



# NAB Business Markets Flexible Rate Loan

Risk Management is about identifying and reducing risk. It involves the implementation of various techniques and products to transform your current risk profile, which you may consider to be risky, into a profile that provides your business with an acceptable level of risk. NAB's Business Markets Team can provide your business with a financial solution to assist in protecting against adverse movements in interest rates. Please contact your Business Banker to arrange an appointment.

### Important information

This Product Information Summary (PIS) is a guide only.

NAB Business Markets Flexible Rate Loans are only available to approved business customers.

For more information about NAB Business Markets Flexible Rate Loans, or for full terms and conditions, please contact your Banker.

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## NAB Business Markets Flexible Rate loans

### How does this loan work?

A single limit and expiry date are approved and then any combination of components can be set up under this limit as long as the sum of the components does not exceed the facility limit and any one component does not exceed the expiry date or the relevant term / limit (if any) for that specific component.

### What components are available?

- Fixed Rate(s)
- Flexible Maturity Fixed Rate(s)
- Cap Rate(s)
- Range Rate(s)
- Floating Rate

### What Loan Structures are available?

The cash flow of the loan can be tailored to match the business's specific requirements. Available structures are:

- Principal and Interest Loans – principal payments and interest payments are required. The principal amount may be a regular or variable amount each period.
- Interest Only Loans – you elect to pay only interest.

The availability of each loan structure is subject to credit approval.

### What is the minimum amount of each loan?

\$250,000.

### What fees are applicable?

Fees and charges apply. For more information, call your Banker or see NAB's 'A Guide to Fees and Charges – Business'.

Customer margins are incorporated in the applicable interest rate. Some products require you to pay a premium which is not included in your interest rate and is payable separately.

### What terms are available?

Available terms depend on credit approval.

### When is interest paid?

The frequency of interest payments is negotiated at the time of entering into the loan.

### How are interest rates determined?

Interest rates are based on the weighted average of the interest rates applicable to each of the loan components.

### How are fixed interest rates determined?

Fixed interest rates are calculated using our 'Cost of Funds Rate' and your customer margin. The Cost of Funds Rate is derived from the Interbank Interest Rate Swap Curve plus a margin to cover our liquidity and transaction costs.

### How are floating interest rates determined?

Floating interest rates are calculated using the applicable BBSY Bid Rate plus a liquidity margin and your customer margin. The Floating Rate is reassessed for each pricing period.

The BBSY Bid Rate applicable for a particular pricing period is the 'bid rate' quoted on the 'BBSY' page of the Reuters Monitor System at or about 10.15am Sydney time on the first day of that pricing period for bank accepted bills with a tenor that is equal to that pricing period (or where the pricing period is either 7 or 14 days, a tenor of 30 days) and which starts on that day.

If such a rate is not available, a comparable rate will be used.

BBSY rates are only produced on and for days that are business days in Sydney.

Liquidity margins are published by NAB from time to time in the press.

## Economic cost/benefit

If you decide to terminate the Loan, in whole or part, before the end of the agreed term, NAB may incur a cost or receive a benefit; known as an economic cost or economic benefit, under any equal or opposite contracts it has entered into in wholesale interest rate markets. This is standard industry practice.

As such, if you decide to terminate the loan early (before the end of the term) or decide to make a partial repayment, the Bank will incur a cost or benefit as it will need to close out the equal and opposite contracts which were entered into out to the expected maturity date of the loan.

You will be liable to pay NAB any economic cost and you will receive from NAB any economic benefit. Any cost or benefit will be adjusted to recompense NAB for any transaction or other costs it incurs.

Economic costs can be high and will increase the amount you owe NAB. The calculation of economic cost or benefits will depend on the type of loan you have entered into and the prevailing interest rate market conditions. You can get an estimate of applicable economic costs at any time by contacting your Banker or Markets representative.

### Fixed Rate Loans

The economic cost or benefit is calculated by:

- Determining the difference between the interest rate we charged you under the Loan and the interest rate we are able to receive as a bank in the interest rate market at the time of termination for the remaining term of the loan. This is derived from the 'Cost of Funds Rate'.
- Multiplying the difference between the loan interest rate and the Cost of Funds Rate by the remaining amount under the loan and the remaining term. Generally, the longer the term to maturity the greater the Economic Cost or Benefit.

