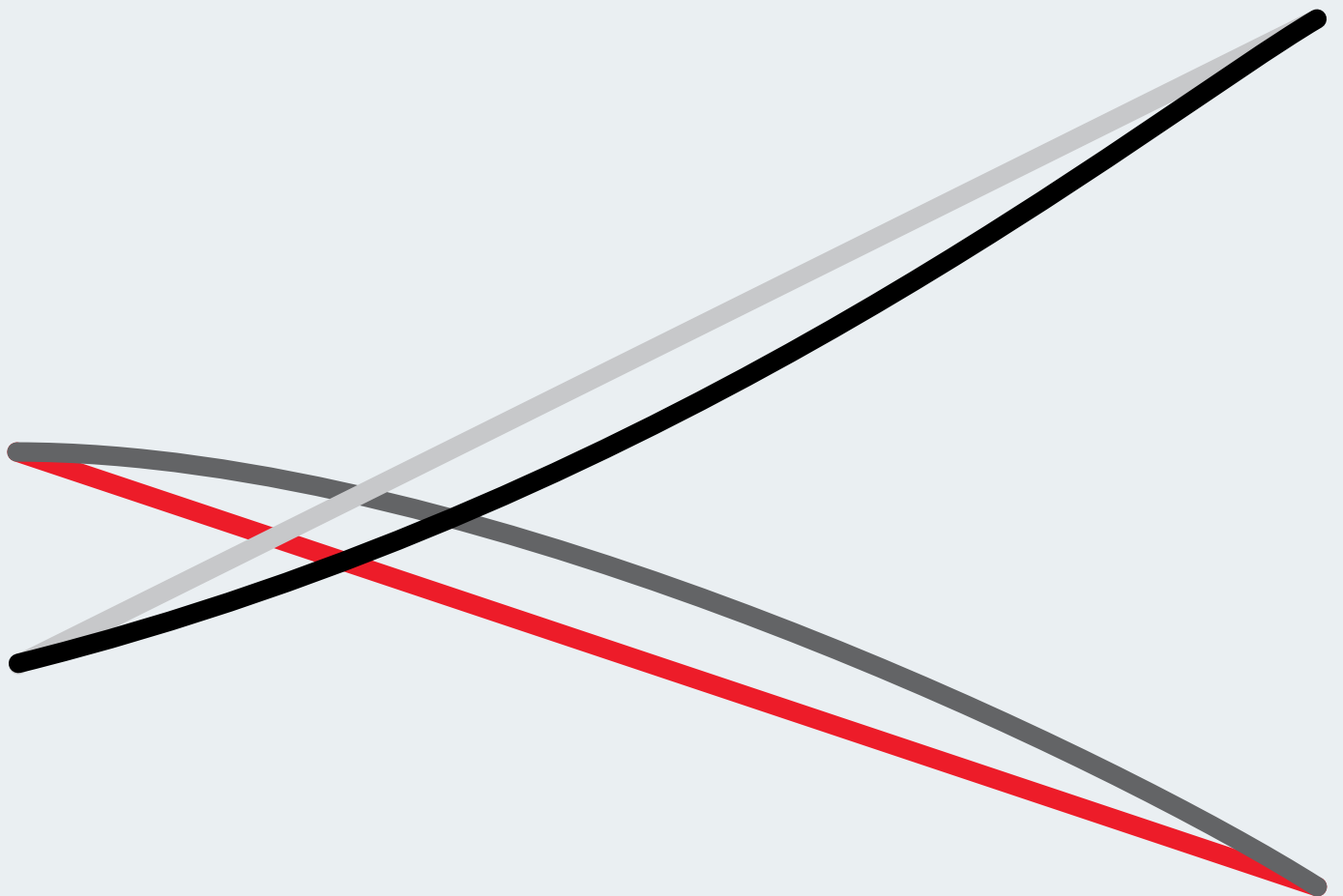




NAB

EQUITY BUILDER

September 2018



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Use the references marked with a **[!]** to see important disclosure about this product online.

You should consider the information in this Product Brochure and the NAB Equity Builder Facility Terms before making a decision to acquire a NAB Equity Builder Facility.

The information in this Product Brochure is general information and has been prepared without taking into account your objectives, financial situation or needs. You should obtain financial advice tailored to your personal financial situation and needs before making a decision to apply for a NAB Equity Builder Facility.

Information relating to NAB Equity Builder, that is not materially adverse, may change from time to time. This information may be updated and made available to you on our website at www.nab.com.au/equitylending or by contacting us on 1300 135 145. A paper copy of any updated information is available free on request.

For further information, speak to your financial adviser or call NAB on 1300 135 145.

About NAB and NAB Equity Builder

The NAB Equity Builder is a principal and interest (P&I) lending facility, which allows approved investors to have one or more P&I *loans*. P&I *loans* require the initial *loan* amount (principal) to be repaid via regular instalments, and the monthly loan interest to be covered. Each P&I *loan* is an investment *loan* that is secured by *approved investments*; typically – managed funds or exchange traded funds.

You can use the borrowed money to gain an increased exposure to a wide range of investment opportunities, which may enable you to increase the ultimate size and diversity of your investment portfolio.

Some key information to consider about the P&I lending facility is as follows:

- Borrowing to invest can potentially generate higher investment returns, but it can also amplify losses if the value of the *financed investment* falls.
- The monthly cash flow commitment will depend on 4 key factors:
 1. style of principal repayment program selected (“*home loan*”, or “*straight line*” method),
 2. *loan* principal,
 3. *loan term* and
 4. *loan* interest rate.
- If you miss a *monthly repayment* of principal or *loan* interest, you may be required at short notice, to repay some or all of a *loan*, or sell the *investment* securing that *loan*.
- In certain circumstances we may sell part, or all, of your *investment* securing a *loan* without giving you any prior notice.

The issuer of NAB Equity Builder is National Australia Bank Limited (ABN 12 004 044 937) (**NAB**). NAB is a financial services organisation providing products, advice and services through our major Australian franchise and business in the United Kingdom, New Zealand, Asia and United States.

Benefits of NAB Equity Builder

NAB Equity Builder may provide the following benefits:

Greater control

NAB Equity Builder allows you to customise each loan program to suit your particular investment goals. You can select your preferred (1) *investments*, (2) starting *loan* amount, (3) style of principal repayment, and (4) time frame to repay the *loan*. When you consistently meet your monthly obligations, covering principal repayments and loan interest, the *loan* will be reduced to zero within your nominated time period. The *investment* can then be transferred to you, or utilised as equity in another program.

Greater stability

Price movements of the security supporting the *loan* will not trigger the need for any corrective action (ie the acceleration of loan repayments, or the sale of loan security); regardless of the value of the outstanding *loan*. This means that a financial plan can operate uninterrupted for the intended time frame, and surplus cash reserves can be confidently used for other purposes.

Greater planning certainty

The extra volatility and risk associated with gearing an *investment*, is progressively reduced as the *loan* is repaid. The combination of: (1) a focus on managed fund *investments*, and (2) a consistently falling *loan* balance will deliver a more predictable financial outcome, relative to investment scenarios with gearing levels that are elevated for longer periods of time.

Increased investment returns

Borrowing to invest can increase the return on your funds, when the acquired *investment* outperforms the cost of borrowing (loan interest) incurred to buy the desired *investment*.

Lower borrowing costs

As the NAB Equity Builder *loan* program requires the consistent repayment of *loan* principal, the *loan* balance used to calculate loan interest is constantly decreasing. This disciplined repayment program means that the total loan interest paid can be significantly lower than the interest paid on loan programs that do not require loan principal repayments.

Increase portfolio diversity

By borrowing you have more money to invest. This allows you to increase your exposure to a preferred investment theme, or to increase your exposure to different investment themes.

How NAB Equity Builder works

NAB will give you a *loan* to invest in *approved investments* and will hold that *investment* as security against that loan. Whilst we hold your *investment* as security for the relevant *loan*, you will still retain beneficial ownership of the purchased asset. The *investments* used as security for your *loans* may be sold to partially or fully repay your *loans*.

Difference between NAB Equity Builder and a traditional margin loan

Unlike a traditional margin loan, NAB Equity Builder:

- Is a principal and interest loan
- You must pay the loan interest, and reduce the loan principal each month
- If a *monthly repayment* is missed, *loan* assets may be sold to correct the position or repay the *loan*
- The *loan* is designed to be completely repaid in a time frame selected by you (typically: 3 to 10 years)
- The *approved investment* list is comprised only of *investments* with inherent diversification
- If existing loan security is removed from the approved list, you must switch it to a valid option
- Movements in the price of your loan security will not trigger the need for any corrective action from you
- Cash advances are only possible if you are ahead of the agreed repayment schedule, and there is sufficient loan security in place

Ownership and control of investments

NAB Equity Builder uses NMS Nominees P/L (Nominees) to purchase investments on your behalf. Nominees will be registered as the legal owner of (1) all new investments acquired with the borrowed funds, and (2) any existing approved investments provided as loan security by you (the borrower). You are entitled to all distributions, dividends or payments of interest in relation to an investment securing a loan, unless NAB has directed that they be applied in reduction of amounts owing in respect of the relevant loan.

However, so long as you owe money under a *loan*, you will not be able to give Nominees instructions or directions in respect of the investment securing that loan without NAB's consent. During this time NAB is entitled to instruct Nominees on your behalf as to how the relevant *investment* will be dealt with, including, for example, how voting rights will be exercised. Any proceeds from disposal of any *investment* will be applied in payment of our and Nominees costs and expenses and the amounts owing to NAB in respect of the relevant *loan*.

How much can you borrow?

The amount you can borrow is determined by the type and value of the approved *investments* you purchase with the proceeds of a *loan*. The amount you can borrow is also limited by your NAB Equity Builder *facility limit*.

NAB will lend different amounts against different types of security. To determine the maximum amount you can borrow we will apply a percentage, known as a *security ratio* (LVR), to the market value of the relevant *investment*. We may change an LVR at any time, including reducing it to zero. NAB has an extensive list of *approved investments* that you can use as security.

! You should read the important information about NAB's list of approved investments before making a decision to invest. Go to www.nab.com.au/nelapprovedlist or call us on 1300 135 145 to obtain a copy at no charge. NAB's *list of approved investments* may change between the time when you read this statement and the day you sign the application form.

Example: \$50,000 loan, repaid over 10 years

Let's assume you want to buy \$75,000 of *investments* using NAB Equity Builder. NAB's LVR is 75% on your preferred *investments*.

In this case, you choose to borrow \$50,000, and contribute \$25,000 from your own funds. In this instance, your initial gearing level equals $67\% = (\$50,000 \div \$75,000) \times 100\%$.

You nominate a *loan term* of 10 years (120 monthly payments of principal and interest).

NAB Equity Builder allows you to select between two (2) styles of loan repayment:

1. 'Home Loan' method, and
2. 'Straight Line' method.

For a prevailing variable interest rate of 8%pa, the cash flow obligations would approximately be:

- *Home loan method*: Constant \$607 per month (covering principal and interest)
- *Straight line method*: Starts at \$750 per month; progressively falling to \$419 (\$417 is the consistent, monthly reduction in loan principal)

Facility limit

NAB will also approve and apply an overall *facility limit* to your NAB Equity Builder *facility*. Your *facility limit* represents the maximum amount that NAB will lend you based on your application. Your *facility limit* is assessed based on financial information provided by you.

Loan calculator

Monthly cash flow obligations vary for different combinations of: (1) Repayment style, (2) *Loan principal*, (3) *Loan term*, and (4) Interest rate.

The NAB Equity Builder calculator will let you select different combinations of the above, and show you the expected monthly repayments. Go to <https://www.nab.com.au/equitybuildercalc>

The ASIC MoneySmart mortgage calculator can simulate the monthly repayments for the "*home loan method*" style of repayment program within NAB Equity Builder. <https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/mortgage-calculator>

Details of the rights and obligations of borrowers under the NAB Equity Builder facility are contained in the NAB Equity Builder Facility Terms. You should read this document carefully before deciding whether to apply for NAB Equity Builder. The NAB Equity Builder Facility Terms are available at nab.com.au/nelterms or by calling us on 1300 135 145 to obtain a copy at no charge.

NAB Equity Builder Decision Parameters

The following graphs and all associated information are for illustrative purposes only, and may not represent future outcomes or your personal situation.

What is the cash flow commitment required for different loan programs?

NAB Equity Builder is an investment *loan* program, where you accept a commitment to make *monthly repayments*.

It is important that the loan program you select is one that suits your risk profile and supports your overall investment plan. It is also prudent to think carefully about your ability to consistently meet the expected *monthly repayments* as a missed repayment may result in the sale of *loan security*.

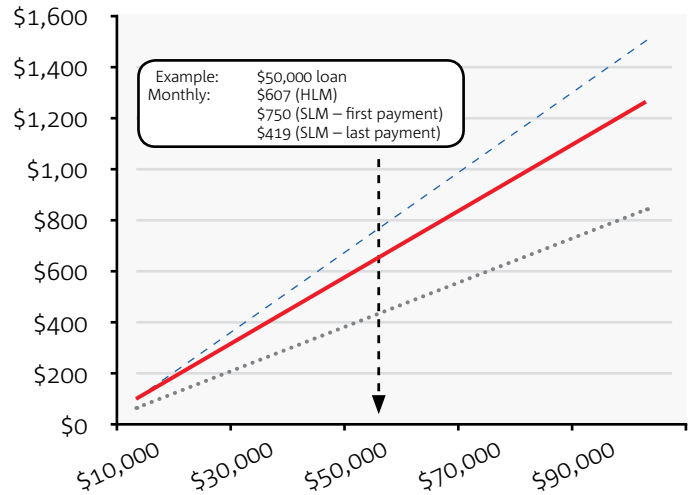
The value of your monthly cash flow obligation is determined by the combination of the following variables:

1. style of repayment program*
2. *loan* amount
3. *loan term* (standard: 3 to 10+ years) and
4. *loan* interest rate

* Home Loan method, or Straight Line method
 † 11 – 15 yr terms, subject to lower gearing levels

Loan size vs Monthly P&I payments

Term 10 yrs (120 payments), Interest = 8%pa



Initial Loan

- Home loan method (HLM)
- - - Straight line method (SLM – first pmt)
- Straight line method (SLM – last pmt)

Do you prefer a reducing, or constant total monthly payment?

NAB Equity Builder offers two (2) different styles of loan repayment program:

1. *home loan method*, and
2. *straight line method*

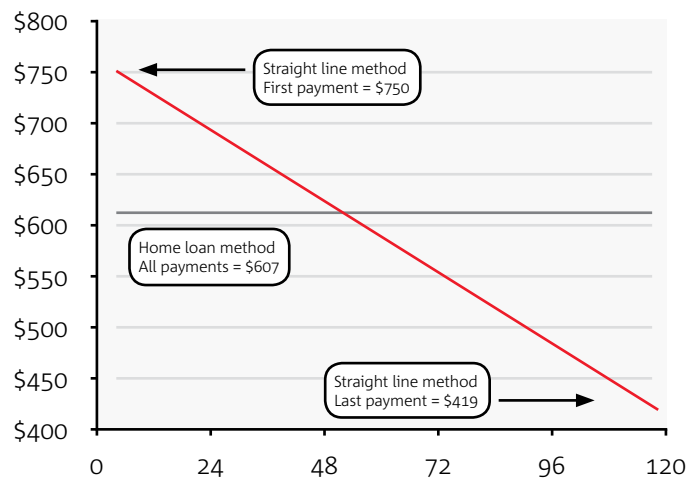
The *home loan method* is characterised by a constant monthly payment, which is the sum of a monthly principal repayment and the monthly loan interest. If the loan interest rate rises, the total monthly payment will be adjusted upwards to ensure that the *loan* is still repaid in the nominated time frame.

