Westpac Self-Funding Instalments.

Accelerate your wealth with less stress.

Westpac

If you'd like to accelerate your wealth by borrowing to invest in the sharemarket, Westpac Self-Funding Instalments will give you long-term geared exposure to Australian shares and exchange-traded funds while limiting risk.

The Australian sharemarket offers a wealth of opportunities to investors for capital growth, income and diversification. One way you can potentially accelerate your returns from Australian shares is to borrow to invest. By gaining exposure to shares with a smaller initial investment, you can increase the amount of cash you have available to invest and significantly increase the money you earn from your investments.

Westpac Self-Funding Instalments (SFIs) offer an easy way for individual investors and self-managed super funds (SMSFs) to increase their exposure to the Australian sharemarket without the worry of margin calls. Importantly, you will still get many of the benefits of share ownership – like potential for dividends, franking credits and capital growth – all for less cash upfront.

Key Benefits

- Greater potential returns
- No margin calls
- Buy shares in two payments with optional second payment
- Easy to buy and sell on the ASX
- No separate loan application or credit checks
- Low administration
- Potential tax benefits
- Eligible method of gearing for many SMSFs

Why Westpac SFIs?

Westpac SFIs may suit you if you are an individual investor or trustee of an SMSF wanting to:

- Build or diversify an investment portfolio with shares or exchange-traded funds (ETFs) but have limited funds.
- Use gearing without the risk of margin calls.
- Invest in an easily accessible and low-maintenance investment with no credit checks and no annual interest cheques to write. Dividends and interest are managed by Westpac.
- Unlock some of the equity in an existing portfolio without having to sell shares and potentially creating a capital gains tax event (not available for SMSFs).
- Gain potential tax benefits – depending on the circumstances and subject to the capital protected borrowing rules, the interest payments may be tax-deductible. Excess franking credits may also be used to offset tax payable.

What are the risks?

- If the price of the underlying security falls, the price of the SFI may fall. Gearing can magnify losses as well as gains.
- The interest that Westpac capitalises to the loan may be higher than the dividends received from the underlying securities, causing the loan amount to increase.
- Any rise in interest rates will increase the amount added to the loan as interest.
- Tax legislation may change and affect your tax benefits or obligations.
- The Completion Date for a Westpac SFI may be brought forward where an 'Extraordinary Event' occurs.

These are not all the benefits and risks of investing in Westpac SFIs. Please see the Product Disclosure Statement (PDS) for more information.

Westpac SFIs are one of the few eligible geared investments available to many Self-Managed Super Funds (SMSFs)

Westpac SFI strategies

Some of the strategies using Westpac SFIs you can incorporate within your personal portfolio or SMSF include:

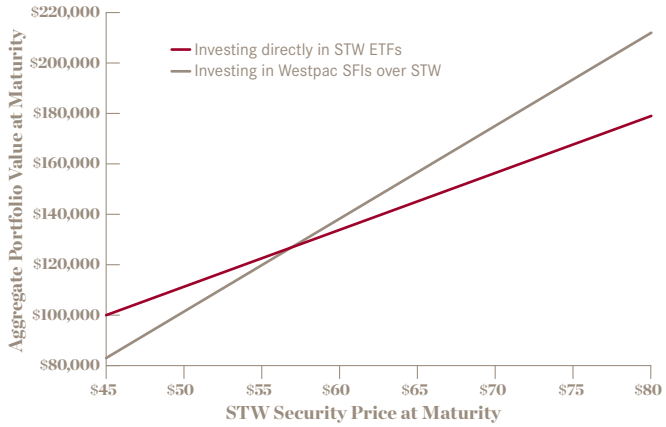
1. Using the power of gearing for growth

Two key factors often cited for successful wealth creation have been investing for the medium to long-term and using borrowed funds to increase the size of the investment(s) and thus potentially the return.

When sharemarkets rise, gearing using Westpac SFIs will generally result in investors increasing their wealth. However, it's important to note that gearing can magnify losses as well as gains.

