Managing Margin Calls

Given the recent market volatility, you may have received a margin call from ANZ Margin Lending. We understand that receiving a margin call can be a stressful situation. The following guide has been prepared to assist you with meeting a margin call and outlines some suggested strategies to prevent margin calls in the future.

Q.1. What is a margin call?

Falls in the market value of your portfolio will reduce your security value. Your security value is determined by applying a Loan to Value Ratio (LVR) to the market value of shares held in your ANZ Margin Lending portfolio. For example, if you held shares in XYZ Company that were worth $1,000 and the ANZ Approved Securities List (ASL) provided an LVR of 70%, your security value for those shares would be $700. This is the maximum amount that you could borrow against those shares.

A margin call occurs when your security value falls below the value of your loan. Using the above example, assume that you borrowed $700 against the XYZ shares at a time when they had a market value of $1,000. If the market value fell to $900, your security value would be $630 (i.e. $900 x 0.70) compared to your loan of $700. This would mean you are in a margin call.

ANZ provides a buffer of 5% of your portfolio value (e.g. $1000 x 5% = $50) to reduce the likelihood or frequency of a margin call. If your security value drops below this buffer, we will attempt to contact you with a 'margin call', and you must either increase your security or top up your loan account to the required level.

If the margin call isn't met within 24 hours, ANZ may sell enough securities to meet the margin call and cover the buffer, even if we haven't been able to contact you. Communication with ANZ Margin Lending during the first 24 hours is key to managing margin calls effectively.

Q.2 How do I meet a margin call?

a) Depositing funds into the margin loan account
   To do this you may consider:
   • Transferring funds from an existing bank account via BPAY®. Our BPAY® Biller Code is 3483 and your Reference Number can be found on your most recent statement. You should also call/email us to confirm the action you have taken and advise us of the transfer reference number for your payment.
   • Transferring funds using the 'Pay anyone' feature on internet banking using the Reference Number from your most recent statement, into our account BSB 013 035 Acc# 1979 80355 (N.B this Reference Number is different from your BPAY® Reference Number)
   • Utilising a re-draw facility from a home loan via a direct transfer (please check with your mortgage provider to determine if you have this feature and if there are any conditions applicable.)

b) Depositing funds into a linked ANZ V2 PLUS account
- Cash deposited into a linked ANZ V2 PLUS account is treated as security for your ANZ Margin Loan and is given a 100% LVR. Rather than paying down your margin loan, this will provide you with increased security value.

c) Contributing additional approved shares or managed funds
- Check if you own any securities that are on the ANZ ASL. An up to date listing can be found at [http://www.anz.com/aus/investing/Investing-Your-Money/Margin-Lending/Forms-And-Tools.asp#asl](http://www.anz.com/aus/investing/Investing-Your-Money/Margin-Lending/Forms-And-Tools.asp#asl)
- Transfer these stocks to your margin loan account by completing a Share Transfer Authorisation form [http://www.anz.com/aus/investing/Investing-Your-Money/Margin-Lending/Forms-And-Tools.asp#transfer](http://www.anz.com/aus/investing/Investing-Your-Money/Margin-Lending/Forms-And-Tools.asp#transfer) and faxing it to ANZ Margin Lending on 1800 186 286. You should also call us to confirm the action you have taken. Again, rather than paying down your margin loan, this will provide you with increased security value.

d) Selling sufficient stock from your portfolio to clear the margin call
- You can contact ANZ Margin Lending to understand how much stock or managed funds you will need to sell.
- Selling stocks or managed funds that have lower LVRs will result in a lower amount of stock being sold.
- Please note that ANZ Margin Lending cannot provide advice on which stocks/managed funds to sell. You should contact a financial planner or stockbroker for advice.

Refer to the appendix for detailed examples.

Q.3 How do I reduce the likelihood of a margin call?

There are a number of ways to manage your loan to help avoid a margin call during times of volatility:

a) Regularly monitoring your loan
   During times of volatility it is important to regularly monitor your loan balances and portfolio values to ensure you are not close to a margin call. This can be done by logging into My Portfolio [https://myportfolio.anz.com/login.cfm](https://myportfolio.anz.com/login.cfm) or logging into E*TRADE if you have an ANZ E*TRADE Share Investment Loan.

b) Reduce your gearing ratio
   Gear conservatively (e.g. by gearing your portfolio at 50% or less when your Security Value is 70%, the market value of your portfolio has to fall by more than 33% for a margin call to occur).

c) Review your portfolio composition
   You may wish to consider the level of diversification within your portfolio. If you were to diversify your portfolio across a broad range of shares or managed funds, you could potentially reduce the risk of receiving a margin call in times of volatility.

d) Switch to ANZ’s Diversified Margin Loan
   If you hold a diversified portfolio (i.e. four stocks or more), you may be better off with ANZ’s Diversified Margin Loan, which offers more than 1,100 shares on the approved securities list, some with higher LVRs than our standard Margin Loan. By maintaining your existing loan amount, the higher LVRs permitted by the ANZ Diversified Margin Loan could provide a bigger cushion before you need to meet a margin call. Please note restrictions and conditions apply – please refer to ANZ Margin Lending Terms and Conditions.

e) Inject cash into your portfolio
To decrease your gearing ratio, consider injecting cash into your portfolio via an ANZ V2 PLUS account. This can be a short-term way to reduce your gearing ratio, whilst earning a bonus 0.25% p.a above the standard ANZ V2 PLUS cash rate on balances of $5,000 or more.

f) Utilise the ANZ Margin Lending Regular Geared Savings Plan
By investing small amounts on a regular basis you reduce your exposure to the risk associated with making a single large purchase. This is known as dollar cost averaging. ANZ offers a choice of managed funds for you to invest in.

g) Consider taking advantage of the opportunity to increase your investment
If you have additional funds you may wish to use this market volatility to purchase additional investments at a lower price.

Employing some simple strategies and discipline to your investing can help you ride out the dips and enjoy the long term growth of the share market and accelerated returns that margin lending can offer.

Contact details
If you have any further questions about margin calls or require any other information about your margin loan, please contact our dedicated ANZ Margin Lending Client Services Team:

Phone: 1800 639 330 from 8am to 6pm (AEST), Monday to Friday, excluding national public holidays.
Fax: 1800 186 286

Address:
GPO Box 4338
Melbourne VIC 3001

Email: marginlendingonline@anz.com
You can also visit our website www.anz.com/marginlending to find out about ANZ’s Margin Lending products.
Appendix

Detailed example

John owns a portfolio of ABC shares which had a market value of $100,000 in March 2008, and he has an ANZ Margin Loan of $70,000.

ABC shares have an LVR of 75% so the security value of his portfolio as at March 2008 is $75,000. Therefore, John could have borrowed up to $75,000, but he chose to gear a bit more conservatively. It is important that John ensures that the security value of his portfolio exceeds the loan amount.

If the security value of John’s portfolio drops below the loan amount, John’s loan will initially fall into buffer, and if it drops past this extra 5%, he will be in margin call.

Due to market volatility the ABC share price falls, until one day the value of John’s portfolio falls to $87,000. At this valuation, the total of his security value plus his buffer is now less than his loan. John is now in margin call.

ANZ Margin Lending will attempt to contact John to advise him he is in a margin call for $4,750 and that he needs to take action to ensure that it is cleared in 24 hours.

The following table illustrates how a fall in the value of John’s portfolio affects the security value for his loan:

<table>
<thead>
<tr>
<th>Initial Position</th>
<th>A Drop in Portfolio Value</th>
<th>Buffer Zone</th>
<th>Margin Call</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Value</td>
<td>$100,000</td>
<td>$95,000</td>
<td>$90,000</td>
</tr>
<tr>
<td>LVR</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>Security Value</td>
<td>$75,000</td>
<td>$71,250</td>
<td>$67,500</td>
</tr>
<tr>
<td>Buffer (Portfolio Value x 5%)</td>
<td>$5,000</td>
<td>$4,750</td>
<td>$4,500</td>
</tr>
<tr>
<td>Total of Security Value + Buffer</td>
<td>$80,000</td>
<td>$76,000</td>
<td>$72,000</td>
</tr>
<tr>
<td>Margin Loan</td>
<td>$70,000</td>
<td>$70,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>Margin Call Status</td>
<td>OK ✓</td>
<td>OK ✓</td>
<td>OK ✓</td>
</tr>
</tbody>
</table>

To clear a margin call, John needs to ensure that his security value (excluding the buffer) is equal to or greater than the amount of his loan. This means he either has to reduce the amount of his loan or increase the value of the portfolio by providing additional securities.

How is the amount of a margin call calculated?

As you can see from the above table, with the portfolio now valued at $87,000, this means the security value has been reduced to $65,250 ($87,000 x 75%). The difference between the security value and his loan amount is equal to the margin call i.e. John has to pay $4,750 ($70,000 - $65,250).
How can John clear his margin call?

1. Depositing funds into the margin loan account.

John has $10,000 in his ANZ Cheque Account.

He can transfer $4,750 by direct transfer or BPAY® into his margin loan account using ANZ internet banking. Then John simply has to advise ANZ Margin Lending of the direct transfer/BPAY® reference number by phone, email or fax.

<table>
<thead>
<tr>
<th>Before depositing funds</th>
<th>Change</th>
<th>After depositing funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Value</td>
<td>$87,000</td>
<td>N/A</td>
</tr>
<tr>
<td>LVR</td>
<td>75%</td>
<td>N/A</td>
</tr>
<tr>
<td>Security Value</td>
<td>$65,250</td>
<td>N/A</td>
</tr>
<tr>
<td>Margin Loan</td>
<td>$70,000</td>
<td>($4,750)</td>
</tr>
<tr>
<td>Margin Call Position</td>
<td></td>
<td>OK</td>
</tr>
</tbody>
</table>

2. Deposit funds into a linked ANZ V2 PLUS account created by Margin Lending

Funds held in an ANZ V2 PLUS account linked to an ANZ Margin Loan are treated as additional security for the margin loan, and given an LVR of 100%.

How much does John need to deposit into the ANZ V2 PLUS account?

If he maintains his loan of $70,000, then John needs to increase the security value of his portfolio to at least $70,000.

Accordingly, John needs to deposit at least $4,750 in cash ($70,000 - $67,250).

To have a linked ANZ V2 PLUS account opened, John simply calls ANZ Margin Lending. The account is generally open within a few hours, and funds can be transferred in using internet banking or direct transfer. John must advise Margin Lending of the transfer reference number as per above.

<table>
<thead>
<tr>
<th>Security</th>
<th>Market Value (“MV”)</th>
<th>Loan to Value Ratio (“LVR”)</th>
<th>Security Value (MV x LVR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC</td>
<td>$87,000</td>
<td>75%</td>
<td>$65,250</td>
</tr>
<tr>
<td>ANZ V2 PLUS</td>
<td>$4,750</td>
<td>100%</td>
<td>$4,750</td>
</tr>
<tr>
<td>Total Security Value</td>
<td></td>
<td></td>
<td>$70,000</td>
</tr>
<tr>
<td>Margin Loan</td>
<td></td>
<td></td>
<td>$70,000</td>
</tr>
<tr>
<td>Margin Call Position</td>
<td></td>
<td></td>
<td>OK ✓</td>
</tr>
</tbody>
</table>
3. Contributing additional approved shares or managed funds

John can clear the margin call by contributing additional shares to his portfolio. This will increase the security value of the portfolio.

John remembers that he owns some shares in a company called XYZ, which are currently trading at $1.00. These shares have an LVR of 50% according to ANZ Margin Lending’s latest Approved Securities List.

How many XYZ shares does John need to contribute?

As in the ANZ V2 PLUS example above, John needs to provide at least another $4,750 in security value.

Because XYZ has an LVR of 50%, he will need to provide at least 9,500 shares or $9,500 in market value to clear his margin call [$4,750/ (1 – 50%)].

<table>
<thead>
<tr>
<th>Security</th>
<th>Market Value (&quot;MV&quot;)</th>
<th>Loan to Value Ratio (&quot;LVR&quot;)</th>
<th>Security Value (MV x LVR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC</td>
<td>$87,000</td>
<td>75%</td>
<td>$65,250</td>
</tr>
<tr>
<td>XYZ</td>
<td>$9,500</td>
<td>50%</td>
<td>$4,750</td>
</tr>
<tr>
<td>Total Security Value</td>
<td></td>
<td></td>
<td>$70,000</td>
</tr>
<tr>
<td>Margin Loan</td>
<td></td>
<td></td>
<td>$70,000</td>
</tr>
<tr>
<td>Margin Call Position</td>
<td></td>
<td></td>
<td>OK ✓</td>
</tr>
</tbody>
</table>

4. Selling sufficient stock from your portfolio to clear the margin call

John can sell some of his ABC shares to clear the margin call.

How many ABC shares will John have to sell?

Selling shares will provide John with cash to pay down his loan, but it will also reduce the security value of his portfolio.

Assuming a current ABC share price of $17.00, if John sold 280 shares at first glance it would appear that he would receive enough cash to pay the $4,750 margin call (ignoring brokerage).

However, although this would reduce the loan to $67,250, the sale of the shares will also reduce his portfolio’s security value to $61,680, i.e. to below the amount of his loan, meaning he will not have cleared his margin call.

To work out the value of shares he has to sell, John should call ANZ Margin Lending, or he can complete the following calculation:

Amount of margin call x [1 / (1 - LVR of the share)]

e.g. $4,750 x [1 / (1 - 75%)]

= $4,750 x (1 / 0.25)

= $4,750 x 4

= $19,000 i.e. 1,118 shares (@ $17 each ignoring brokerage)
**Tip:** Selling shares that have lower LVRs will mean that the total market value of shares that need to be sold will be less.

<table>
<thead>
<tr>
<th></th>
<th>Before sale</th>
<th>Change</th>
<th>After sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Portfolio Value</td>
<td>$87,000</td>
<td>($19,000)</td>
<td>$68,000</td>
</tr>
<tr>
<td>LVR</td>
<td>75%</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>Portfolio Security</td>
<td>$65,250</td>
<td>($14,250)</td>
<td>$51,000</td>
</tr>
<tr>
<td>Value</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Margin Loan</td>
<td>$70,000</td>
<td>($19,000)</td>
<td>$51,000</td>
</tr>
<tr>
<td>Margin Call Position</td>
<td></td>
<td></td>
<td>OK ✓</td>
</tr>
</tbody>
</table>

**Assumptions:** The buffer in all the examples is calculated on the market value of all stocks or managed funds that have an applicable LVR.