The *straight line method* is characterised by a constant monthly reduction in loan principal, plus a steadily reducing interest payment. For the same *loan*, the straight line method initially reduces loan principal at a faster rate.

For the same *loan* size and *loan term*, you can select the repayment style that suits you the best.

Compare monthly payment profile of repayment options

Loan \$50,000, Term 10 yrs, Interest = 8%pa



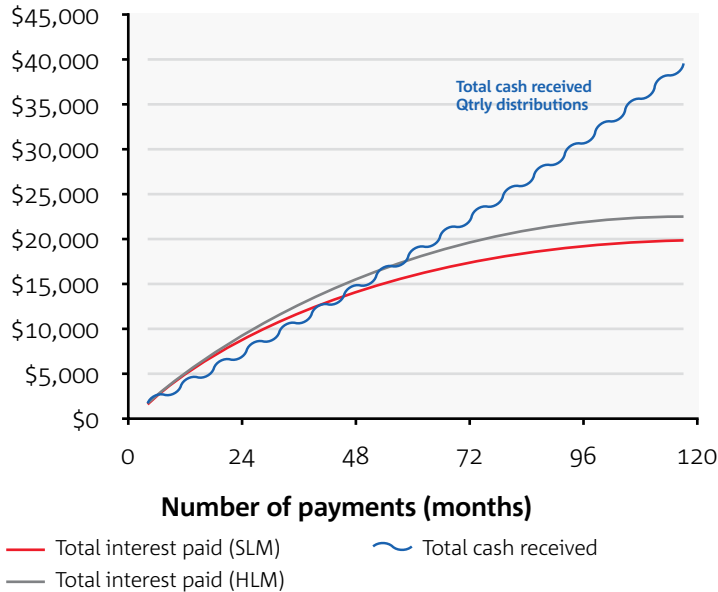
Number of payments (months)

- Straight line method (SLM)
- Home loan method (HLM)

How to minimise the total loan interest paid?

Total interest paid – P&I programs

Loan \$50,000, Term 10yrs, Interest 8%pa, Portfolio yield 4%pa



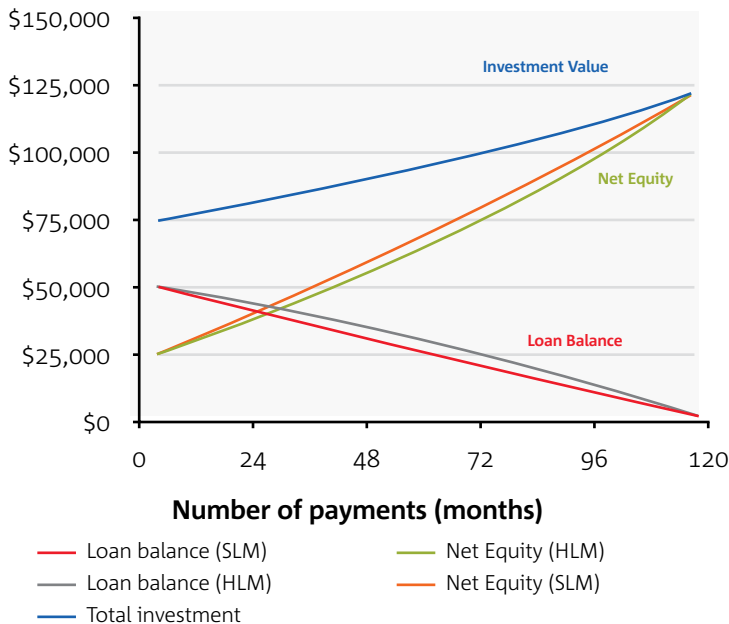
Due to the larger repayments in the early stages of the *straight line method*, the initial *loan* is repaid at a faster rate compared to the *home loan method*. As a result, the total interest paid under the *straight line method* should be lower.