- Adding any administration costs to the bank resulting from the early termination. This will include the bank's additional processing and handling costs created by the early termination.

### Examples

A customer enters into a \$1 million five year Fixed Rate Loan at 6.20% per annum. After three years the customer informs their Relationship Banker that they wish to repay this Fixed Rate Loan in full. The two year Cost of Funds Rate is the relevant rate in this case because the Fixed Rate loan has two years remaining to maturity.

#### Scenario 1

**The two year Cost of Funds Rate is 5.50%.** Because this rate is lower than the customer's Fixed Rate of 6.20% an Economic Cost applies. This is calculated as follows:

$$\begin{aligned} & 6.20\% - 5.50\% \times \$1,000,000 \times 2 \text{ Years} \\ & = 0.70\% \times 1,000,000 \times 2 \\ & = 7,000 \times 2 \\ & = \$14,000 \end{aligned}$$

The Bank then calculates today's value of the economic cost. The present value of this amount is \$12,612. This amount is to be paid by the customer at the point of repayment of their facility.

#### Scenario 2

**The two year Cost of Funds Rate is 6.70%.** Because this rate is higher than the customer's Fixed Rate of 6.20% an Economic Benefit applies. This is calculated as follows:

$$\begin{aligned} & 6.70\% - 6.20\% \times \$1,000,000 \times 2 \text{ Years} \\ & = 0.50\% \times 1,000,000 \times 2 \\ & = 5,000 \times 2 \\ & = \$10,000 \end{aligned}$$

The present value of this amount is \$8,896. This will be paid to the customer at the point of repayment of their loan.

### Capped & Range Rate Loans

Early termination of Capped and Range Rate loans is possible on any agreed drawdown date, however all future premiums, if payable by instalments, must be paid out in full.

Payments that are still required as a result of terminating Capped Rate and Range Rate loans are calculated by:

- i Determining the net cost of all future premium payments outstanding under the facilities;
- ii Determining the market value of the cap and floor rate contracts which were entered into by the Bank under the loans. This will be dependent on where the current interest rate market is in relation to the cap and floor rates agreed to under the loan and is recoverable to you or payable by you;
- iii Any administration costs that may apply.

Example for a Range Rate Loan would be:

Payment required to be made by you when terminating a Range Rate Loan =

Value of Outstanding Premiums  
(minus) Value of the 'Cap' rate contract  
(plus) Value of the 'Floor' Rate contract  
plus administration costs

- The Bank then calculates the present value of those costs/benefits before passing it on to you. Please note that if you elect to make a partial repayment under a Capped or Range Rate Loan, all future premium payments outstanding still need to be paid.

## Flexible Rate loan interest options

### Description

The Flexible Rate loan incorporates a variety of interest rate options into a single loan facility. The loan can be a combination of any of the following components:

- Fixed Rate Component(s)
- Flexible Maturity Fixed Rate Component(s)
- Cap Rate Component(s)
- Range Rate Component(s)
- Floating Rate Component

For each pricing period, the applicable interest rate will be:

- Reset based on the weighted average interest rates applicable to each of the loan components.

The Flexible Rate loan reduces the administrative burden when compared to borrowing under multiple loans.

### Applications

This may suit a business:

- That requires their interest risk management strategy to incorporate a variety of risk management techniques.
- That requires some, or total, protection against the direct financial impact of adverse movements in interest rates for the term of the loan.
- That wishes to retain some of the potential benefit from lower interest rates over the term of the loan.

### Advantages

- The advantages of the Fixed Rate loan, a Cap Rate loan, a Range Rate loan and a Floating Rate loan are combined into one product.
- Allows redraw and repayments on the Floating and Cap Rate Components at no cost (providing one business days notice is provided).
- The Flexible Rate loan can be structured to provide flexibility in the drawn down amount as well as exposure to fixed, range, capped and floating rates.
- Only one loan facility is established.

