



# Principal

Principal Finance Pty Ltd ABN 49 008 081 712

2 Beulah Road Norwood South Australia 5067

Phone (08) 8362 3644

Fax (08) 8362 0644

Email [mailbox@principal.com.au](mailto:mailbox@principal.com.au)

## **UNSECURED NOTE INVESTMENT OFFER INFORMATION MEMORANDUM**

This Information Memorandum is not a prospectus under Australian law. This Information Memorandum is provided to you on the basis that you are a person who would not require a disclosure document because of section 708 of the *Corporations Act 2001* (Cth).

Potential investors should obtain their own independent advice and make their own assessment of the investment described in this Information Memorandum. You may wish to consult your professional advisor about its contents. The investment offered is speculative in nature.

This Information Memorandum is an important document which should be read in its entirety.

## **IMPORTANT NOTES**

This Information Memorandum (**IM**) is dated 6th February 2012.

This IM has been prepared by Principal Finance Pty Ltd ACN 008 081 712 (**Principal** or **Company**).

No part of this IM may be reproduced or disseminated to any other person without the prior written permission of Principal.

No person is authorised to give any information, or to make any representation, about the investment offered in this IM (**Investment**) which is not contained in this IM.

This IM is not a disclosure document lodged with ASIC under Part 6D.2 of the *Corporations Act 2001* (Cth) (**Corporations Act**). As no formal disclosure document (within the meaning of the *Corporations Act*) will be lodged with ASIC in connection with this Investment, the Investment is only made to investors in circumstances which permit an offer of securities to be made without disclosure to investors as outlined in section 708 of the *Corporations Act*. By accepting a copy of this IM, the recipient warrants that it falls within one of the limited classes of persons defined in this IM (and in section 708 of the *Corporations Act*). Applications will not be accepted from persons to whom section 708 of the *Corporations Act* does not apply to.

This IM is not a prospectus or a product disclosure statement. As it is not regulated by the *Corporations Act*, it does not purport to contain all of the information that would be contained in a prospectus or that recipients may require in order to evaluate whether to invest in Principal. In addition, Principal, Principal's advisers (including their respective directors, partners, consultants and their employees, related bodies corporate, the directors, shareholders, managers, partners, employees or agents of them) (**Information Providers**) are not under any obligation to correct, update or revise this IM or any written or oral communications transmitted to the recipient in the course of evaluating Principal or the Investment.

This IM is provided to the recipient for information purposes only. This IM is not to be considered as a recommendation by any Information Provider that a recipient invest in Principal, or that the investment is a suitable investment for the recipient. Therefore, any person who intends to invest should:

- make their own independent assessment and investigation into the Investment and Principal as they deem necessary including, without limitation, seeking professional advice on the legal, financial, taxation and other consequences of an investment in Principal, whether pursuant to this Investment or otherwise; and
- base any decision they may make and any determination as to the relevance of any information on such assessment, investigation and advice.

This IM does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. The distribution of this IM in jurisdictions outside Australia may be restricted by law and persons who come into possession of this IM outside Australia should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities law.

This IM is not lodged with ASIC, and ASIC takes no responsibility for the content of this IM, or the merits of investing under this IM.

This IM should be read in its entirety.

Any document summary in this IM only lists some effects of the document. The document itself must be referred to for its full effect.

The Information Providers do not make any representation or warranty (express or implied) as to the accuracy, reliability, reasonableness or completeness of the contents of this IM. None of the Information Providers have verified the statements in this IM. The Information Providers expressly disclaim all liability, and the recipient irrevocably and absolutely releases the Information Providers from all claims, (whether arising from negligence or otherwise) for, or based on, or relating to information (including any predictions and assumptions as to future events and future financial performance, and any forward looking statements) contained in this IM, or for any errors in, or omissions from, this IM or for any written or oral communications transmitted to the recipient in the course of its evaluation of Principal or this Investment, except for any liability which cannot be excluded as a matter of law.

### ***Investment risk warning***

The Investment has the specific risks outlined in this IM, as well as the general risks associated with lending.

Whilst Principal is obligated to pay agreed interest rates and to repay sums loaned at the times agreed, its directors do not guarantee its performance of those obligations. You should not invest unless you are prepared to accept the risk that you may lose some or all of your Investment. Applicants are advised to consider these risks carefully before deciding whether to invest in Principal. Accordingly, investors should carefully consider the risks in light of their own personal circumstances and seek independent professional advice on the legal, financial and taxation consequences of making any Investment.

This IM contains predictions and assumptions as to future events and future financial performance, as well as other "forward looking statements".

Whilst Principal believes they are reasonable and achievable based on present knowledge, they are inherently uncertain, and may not eventuate.

Such statements are best estimates only and based on assumptions about future events and management actions that may not necessarily take place and are subject to significant uncertainties, many of which are outside the control of Principal. Those assumptions may or may not prove to be correct or accurate. No representation or warranty is made as to the accuracy of those predictions and assumptions as to future events and future financial performance. Each recipient should make its own enquiries and investigations regarding any of those statements which may affect the future operations of Principal and the impact that different future outcomes may have on Principal and should not rely on those statements. Principal reserves the right to provide further information to any person and is not under an obligation to treat all interested persons equally to provide the same information to the recipient or any other recipients of this IM as it provides to any other person.

Any Investment is an illiquid investment as it is a fixed term, and there is no public market for the Investment.

In preparing this IM, Principal has not considered the personal circumstances, investment aims, or the financial and taxation position, of specific investors.

#### ***Privacy notice***

Principal collects personal details in the application form in order to make decisions relating to your application to invest, to identify and contact you, and to manage your Investment. To this end, personal information of applicants may be disclosed to agents, contractors or advisors of Principal. In addition, Principal may disclose private information about applicants where they are required to do so by law, or where permitted to do so under law, including the *Privacy Act 1998* (Cth). By returning a signed application you will consent to the distribution of your personal information in accordance with this paragraph. In accordance with privacy laws, information collected in relation to applicants can be obtained by that applicant by contacting Principal.

If you do not provide us with the information requested in the application form, Principal may be unable to accept your application.

Principal has a privacy policy setting out how it manages personal information. You can obtain a copy by contacting Principal at the phone number or the address on the front cover of this IM.

#### ***Confidentiality***

If this IM has been provided directly to the recipient by Principal as part of a "personal offer" (see page 10), the information contained in this IM is being provided on a confidential basis to the recipient solely for the purpose of evaluating an investment in Principal. In that case, by accepting a copy of this IM, the recipient agrees, for itself and its related bodies corporate and each of their directors, officers, employees, agents, representatives and advisers, to maintain the confidentiality of the information contained in this IM, and also the recipient agrees that any reproduction or distribution of this IM, in whole or in part, or any disclosure of its contents, or use of any information contained in this IM for any purpose other than to evaluate an investment in Principal, is prohibited.

## SUMMARY OF THE INVESTMENT OPPORTUNITY

|                             |   |
|-----------------------------|---|
| Investment Opportunity      | A simple interest-only loan to Principal ( <b>Unsecured Note</b> ). <sup>1</sup>  |
| Minimum Investment          | \$100,000 and increments thereafter of \$100,000.   |
| Initial term of loan        | Short to medium term investment (6 months, 12 months or 18 months).   |
| Rollover                    | Period of 12 or 24 months. <sup>2</sup>   |
| Interest rates <sup>3</sup> | For a term up to and including 12 months –<br><p style="text-align: center;">Interest calculated and paid monthly – 8.20% per annum<br/> Interest calculated paid on maturity – 8.50% per annum</p> For a term greater than 12 months –<br><p style="text-align: center;">Interest calculated paid monthly – 8.60% per annum<br/> Interest calculated paid on maturity – 9.00% per annum.</p> |
| Interest Calculation        | In the case of interest paid on maturity, interest is only calculated on the principal sum, and not on accruing interest. That is, interest is not compounding.   |
| Interest Options            | Investors may elect to have interest paid each month.   |
| Payment of Interest         | Interest is payable in arrears either monthly direct to your nominated bank account or on maturity.   |
| Security                    | The loan is by way of Unsecured Note and is not secured by any form of security.  |
| Proceeds of the issue       | The proceeds of this issue will be used primarily to expand the Company's loan portfolio.   |
| Commissions                 | Principal may pay commissions to third parties for the referral of investors, at its discretion. Any commissions paid by Principal are at its own expense and are not charged to investors. They represent overheads to Principal.  |
| Terms of the Investment     | A summary of the key terms of the Investment is set out in Annexure A, which also explains how to access the full terms of the Investment.  |
| Risks of the Investment     | Refer to the risk factors set out in Annexure B.  |

<sup>1</sup> Not everybody qualifies to lend Principal money. See the section headed "Who may invest?" at page 9. A summary of the terms of the loan are set out in Annexure A. The document containing the full terms is available on request. That document comprises the full legal documentation of your investment. By signing the application form, you agree to those terms of loan.

<sup>2</sup> At the end of each period of the loan, Principal will advise you if it wishes to extend the loan, and also the interest rate that will apply (**New Interest Rate**). You can then, if you wish, withdraw your Investment or extend the loan at the New Interest Rate, and for either 12 months or 24 months, whichever you are offered.

<sup>3</sup> Before making an investment, check you have the current version of this IM, which is available on our website at [www.principal.com.au/invest-now](http://www.principal.com.au/invest-now).

## INVESTMENT HIGHLIGHTS

- The Investment is tailored to investors who require rates of return above rates paid on traditional bank style term deposits, with a fixed term of 6, 12 or 18 months.
- The Investment should suit investors looking for:
  - a fixed high income yield;
  - an option to be paid interest income each month;
  - a short term investment; and
  - an option to extend to a medium term investment upon expiry, but only if the investor is satisfied with the interest rate offered by Principal at the time.
- Investment returns can be paid starting at the end of the first month if the investor elects. If this option is chosen, interest calculated on the principal lent is paid monthly in arrears by electronic funds transfer into the investor's nominated bank account. The principal will be repaid in full at the end of the term, or the end of any rollover term.
- Alternatively, an investor may elect to have interest paid on maturity. Principal's interest rate for this option is higher but interest is only calculated on the principal of the loan.

## USE OF PROCEEDS OF THE INVESTMENT

- The proceeds of the Investment will be used to finance the continued growth of the Company's loan portfolio.
- Demand for the products the Company offers, particularly insurance premium funding (described below), is increasing at a significant rate. In particular, high quality service, and a product that has many unique features, together continue to drive Principal's market penetration.

## **ABOUT PRINCIPAL**

- Principal Finance is a privately owned independent finance company which incorporated in 1985.
- Today the Company operates across Australia with its head office based in Adelaide, SA. It offers a range of leading edge finance products including insurance premium funding, professional fee funding and equipment finance.
- Principal has a strong, dynamic Board of Directors who contribute a unique and valuable blend of financial, legal, marketing and management skills.
- The Company is built on its philosophy of 'Traditional Values. Innovative Thinking' and is true to this ethos in its high level of customer service and continually evolving product lines.
- Principal has undergone significant growth in recent years, and is continuing to experience increased demand for its products.
- The business has a strong history of innovation and has been a pioneer in the insurance premium funding industry in Australia, being the first to market with innovations including routine same day settlement of funding applications, automatic annual renewal of funding, and technology for the sale of insurance products via the internet.
- In 2010 Principal was again a market leader by gaining an exemption from the National Credit Code for its consumer Pay By the Month product, which has given the business a competitive advantage.
- Principal has experienced significant growth in its level of funded premiums and revenues in recent years. The proceeds from this Investment offer will be used primarily to finance this continued growth.

## **PRODUCTS**

### **Insurance Premium Funding**

- Insurance premium funding is the Company's key lending product and represented 98.3% of its funding settlements during the 2010-11 financial year.
- Essentially, premium funding is a loan agreement under which Principal pays the premium on an insurance policy on behalf of its customer. The customer repays the loan by monthly instalments.
- Applications for premium funding are typically made through insurance brokers who provide customers with a Principal funding application with the necessary details completed. Once a customer receives it, they simply read and then sign it (physically or electronically) and return it to the broker who submits it to Principal.
- Principal is paid by customers in monthly instalments, typically over either 10 or 12 months, with interest charged on the loan amount.
- The loan is secured by the insurance policy which, should the need arise, Principal can cancel and receive a refund from the insurance underwriter.

- Insurance premium funding provides an excellent opportunity for repeat business with most insurance premiums being renewed on an annual basis.

### Professional Fee Funding

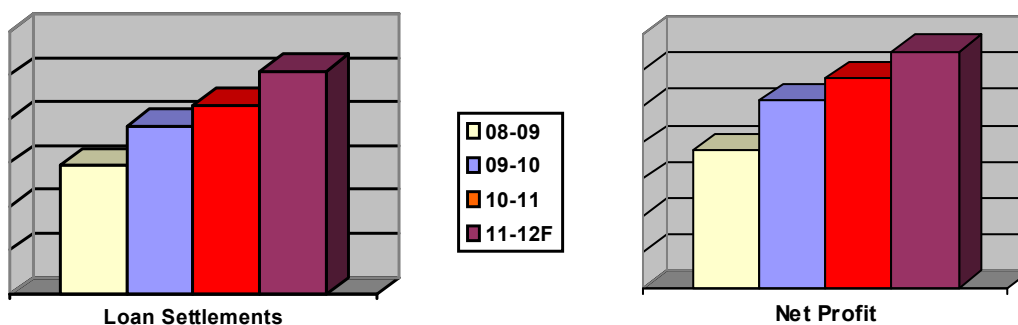
- Principal offers a range of fee funding solutions designed to make paying large bills more manageable for both businesses and individuals. Fee funding allows customers to make payments by monthly instalments and thus facilitates effective cash flow management.
- Applications for fee funding are typically made through the organisation that has billed the customer for the service provided.

### Equipment Finance

- Principal offers equipment finance at competitive rates to businesses seeking to purchase machinery and equipment.
- The business' equipment finance offering saves customers from a significant cash outlay and allows repayments to be spread over time to better manage operating cash flow.
- Principal offers loans for commercial plant and equipment valued at up to \$10,000 through a commercial hire purchase agreement or a finance lease.

### GROWTH

- Principal has achieved significant growth in both volume of loans and in revenue during recent years.
- The Company's loan settlements have increased by an average annual growth rate of 20.7% during each of the last two financial years. Net operating profit before tax has increased by an average annual growth rate of 23.4% during the corresponding period.



*Principal will, in its absolute discretion, provide details of the size of the Company's loan portfolio, revenue and net operating profit to eligible persons who register their intention to invest and nominate a pre-commitment Investment amount.*

- The business is always considering and evaluating future growth opportunities to further build the Company's market penetration and revenue base.

## RISK DIVERSIFICATION

- Principal distributes its products through a diverse range of insurance brokers and service providers throughout Australia, and to many different types of businesses. This means the composition of the Company's customer base is varied and is not concentrated in a particular geographic region nor industry segment.
- Principal markets its services to insurance brokers and service providers to attract finance transactions in the low to mid tier in value. This results in a higher volume of mid tier loans spread across a broader customer base to assist with minimising credit risk.
- The term of the average transaction is less than 12 months which means the turnover of the Company's debtors ledger is high and the risk of default associated with this is continually being spread.

## INDUSTRY LEADER

- Principal has introduced a myriad of innovations in its product offering in response to insurance industry needs, positioning the business as a preferred provider of insurance premium funding amongst insurance brokers.
- Innovations introduced by the business include:
  - **Routine same-day settlement** – We are Australia's only premium funder to offer this benefit as a standard service. All premiums, regardless of size, are settled this way. Quick receipt of premiums increases staff efficiency and delivers financial benefits to insurance brokers. Delayed settlement is also available by simply nominating the preferred settlement date in our eFund™ quoting system.
  - **Consumer Pay By the Month (PBM) Facility** – Principal was the first premium funder to receive exemption from the National Credit Code. This means insurance brokers can fund personal lines premiums without an Australian Credit Licence, earn extra income and promote client retention with a simple facility offering 12 equal monthly instalments.
  - **Automatic rollover renewals** – Principal was the first premium funder to introduce a separate authority ensuring clients never need to sign paperwork again. The insurance broker simply sends the new application to Principal electronically by the push of a button.
  - **eFundExpress™** – We are Australia's only premium funder with the technology to support brokers who sell insurance products via an internet site. This 24/7 facility automatically generates funding applications, which are accepted electronically by the client and then transmitted to Principal for settlement – all during a single internet session.
  - **eFund Acceptance™** – We were Australia's first premium funder to develop an online facility which enables clients to accept their funding electronically over a secure internet site.
  - **Endorsement funding** – We streamlined the process of adding endorsement premiums to existing loans. Insurance brokers simply record the endorsement detail online and submit it to us electronically.

- **Multiple payment options** – Clients can choose the most convenient method to pay their funding instalments, including direct debit, electronic funds transfer, credit card or cheque.
- **Funding software** – Our eFund™ system is acclaimed as quick and easy to use by insurance brokers and our customers.

## DISTRIBUTION, SALES & CUSTOMERS

### Distribution

- Principal's products are primarily distributed through insurance brokers and service providers across Australia.
- Principal has developed strong relationships with a wide variety of insurance brokers through its Business Development Managers in SA, NSW, VIC and QLD.
- Approximately 99% of Principal's revenue is generated through insurance broker distribution and thus limited direct sales occur (which are largely the result of long term customers or personal relationships).
- Insurance brokers are incentivised to distribute Principal's product through commissions based on the level of premiums which are funded through the business, at the discretion of Principal.
- The business also offers volume rebate incentives to a select number of insurance brokers who introduce a significant volume of funding to the business, or who have the potential to do so.
- Principal is receptive to the needs of insurance brokers in refining and continuously improving its product offering.

### Insurance brokers

- Principal's insurance premium funding product is distributed through a wide range of insurance brokers Australia wide.
- In the view of the Board, Principal has developed strong, long standing relationships with its broker network. Testament to this is the fact that 50% of the Company's top 10 brokers by settlement value have distributed Principal's product for greater than five years, with the business having held a relationship with 60% of its top 30 brokers for greater than three years.
- No single broker accounted for more than 3.6% of Principal's settlements in calendar year 2010, with the Company's top 10 brokers providing 25.1% of loan settlements by value and the top 30 providing 52.8%.

### Customers

- Principal's customer base spans a diverse range of industries and includes both commercial and domestic customers across Australia.
- Principal has a strong level of customer retention and has a simple rollover feature in place to ensure ease of renewing a customer's premium funding arrangement and to make it attractive for clients to remain with the business.

## WHO MAY INVEST?

This Investment opportunity is to be made without a disclosure document as defined by the Corporations Act and accordingly will only be offered to “sophisticated investors” within the meaning of section 708(8)(c) of the Corporations Act and “professional investors” within the meaning of section 708(11) of the Corporations Act.

Principal may also, in its discretion, make personal offers to a limited number of persons that are not “sophisticated investors” or “professional investors” in accordance with the provisions of the Corporations Act relating to small scale offerings under section 708(1).

To be eligible to apply for this Investment in Principal, applicants must satisfy one of those categories as set out below, or alternatively Principal must have made a personal offer to them (as described below). If prospective investors are in any doubt as to their eligibility to apply, they should seek specific advice from a solicitor or investment advisor.

### Sophisticated investors

For that to be lawful, Principal will only accept investment from –

- “sophisticated investors”, that is, investors who meet at least one of the following tests –
  - the investor has net assets of at least \$2.5 million; or
  - the investor has a gross income for each of the last 2 financial years of at least \$250,000 a year; or
  - the investor invests \$500,000 or more in the Investment.

(In the case of the first two tests, a qualified accountant must certify that the investor satisfies the test within 6 months of the date of this Investment offer being made. The certificate to be completed is on page 14).

### Professional investors

- The Investment may also be made to persons classed as “professional investors”. A “professional investor” means one of the following:
  - a financial services licensee;
  - a person who is a body regulated by APRA, other than a trustee of any of the following (within the meaning of the *Superannuation Industry (Supervision) Act 1993* (Cth)):
    - a superannuation fund;
    - an approved deposit fund;
    - a pooled superannuation trust;
    - a public sector superannuation scheme;
  - a body registered under the *Financial Corporations Act 1974* (Cth);

- a person who is a trustee of:
  - a superannuation fund; or
  - an approved deposit fund; or
  - a pooled superannuation trust; or
  - a public sector superannuation schemewithin the meaning of the *Superannuation Industry (Supervision) Act 1993* (Cth) and the fund, trust or scheme has net assets of at least \$10 million;
- a person who has, or controls, gross assets of at least \$10 million (including any assets held by an associate or under a trust that the investor manages);
- a person who is a listed entity or a related body corporate of a listed entity;
- a person who is an exempt public authority;
- a person who is a body corporate, or an unincorporated body, that:
  - carries on a business of investment in financial products, interests in land or other investments; and
  - for those purposes, invests funds received (directly or indirectly) following an offer or invitation to the public, within the meaning of section 82 of the Corporations Act, the terms of which provided for the funds subscribed to be invested for those purposes;
- a person who is a foreign entity that, if established or incorporated in Australia would be covered by one of the paragraphs above (relating to a professional investor).

### Personal offers

Principal may also, in its discretion, make personal offers to a limited number of persons that are neither “sophisticated investors” nor “professional investors”.

The Investment will be a personal offer if it can only be accepted by the person to whom it is made, and if the person is likely to be interested in the investment because:

- of any previous contact between Principal and the investor;
- some professional or other connection between Principal and the investor; or
- statements or actions by the investor that indicate they are interested in offers of this kind.

Personal offers will only be available if Principal has not breached the 20 investors in any 12 month period, who together invest no more than \$2 million in the 12 month period, in accordance with the Corporations Act.

It is thus unlikely that any party who randomly accesses this IM will qualify as one of these 20 other investors.

## HOW TO MAKE AN INVESTMENT

Applicants that are either “sophisticated investors” or “professional investors” that wish to apply for an Investment should complete the application form on page 13, and lodge that form, together with a cheque for the amount to be invested, with Principal at its address on the front cover of this IM. The completed application form must be accompanied by the corresponding application monies.

Cheques must be made payable to “Principal Finance Pty Ltd” and should be crossed and marked “Not Negotiable”. Sufficient cleared funds must be held in an applicant’s cheque account as cheques returned unpaid may not be re-presented and may result in the application being rejected.

By prior arrangement with Principal, payment can also be made by electronic funds transfer.

On the application form, applicants may provide their Tax File Number (**TFN**) or Australian Business Number (**ABN**), or advise of their exemption. This is not compulsory, but if the applicant does not provide their TFN or ABN, tax will be deducted from any income distribution at the highest marginal tax rate, plus the Medicare Levy.

Applicants must also include appropriate evidence that they are either a sophisticated or professional investor with their completed application form. Sophisticated investors must provide a qualified accountant’s certificate stating that they have net assets of at least \$2,500,000, or gross income for each of the last 2 financial years of at least \$250,000.

Professional investors should provide evidence that they fall within one of the types of entities described under the heading “Professional Investors” on pages 9 and 10. Principal may be contacted for more information regarding the type of evidence required.

Applications that are either professional or sophisticated investor applications will not be accepted unless they are made using the application form included in this IM.

This IM does not include an application form for personal offers. Applicants to whom a personal offer is made that wish to apply for an Investment should contact Principal directly for an application form. Acceptance of any personal offers are at the discretion of Principal.

Principal may accept or reject any application, in whole or in part, or allocate a smaller Investment, in its absolute discretion and without giving a reason. If Principal decides not to accept any particular application, all application monies will be promptly returned with advice accordingly.

If Principal decides to accept any application, the applicant will be notified in writing. Investors will not be required to sign any further documents, however, please note that, by signing the application form, investors agree to be bound by the terms of the loan summarised in Annexure A.

For any queries about applications, direct contact can be made with Principal’s managing director David Palyga on Telephone 08 8362 2644 or Email [david.palyga@principal.com.au](mailto:david.palyga@principal.com.au).

### **Minimum application and no cooling off**

Applications must be for a minimum of \$100,000 and increments thereafter of \$100,000.

No cooling off regime applies. Once applications have been processed by Principal, investors are bound by the terms of the loan.

**Underwriting**

The Investment is not underwritten.

**Risks**

There are a number of risks associated with accepting the Investment and investing in Principal. Investors should refer to Annexure B of this IM for detailed information on risks.

**No Financial Product Advice**

Principal does not provide financial product advice and is not licensed to do so. Investors should seek professional financial or legal advice.

APPLICATION FORM

I/we hereby apply to invest \$ \_\_\_\_\_ to Principal Finance Pty Ltd.

Term of loan: 6 months  12 months  18 months

Interest rate (tick your choice):  
For a term up to and including 12 months:  
Interest calculated and paid monthly – 8.20% per annum   
Interest calculated paid on maturity – 8.50% per annum   
For a term greater than 12 months:  
Interest calculated and paid monthly – 8.60% per annum   
Interest calculated paid on maturity – 9.00% per annum

Investor name: .....

Address: .....

Are you: An Individual  Company  Partnership  Trust  Superannuation Fund  Other

Contact name: .....

Contact address: .....

Telephone: Home ..... Work ..... Mobile .....

Contact fax number: .....

Contact email: .....

TFN or ABN (for each individual, partner, trust or superannuation fund): .....

ACN or ABN (if a company): .....

Name of Trustee (if a Trust): .....

Account for interest or redemption monies: BSB: ..... Account Number: .....

Account holders name: .....

I/we have read and understood the Information Memorandum for investor loans with Principal Finance Pty Ltd, and agree to be bound by the terms of loan in Annexure A of that document.

If the investor is a superannuation fund, I/we also confirm that the fund is a complying superannuation fund under the *Superannuation Industry (Supervision) Act 1993*.

Signature: ..... Date: .....

Signature: ..... Date: .....

**Please note:**

1. Cheques must be made payable to "Principal Finance Pty Ltd" and should be crossed and marked "Not Negotiable". By prior arrangement with Principal, payment can also be made by electronic funds transfer.
2. You are not obliged to provide your tax file number, but if you do not, and you also do not claim an exemption, tax will be taken out of any distribution at the highest marginal tax rate, plus Medicare levy.
3. Principal Finance Pty Ltd may accept or reject any application, in whole or in part, or to allocate a smaller Investment, in its absolute discretion without giving a reason.

**CERTIFICATE BY A QUALIFIED ACCOUNTANT**

**Chapter 6D of the *Corporations Act 2001* (Cth)**

[Name of person or entity]

.....

[Address of person or entity]

.....

I certify that the person or entity whose details are set out above:

- has net assets of at least \$2.5million; or
- has a gross income for each of the last 2 financial years of at least \$250,000.

I belong to [name of my professional body]: .....

My membership designation from this professional body is: .....

I comply with this body's continuing professional education requirements.

Signature of accountant .....

Date certificate issued .....

(If this certificate is not on the accountant's letterhead, include the following information here:)

[Name of accountant]

.....

[Address of accountant]

.....

## ANNEXURE A

### KEY TERMS OF UNSECURED NOTES

The following is a summary of the key terms of the Investment. The full document is available at [www.principal.com.au/invest-now](http://www.principal.com.au/invest-now), or in hard copy on request.

- The Investment is by way of a simple interest only loan to Principal.
- Interest rates are fixed at the rates on offer at the time of acceptance of the application by Principal. The interest rate is fixed for a fixed term.
- Minimum investment – the minimum investment amount is \$100,000 of Unsecured Notes, and thereafter in multiples of \$100,000.
- Interest calculation – interest is calculated on the principal amount of the term deposit without regard to any interest previously paid or accumulated. That is, interest is not compounding.
  - Interest calculated and paid monthly – interest is calculated on the last day of each calendar month from the date your application is accepted by Principal. It will be paid monthly in arrears. However, if your investment application is accepted after the 20th day of the month, the interest for the balance of that month will be paid at the end of the next month.
  - Interest calculated and paid on maturity – interest is calculated from the date your application is accepted by Principal. It will be paid on maturity of the Unsecured Note.
- Interest payment – If you elect on the application form to have interest paid monthly, your interest will be paid directly into your nominated bank account. Notification of interest paid will be sent by mail.
- Investment term – You can choose to fix the term of the Unsecured Notes for a period of 6 months, 12 months or 18 months. The interest rate for the Unsecured Notes is fixed for the entire term. Accordingly, the interest rate for the Unsecured Notes is not affected by any subsequent decision by Principal to change its interest rates, until such time as the Unsecured Notes are rolled over (if applicable).
- Security – the Unsecured Notes are not secured by any form of security.
- Redemption/withdrawals:
  - there are NO early redemptions, except at the absolute discretion of Principal, and if any early redemption is permitted by Principal, a break fee may be charged where applicable and deducted from the amount you redeem;
  - once a withdrawal request is received, you must wait until the maturity of the investment term before you can withdraw your funds;
  - you must provide us with 30 days written notice prior to maturity of your investment to withdraw your funds.

- Rollover:
  - at the end of each period of the loan, Principal will advise you if it wishes to extend the loan by written notice given 30 days prior to the maturity of the loan, and also advise of the New Interest Rate that will be applied to the rollover;
  - you can then, if you wish, withdraw your Investment or extend the loan at the New Interest Rate, for the period offered by Principal, either 12 months or 24 months;
  - if terms of your new loan cannot be agreed, your loan will be repaid.
- Priority – the Unsecured Notes rank pari passu (equally) in proportion to the principal amount owing.
- Withholding Tax – