendix A – *Futures Exchanges*/Index/Price Guide Examples

International Exchanges/Index/Price Guide

Commodity		
Wheat	Chicago Board of Trade (*CBOT*) or	*Futures Exchange*
	Kansas City Board of Trade (KBOT)	*Futures Exchange*
Cotton	New York Board of Trade (NYBOT)	*Futures Exchange*
Canola	Winnipeg Commodity Exchange (WCE)	*Futures Exchange*
Sugar	New York Board of Trade (NYBOT)	*Futures Exchange*
Corn	Chicago Board of Trade (*CBOT*)	*Futures Exchange*

Domestic Exchanges/Index/Price Guide

Commodity		
Wheat	Australian Securities Exchange (ASX)	*Futures Exchange*
Barley	Australian Securities Exchange (ASX)	*Futures Exchange*
Canola	Australian Securities Exchange (ASX)	*Futures Exchange*
Sorghum	Australian Securities Exchange (ASX)	*Futures Exchange*
Wool	Sydney Futures Exchange (SFE)	*Futures Exchange*
	Australian Wool Exchange's Micron Price Guide (AWEX MPG)	Price Guide

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