FOREIGN CURRENCY OPTIONS

Product Disclosure Statement

14th July 2003

This Product Disclosure Statement is an important document. We are providing this information to ensure that you receive key information about our foreign currency options products, to help you understand their risks, benefits and costs. The foreign currency option products we offer are:

- Vanilla Put Options; and
- Vanilla Call Options.

Please note that this Product Disclosure Statement is not a recommendation or opinion that particular foreign exchange option products are appropriate for you.

If there is anything in this Product Disclosure Statement that you do not understand, please contact your FX Relationship Manager.

Before dealing in a foreign exchange option product you should give consideration to your objectives, financial situation and needs.

1.0 Foreign Currency Options

1.1 A foreign currency option is an agreement between two parties (the 'buyer' of the option and 'the seller' of the option) that gives the buyer of the option the right, but not the obligation, to exchange a specified amount ('the face value') of one currency for another currency at a nominated foreign exchange rate on a nominated future date.

1.2 The buyer of the option must exercise the option before a specified time of day on an agreed date ('expiry date').

1.3 If the buyer exercises the option before the specified time on the expiry date, the parties must then exchange the currencies on the nominated date (the 'delivery date').

1.4 A foreign exchange rate is the price at which one currency can be bought with or sold for another currency. All quotations are made up of two currencies: the 'base' currency and the 'terms' currency. A quotation shows how many units of the terms currency will equal 1 unit of the base currency.

1.5 **Example:** Australian Dollar (AUD) against United States Dollar (USD)

AUD/USD 0.6660

Here, Australian Dollars is the base currency and US Dollars is the terms currency. One Australian Dollar is equal to 0.666 US Dollar (66.6 US cents).

1.6 A foreign currency option usually involves the payment of a premium (the cost of the option) from the buyer of the option to the seller of the option. The premium is usually payable two clear business days after the buyer and the seller enter into the option.

2.0 Purpose of Foreign Currency Options

2.1 Foreign currency options are commonly used to hedge foreign exchange risk for a future date.

2.2 Buyers of foreign currency options commonly use foreign currency options:

- to protect ('insure') their foreign currency exposures against adverse currency movements;
- to set a known 'worst case' exchange rate;
- to protect against uncertain or contingent foreign exchange exposures;

- to reduce usage of credit facilities; and/or
- as part of their foreign exchange risk management exposure tools strategy.

2.3 Sellers of foreign currency options commonly use foreign currency options:

- to speculate on future currency movements;
- to generate cash flow through premiums;
- as a foreign exchange risk management technique to offset costs and exposures of bought options; and/or
- to offset existing foreign currency positions.

3.0 Foreign Currency Options Terminology

3.1 The 'buyer' is the party to the contract that may exercise the option.

3.2 The 'seller' is the party to the contract that is granting the option to the buyer.

3.3 The 'expiry date' is the date on which the buyer's right to exercise the option expires.

3.4 The time of expiry is the time of day that the option expires.

3.5 The 'delivery date' is the date on which the exchange of currencies takes place, if the buyer exercises the option.

3.6 The 'strike rate' is the exchange rate at which the parties have agreed to exchange the currencies if the buyer exercises the option.

3.7 The 'premium' is the price payable by the buyer to the seller for entering into the option contract.

3.8 The current 'spot exchange rate' is the exchange rate at the time and on the day the option is entered into, when the delivery date is two clear business days after the date the rate is quoted.

3.9 The current 'forward exchange' rate is the forward exchange rate at the time and on the day the option is entered into.

3.10 A 'forward exchange contract' is an agreement between two parties to exchange a specified amount of one currency for another currency at a specified foreign exchange rate on a future date.

3.11 There are two 'styles' of option i.e. 'American' and 'European' options. American options can be exercised by the buyer of the option at any time on any day up to the expiry time on the expiry date. European options can only be exercised on the expiry date and before the expiry time.

