



nab

NAB Margin Lending

set your sights higher

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 Margin 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/marginlending or by calling NAB Margin Lending on 1300 135 145.

This brochure is not a substitute for reading the NAB Margin Lending Facility Terms or the CMA PDS. The NAB Margin 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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what is margin lending?

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.

A potentially powerful way to implement a gearing strategy is to establish a margin lending facility. A margin loan is a flexible line of credit that can be used to borrow money for investment purposes, such as investing in shares and managed funds.

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 a margin lending strategy is right for your particular circumstances.



NAB Margin Lending – features at a glance

Competitive interest rates	NAB Margin Lending offers competitive interest rates.
No application fees* or ongoing service fees for individual and joint applicants	Refer to page 13 for further details about fees.
An extensive choice of investments	A NAB Margin Lending Facility allows you to borrow against an extensive range of ASX listed stocks and managed funds.
Flexible loan options	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.
Personal Account Manager service	A personal Account Manager is allocated to look after your Facility and assist you with any queries you may have.
Prompt loan approval	Loan approval for individual or joint applications is generally provided within 48 hours of receipt of your application.
Low minimum loan amount	The minimum loan amount is \$20,000.
Instalment gearing	Instalment gearing facilities are available with a minimum loan amount of \$20,000.
Third party security	This means you may be able to use investments owned by another person (or company) as security for your margin loan.
Monitoring your portfolio is easy	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 nab.com.au/marginlending .
Use the broker of your choice	Where you have an existing broker there is generally no need to change this relationship.
Call options	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 11.

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 otherwise be 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 Margin Lending recommends that you seek advice from your financial or tax adviser regarding the tax consequences and the suitability of a NAB Margin Lending Facility for your circumstances.

increased investment opportunities

Margin lending can help 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 Margin 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 Margin 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 40% 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 NAB margin loan contact your financial adviser or a NAB Margin 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: Total you can borrow = $\frac{\text{value of investments} \times \text{security ratio of investments}}{(1 - \text{security ratio of investments})}$
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 also 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 $\$60,000 \times 60\%$). 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 Margin Lending offers an extensive range of approved shares and managed funds with security ratios of between 40% and 75%. A current Approved Investment List can be obtained from nab.com.au/marginlending or by calling **1300 135 145** (Monday to Friday, 8.30am - 5.30pm EST).



gearing options to consider

Lump sum gearing

Lump sum gearing is one way to potentially accelerate your wealth by using borrowed money to make a larger lump sum investment.

Case study

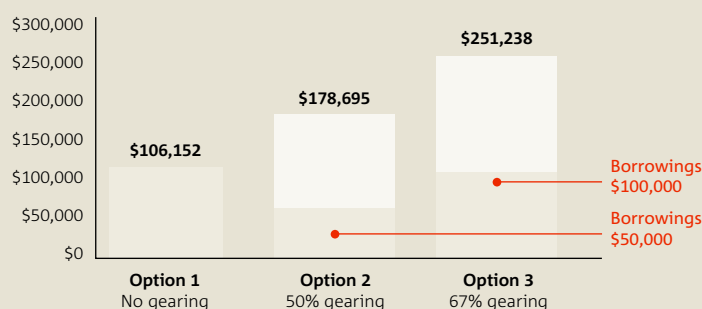
Jack already has \$50,000 invested in an approved Australian share fund (with a security ratio of 70%). After speaking to his adviser, he is considering three options:

1. Maintaining his investment at \$50,000.
2. Doubling his investment by borrowing \$50,000 through a margin lending facility (a 50% gearing strategy).
3. Increasing his investment even more by borrowing \$100,000 through a margin lending facility (a 67% gearing strategy).

The graph below illustrates the potential outcome of these three options after ten years.

Assumptions:

Ten year investment period. Investment return is 8.5% p.a. (split 3% income and 5.5% growth). The franking level on income is 75%. Interest on the loan is 8.0% p.a. Jack's marginal tax rate is 41.5% including a Medicare Levy of 1.5%. Where investment income and tax benefits are insufficient to meet interest payments, a portion of the investment is sold to cover the shortfall. Otherwise the excess investment income and tax savings are reinvested.