### Disadvantages

- The ability to receive any benefit from lower fixed or floating interest rates is limited by the amount subject to a fixed interest rate and the amount subject to any floor rate.
- If the loan is repaid, in whole or part, ahead of the agreed schedule then the economic cost attributable to the constituent part that is repaid early will apply. Any unpaid premiums will still be payable.

## Floating rate component

### Description

A floating rate component with no risk management.

For each pricing period, the applicable interest rate will be the floating rate.

### Applications

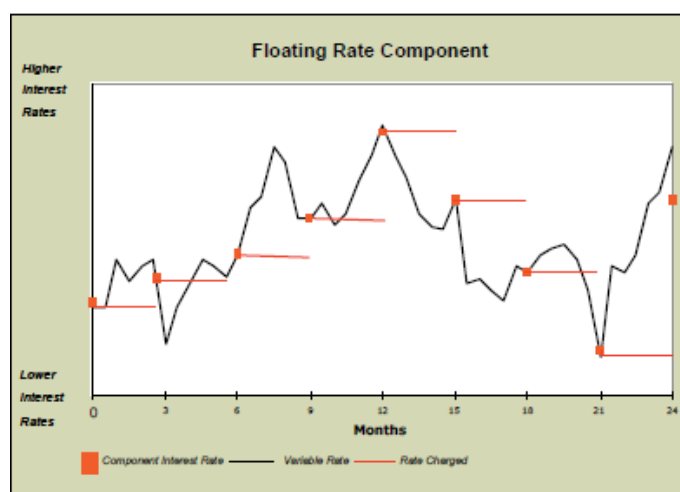
This component may suit a business who does not want a level of protection from the impact of any changes in the interest rates during the term of the component whilst retaining the opportunity to enter into one of the other components at a future date.

### Advantages

- The ability to enter into one of the other components at no cost.
- The business can still benefit from floating rates falling on any pricing period.
- The business borrower can make early repayments of principal without incurring the Economic Cost that may be incurred in early repayment of principal for other components (providing one business day's notice is provided).

### Disadvantages

- There is no maximum interest rate established for the term of the component.



## Fixed Rate Component

### Description

A component with a fixed interest rate that applies for the term of that component.

### Applications

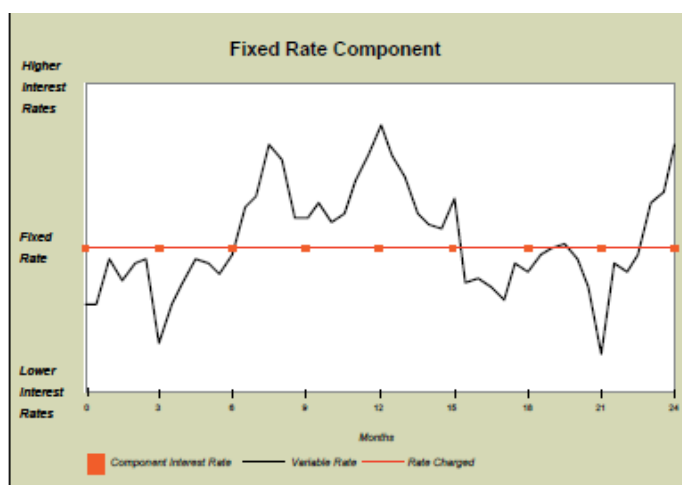
This may suit a business that wishes to fix their funding cost for the term of the component and thus have a known cost of funds for the amount borrowed.

### Advantages

- This component protects the business from the direct impact of any increase in interest rates, for the term of that component.
- The business can structure the principal drawdown and repayment structure to suit their cash flow forecast (subject to credit approval).

### Disadvantages

- The business will not receive any direct benefit if interest rates fall during the term of that component.
- The contracted terms of the component are fixed at the outset therefore any alterations to the amount or any other term, including early repayment in full or in part, may incur an Economic Cost.



## Flexible Maturity Fixed Rate component

### Description

The Flexible Maturity Fixed Rate component is a variation of the Fixed Rate component. The interest rate is fixed for the term of the component. At maturity of the component, the business has the right, but not the obligation, to extend the term of the component at the existing fixed interest rate for an additional pre-agreed term.

