



The **NEW** Generation of Self Funding Instalment Warrants

RBS Australia Limited
Equity Structured Products & Warrants

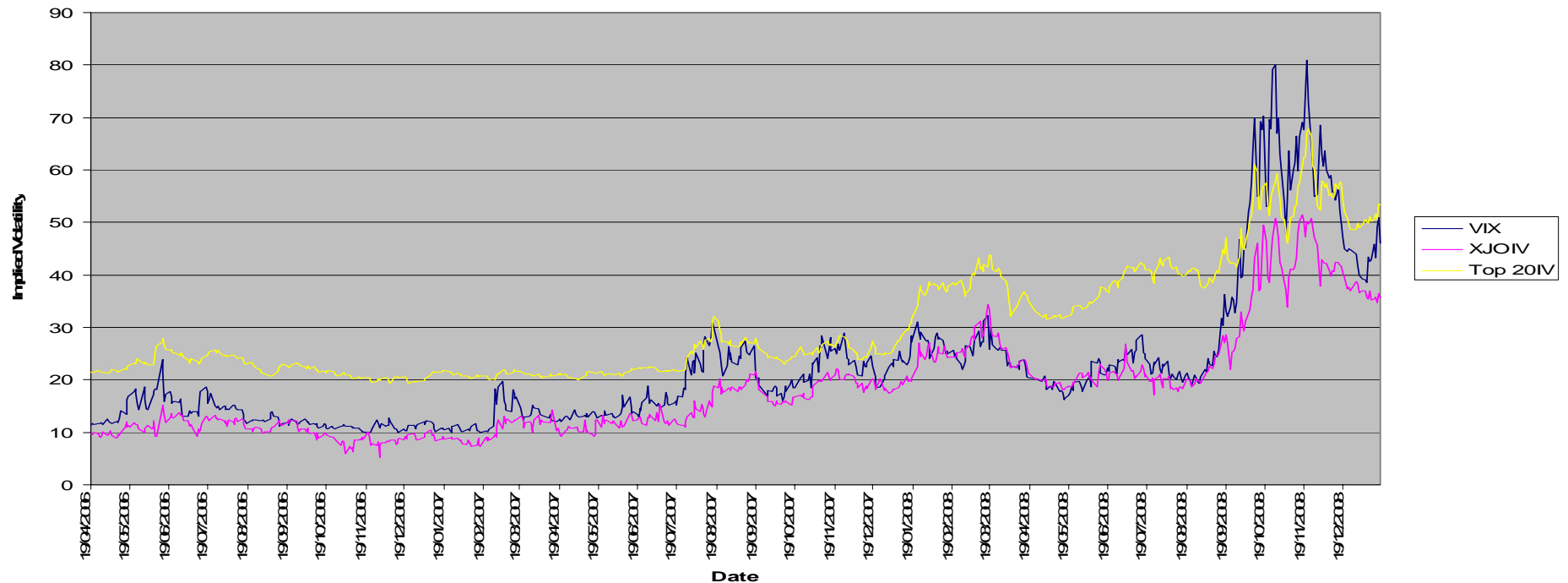
Agenda

- Background
- Result – The NEW RBS SFI
- Suitable Investors
- The Instalment Basics
- Key components of the NEW RBS SFI
 - Instalment basics
 - General features and benefits
 - Structure
 - Pricing
 - Key Product Features
 - Costs compared
- Power Of Gearing
- Strategy One – Deferring CGT and Diversifying Portfolios
- Strategy Two – The Power of Deductions and Franking Credits for SMSFs
- Summary

Background - 2008! Impact of recent volatility

Volatilities spiked to unprecedented levels in 2008. And remain high.....

VIX vs Aussie Vol



RESULT – Cost of Capital Protection has dramatically increased

RESULT – The New RBS SFI

The NEW RBS SFI offers the same excellent features of the traditional SFI. However some slight product changes make it ideally suited to volatile markets.

The NEW RBS SFI is:

- **SIMPLE**
- **COST EFFECTIVE**
- **TRANSPARENT**

The loan is still non-recourse allowing safer leverage and suitability in SMSF. The current interest rates reflect the median variable margin lending rate for stock only as collateral.

