



NAB  
**Equity Lending.**  
Looking forward.



## Important notice

Any advice contained in this brochure has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice in this brochure, National Australia Bank Limited (ABN 12 004 044 937) (NAB) recommends you consider whether it is appropriate for your circumstances.

A Product Disclosure Statement (PDS) is available for the NAB Equity Lending Cash Management Account (CMA). NAB is the issuer of the CMA and recommends you consider the PDS before making any decisions regarding this product. The PDS is available via our website at [nab.com.au/equitylending](http://nab.com.au/equitylending) or by calling NAB Equity Lending on 1300 135 145.

This brochure is not a substitute for reading the NAB Equity Lending Facility Terms or the CMA PDS. The NAB Equity Lending Facility Terms are available from NAB on request.

The products and services described in this brochure are available only to Australian residents and in relation to property in Australia. Applications from people other than Australian residents will not be accepted.

The information in this brochure is current at the date of publication but may be subject to change. NAB does not warrant or represent that the information in this brochure is free from errors or omissions or is suitable for your intended use.

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*Borrowing to invest, or gearing, has long been a popular wealth creation strategy. By enabling you to invest more money, gearing has the potential to improve your investment returns and help you reach your financial goals sooner.*

You simply provide existing approved investments in shares, managed funds or cash as security for the loan. You can then use the borrowed money to access a greater range of investment opportunities, because you are not limited to investing your own capital.

Like other investment strategies, margin lending involves an element of risk. Just as there is potential for growth, there is also potential for loss. It is important that you consider your individual financial circumstances. We recommend that you talk to your financial or tax adviser to determine if using an equity lending strategy is right for your particular circumstances.



# NAB Equity Lending – Features at a glance

NAB Equity Lending can provide you with a margin loan that offers the following:

<b>Competitive interest rates</b>	NAB Equity Lending offers competitive interest rates.
<b>No application fees* or ongoing service fees for individual and joint applicants</b>	Refer to page 6 for further details about fees.
<b>An extensive choice of investments</b>	A NAB Equity Lending Facility allows you to borrow against an extensive range of ASX listed stocks and managed funds.
<b>Flexible loan options</b>	You can combine variable rate and fixed rate loans, with interest payable in advance or arrears, within the one Facility, as long as the fixed rate** component of the loan has a minimum loan amount of \$20,000.
<b>Personal Account Manager service</b>	A personal Account Manager is allocated to look after your Facility and assist you with any queries you may have.
<b>Prompt loan approval</b>	Loan approval for individual or joint applications is generally provided within 48 hours of receipt of your application.
<b>Low minimum loan amount</b>	The minimum loan amount is \$20,000.
<b>Instalment gearing</b>	Instalment gearing facilities are available with a minimum loan amount of \$20,000.
<b>Third party security</b>	This means you may be able to use investments owned by another person (or company) as security for your margin loan.
<b>Monitoring your portfolio is easy</b>	We will provide you with regular statements outlining your Facility details. You can also keep track of your investments online 24 hours a day, 7 days a week by visiting <a href="http://nab.com.au/equitylending">nab.com.au/equitylending</a> .
<b>Use the broker of your choice</b>	Where you have an existing broker there is generally no need to change this relationship.
<b>Call options</b>	We may allow you to write call options that use shares held as security for your Facility as specific cover.

\*An application fee applies to a company applicant or guarantor and a company or individual acting in their capacity as trustee. Applicants and guarantors resident in Tasmania are also subject to a State Government charge for registration and stamping of the Power of Attorney.

\*\*Fixed rate loans are fully drawn upon commencement of transaction. For further details refer to page 6.

# Key benefits of gearing using margin lending

## You can start small

Unlike investing in residential property, you don't need to borrow large sums of money to start (or build on) your investment portfolio.

## Diversification opportunities

Diversification is a sound strategy for reducing investment risk. By having more to invest, you can potentially diversify your portfolio and spread your exposure across a wider variety of investments.

## Liquidity

If you need access to your funds, you can generally sell your assets to assist you in managing your cash flow requirements should you require funds for other purposes.

## Gearing and tax implications

Using margin lending to gear your investments may generally have the following tax consequences:

### Tax deductible interest

The interest you pay on a margin loan may be able to be claimed as a tax deduction. Furthermore, if the interest (and other tax deductible costs) exceed the income from your investments (including franking credits), you may be able to offset these costs against other sources of assessable income.

### Tax implications of interest payments

For a fixed rate loan, you have the ability to pre-pay interest on your margin loan for up to 12 months. This allows you to bring forward an expense that may be otherwise tax deductible in the following financial year. This additional tax deduction may then be used to reduce your taxable income in the current financial year. It is important to note that this may be subject to the special pre-payment rules and you should seek professional tax advice.