Cash *distributions* from your *investments* may be used to assist with monthly loan payment obligations (if you elect cash as your preferred form for *distributions*.)

How much equity do you want to contribute to fund a new investment?

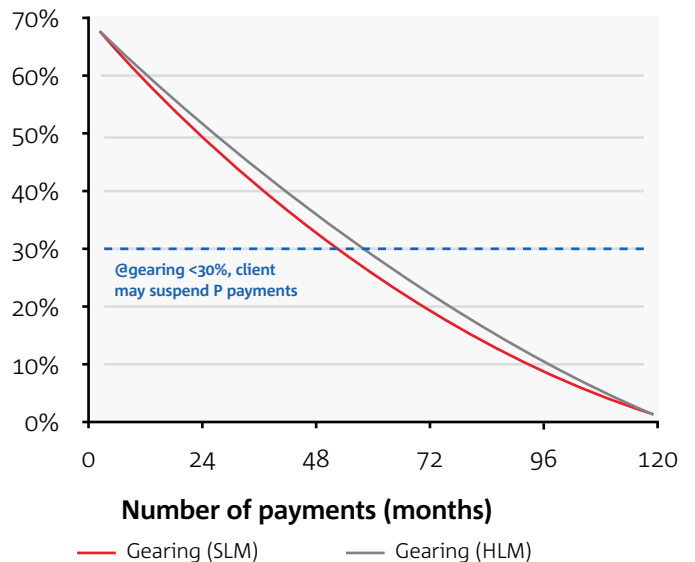
Loan repayment & Net Equity profile

Loan \$50,000, Term 10 yrs, Interest 8%pa, Portfolio growth 5%pa



Gearing profile: P&I programs

Loan \$50,000, Term 10 yrs, Interest 8%pa, Portfolio growth 5%pa



The illustration above does not include the value of any quarterly *distributions*

The steady fall in gearing will deliver a reduction in volatility and the risk within a program. As the borrower moves closer to the end of the *loan term*, the certainty of the planning outcome continues to strengthen.

Also, NAB Equity Builder programs allow the monthly principal repayment to be suspended (on request), once the gearing level within a loan facility drops below 30%. If monthly principal repayments have been suspended, and the gearing level rises back over 40%, principal repayments will automatically restart.

The risk of losing money

Whilst borrowing to invest can increase your gains, it can also magnify your losses. Consequently, you should ensure that your investment time frame provides you with enough time to ride out investment market fluctuations.

As NAB Equity Builder is a full recourse *loan*, your loss is not limited to the *investments* held as loan security. In some cases, the value of *investments* that you have provided as loan security may not be sufficient to repay the amount you owe us. We may recover the remainder of what you owe us from you personally.

If an *investment* is sold, the sale proceeds will be applied in payment of our expenses and the amount outstanding in respect of the relevant *loan*. The funds that remain after the *loan* is repaid is your equity.

In combination with any *investment* income received, this may be less than the value of your original contribution.

Some of the key risks of the NAB Equity Builder are listed below:

Property may be sold if you miss a monthly principal or interest payment. This may have capital gains tax (CGT) consequences. More specifically: part or all of the secured property may be sold; and if *guarantor* security has been provided to support a *facility limit*, part or all of the *guarantor* security may be sold.

An investment may be removed from the NAB's list of approved investments, which may create the need to switch into a new *approved investment*. The sale of an existing *investment* may have CGT consequences.

Increasing interest rates may result in your monthly loan interest payments (in combination with your monthly principal repayment obligation) being greater than you budgeted for. You must have sufficient cash reserves in your nominated Direct Debit account to pay for both loan interest and the required principal repayments when they are due (typically, at the end of each calendar month). If you miss a monthly principal or interest payment, we may sell some or all of the secured property.

Falling investment income may place a greater burden on your other sources of available cash. If you plan to use the cash distributions from your investments to help fund your monthly principal and interest obligations, and these investment cash distributions are lower than expected, you will need to rely more heavily on other sources of cash to meet your monthly NAB Equity Builder obligations.

