



Self Funding Instalments

Equity Structured Products & Warrants

A medium to long term geared investment product for individuals and Self Managed Super Funds (SMSFs).

- > Individuals
- > SMSFs

Make it happen™

 **RBS**TM
The Royal Bank of Scotland

What are SFIs?

Self Funding Instalments (SFIs) are a simple way to gain long term geared exposure to ASX-listed shares while receiving many of the major benefits of share ownership including exposure to share price movements, dividends and franking credits.

SFI investors are able to purchase shares in two payments – a part payment upfront called the 'First Payment' and the optional final payment called the 'Instalment Payment' at a later date. The Instalment Payment is a non-recourse loan issued by RBS Group (Australia) Pty Limited (RBS). RBS was formerly named ABN AMRO Australia Pty Limited.

SFIs are 'self funding' over the term of the investment. Any dividends paid by the underlying company are used to reduce the Instalment Payment¹.

SFIs also have a Stop Loss Level – if the Underlying Share price trades at or through the Stop Loss Level, the SFI will expire and any Remaining Value is paid to the investor. Please read on for more information.

¹In limited circumstances, if RBS has to withhold an amount for Withholding Tax, not all of the dividend will be used to reduce the Instalment Payment. Please refer to the Product Disclosure Statement for more detail.

Key benefits

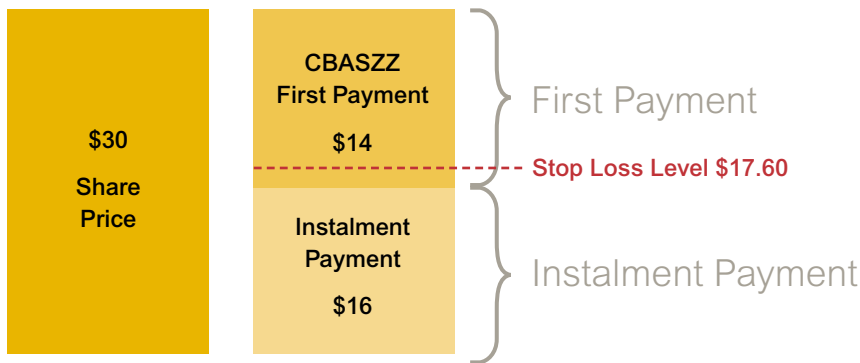
- Leverage your share exposure and still receive many of the major benefits of share ownership
- Simpler and more cost effective than existing SFIs with the removal of traditionally expensive capital protection costs, due to the Stop Loss Level
- Stop Loss Level – SFIs feature a Stop Loss Level which ensures that the value of the SFI can never be negative. So in a worst case scenario, you can never lose more than your initial capital outlay
- Non-recourse loan. The Instalment Payment (Loan) is optional - no matter what happens to the share price, you do not have to make the Instalment Payment or contribute more funds to the SFI
- Dividends – used to reduce the Instalment Payment (Loan) and franking credits received by the investor¹
- Tax effective – Investing in SFIs rather than shares can accelerate the number of excess franking credits that can be used to offset the tax liability in earnings and contributions tax for a Self Managed Super Funds (SMSF)
- One of the few ways to legally gear SMSFs
- Low administration investment- cashflows (dividends and interest) are managed by RBS

How SFIs work

SFIs allow investors to buy shares in TWO payments. You pay the First Payment to RBS. The First Payment is usually between 40-60% of the current share price. Once you make the First Payment, you are entitled to the full benefits and any share price movements, dividends and franking credits.

The self funding feature means that dividends are used to repay the outstanding Instalment Payment (or loan amount)². Any franking credits will flow through to the investor. All cashflows are managed by RBS so administration of SFIs is minimal.

If you wish to take ownership of the underlying shares before expiry, you can pay the Instalment Payment (Loan Amount) at any time.



CBA Share Price	\$ 30.00
CBASZZ Instalment payment (Loan)	\$ 16.00*
CBASZZ First Payment	\$ 14.00*

The Value of the First Payment can be calculated at any time simply by deducting the Instalment Payment (Loan) from the prevailing Share Price.