Suitable Investors

Examples of the type of investors that may be suitable for Instalments are:

Wealth Creators

- Accelerate wealth creation by increasing exposure to share prices, dividends and franking credits

Self Managed Super Funds

- Benefit from gearing within SMSFs, covered by legislation
- Reduce earnings and contributions tax paid by their SMSF

Existing Shareholders

- Unlock capital value within existing shareholdings - CGT free
 - Diversify an existing portfolio without outlaying any capital
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The Instalment Basics

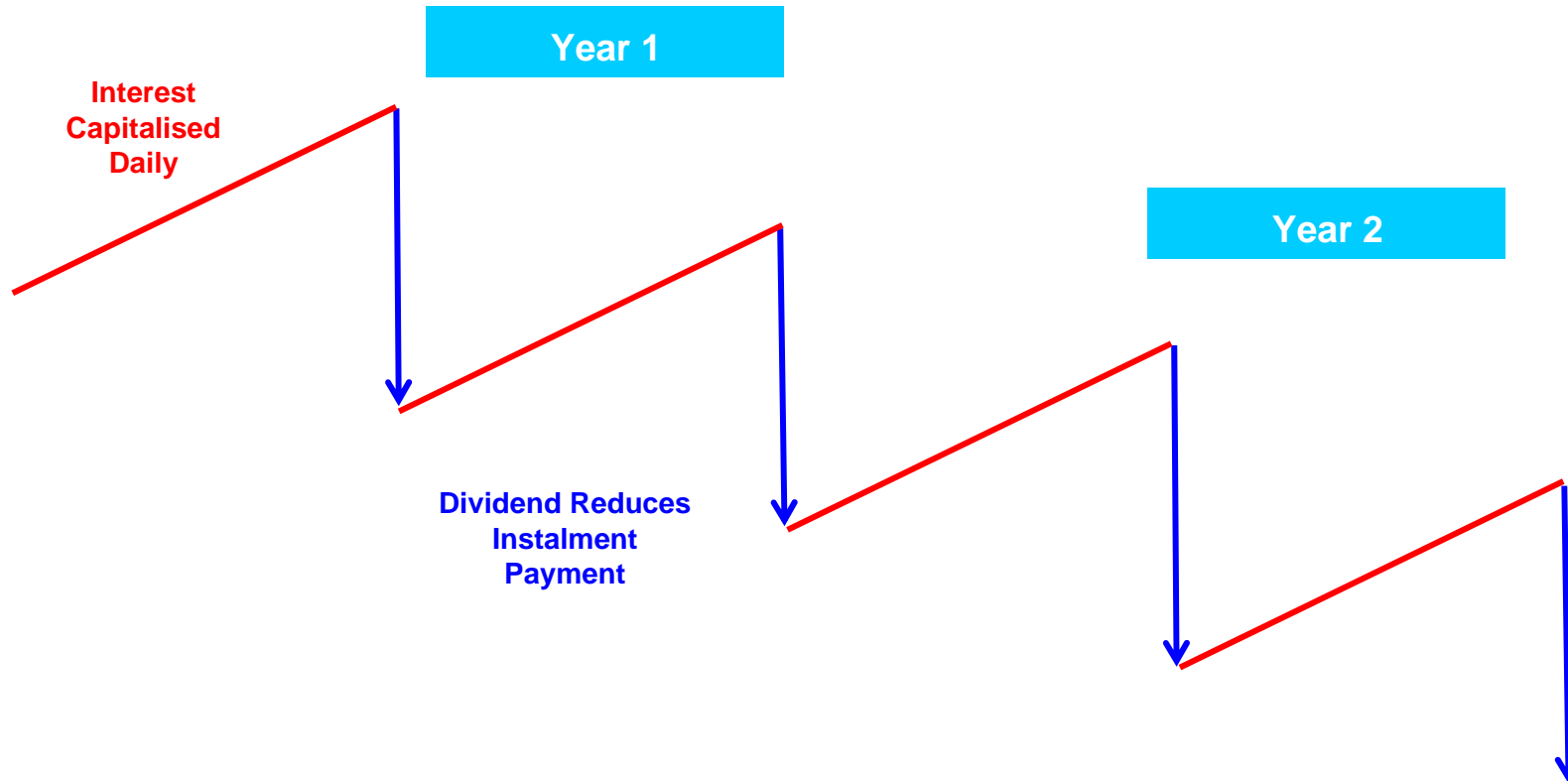
- Simple concept of buying shares in two payments.
- After making the first payment, investors are entitled to all the benefits of share ownership:
 - Full Dividends
 - Franking credits attached to dividends
 - Full Capital appreciation of underlying shares