### Capital Gains Tax

By borrowing against existing assets, you may be able to take advantage of other investment opportunities without triggering a Capital Gains Tax (CGT) liability. This is because you don't need to sell your existing investments to use them as security for your margin loan.

You may then be able to sell your existing (and your geared) investments at a time when your marginal tax rate is lower (eg. in retirement). This can potentially help you to reduce or eliminate the CGT payable.

### Franking credits

If you invest the borrowed money in Australian shares and certain New Zealand shares, directly or via a managed fund, you may be entitled to valuable franking credits. Depending on your personal circumstances and subject to the 45 day holding period rule, these credits may be able to be used to offset some (or all) of the tax payable on the dividends or distributions.

*Your tax position will depend on your personal circumstances. Therefore you should not rely on this information in relation to your own position. NAB Equity Lending recommends that you seek advice from your financial or tax adviser regarding the tax consequences and the suitability of a NAB Equity Lending Facility for your circumstances.*

## Increased investment opportunities

Margin lending can help you to build your wealth and increase your investment opportunities more quickly than if you rely on your own investment capital, with a larger portfolio potentially increasing your long-term investment returns.

# Getting started

## How much can you borrow?

The amount you can borrow is largely determined by the value of the approved shares, managed funds or cash you provide as security. NAB Equity Lending has an extensive list of approved shares and managed funds that you can use as security.

To determine the security value of your portfolio NAB Equity Lending applies a percentage, known as the **security ratio**, to the value of each investment in your portfolio. The security ratio for approved shares and managed funds is usually between 30% and 75%. A 100% security ratio is applied to any cash provided as security.

The aggregate value of each investment provided as security, multiplied by its respective security ratio, is known as the **security value** of your portfolio.

To calculate your borrowing potential for a margin loan contact your financial adviser or a NAB Equity Lending Client Service Representative on 1300 135 145 (8.30am -5.30pm EST, Monday to Friday).

Assumptions	Example
Borrowed funds are used to purchase approved investments. All approved investments (including those to be purchased) have the same security ratio.	As a guide, the total amount you may be able to borrow when the borrowed funds are invested in approved investments can be calculated using the following formula:  <b>Total you can borrow = <math>\frac{\text{value of investments} \times \text{security ratio of investments}}{(1 - \text{security ratio of investments})}</math></b>
Borrowed funds are used to purchase approved investments. All approved investments (including those to be purchased) have a security ratio of 60%.	Using this formula, if the market value of the approved investments in your existing portfolio is \$60,000, with a security ratio for each security of 60%, you may be able to borrow up to \$90,000.  $\frac{\$60,000 \times 60\%}{(1 - 60\%)} = \frac{\$36,000}{40\%} = \$90,000$

The table below uses the formula (see above) to demonstrate your borrowing potential based on varying security ratios and portfolio values.

### Determine your borrowing potential\*

Market value of the existing portfolio	Security ratio of intended purchases			
	40%	50%	60%	70%
\$40,000	\$26,667	\$40,000	\$60,000	\$93,333
\$60,000	\$40,000	\$60,000	\$90,000	\$140,000
\$80,000	\$53,333	\$80,000	\$120,000	\$186,667
\$100,000	\$66,667	\$100,000	\$150,000	\$233,333

\* The figures in this table assume that the borrowed funds are invested in approved investments which have the same security ratio as the approved investments in the existing portfolio

## Borrowing for other business or investment purposes

Using your existing approved portfolio as security, you may be able to use borrowed funds for any other business or investment purpose as agreed by NAB.

For example, if you had a \$60,000 portfolio consisting of approved shares and managed funds, you could borrow up to \$36,000 (assuming all investments have a security ratio of 60% – ie. \$60,000 x 60%). Subject to our approval, these funds would be available for you to use for other business or investment opportunities.

## An extensive choice of investments

NAB Equity Lending offers an extensive range of approved shares and managed funds with security ratios of between 30% and 75%. A current Approved Investment List can be obtained from [nab.com.au/equitylending](http://nab.com.au/equitylending) or by calling **1300 135 145** (Monday to Friday, 8.30 am-5.30pm EST).

# How does NAB Equity Lending work?

## Minimum loan amount

- The minimum loan amount is \$20,000 for either a variable or fixed rate loan
- For a loan that includes a combination of variable and fixed rates, the minimum loan amount on the fixed rate component of the loan is \$20,000
- Applications for more than \$3 million are subject to additional approval requirements

## Customising your Facility to meet your needs

You can tailor your NAB Equity Lending Facility to meet your individual needs by using a range of features such as interest rate options, instalment gearing and call options.