4.0 Pricing of Foreign Currency Options

4.1 The seller of the option determines the premium. The seller will do so by taking into account factors such as:

- the expiry date;
- the delivery date;
- the strike rate;
- the current spot exchange rate;
- the current forward exchange rate; and
- the style of the option (i.e. American or European).

4.2 The premium for a currency option is determined by using sophisticated mathematical pricing formulae that include the factors described above and other variables such as interest rates and market volatility.

4.3 If you decide to enter into a foreign currency option with us, you will need to tell us the strike rate and the expiry date or delivery date. The delivery date will be two clear business days after the expiry date.

5.0 Cost of a Foreign Currency Option

5.1 The price of the currency option may be expressed as:

- a percentage of the face value;
- foreign exchange points; or
- a dollar amount.

5.2 No other fees are charged by ANZ for writing currency options.

5.3 You may also need to pay some extra costs on the delivery date depending on the method by which delivery is effected, for example, by Telegraphic Transfer (TT) or International Draft. These costs are in addition to the costs described above. Information about the cost of TT's and International Drafts is contained in the Product Disclosure Statement or other documents relating to these products. Additional fees are payable for couriers, postage and/or other actions relating to foreign currency option transactions.

6.0 Vanilla Put Options

6.1 A vanilla put option provides the buyer of the option with the right, but not the obligation, to sell ('put' in the market) a specified amount of one currency for another currency at a nominated strike rate.

6.2 Any exercise of the option by the buyer must be before a specified time of day on the expiry date.

6.3 The buyer will usually pay a premium (the cost of the option) to the seller of the option. The premium will usually be payable two clear business days after the buyer and the seller enter into the option.

6.4 Example:

6.4.1 Information provided by the client:

- An importer wants to hedge USD against AUD for a three-month delivery date.
- The importer wants to protect against any unfavourable currency movements but benefit from favourable currency movements.
- The importer decides to buy an AUD Put Option against the USD as a foreign exchange risk management exposure technique.
- The importer nominates the strike rate.
- The importer nominates the expiry date.
- The importer nominates the face value amount as USD.
- The importer requests the price as a percentage of USD.

6.4.2 Market conditions:

- Spot exchange rate: 0.6500
- Forward exchange rate: 0.6440
- Strike rate: 0.6400
- Face value: USD 100,000
- Expiry Date: three months after dealing date
- Style: European
- Price: Premium payable is equivalent to 1.70% of USD face value

6.4.3 Outcome on expiry date at expiration time:

- If the spot exchange rate is greater than 0.6400, the importer would let the option lapse (and use AUD to buy USD on-market).
- If the spot exchange rate is less than 0.6400, the importer would exercise the option and exchange AUD for USD at the agreed exchange rate 0.6400 on the delivery date.

7.0 Vanilla Call Options

7.1 A vanilla call option provides the buyer of the option with the right, but not the obligation, to buy ('call' in the market) a specified amount of one currency for another currency at a nominated strike rate.

7.2 Any exercise of the option by the buyer must be before a specified time of day on the expiry date.

7.3 The buyer will usually pay a premium (the cost of the option) to the seller of the option. The premium will usually be payable two clear business days after the buyer and the seller enter into the option.

7.4 Example:

7.4.1 Information provided by the client:

- An exporter wants to hedge USD against AUD for a three-month delivery date.
- The exporter wants to protect against any unfavourable currency movements but benefit from favourable currency movements.
- The exporter decides to buy an AUD Call Option against the USD as a foreign exchange risk management exposure technique.
- The exporter nominates the strike rate.
- The exporter nominates the expiry date.
- The exporter nominates the face value amount as USD.
- The exporter requests the price as a percentage of USD.

