



Self Funding Instalments

Equity Structured Products & Warrants



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

SFI investors are able to purchase ASX listed shares ("Underlying Shares") in two payments – a part payment upfront called the "First Payment" and the optional final payment at a later date called the "Instalment Payment". The Instalment Payment will be an amount which is equal to the limited recourse loan ("Loan") made by RBS Group (Australia) Pty Limited or The Royal Bank of Scotland plc (in each case "RBS") to the investor.

SFIs are "self funding" over the term of the investment. Any dividends paid on the Underlying Shares are used to reduce the Instalment Payment¹.

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

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
- The limited recourse nature of the Loan and Stop Loss Level ensure 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
- The Instalment Payment is optional – no matter what happens to the Underlying Share price, you do not have to make the Instalment Payment or contribute more funds to the SFI
- Dividends paid on the Underlying Shares are used to reduce the Instalment Payment and franking credits may be received by the investor¹
- Potential interest deductibility and entitlement to franking credits (subject to individual circumstances)²
- A potential way to gear Self Managed Super Funds ("SMSFs")
- Low administration investment – cashflows (dividends and interest) are managed by RBS

Potential risks in investing in SFIs

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
- SFIs provide leverage which may magnify any losses
- Price of the SFI is dependent on many factors, some of which are the Instalment Payment, the Interest Rate, price and liquidity of the Underlying Shares
- SFIs are speculative and potential returns may be zero and investors may lose all of their purchase price paid for the SFI
- If a Stop Loss Event occurs, your investments will expire early
- Performance of RBS or the security trustee
- Corporate action events relating to the Underlying Share and potential for early expiry or changes to the terms of the SFI
- Changes to tax and Australian laws
- A Holder takes the credit risk and counterparty risk that RBS will not be able to or will not continue to perform its obligations owed to Holders
- In certain circumstances, the Trustee may be required to withhold a portion of a Distribution and pay such withheld portion to the ATO ("Withholding Tax")

¹In 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.

²Please refer to the Product Disclosure Statement for more details.

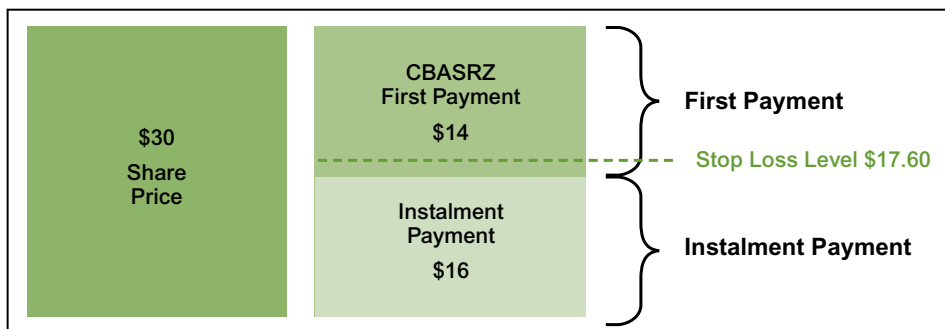
For further details on the risk of investing in SFIs, please refer to the detailed risks set out in of PDS Part 2.

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 price of the Underlying Shares. 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 Payment³. Any franking credits may flow through to the investor⁴. All cashflows are managed by RBS so administration of SFIs by the investor is minimal.

If you wish to take ownership of the Underlying Shares before expiry, you can pay the Instalment Payment at any time.



CBASRZ First Payment \$14.00

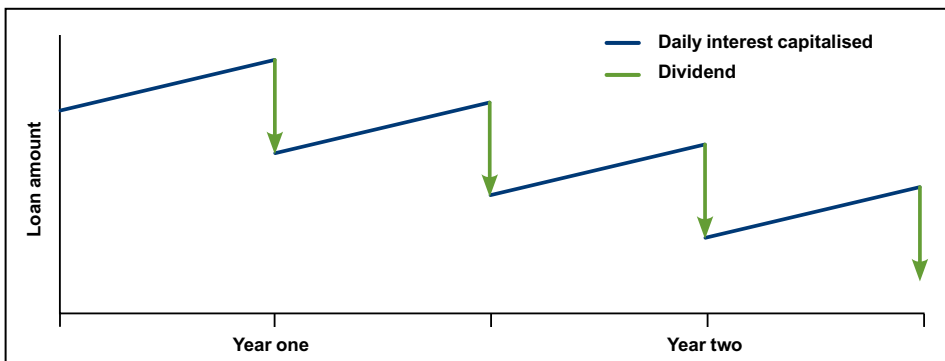
The value of the First Payment can be calculated at any time simply by deducting the Instalment Payment from the prevailing Underlying Share Price (assuming no Borrowing Fee applies - please refer to the Product Disclosure Statement for further details).

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

CBASRZ Current Instalment Payment (Loan) \$16.00

CBA Share Price	CBASRZ First Payment Price
\$30	\$14
\$32 ↑	\$16 ↑
\$28 ↓	\$12 ↓

Effect of dividends and interest on the Instalment Payment



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

As long as the dividends being paid on the Underlying Shares are greater than the interest charges on the Loan, the Instalment Payment will reduce over time, resulting in you building equity in your SFI faster⁵.