## Interest rate options

The interest rate options available include:

- Variable rate – paid monthly in arrears
- Fixed rate – paid monthly in arrears (1 to 5 year terms)
- Fixed rate – paid yearly in advance (1 to 5 year terms)
- A combination of variable rate and fixed rate loan options

### Variable rate loans

- Interest will be automatically charged to the loan account or any other account nominated by you that is acceptable to us
- No regular repayments of the loan are required
- The funds are withdrawn from (when buying investments), and deposited to (when selling investments) your loan account

### Fixed rate loans

When you elect to fix the interest rate on a portion of your NAB Equity Lending Facility, that portion is fully advanced and the proceeds are deposited into a NAB Equity Lending Cash Management Account that's automatically opened in your name. The NAB Equity Lending Cash Management Account pays interest that is calculated daily and paid monthly.

For interest in advance loans, you need to provide NAB Equity Lending with details of the means by which the yearly interest charge will be met, by direct debit or cheque.

For interest in arrears loans, the monthly interest cost will be automatically charged to your Cash Management Account, or any other account nominated by you that is acceptable to us.

For a fixed rate only loan, the funds are withdrawn from (when buying investments), and deposited to (when selling investments) your Cash Management Account. The balance in your Cash Management Account forms part of the security of your loan.

### Combination loan

If you choose to combine both fixed rate and variable rate loans within the one NAB Equity Lending Facility, the minimum loan amount for the fixed rate component of your loan must be at least \$20,000.

For example, you may apply for a Facility limit of \$100,000, comprising:

- a variable rate loan (\$50,000)
- a 3 year fixed interest rate in advance loan (\$30,000)
- a 1 year fixed interest rate in arrears loan (\$20,000)

## Fees

- There are no application or ongoing service fees for individual or joint applicants.
- An establishment fee applies for companies (including company guarantors) and trustees applying on behalf of trusts. Details of the establishment fee can be found in the NAB Equity Lending Facility Application.
- No government fees and charges currently apply (other than for applicants or guarantors residing in Tasmania who are subject to a State Government charge of \$90.50 to cover lodgement of the Power of Attorney).
- A fee may be incurred for instalment gearing under certain circumstances (for example, if you terminate the arrangement within the first 12 months).
- Early repayment of a fixed rate loan (including a conversion to a variable rate loan) may be subject to payment of economic costs.



## Operating your Facility

### Shares

#### *Providing shares as security*

Shares you offer as security and any shares you purchase using your NAB Equity Lending Facility that are able to be held in the Clearing House Electronic Register System (commonly referred to as “CHESS”) will be registered in your name in CHESS. The sponsoring participant for your holdings in CHESS is National Margin Services Pty Ltd\*. Any shares that cannot be held in CHESS will be registered in the name of NMS Nominees Pty Ltd\*.

Any shares you offer as security and any shares you purchase using your NAB Equity Lending Facility cannot be sold or transferred to another person without the consent of NAB Equity Lending.

\*NMS Nominees Pty Limited (ABN 62 088 233 792) and National Margin Services Pty Limited (ABN 81 088 233 872) are wholly owned subsidiaries of National Australia Bank Limited (ABN 12 004 044 937). NMS Nominees Pty Limited and National Margin Services Pty Limited are not Authorised Deposit Taking Institutions and their obligations do not represent deposits or other liabilities of the National Australia Bank Limited. National Australia Bank Limited does not guarantee the obligations or performance of NMS Nominees Pty Limited or National Margin Services Pty Limited or the products or services these subsidiaries offer.

#### *Your Broker*

Where you have an existing broker, there is generally no need to change this relationship. The buying and selling of shares can be conducted through any broker who will settle with a margin lender.

#### **Managed Funds**

Managed funds can also be used as security for your NAB Equity Lending Facility without any change occurring in beneficial ownership. Where required by the fund manager, your managed fund holdings will be transferred to NMS Nominees Pty Ltd to be held as nominee on your behalf.

When you wish to acquire or redeem any units or switch from one investment to another, NAB Equity Lending will generally deal directly with the relevant fund manager to facilitate any instructions you provide to us.

#### **Third Party Securities**

Another person or company (except where acting as a trustee) may provide security for your NAB Equity Lending Facility. This is known as third party security and provides you with the opportunity to use another person's or company's existing or future investments as security for your Facility.

The owner of the shares or managed funds needs to act as a guarantor to your NAB Equity Lending Facility. Please seek independent professional advice about any tax implications, legal obligations and responsibilities of acting as a guarantor.