As you can see from the graph, the higher the gearing level the greater the potential returns. It must be remembered, however, that Jack still has an outstanding loan in options 2 and 3 of \$50,000 and \$100,000 respectively. If Jack withdrew a portion of his investment after ten years to repay the outstanding debt (and pay Capital Gains Tax on the amount withdrawn), the value of his investment is shown in the table below.

Value of investment after repayment of loan

Option 1 No gearing	Option 2 50% geared	Option 3 67% geared
\$106,152	\$123,989*	\$141,826*

* After CGT on the amount withdrawn.

Clearly, margin lending has the potential to help Jack achieve his goals, so long as the value of his investments rises sufficiently.

Gearing by instalment

Another way to make your money work hard is to establish an instalment gearing facility. Instalment gearing enables you to invest in approved managed funds on a monthly basis, using a combination of your own funds and money borrowed through your NAB Margin Lending Facility.

By investing regularly, you can 'average' the price you pay for your investments and not have to worry about trying to time your entry into the market.

Case study

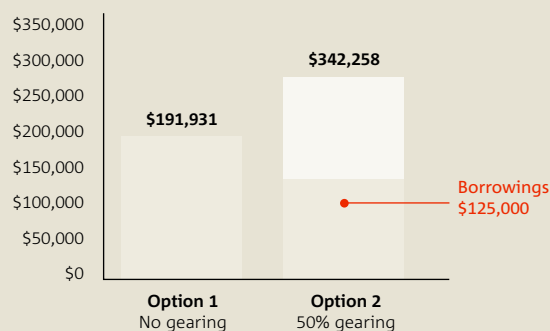
Jillian wants to invest in an approved Australian share fund on a regular basis over the next ten years. After consulting with a financial adviser, she is considering the following options:

1. Investing \$1,000 per month from her regular income in addition to an initial lump sum of \$5,000 (a total investment of \$125,000 over a ten year period).
2. Using an instalment gearing strategy, initially investing \$10,000 (ie \$5,000 of her money plus \$5,000 in borrowed money), followed by monthly investments of \$2,000 (ie \$1,000 per month of her money, together with \$1,000 per month of borrowed money). Over ten years, the total amount invested will be \$250,000 (ie \$125,000 of her money, plus \$125,000 of borrowed money). Her investments will therefore be 50% geared.

The graph below illustrates the potential outcome of these two options after ten years.

Assumptions:

Ten year investment period. The managed fund has a security ratio of 60%. Investment return is 8.5% p.a. (split 3% income and 5.5% growth). The franking level on income is 75%. Interest on the loan is 8.0% p.a. Jillian's marginal tax rate is 41.5% including a Medicare Levy of 1.5%. Where investment income and tax benefits are insufficient to meet interest payments, a portion of the investment is sold to cover the shortfall. Otherwise the excess investment income and tax savings are reinvested.



If Jillian decides to pay back the \$125,000 loan in Option 2 at the end of ten years by selling units in the Australian share fund to repay the loan (and pay Capital Gains Tax on the amount withdrawn), the value of her investment is shown in the table below.

Value of investment after repayment of loan

Option 1 No gearing	Option 2 50% geared
\$191,931	\$206,805*

* After CGT on the amount withdrawn.

When compared to the 'no gearing' scenario, instalment gearing has clearly made a significant difference to Jillian's financial position.

how does NAB Margin 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 Margin 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 Margin Lending Facility, that portion is fully advanced and the proceeds are deposited into a NAB Margin Lending Cash Management Account that is automatically opened in your name. The NAB Margin Lending Cash Management Account pays interest that is calculated daily and paid monthly.

For interest in advance loans, you need to provide NAB Margin Lending with details of the means by which the yearly interest charge will be met, either 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 Margin 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)

Instalment gearing

A NAB Margin Lending Facility can be set up with instalment gearing that provides you with the ability to invest in approved managed funds on a monthly basis. The features of instalment gearing include:

- a minimum loan of \$20,000 (with an initial minimum loan draw-down of \$5,000)
- a minimum contribution by you of \$250 each month from your own funds and a minimum loan contribution of \$250 from your NAB Margin Lending Facility each month
- a choice of managed funds to invest in from our extensive list of approved managed funds
- the choice of variable and fixed rate loans
- the ability to switch managed funds
- the option of increasing your contributions
- the convenience of direct debit for your monthly contributions

Please note that different fund managers may have additional minimum investment requirements.