Falling overall investment returns. A profitable gearing strategy requires the overall investment return from the asset acquired with borrowed funds to outperform the cost of borrowing. If the overall investment performance is lower than expected, it may underperform the cost of borrowing. It is important to regularly review your investment choice to ensure that it remains an appropriate one to fund with borrowed funds.

You may need to liquidate other assets if you do not have sufficient cash reserves within your nominated Direct Debit account to fund the monthly loan interest and principal repayments.

Changes in tax laws, or their interpretation, may have an adverse effect on your tax or financial position. You should seek advice from your tax adviser before proceeding with this product.

If you do not comply with the NAB Equity Builder Facility Terms (a default event), you may be required to repay all or part of your *loan* and we may sell some or all of your *secured property*.

It is important that you read the NAB Equity Builder Facility Terms and manage your *loan* on a regular basis.

Taxation

The taxation comments contained below are of a general nature only and do not take into account the specific circumstances of any investor. All investors should obtain independent taxation advice from a registered tax agent on the implications of making investments using NAB Equity Builder.

Deductibility of Interest

To the extent that an investor uses the loan from NAB to acquire the financed investments for the purpose of producing assessable income, a tax deduction should generally be available.

Distributions from Investments

Generally, investors should be beneficially entitled to all distributions in relation to shares and units. These distributions should be assessable income in the hands of the investor.

Capital Gains Tax (CGT)

Investors should reflect the CGT implications of relevant actions in relation to the respective securities (e.g. a disposal or a return of capital) directly.

Tax File Number (TFN) Withholding

Investors may provide their TFN or ABN (if applicable) in relation to the financed investments. Investors who do not provide their TFN or ABN may have certain payments subject to withholding of tax at the highest marginal rate.

The costs

This section does not show any dollar amounts for the costs involved with a NAB Equity Builder Facility. Interest rates can change and new rates will generally apply from the start of a new calendar month. Any fees charged may depend on the way you use the service. For current interest rates and fees go to www.nab.com.au/nelrates or call us on 1300 135 145 to obtain a copy of this information at no charge.

Interest

We offer variable interest rates. Interest will be calculated daily on the outstanding amount and you must pay accrued interest monthly in arrears.

Default interest may be charged on any loan amount that exceeds the approved *facility limit* and otherwise if you default under the Facility Terms. Default interest is charged at NAB Equity Lending's published variable rate for *loans* of less than \$250,000 plus a margin of 2.0% (p.a.). Therefore, if the variable rate for *loans* less than \$250,000 changes, so will the default interest rate.

Fees

There are no application fees, establishment fees or account fees payable unless you're applying as a company or a trustee, or are a Tasmanian resident. Fees may be varied by us.

Your financial adviser may charge fees for advice. The settlement of share transactions will include brokerage.

! You should read the information about the interest, fees and costs that may be applied to your NAB Equity Builder loan before making a decision. Go to nab.com.au/nelrates.

The material relating to the current interest rates and other information about the fees and costs that may be applied may change between the time when you read this brochure and the day you sign the application form.

How to apply

You may apply directly, or through a financial adviser. Before applying you may wish to speak to a financial adviser to see if NAB Equity Builder is suitable for you.

You can:

1. Download a copy of the NAB Equity Builder Application Kit from our website at nab.com.au/equitylending.
2. You can contact our Client Service Team on 1300 135 145 to request a NAB Equity Builder Application Kit be sent to you via the post. We will send this to you at no charge.

Problems or disputes

If you have a problem or dispute regarding your NAB Equity Builder Facility contact NAB on 1800 152 015, or ask at any NAB branch. If you subsequently feel that an issue has not been resolved to your satisfaction, you may be able to raise your concerns with the Australian Financial Complaints Authority if you are an individual or small business customer covered by the Service.

Australian Financial Complaints Authority
GPO Box 3, Melbourne Victoria 3001
Telephone: 1800 931 678
Website: www.afca.org.au

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