The fixed interest rate is higher than for a Fixed Rate component of the same maturity.

The right to extend the fixed rate applies only for a predetermined term, and is a 'once only' right. The decision to extend the fixed term can be made as late as 2 business days prior to expiry of the initial component term.

The principal structure during both the initial component term and the extended component term can be structured to suit the business's cash flow forecasts.

For each pricing period of the initial component term, the applicable interest rate will be:

- The fixed interest rate for the Flexibly Maturity Fixed Rate component.

Two business days prior to the initial component term expiry, you may elect to:

- Extend the component term. In this case the applicable fixed rate will continue for each pricing period of the extended component term.
- Terminate the component, in whole or in part without paying any Economic Cost. A business may choose to do this if its funding requirement has been reduced or cleared, or a more favourable interest rate can be achieved by moving to a new Floating or Fixed Rate component.

### Applications

This may suit a business:

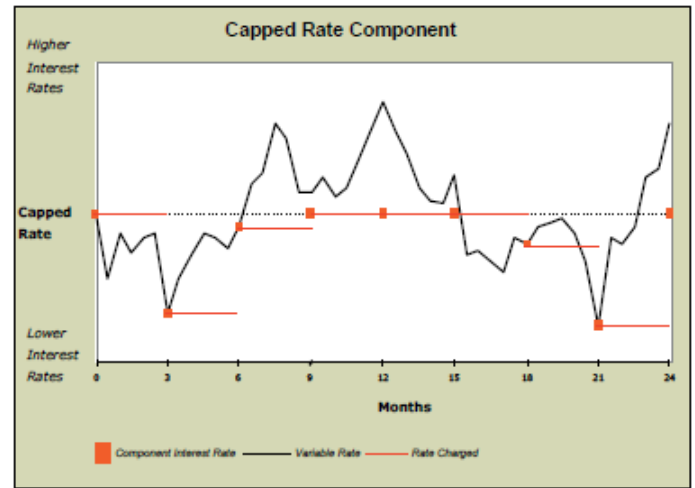
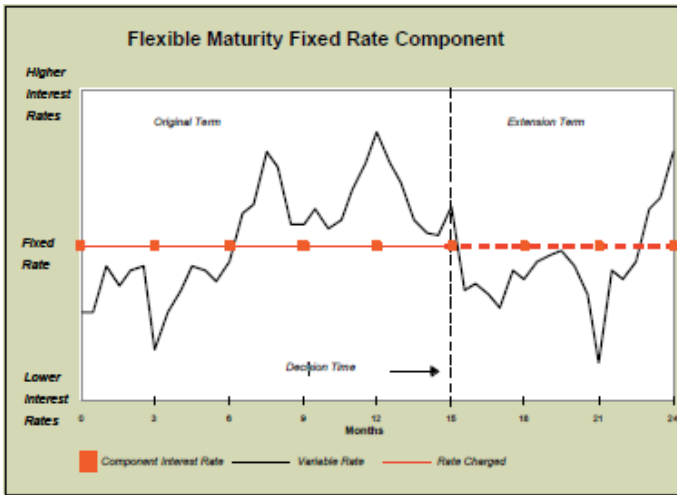
- That is not definite about the timing of funding requirements and would like to have protection against interest rate rises in the future without committing to a fixed interest rate for the whole term.

### Advantages

- The component establishes a known funding cost for a predetermined amount and protects the business against a rise in interest rates for either the initial component term or for the extended component term if the extended period fixed rate option is exercised by the business.
- If floating interest rates fall, or are expected to fall, below the fixed interest rate and are expected to remain lower by the business, the business may elect to let their option lapse on maturity of the initial component term and repay the component.
- If the interest rate applicable to a new Fixed Rate component at the expiry of the initial component term is less than the existing fixed interest rate, the business may repay the component on the initial maturity date and apply for a new Fixed Rate component at the lower interest rate.
- Early termination (in whole or in part) without cost is possible at the expiry of the initial component term.