Call options

NAB Margin Lending provides you with the opportunity to write call options by using the shares held as security for your Facility as specific cover for those options.

When you sell (or write) a call option, you give the buyer of the option the right to buy your shares at a specified price on or before a specified date. When you lodge the shares underlying your call option with the Australian Clearing House (ACH) as cover for your daily margin obligations in respect of that option, your call option is known as a specific covered call option.

How does using your shares as collateral for a covered call option work?

An example of how a covered call option strategy works in conjunction with a NAB Margin Lending Facility is:

step 1	<p>You buy 3,000 XYZ shares at \$5.50. XYZ shares have a security ratio of 70%.</p> <p>Through your NAB Margin Lending Facility you:</p> <table><tr><td>Borrow 70% of the purchase price</td><td>\$11,550</td></tr><tr><td>Provide the remaining 30% from your own funds</td><td>\$4,950</td></tr><tr><td>Total cost of shares</td><td>\$16,500</td></tr></table>	Borrow 70% of the purchase price	\$11,550	Provide the remaining 30% from your own funds	\$4,950	Total cost of shares	\$16,500
Borrow 70% of the purchase price	\$11,550						
Provide the remaining 30% from your own funds	\$4,950						
Total cost of shares	\$16,500						
step 2	<p>You sell 3 call options for 30 cents per share per contract (each contract has 1,000 shares)</p> <table><tr><td>3 call options x 1,000 shares x 30 cents</td><td>\$900</td></tr></table>	3 call options x 1,000 shares x 30 cents	\$900				
3 call options x 1,000 shares x 30 cents	\$900						
step 3	<table><tr><td>Your initial outlay is effectively reduced by the amount received from the call options</td><td>\$16,500</td></tr><tr><td>Total outlay</td><td>\$15,600*</td></tr></table>	Your initial outlay is effectively reduced by the amount received from the call options	\$16,500	Total outlay	\$15,600*		
Your initial outlay is effectively reduced by the amount received from the call options	\$16,500						
Total outlay	\$15,600*						

* Doesn't include brokerage, interest on your loan or ACH costs.

In this example, by selling the call options you could earn an extra \$900, thereby increasing the income generated from your share investment. Another way of looking at it is that you have reduced the effective price for the shares from \$5.50 to \$5.20 (ie the purchase price of \$5.50 minus the call option premium of \$0.30).

When selling a covered call option, you must take into account potential movements in the share price. Using the XYZ example above, the following scenarios could occur:

- **if the share price rises** – your options may be exercised. If the options you sold had an exercise price of \$6.00, regardless of how high the share price goes, the maximum you will receive for them will be \$6.00. While you will retain the \$900 from writing the call options, you will forgo some of the capital gains if the share price exceeds \$6.00.
- **if the share price remains the same** – you have earned \$900 extra income on your shares.
- **if the share price falls** – the \$900 you earned from selling the call options will offset some of the unrealised loss made on holding the shares.

NAB Margin Lending recommends that you seek advice from your financial adviser before embarking on any strategy involving call options.

NAB Margin Lending is not obliged to permit clients to lodge shares mortgaged to it as specific cover for call options.

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 Margin 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 Margin 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 Margin Lending Facility cannot be sold or transferred to another person without the consent of NAB Margin 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. If you don't have an existing relationship with a broker and would like to trade online yourself, you may like to register with NAB OnLine Trading.

Managed funds

Managed funds can also be used as security for your NAB Margin 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 Margin 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 Margin 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 Margin 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 Margin Lending Facility as specific cover, please contact your NAB Margin Lending Account Manager on **1300 135 145**.

NAB OnLine Trading*

You can use your NAB margin loan to invest in shares and managed funds with NAB OnLine Trading.

NAB OnLine Trading allows you to buy and sell Australian Stock Exchange (ASX) listed shares, warrants and exchange traded options online or over the phone. Plus, NAB OnLine Trading can also help you invest in managed funds.