Self-Funding Instalments

Dividends – Pay down the INSTALMENT
PAYMENT (LOAN)

Self Funding Instalment – Cash Flow Managed

Cash flow effect of a Self-Funding Instalment



Key Benefits and Features

Investment Term - Up to 10 years.

Leverage - Still receive many of the major benefits of share ownership; LVR initially starting at 50-55%

Transparent and Cost effective - With the removal of the traditionally expensive capital protection costs, the new SFI is significantly more cost effective than traditional SFI's.

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. One of the few gearing vehicles available to SMSF's.

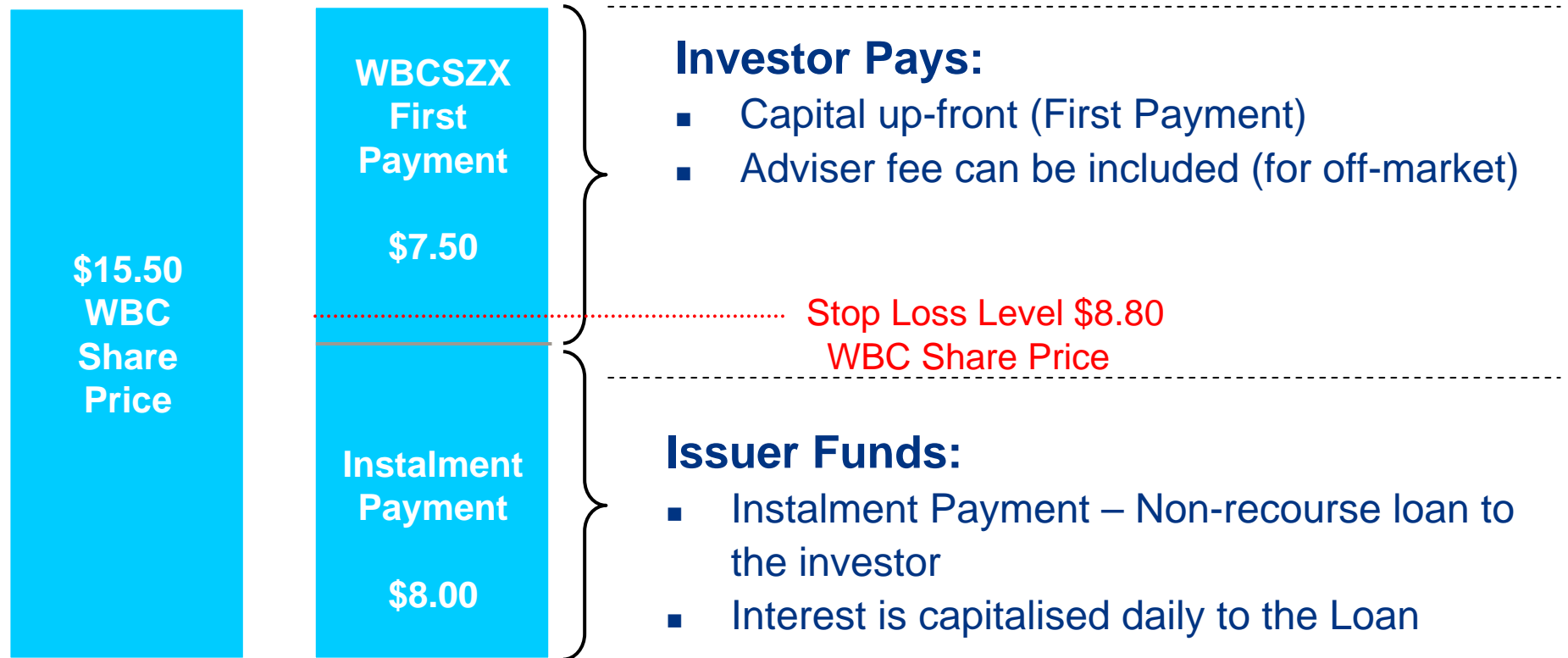
No Margin Calls - No credit checks on investors.