To demonstrate the effect of gearing, the following graph compares the aggregate portfolio value at maturity of a hypothetical direct investment of $100,000 into the SPDR S&P/ASX 200 Fund (STW) ETF, trading at $45.00, to an investment of $100,000 into Westpac SFIs over STW, priced at $27.00. The term of investment is assumed to be five years.

In order for the investment in Westpac SFIs to break even, the price of STW needs to increase by 25.12% from $45.00 to $56.30 over the five years of this investment, i.e. by around 4.6% p.a. Note: Distributions and annual interest charges have been excluded from this analysis.



2. Setting your cash free for diversification

It's well known that diversification is a key to managing risk in a successful portfolio. Westpac SFIs can help you diversify your share portfolio without triggering a Capital Gains Tax (CGT) liability.

By converting your existing shares to Westpac SFIs you can free up capital, allowing you to invest in other shares whilst still maintaining exposure to the shares you originally owned.

This is achieved by using the securityholder application to transfer shares to the security trustee, convert them into Westpac SFIs over the same shares and receive the securityholder cash back. Please note that this strategy is not available for SMSFs.

How does it work?

John owns 1,000 shares in XYZ company and converts his shareholding to 1,000 XYZSWG (XYZ SFIs) with the following characteristics:

- He still has exposure to any capital growth, dividends and franking credits from 1,000 XYZ shares.
- He'll receive $22,000 which he can use to purchase other shares and diversify his portfolio.
- Interest from the loan will be added to the loan amount on each annual interest date.
- Dividends from the shares will be used to reduce his loan amount.

XYZ share value	$50
XYZSWG loan amount	$25
XYZSWG initial interest amount and other fees and costs	$3
Cash released per Westpac SFI	$22
Cash available to make other investments	$22,000
CGT payable	$0

Excess franking credits may be used to offset taxable income and reduce contributions tax payable by your SMSF.

3. Enhancing income and potential tax outcomes

Using Westpac SFIs can potentially accelerate your investment returns by increasing your exposure for the same upfront cost. With more shares you also have the potential to earn more dividends and benefit from additional franking credits.

As such, Westpac SFIs can help you manage tax in your SMSF more effectively. Yearly SMSF contributions up to $25,000 attract a contributions tax of 15%*, requiring SMSFs to pay $3,750 p.a. Excess franking credits generated by your Westpac SFIs from higher franked dividend income can be used to offset your taxable income and reduce contributions tax payable by your SMSF.

As shown in the indicative example here, if you invest $100,000 in shares using Westpac SFIs rather than buying the share directly you could:

- Increase your dollar exposure to CBA shares by $72,000.
- Increase your excess franking credits by $1,870.
- Contribute up to $20,753 to your SMSF in a tax effective manner.

* For over 50s the concessional contribution cap is $50,000

	Buy CBA shares direct	Buy CBASWG SFIs
Investment amount	$100,000	$100,000
Price	$50	$29
Share exposure	2,000	3,448
Dollar exposure to shares	$100,000	$172,400
Forecast dividend income p.a.[1]	$5,800	$9,999
Forecast franking credits p.a.	$2,485	$4,285
Forecast taxable income payable p.a.[2]	$8,285	$14,284
Potential interest deductions p.a.	$0	$6,465[3]
Taxable income p.a.	$8,285	$7,819
Tax payable at SMSF tax rate of 15%	$1,242	$1,172
Excess franking credits (the amount of franking credits minus the tax payable by your SMSF)	**$1,243**	**$3,113**
Amount you can contribute to your SMSF and offset with excess franking credits subject to contributions cap	**$8,286**	**$20,753**

1 Based on last two CBA dividends of $1.20 and $1.70.
2 Equal to the dividend income plus franking credits.
3 Based on a loan amount of $25 per CBASWG and an interest rate of 7.5% p.a.

Indicative pricing as at 19 January 2011. Past performance is not a reliable indicator of future performance. Any projections given in the example above are predictive in character. While every effort has been taken to ensure that the assumptions on which the projections are based are reasonable, the projections may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ from these projections.

Please note the securities identified above have been chosen without reference to their particular economic profile or likely performance. This information should not be misconstrued as any opinion or recommendation in relation to the securities mentioned.

Borrowing to invest is a powerful way to accelerate your wealth.

How do Westpac SFIs work?