NAB OnLine Trading can help your investment success by offering:

- A wide range of market information, research and analysis tools
- Attractive brokerage fees
- Frequent trader rebates
- Conditional ordering
- Experienced customer service support

For more information, or to register, contact NAB OnLine Trading:

Visit nab.com.au/trading

Call **13 13 80**, 8am-7pm EST, Monday to Friday

Email service@trading.nab.com.au

*NAB Online Trading service is an information, trading and settlement service provided by Australian Investment Exchange Limited (ABN 71 076 515 930, AFSL 241400). NAB Online Trading Limited (ABN 83 089 718 249, Australian Financial Services Licence Number 230704) is a Participant of the ASX Group and a wholly owned subsidiary of National Australia Bank Limited (ABN 12 004 044 937). NAB Online Trading Limited is not an Authorised Deposit Taking Institution and its obligations do not represent deposits or other liabilities of National Australia Bank Limited. National Australia Bank Limited does not guarantee the obligations or performance of NAB Online Trading Limited or the products or services this subsidiary offers.

managing your NAB Margin 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.

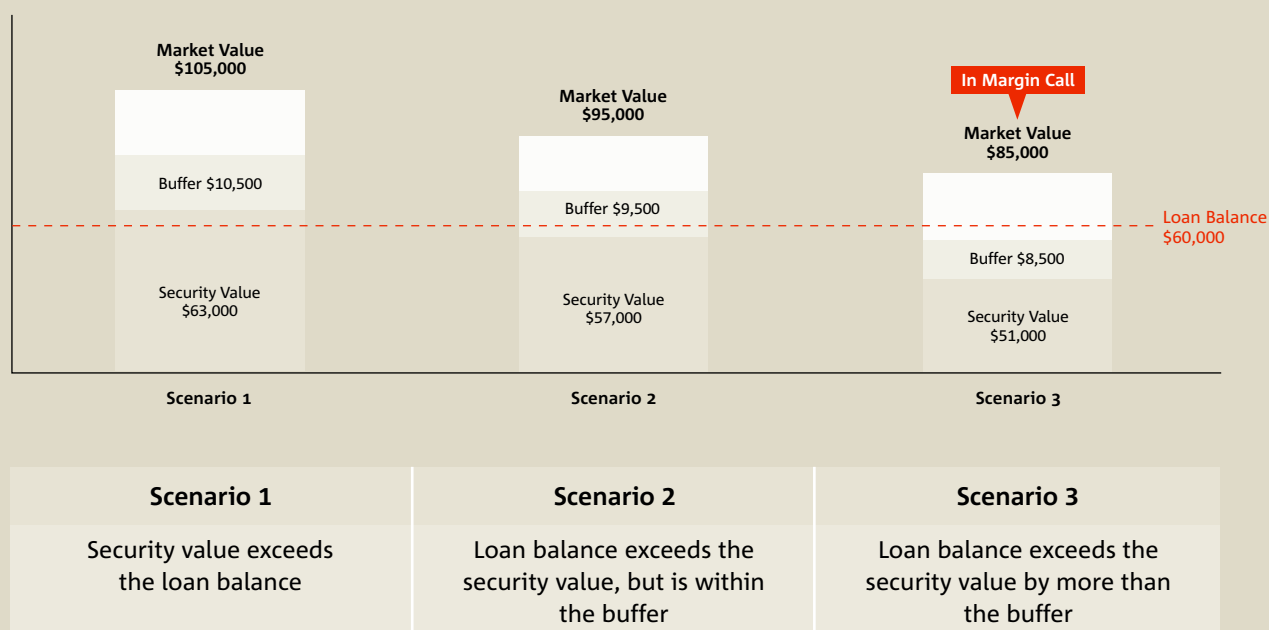
In a situation where your outstanding loan balance exceeds the security value of your investments, NAB Margin Lending allows a '**buffer**' so that small fluctuations in values do not result in a margin call. The buffer is a percentage calculated as the aggregate of:

- 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.



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 Margin 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 Margin 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 Margin Lending Facility. If NAB Margin 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.

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 Margin 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


To assist you to manage and monitor your investment portfolio, NAB Margin 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 Margin Lending Facility. Your Account Manager should generally be your first point of contact to assist with any queries about your NAB Margin 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.