Effect of share price movement on the value of the First Payment Price

CBASZZ Current Instalment Payment (Loan) \$16.00	
CBA Share Price	CBASZZ First Payment Price
\$ 30	\$ 14
\$ 32 ↑	\$ 16 ↑
\$ 28 ↓	\$ 12 ↓

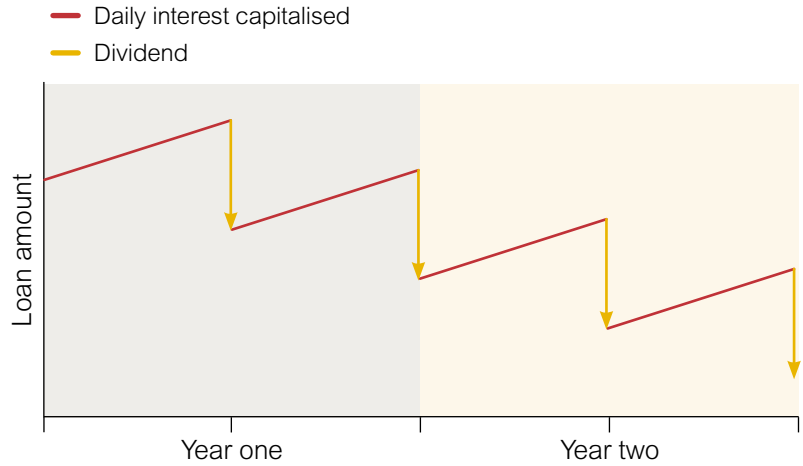
*Please note the loan amount will vary daily with interest costs applicable to the loan being capitalised overnight and dividends reducing the loan at the underlying companies ex-dividend date. Details are available on our website www.rbs.com.au/warrants and in the Product Disclosure Statement.

²In limited circumstances, if RBS has to withhold an amount for Withholding Tax, not all of the dividend will be used to reduce the Instalment Payment. Please refer to the Product Disclosure Statement for more detail.

Effect of Dividends and Interest on the Instalment Payment

Rather than receive dividends as cash payments, they are used to reduce the Instalment Payment (Loan). Interest charges are capitalised daily.

As long as the dividends being paid are greater than the interest charges, the Instalment Payment will reduce over time, resulting in you building equity in your SFI faster³.



How is interest charged?

SFIs include a non-recourse loan, known as the Instalment Payment. The Instalment Payment (loan) attracts interest which is calculated and capitalised daily. This means that the investor only pays for interest they utilise while holding a SFI.

Example: How interest is capitalised

<i>Today</i>	
CBASZZ Instalment Payment (Loan)	\$16.00
<i>Overnight</i>	
Daily Interest amount calculated at 8% p.a	\$0.0035
<i>Tomorrow</i>	
CBASZZ Instalment Payment (Loan)	\$16.0035

³In some cases, if RBS has to withhold an amount for Withholding Tax, not all of the dividend will reduce the Instalment Payment. Please refer to the Product Disclosure Statement for more detail.

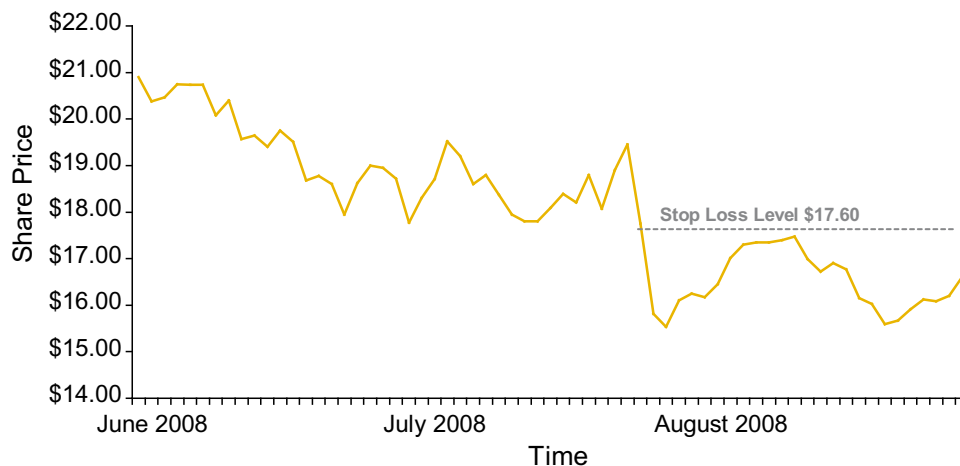
What is the Stop Loss Level?

The Stop Loss Level ensures that the value of the SFI can never be negative. In the worst case scenario, a Holder can never lose more than their initial investment.

The Instalment Payment (loan) is non-recourse. This means that no matter what happens to the share price, RBS cannot request payment of the loan. The investor can simply walk away.

The Stop Loss Event occurs if the value of the Underlying Entities' Share for a Self Funding Instalment is less than or equal to the Stop Loss Level.

Share Price Chart with Stop Loss Level



If the share price falls and the Stop Loss Level is triggered, trading in the SFI is halted. RBS then sells the underlying shares it holds on behalf of SFI investors. If RBS achieves a sale price above the Instalment Payment (loan), the SFI will have a Remaining Value. This Remaining Value can be returned to the investor by simply selling your SFIs back to RBS after 2pm the trading day immediately following the Stop Loss Event.