Dividends - used to reduce the Instalment Payment (Loan) and franking credits received by the investor

Stop Loss Level - SFI's feature a Stop Loss Level which ensures that the value of the SFI can never be negative. Worst case scenario - You can never lose more than your initial capital outlay

Tax effective - Investing in SFI's 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 SMSF

NEW SFI Structure



Investors can pay out the loan at ANY time to collect the fully paid shares WBCSZX
ASX listed – can be sold at any time

Understanding The Price

Calculating the Price (First Payment) of the SFI :

“The Instalment Price simply reflects the investor’s equity”

WBC Share Price: \$15.50

Instalment Payment (Loan): \$ 8.00

Instalment Price (First Payment) = Share Price - Loan

WBCSZX = \$15.50 - \$8.00

= \$7.50

Understanding The Price

WBC Shares

@\$15.50

@\$25.00

@\$12.00

WBCSZX
Instalment
Price
\$7.50

Instalment
Payment
(Loan)
\$8.00

WBCSZX
Instalment
Price
\$17.00

Instalment
Payment
(Loan)
\$8.00

WBCSZX
Instalment
Price
\$4.00

Instalment
Payment
(Loan)
\$8.00

“The Instalment Price simply reflects the investor’s equity”

Key Feature: (i) Stop Loss Level Feature

- : Ensures the value of the SFI can never be negative.
- : RBS begins selling stock as soon as SL is hit.
- : SL is generally 10% above the instalment payment (loan amount).

Stop Loss WBCSZX



$$10\% \times \$8.00 = \$8.80$$

<u>WBC Share Price</u>	<u>Loan Amount</u>	<u>Remaining Value</u>
\$8.80	\$8.00	\$0.80
\$8.50	\$8.00	\$0.50
\$5.50	\$8.00	\$0.00

REMAINING VALUE - Can never be negative; RBS takes the loss and the client simply walks away. The client will not be required to make any further payments to RBS for the stopped out SFI.

Investors may convert to a more conservatively geared SFI if the share price is approaching the Stop Loss – call the Warrants Team for available options.

Key Feature: (ii) How Interest is Charged

- SFIs include a non-recourse loan - known as the Instalment Payment.
- This Instalment Payment attracts interest, calculated and capitalised daily.

Today

WBC shares trading @ \$15.50
WBCSZX Instalment Payment (Loan) \$8.00
WBCSZX \$7.50

Overnight

Interest Calculation = Interest Rate(7.85%) * Loan/365
= 7.85% * \$8.00/365
= \$0.0017

Tomorrow

WBC Shares trading @ \$15.50
WBCSZX Instalment Payment (Loan) \$8.0017
WBCSZX \$7.4983

*Daily Instalment Payment (Loan) Amounts are available on our website.
www.rbs.com.au/warrants*

Protection Costs Compared

	CAPITAL PROTECTION COSTS				
	Total Put Cost	Average Put Cost p.a	Average Put Cost p.a (%)	Total Funding Cost p.a (%)	Movement With Share Price
WBCSZX (RBS NEW SFI)	ZERO	ZERO	ZERO	7.85%	Always 1 for 1 (delta = 1)
EXAMPLE OF A TRADITIONAL WBC SFI	\$3.41	\$0.63	8.0%	15.85*%	Virtually never 1 for 1(delta <1)

Saving 8.0% per annum in costs – at current volatility level the OLD style SFI significantly erodes investor returns

1. Both instalments have an LVR around 50%
2. * Capital Protection costs not deductible
3. The RBS SFI has no optionality – making it cost effective, simple and transparent

The Power of Gearing

Capital appreciation – Instalment warrants are listed on the ASX and the price trades in line with the underlying

Stock Code	Instalment Code	Share Price	First Instalment Price	5% increase in share price	Effect on Instalment Price	% Return on Share	% Return on Instalment
WBC	WBCSZX	\$15.50	\$7.5	\$16.28	\$8.28	5.0%	10.33%

Dividend Enhancement

Stock Code	Instalment Code	Gross Yield on Stock	Gross Yield on Instalment
WBC	WBCSZX	9.2%	17.8%

Strategy One – Cash Extraction: Defer CGT and Diversify Portfolios

(i) The “cash extraction” process:

- Unlock the value of existing portfolio WITHOUT crystallising a CGT liability
- Receive cash – Excellent way to diversify a portfolio

(ii) How does the process work ?