### Disadvantages

- The business pays for the flexibility by accepting a higher interest rate than for a Fixed Rate component with a similar maturity.
- The business will not receive any direct benefit if fixed or floating interest rates fall during the term of the component whilst the component interest rate is fixed.
- The contracted terms of the component, including the period for which the component may be extended are fixed at the outset therefore any alterations to the amount, and other terms may incur an Economic Cost.



## Cap Rate component

### Description

A floating interest rate term component that incorporates an agreed maximum interest rate (the 'Cap'). The Cap provides a maximum known cost of funding, for the term of the component.

For each pricing period, the interest rate applied will be:

- The lower of the Cap and the applicable floating rate.

The business pays a premium for the Cap which is payable either in advance as a single payment, or as regular payments on a pre-agreed schedule.

### Applications

This component may suit a business which is seeking protection against the direct impact of interest rates rising above the Cap but also wishes to benefit from being able to achieve interest rates below the Cap.

### Advantages

- A maximum interest rate is established for the term of the component (providing one business days notice is provided).
- The business can still benefit from floating rates being below the Cap on any pricing period.
- The business borrower can make early repayments of principal without incurring the Economic Cost that may be incurred in early repayment of principal for other components (providing one business day's notice is provided).

### Disadvantages

- A premium is payable for receiving the benefit of having a known maximum interest rate.
- If the component is repaid ahead of the agreed schedule, in whole or in part, then any unpaid premiums will still be payable.

## Range Rate component

### Description

A floating rate component which incorporates agreed maximum (Cap) and minimum (Floor) interest rates.

The Cap provides a maximum known cost of funding for the term of the component. The Floor provides a minimum known cost of funding for the term of the component.

For each pricing period, the applicable interest rate will be:

- The floating rate if, on the first day of that pricing period, the floating rate is between the Cap and the Floor, or equal to either of those rates.
- The Floor if, on the first day of that pricing period, the floating rate is less than the Floor.
- The Cap if, on the first day of that pricing period, the floating rate is more than the Cap.

The business pays a premium to enter into this component. It is possible to set a Cap and a Floor that will result in zero net premium being payable.

### Applications

This component may suit a business wanting a level of protection from the impact of any increase in interest rates during the term of the component whilst retaining the opportunity to benefit, at least in part, from any falls in floating interest rates during the term of the component.

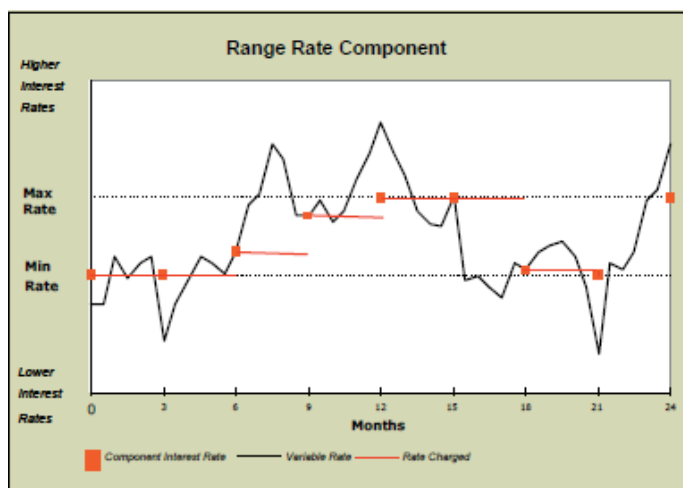
The business may be of the view that falls in floating interest rates are likely to be small and will not result in floating interest rates falling significantly below the Floor during the term of the component.

### Advantages

- A maximum known interest rate is established for the term of the component.
- The premium payable will be less than for a Cap Rate component with the same maximum rate.
- Floor Rate may be chosen at a certain level to ensure there is no premium payable for the Cap Rate.

## Disadvantages

- A premium is payable for receiving the benefit of having a known maximum interest rate.
- If the component is repaid ahead of the agreed schedule, in whole or in part, then any unpaid premiums will still be payable. The contracted terms of the component are fixed at the outset therefore any alterations to the amount or any other term, including early repayment in full or in part, may incur an Economic Cost.
- If fixed or floating interest rates (adjusted for your customer margin) fall below the Floor then you will not received any direct benefit.



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