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.

⁴Please refer to the Product Disclosure Statement for more details.

CBA Share Price	\$30.00
CBASRZ Instalment Payment (Loan)	\$16.00*

*Please note the Loan Amount and consequently the Instalment Payment will vary daily with interest costs applicable to the Loan being capitalised overnight and dividends reducing the Loan, at the underlying company's ex-dividend date. Details are available on our website www.rbs.com.au/warrants and in the Product Disclosure Statement.

*The 'R' in this code indicates that the SFI has been issued by The Royal Bank of Scotland plc. If the 5th letter is a 'Z', this shows that RBS Group (Australia) Pty Limited has issued the SFI.

⁵In 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.

How is interest charged?

SFIs include a limited recourse loan, which is equal to the Instalment Payment. The Loan attracts interest which is calculated and capitalised daily. This means that the Loan Amount and consequently the Instalment Payment, will increase each day.

Example: How interest is capitalised

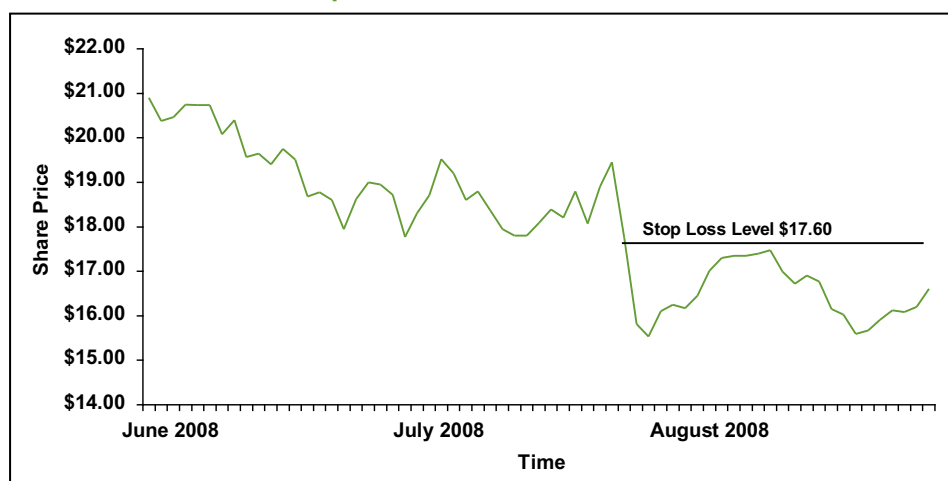
Today	CBASRZ Instalment Payment (Loan)	\$16.00
Overnight	Daily Interest Amount calculated at 8% p.a	\$ 0.0035
Tomorrow	CBASRZ Instalment Payment (Loan)	\$16.0035

What is the Stop Loss Level?

The Stop Loss Level and the limited recourse nature of the Loan ensure that in the worst case scenario, an investor can never lose more than their initial investment, and no matter what happens to the Underlying Share price, RBS cannot request payment of the Loan. The investor can simply walk away.

The Stop Loss Event occurs if the price of the Underlying Share for a SFI is less than or equal to the Stop Loss Level.

Share Price Chart with Stop Loss Level



If the price of the Underlying Share falls and the Stop Loss Level is triggered, trading in the SFI is halted. RBS will sell the Underlying Shares it holds on behalf of SFI investors and will calculate the Remaining Value. If RBS achieves a sale price above the Instalment Payment, the SFI will have a positive Remaining Value and, the investor can sell the SFI back to RBS after 2:00pm on the trading day immediately following the Stop Loss Event. RBS will then pay the Remaining Value to the investor. If the sale price is less than the Instalment Payment, the SFI will have a negative Remaining Value and the SFI will expire worthless.

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

The Remaining Value scenario examples to the left show what the client will receive when they sell their CBASRZ back to RBS for the Remaining Value. In the third example, where the Remaining Value is negative, RBS takes the loss and the investor simply walks away. The investor will not be required to make any further payments to RBS. Investors can reinvest any Remaining Value returned to them into a new SFI to retain their exposure.

Remaining Value Example Scenarios

	CBA Share Price	Loan Amount	Remaining Value
1	\$17.50	\$16.00	\$1.50
2	\$18.00	\$16.00	\$2.00
3	\$15.00	\$16.00	Zero

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

Conversion to another SFI

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

Example

CBA Share Price	\$19.00
CBASRZ (\$16.00 Loan, Stop Loss \$17.60)	\$3.00
Convert to CBASRY (\$14.00 Loan, Stop Loss \$15.40) by contributing \$2.00 per SFI to reduce the level of gearing and increase the investor's equity.	
CBASRY (\$14.00 Loan)	\$5.00

This conversion option may not be available to SMSFs and SMSF investors should obtain their own advice before converting their SFIs in this way.