SELF FUNDING INSTALMENTS

For example the CBA Share Price trades at \$17.60 which is the Stop Loss Level for CBASZZ. Trading in CBASZZ is halted while RBS sells the CBA shares it holds on behalf of investors and a remaining value is determined.

CBA Sale Price	Loan Amount	Remaining Value
\$ 17.50	\$ 16.00	\$ 1.50
\$ 18.00	\$ 16.00	\$ 2.00
\$ 15.00	\$ 16.00	Zero

In the above scenario the client can sell their CBASZZ back to RBS for the remaining value. In the third example where the remaining value is negative, RBS takes the loss and the client simply walks away. The client will not be required to make any further payments to RBS.

Investors can reinvest the remaining value into a new SFI to retain their exposure.

The Stop Loss level is available daily on our website www.rbs.com.au/warrants and announced on the ASX company announcement platform. The Stop Loss Level is adjusted at the beginning of each month or as according to the terms of the PDS.

Conversion to another SFI

When a share price is falling towards the Stop Loss Level, an investor may consider a more conservatively geared SFI to convert to in order to maintain their exposure.

Example

CBA share price	\$ 19.00
CBASZZ (\$16.00 Loan, Stop Loss \$17.60)	\$ 3.00
Convert to CBASZY (\$14.00 Loan, Stop Loss \$15.40) by contributing \$2.00 per Instalment to reduce the level of gearing and increase the investor's equity.	
CBASZY (\$14.00 Loan)	\$ 5.00

Please call the RBS Warrants team on 1800 450 005 for more information on how to convert your SFI.

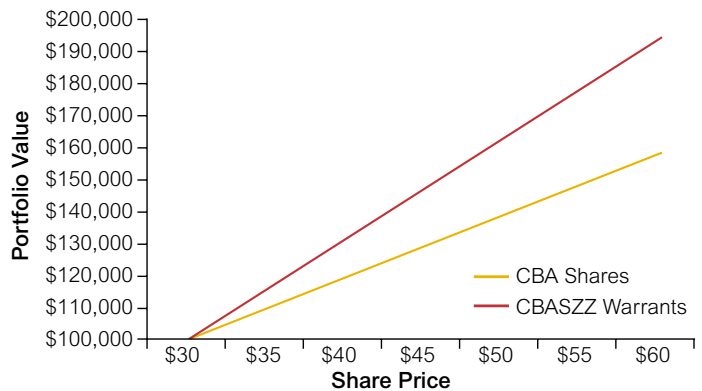
SFI strategies:

SFIs can play a useful role within your investment portfolio or SMSF. Consider the following:

1

The Power of Gearing

SFIs are suitable for individuals and SMSFs who hold a medium to long term positive view of the share market and wish to be leveraged to its future growth. In general, gearing using SFIs will result in investors increasing wealth when share markets rise. However, it should be noted that when the share market falls, the effect of gearing can result in losses being magnified.



This graph is for illustrative purposes only.

2

SFIs and SMSFs

SFIs are one of the few ways you can legally gear your SMSF. Apart from the benefits associated with leverage, the interest deductions and enhanced franking credits generated by SFIs can be used to reduce the earnings and contributions tax liabilities payable by the SMSF. As shown in the example below, when the franking credits are applied, the earnings tax liability of the SMSF is written-off as the franking credits exceed the tax liability. In addition, the excess franking credits allow the investor to contribute up to \$7,530.20 to the Super Fund without having to pay contributions tax.

Example

CBA share price	\$30.00
CBASZZ First Payment	\$14.00
CBASZZ Instalment Payment	\$16.00
Funds invested in CBASZZ	\$20,000
Number of CBASZZ purchased	1,429 (\$20,000/\$14.00)
<i>Income to next reset date:</i>	
Dividend income from CBASZZ	\$3,801.06
Franking income from CBASZZ	\$1,629.06
Sub-total: Taxable Income	\$5,430.20
<i>Interest deductions:</i>	
	\$2,100.00
Total: Taxable Income	\$3,330.20
	(\$5,430.20 – \$2,100.00)
Earnings Tax Payable at 15%	\$499.53 (\$3,330.20x0.15)
Application of franking credits	\$1,629.06
Excess franking credits	\$1,129.53
	(\$1,629.06 – \$499.53)
Contributions Tax Benefit	\$7,530.20 (\$1,129.53/0.15)

3

Extracting cash and deferring CGT using SFIs

This popular strategy provides you with the ability to release equity from an existing share portfolio without incurring a CGT liability. These funds can then be used to diversify your investment portfolio.

Please note: This strategy is not appropriate for SMSFs.