#### **Call Options**

If you would like to write call options using the shares held as security for your NAB Equity Lending Facility as specific cover, please contact your NAB Equity Lending Account Manager on **1300 135 145**.

# Managing your NAB Equity Lending Facility

While a margin loan can increase your gains in a rising market, it can also magnify your losses when the market declines. Consequently, you should consider investing in a diversified portfolio of quality assets and ensure you have enough time (and discipline) to ride out the inevitable investment market fluctuations.

Another key issue to keep in mind is that fluctuations in the value of your investments can impact your borrowing capacity. In particular, it is likely that you will need to make adjustments to the amount of your loan (or your investments) if your outstanding loan balance exceeds your portfolio's 'security value'.

## Security value and market movements

The security value is the maximum amount that you are able to borrow (in dollar terms) and is calculated by multiplying the value of the investments in your portfolio by the relevant security ratio(s).

For example, if you invest \$100,000 in an approved managed fund with the help of a margin loan and the investment has a security ratio of 60%, the security value will be \$60,000. However, once your loan is established and your investments are made, the security value of your portfolio can change over time, according to market performance.

## Buffer limits and margin calls

Generally, as long as the security value of your investments exceeds your outstanding loan balance (see Scenario 1 in the graph on the next page), your Facility is operating within its limits and you may be able to draw additional funds for investment purposes – if that's what suits your goals and circumstances.

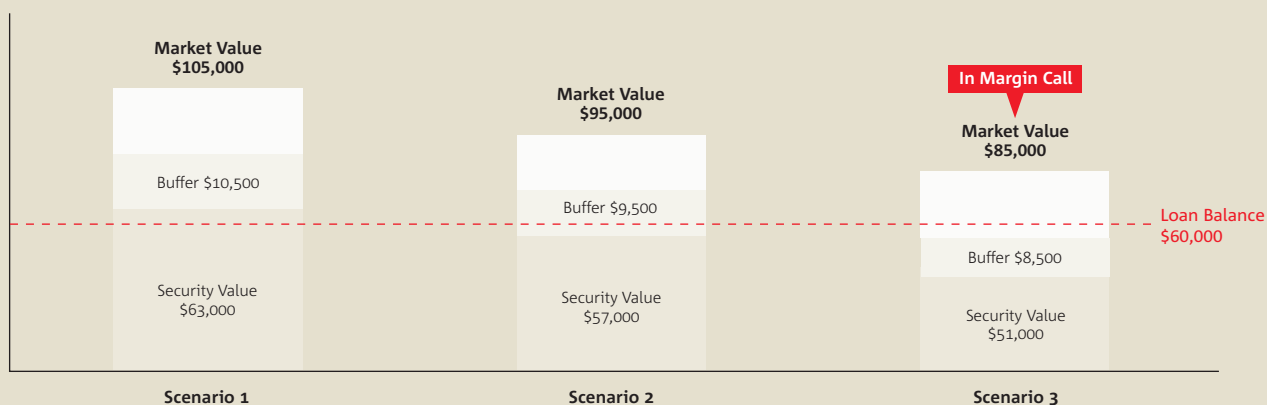
In a situation where your outstanding loan balance exceeds the security value of your investments, NAB Equity Lending allows a **'buffer'** so that small fluctuations in values do not result in a margin call. The buffer is a percentage calculated as the aggregate of:

- The value of each share in your portfolio divided by the total value of your portfolio and multiplied by 5%; and
- The value of each managed fund in your portfolio divided by the total value of your portfolio and multiplied by 10%.

This percentage is then multiplied by the total market value of your portfolio to give a buffer amount in dollar terms.

If your outstanding loan balance exceeds the security value of your investments so you are out of the **'buffer'** (see Scenario 3 in the graph on the next page), you will need to meet what is known as a 'margin call'.

Unless a margin call position arises, you are not obliged to take any action to restore the security value of your investments to more than the outstanding loan amount, though it might be in your interests to do so. While you are in the 'buffer', you will not be able to withdraw funds or make further purchases, and the chance of a margin call increases.



Scenario 1	Scenario 2	Scenario 3
Security value exceeds the loan balance	Loan balance exceeds the security value, but is within the buffer	Loan balance exceeds the security value by more than the buffer

The above graph is included for illustrative purposes only. It includes a calculation of the 'buffer' in dollar terms (as opposed to a percentage). The calculation of the 'buffer' is based on the figures in the graph and on the assumption that the portfolio contains only managed fund investments (no cash or shares).