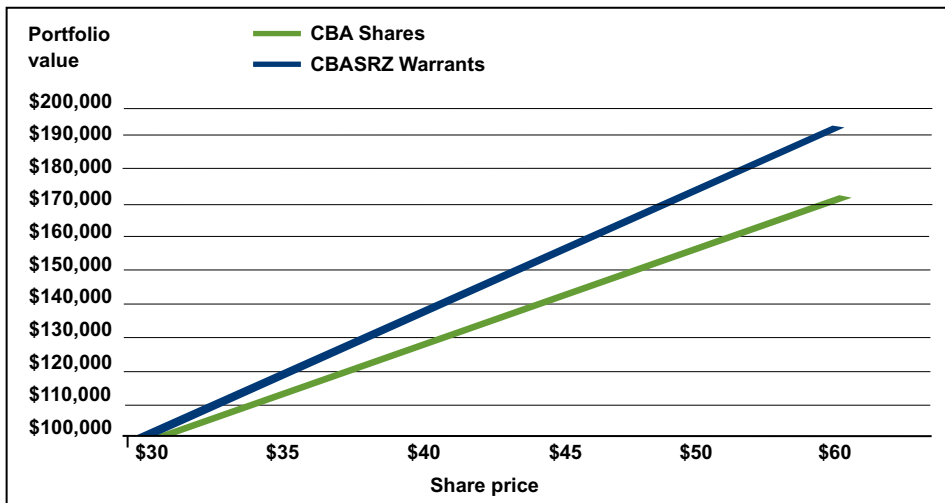
Please call the RBS Warrants team on 1800 450 005 for more information on how to convert your SFI.

SFI strategies

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

1. The power of gearing

SFIs maybe 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 will result in losses being magnified.



This graph is for illustrative purposes only.



Quick guide to our SFIs

- Investment Term – Up to 10 years
- Payment – Investors pay the First Payment on the day they purchase their SFIs and the Instalment Payment is optional
- Dividends – Used to repay the Instalment Payment (Loan). Investors receive the franking credits (if any)⁶
- SFIs feature a Stop Loss Level and a limited recourse loan which ensures that the value of the SFI can never be negative. So in the worst case scenario, investors can never lose more than their initial capital outlay
- The new SFIs are simpler and more cost effective with the removal of traditionally expensive capital protection costs, due to the Stop Loss Level feature
- A potential way to obtain geared exposure in a SMSF
- Due to leverage, investing in SFIs rather than shares increases the number of franking credits (if any) available for a SMSF

2. Extracting cash and deferring CGT using SFIs

This popular strategy may provide investors with the ability to release equity from an existing share portfolio without incurring a CGT liability⁷. These funds can then be used to diversify an investment portfolio.

Please note: This strategy is not appropriate for SMSFs.

Example

Investors can extract cash from existing shareholdings without triggering CGT. Using CBA Shares 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	
CBASRZ First Payment value	\$14.00	
Cash Back Amount released per SFI	\$16.00	
Amount available for other investments	\$16,000	(\$16.00 X 1000)
CGT liability	Zero	

* The above table is for illustrative purposes only. The Cash Back Amount will be reduced by any Borrowing Fee and Stamp duty costs. Please refer to the Product Disclosure Statement for further details regarding applicable fees and costs.

Investor should seek their own independent professional advice in relation to their particular circumstances before making an investment decision.

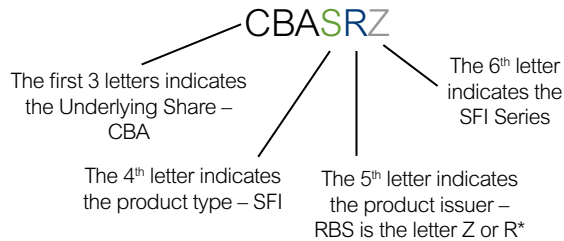
⁶In some cases, if RBS has to withhold an amount for Withholding Tax, not all of the dividend will reduce the Instalment Payment. Please refer to the Product Disclosure Statement for more detail.

⁷Please refer to the Product Disclosure Statement for more details

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:



*The 'R' in this code indicates that the SFI has been issued by The Royal Bank of Scotland plc. If the 5th letter is a 'Z', this shows that RBS Group (Australia) Pty Limited has issued the SFI.

Which shares are RBS SFIs available over?

RBS has a broad range of SFIs covering the most popular ASX-listed shares, and ASX-listed 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 listed 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. You can also visit www.rbs.com.au/warrants to view a daily pricing list of our SFIs. If you would like to check your current holding of our SFIs, contact Link Market Services on 1300 733 794.

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.

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.

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In the Asia Pacific region, we serve corporate, institutional and public sector clients in 11 countries. RBS Group (Australia) Pty Limited and The Royal Bank of Scotland plc are leading providers of corporate and financial services. We have had a local presence since 1974 and work on some of the local market's largest and most complex transactions and projects for our corporate, institutional and public sector clients.

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Log on to www.rbs.com.au/warrants or call 1800 450 005