- Investor lodges the stock with ABN AMRO which is held in a security trust. The investor receives:
 - An equal number of Instalments that have the same benefits as the shares
 - An amount of cash which is **CGT free** and available for reinvestment

Unfortunately not available to SMSF's

Strategy One – Cash Extraction: Defer CGT and Diversify Portfolios

(iii) Who is the strategy suitable for ?

- Investors exposed to capital gains, wishing to diversify their investment portfolio
- Investors wishing to increase their exposure to a share without outlaying any cash

BHP holding:	10,000
Purchase date:	October 1999
BHP Cost Base:	\$5.35
BHP Price Today:	\$33.16
CGT liability on sale*:	\$278,100
Tax liability @ 22.5%:	\$62,573

* Assumes client is on the highest marginal tax rate

Strategy One – Cash Extraction: Defer CGT and Diversify Portfolios

Number of shares:	10,000	BHPSZX price:	\$19.67
Instalment Payment:	\$13.49	BHP Share Price:	\$33.16

(iv) Calculating “cashback” amount:

$$\begin{aligned}\text{CASH BACK} &= \text{SHARE PRICE (BHP)} - \text{INSTALMENT PRICE (BHPSZX)} \\ &= \$ 33.16 - \$ 19.67 \\ &= \$ 13.49\end{aligned}$$

**Therefore, \$134,900 of CGT Free capital is released as a cash payment to investor.
An ideal strategy for diversification.**

Results:

- Exposure to BHP is maintained
 - Equity exposure limited to Instalment price – as \$19.67 non recourse
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Strategy Two - The power of deductions and franking credits with SMSFs

When in the “Accumulation Phase”, SMSF’s attract:

- 15% tax on earnings
- 15% tax on contributions

In the “Allocated Pension Phase”, SMSF’s do not pay the above taxes.

Instalments can allow SMSF’s to:

- enhance income via gearing
 - reduce earnings tax via deductions and franking credits
 - create a shelter for further contributions
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Strategy Two - The power of deductions and franking credits with SMSFs

CBASZB First Payment:	\$22.10	Purchase Date:	1 August 2006
CBASZB Loan Amount:	\$27.20	Investment:	\$50,000
Prepaid Interest:	\$1.81	CBA Share Price:	\$45.05
Dividend per Share:	\$2.30	# Instalments:	2,262
Franking Credits:	\$0.99	# Shares:	1,110

INCOME TO JUNE 2007

	<u>CBASZB</u>	<u>CBA</u>
A. Total Taxable Income Sub-Total (dividends & franking)	\$7,441.98	\$3,651.90

DEDUCTIONS

B. Interest deductions claimable over the period	(\$4,094.22)	\$0.00
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TAXATION

C. Taxable Income total (A minus B)	\$3,347.76	\$3,651.90
D. Earnings Tax payable @ 15% (C multiplied by 0.15)	(\$502.16)	(\$547.79)

APPLICATION OF FRANKING CREDITS

E. Franking Credits available to offset Earnings tax	\$2,239.38	\$1,098.90
F. Excess Franking Credits (E minus D)	\$1,737.22	\$551.11

G. Contributions Tax Shelter (F divided by 15%)	\$11,581.46	\$3,674.07
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Summary

General notes

- Performance of the underlying asset is the most important factor in the decision making process
- Focus on quality - earnings, dividends, franking
- Know your clients appetite for risk

Key points for Instalments

- Lower risk alternative to margin lending
 - Allows greater diversification
 - Tax effective - covered by ATO product ruling
 - One of the only gearing vehicles available to SMSF's
 - Always outperform shares - so long as the share appreciates over the term
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The Process – How to Purchase

Primary Market

- ❖ Via the Product Disclosure Statement (**PDS**) by completing the application form
- ❖ Via your Wrap Provider – i.e. Macquarie Wrap, BT Wrap

Secondary Market

Purchase through your broker or financial advisor via the ASX