## What to do if a margin call occurs

If NAB Equity Lending makes a margin call, you should undertake one or more of the following steps to restore the security value of your portfolio to more than your outstanding loan amount:

- Reduce your outstanding loan amount (if you have a variable rate loan)
- Deposit cash into your Cash Management Account (if you have a fixed rate loan)
- Sell some investments and apply the net sale proceeds against your NAB Equity Lending Facility
- Provide additional approved investments as security

## How long do you have to meet a margin call?

It is important that you closely monitor the status of your NAB Equity Lending Facility. If NAB Equity Lending makes a margin call, you will be obliged to restore the security value of your portfolio to more than your outstanding loan amount. Generally you have until 2.00pm (Melbourne time) the following business day to restore your position. However, if your portfolio comprises 95% or more (by market value) of managed funds, then the margin call period is extended to 5 business days.

# Managing Risks

## Reducing the risk of a margin call

While it's important to ensure you have access to additional cash or investments in the event that a margin call occurs, there are a number of strategies you can use to minimise the risk of a margin call occurring:

### 1. Gear conservatively

The best way to avoid a margin call is to borrow less than the maximum available. For example, if you borrow 50% to purchase an investment with a security ratio of 70%, your investment would need to decline in value by 37.5% before you would have to meet a margin call (assuming a buffer of 10%).

The table below shows how much an investment would need to fall before a margin call would occur, based on a range of security ratios and actual gearing (borrowing) levels.

Security ratio	Loan divided by portfolio value			
	70%	60%	50%	40%
70%	12.5%	25.0%	37.5%	50.0%
60%		14.3%	28.6%	42.9%
50%			16.7%	33.3%
40%				20.0%

Note: The figures in this table assume a buffer of 10%.

### 2. Diversify your investments

Investing in a range of companies, spread across different industries and geographical areas can smooth out the ups and downs in your portfolio and minimise the impact that poor performing companies could have on your portfolio's security value.

### 3. Make regular interest payments

NAB Equity Lending provides you with the option to capitalise your interest on variable rate loans (ie add it to your loan balance). However, paying your interest frequently (for example, on a monthly basis) can help to ensure that your loan balance doesn't increase over time.

### 4. Reinvest the income from your investments

Reinvesting your dividends and distributions can increase the market value of your investments and the security value supporting your loan. Alternatively, you could consider using the investment income to reduce your loan balance.

### 5. Monitor your investments and loan balance frequently

By conducting regular reviews, you can see whether your investments are performing effectively and ensure that your level of gearing remains appropriate. You can also take suitable action if your loan is in the buffer and therefore potentially avoid a margin call before it happens.

## Managing other risks

Risk	How you could manage
The security ratio assigned to an asset may change over time	By gearing conservatively, you can potentially reduce the possibility that a reduction in the security ratio could result in a margin call.
Rising interest rates	You should ensure that you have enough surplus cash flow to absorb interest payments. You could consider fixing the interest rate on some (or all) of your margin loan to offer protection.
Falling investment income	You should think about ensuring that you have enough surplus cash flow to cover any income shortfall.
Loss of salary due to illness	You should consider if you have enough income protection and life insurance.

# Monitoring your portfolio

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To assist you to manage and monitor your investment portfolio, NAB Equity Lending provides a number of options that give you access to detailed information regarding your Facility.

## Personal account manager service

You will be allocated an Account Manager to look after your NAB Equity Lending Facility. Your Account Manager should generally be your first point of contact to assist with any queries about your NAB Equity Lending Facility and can be contacted on 1300 135 145.

## Detailed statements

We will send you a regular detailed statement that provides a summary of your Facility including the market and security value of your portfolio and your transaction details.

## Online access – 24 hours a day, 7 days a week

When you log into [nab.com.au/equitylending](https://nab.com.au/equitylending) you can view a summary of your Facility and access a range of reports that provide details about the status of your Facility. Also available online is information about interest rates, fees and our Approved Investment List.

# Further Information

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For further information regarding NAB Equity Lending:

- Visit our website: [nab.com.au/equitylending](https://nab.com.au/equitylending)
- Call us on 1300 135 145 (8.30am – 5.30pm (EST), Monday to Friday)
- Email us at: [equity.lending@nab.com.au](mailto:equity.lending@nab.com.au)



Notes

Lined area for notes, consisting of multiple horizontal lines.

## Notes

## Want more information?

Just call

**1300 135 145**

8.30am – 5.30pm EST, Monday to Friday

Email [equity.lending@nab.com.au](mailto:equity.lending@nab.com.au)

or visit us at [nab.com.au/equitylending](http://nab.com.au/equitylending)