Example

Investors can extract cash out of existing shareholdings without triggering CGT. Using CBA as an example, John can extract \$16,000 by converting 1,000 CBA shares to CBA SFIs. John is then able to invest this money into other assets. In addition, he will continue to receive dividends (which will be used to reduce the Instalment Payment), franking credits and potential capital appreciation from the CBA SFIs.

CBA share value	\$30.00
CBASZZ first payment value	\$14.00
Cash released per instalment	\$16.00
Amount available for other investments	\$16,000
	(\$16.00 X 1000)
CGT liability	ZERO

* The above table is for illustrative purposes only.

Quick guide to our SFIs

- Investment Term - Up to 10 years
- Payment – You pay the First Payment on the day you purchase your SFIs. The Instalment Payment (or loan amount) is optional
- Dividends – used to repay the Instalment Payment (loan). Investors receive the franking credits⁴
- SFIs offer leverage with limited downside risk. SFIs feature a Stop Loss Level and a non recourse loan which ensures that the value of the SFI can never be negative. So in the worst case scenario, you can never lose more than your initial capital outlay
- The new SFIs are simpler and more cost effective with the removal of traditionally expensive capital protection costs associated with the Stop Loss Feature
- One of the few ways to obtain geared exposure in a SMSFs
- Investing in SFIs rather than shares can accelerate the number of excess franking credits for a SMSF

⁴In limited circumstances, if RBS has to withhold an amount for Withholding Tax, not all of the dividend will be used to reduce the Instalment Payment. Please refer to the Product Disclosure Statement for more detail.

Frequently asked questions

How can I identify an SFI issued by RBS?

All SFIs listed on the ASX have six letter codes. For example, a CBA SFI over CBA shares would have the following code:



Which shares are RBS SFIs available over?

RBS has a broad range of SFIs covering the most popular ASX-listed shares, and Exchange Traded Funds (ETFs). For a complete list of our SFIs, visit www.rbs.com.au/warrants or talk to your financial advisor.

How do you buy an SFI?

Our SFIs are traded on the ASX so they can be purchased, just like shares, through your financial advisor or stockbroker.

Where can I check the current price of my SFI?

You can check on the price of your SFI in the business section of your newspaper, www.asx.com.au, or by contacting your financial advisor or stockbroker. If you would like to check your current holding of our SFIs, contact Link Market Services on 1300 733 794. You can also visit www.rbs.com.au/warrants to view a daily pricing list of our SFIs.

How do you sell an SFI?

You can sell your SFI at any time on the ASX. This may be done through your financial advisor or stockbroker.

What information will I receive about my SFI investment?

You will receive confirmation of your investment from either your financial advisor or stockbroker. RBS will provide you with a tax statement at the end of each financial year. This will include interests, fees, distributions, and other tax related information for individual investors and SMSFs.

Other considerations

Investors should consider the potential risks of investing in Self Funding Instalments. Some of the potential risk factors include:

- All of the general risks of investing in listed shares and securities
- Instalments provide leverage which may magnify any losses
- Price of the SFI is dependant on many factors, some of which are Instalment Payment, Interest Rate, price and liquidity of underlying shares
- Potential returns may be zero and Holders may lose all of their purchase price paid for the Self Funding Instalment
- Performance of RBS or the security trustee
- Corporate action events relating to the underlying security and potential for early expiry
- Changes to tax and Australian laws

For further details on the risk of investing in SFIs, please refer to Section 4.2 of PDS Part 2.

Further Information

For more information about our SFIs, contact your financial advisor or stockbroker. Alternatively, you can contact RBS on 1800 450 005 or visit www.rbs.com.au/warrants.

Defined terms in this brochure have the meaning given in the Product Disclosure Statement.

Product Disclosure Statement

The SFIs are issued by RBS Group (Australia) Pty Limited (ABN 78 000 862 797 A FSL Number 247013. A Product Disclosure Statement dated 30th January 2009 for the SFIs is available from your financial advisor, RBS on 1800 450 005 or on the website at www.rbs.com.au/warrants.

You should consider the Product Disclosure Statement in full before deciding whether to acquire, or to continue to hold, the SFIs.

Contact us

For more information on about how Instalments can become an effective part of your clients, wealth creation strategy and your business contact RBS on 1800 450 005.

What information will Instalment Holders receive about their investment?

- Confirmation of investment from either their stockbroker or financial adviser, or RBS (depending on how purchased)
- Dividend and Franking Statements at the underlying shares dividend payment date including the new 'Instalment Payment'
- Taxation Summaries following the end of each financial year
- Any corporate actions that effect the economic benefits associated with the Instalment.

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The Product Disclosure Statement ("PDS") relating to these financial products is available upon request from RBS (1800 450 005) or on our website www.rbs.com.au/warrants.

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