MRS JOAN CITIZEN
135 RESIDENTS ROAD
CITIZENVILLE VIC 3999

Margin Lending
GPO Box 1650
Melbourne VIC 3001
Phone: 1300 135 145
Fax: 1300 739 923
E-mail: margin_lending@wvm.national.com.au
Web: nab.com.au/marginlending

Facility name: Mrs. Joan Citizen
Facility number: 0001234
Adviser/broker: NAB Online Trading Ltd

Statement period: 01/11/04 – 30/11/04
NAB Margin Lending
Account Manager: John Smith

Summary

Facility summary		Current interest rate	
Market value	\$167,544.79	Variable rate	7.80% p.a.
Security value	\$118,855.50	Variable rate (in credit)	3.75% p.a.
Facility limit	\$200,000.00	Fixed rate	7.70% p.a.
Total loans outstanding	\$80,768.34 Dr		
Available funds	\$38,087.16		

Loan to Security Ratio

Margin Call LVR	78.55%	Maximum available spending limit Subject to Facility Limit and available funds at the time of purchase. If the values below are displayed as "\$0.00", your Facility is in the buffer or margin call position or the Facility Limit has been exceeded.	
Base LVR	70.94%		
Current LVR	48.21%		

Installment gearing

Monthly equity contribution	\$2,000.00	75	152,348.68
Monthly loan component	\$2,000.00	70	126,957.23
Total monthly installment	\$4,000.00	50	76,174.34
		40	63,478.62
		0	38,087.17

Facility interest summary
(current financial year to date)

Interest charged	\$961.58 Dr
Interest earned	\$5.48 Cr

Transaction details

Variable rate loan - Acct 083-999 87-890-1234

Date	Details	Debits (\$)	Credits (\$)	Balance (\$)
01/11/04	Brought forward			38,527.32 Dr
12/11/04	Cash contribution payment from Account 604-00		2,000.00	36,527.32 Dr
15/11/04	Unit savings plan application 528-0528 F5FD013	2,000.00		38,527.32 Dr
18/11/04	Unit savings plan application 1,152-9371 MLC0317	2,000.00		40,527.32 Dr
25/11/04	Interest	241.02		40,768.34 Dr
	Balance			40,768.34 Dr

Fixed rate loan - Acct 083-999 12-345-6789 Maturity date - 31/12/04

Date	Details	Debits (\$)	Credits (\$)	Balance (\$)
01/11/04	Brought forward			40,000.00 Dr
	Balance			40,000.00 Dr

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National Australia Bank Limited ABN 12 004 044 837 AFSL 230066 244/02/01/0002/0003

online access – 24 hours a day, 7 days a week

When you log into nab.com.au/marginlending 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.

how to apply

Please read the NAB Margin Lending Facility Terms and the other documents contained in the NAB Margin Lending brochure kit before completing the Application Form. Forward your completed Application Form to NAB Margin Lending (see contact details below).

companies or trustees on behalf of trusts

Companies and trustees on behalf of trusts can establish a NAB Margin Lending Facility, subject to approval. In addition to the standard documentation, applications from a trustee on behalf of a trust must be accompanied by a current and certified copy of the trust deed.

approving your NAB Margin Lending Facility

All applications are subject to approval. NAB Margin Lending will generally approve individual or joint applications within 48 hours of receipt of your application.

Applications from companies and trustees on behalf of trusts may take longer to approve.

On approval of your NAB Margin Lending Facility, you will receive a welcome kit with a letter confirming the approval of your Facility, and details about how to operate your Facility.

how to contact NAB Margin Lending

If you need any further information:

- call us on **1300 135 145**, 8.30am to 5.30pm (EST), Monday to Friday
- fax us on **03 8634 3055**
- email us at: margin_lending@wm.national.com.au
- visit our website: nab.com.au/marginlending
- write to us at: NAB Margin Lending, GPO Box 1650, Melbourne VIC 3001

a word of caution

Operating a NAB Margin Lending Facility involves some degree of risk. The stock market can be volatile and markets can fall as well as rise. Consequently, pages 16 and 17 of this brochure outline some of the risks associated with operating a NAB Margin Lending Facility. Please refer to the Facility Terms for further details. If you are investing in managed funds, you need to be aware that fund manager requirements will also apply.