Get many of the benefits of owning ASX-listed securities without paying the full amount upfront

Put simply, Westpac SFIs let you buy ASX-listed shares and ETFs in two payments known as 'instalments'. After making the first payment, which is typically around 50%* of the cost of the securities, you get many of the immediate benefits of direct security ownership such as exposure to potential capital growth, dividends and franking credits for a lower capital outlay upfront.

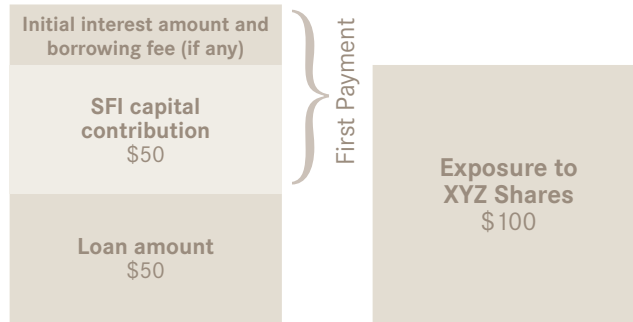
Optional second payment

The second payment, referred to as the 'Completion Payment', is the loan component payable if you want to own the underlying security outright. Alternatively, you can sell your SFIs on the ASX at any time. If the price of the underlying security falls below the loan amount you can simply walk away with no additional future payment required.

Using dividends to help pay your interest

Ongoing interest is charged once a year on 30 June and automatically added to your loan. Dividends or distributions paid by the underlying securities are used to reduce your loan.

Example of the components of a Westpac SFI



SFI Investment Cycle

At the start...	During the investment period...	At maturity...
• Select the ASX listed security you want to invest in. • Choose the relevant Westpac SFI. • Invest in the Westpac SFI at around half the cost of the security.* • Borrow the second payment from Westpac. • Alternatively, you may be able to transfer existing securities to the security trustee and receive the securityholder cash back amount together with your Westpac SFI.	• We charge interest annually and add it to the loan. • We use any dividends received from the securities to reduce the loan. • You get any franking credits attached to the dividends. • You can sell your Westpac SFIs at any time. • You can choose to pay off the loan and take full legal title of the underlying securities at any time.	You can either: • **Do nothing** – we'll sell the securities, pay off the loan and pay any excess to you. • **Make the Completion Payment** – you repay the loan in full and take full legal title of the securities. • **Re-invest** – roll your existing Westpac SFIs into new Westpac SFIs over the same security (if available).

*Based on initial listing date.

How to buy Westpac SFIs

On the ASX

Buy on the ASX through a stockbroker or financial adviser.

Cash application

Complete the application form in the PDS and submit it to your stockbroker, financial adviser or directly to us.

Securityholder application

To convert existing shareholdings into Westpac SFIs (if available) complete the application form in the PDS and submit it to your stockbroker, financial adviser or directly to us.

Rollover application

You can rollover your current Westpac SFIs into a new series of Westpac SFIs over the same underlying securities (if available).

SMSFs can generally only acquire Westpac SFIs through a cash or rollover application or directly on the ASX.

At a glance

Term	Ordinarily five years from the issue date set out in the relevant Supplementary PDS.
ASX SFI code	_ _ _SWG (e.g. WOWSWG, in which 'SW' stands for Westpac SFI and 'G' stands for Series).
Underlying securities	A range of ASX-listed shares and ETFs.
Initial gearing level	Approximately 50% on the first listing date set out in the relevant Supplementary PDS.
Annual interest date	30 June.
Interest rate	Variable (reset annually).
Interest	Charged upon acquisition of a Westpac SFI and subsequently calculated and added to the loan on the annual interest date.
Value	The value of a Westpac SFI takes into account factors such as the loan amount, current value and volatility of the underlying security, time to maturity, interest rates and dividend expectations.

You can check the value of your Westpac SFIs at **www.asx.com.au** or through your stockbroker.

Like to know more?

For more information about Westpac SFIs, speak to your financial adviser or stockbroker, or:

- call us on **1800 990 107**
- send an email to **structured.investments@westpac.com.au**
- go to **westpac.com.au/sfi**

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