7.4.2 Market conditions:

- Spot exchange rate: 0.6500
- Forward exchange rate: 0.6445
- Strike rate: 0.6600
- Face value: USD 100,000
- Expiry date: three months after dealing date
- Style: European
- Price: Premium payable is equivalent to 1.05% of USD face value

7.4.3 Outcome on expiry date at expiration time:

- If the spot exchange rate is less than 0.6600, the exporter would let the option lapse (and use USD to buy AUD on-market).
- If the spot exchange rate is greater than 0.6600, the exporter would exercise the option and exchange USD for AUD at 0.6600 on the delivery date.

8.0 Terms of Foreign Currency Options

8.1 Customers who want to enter into foreign currency options with ANZ need to enter into our Master Agreement for foreign exchange transactions. This brief document describes the rights and obligations of both parties in relation to the foreign exchange contracts and foreign exchange options. It is signed only once, and then covers all future foreign exchange contracts and foreign currency options between us.

8.2 Each time you enter into a foreign currency option transaction with us, we will provide you with a confirmation note, setting out the details of the transaction.

9.0 Cancellation of a Foreign Currency Option

9.1 A foreign currency option may be cancelled at any time.

9.2 The cancellation can take place at any time before the expiry time on the expiry date.

9.3 Cancellation of a currency option involves the buy-back of the currency option by the seller.

9.4 Any cancellation will take into account the mark to market (MTM) value of the option.

9.5 We will determine the MTM value of the option and agree the settlement amount with you.

10.0 Risks

10.1 The financial cost for the buyer of the option is limited to the cost of the premium.

10.2 The seller of the option has an obligation (if the buyer exercises the option) to exchange a specified amount of one currency for another currency on a future date before a specified time of day.

10.3 The seller of the option is exposed to any future foreign exchange and foreign currency option market movements. This may result in the seller incurring a loss (i.e. the MTM value of the option) if the buyer exercises the option. Currency markets are highly volatile and the prices of the underlying currencies can fluctuate rapidly and over wide ranges and may reflect unforeseen events or changes in conditions.

11.0 Complaints

11.1 If you have a complaint, please contact your FX Relationship Manager to tell us what it is.

11.2 If your complaint is not satisfactorily resolved within 14 days of your first contact with your FX Relationship Manager, please contact our Compliance Manager in writing with the details of your complaint:
Compliance Manager, ANZ Investment Bank
Level 12, 530 Collins Street
Melbourne, Victoria 3000

11.3 If you still do not get a satisfactory outcome, you have the right to complain to:
Australian Banking Industry Ombudsman Ltd
GPO Box 3A
Melbourne, Victoria, 3001
Telephone: 1300 780 808
Fax: +61 3 9613 7345
Internet: http://www.abio.org.au

12.0 Tax Implications

12.1 Legislation has recently been introduced into Parliament to provide for a new Australian taxing regime in relation to foreign exchange gains and losses. This legislation has not yet been enacted but is intended to apply, generally, from 1 July 2003.

The new foreign exchange rules may apply to you if you dispose of foreign currency or a right to receive foreign currency, you cease to have a right or obligation to receive foreign currency (for example, as a consequence of that right or obligation being satisfied by the payment to you of foreign currency or because an option that you have to buy foreign currency expires without having been exercised or is cancelled, released or abandoned) or you cease to have a right or obligation to pay foreign currency (for example because an option that you have to sell foreign currency expires without having been exercised or is cancelled, released or abandoned). The impact of the new rules is generally (subject to some exceptions):

- if you make a gain from a foreign exchange arrangement and part of that gain is attributable to a currency exchange rate fluctuation – that part of the gain is included in your assessable income as a forex realisation gain;
- if you make a loss from a foreign exchange arrangement and part of that loss is attributable to a currency exchange rate fluctuation – that part of the loss is allowable as a deduction against your assessable income as a forex realisation loss.

12.2 You should consult your own independent professional adviser(s) regarding the tax and accounting consequences of acquiring, holding or disposing of foreign exchange options in light of your particular circumstances.

13.0 Further Information

For further information about foreign exchange options, please visit our website at www.anz.com/fxonline or contact your local ANZ foreign exchange representative.

Australia and New Zealand Banking Group Limited

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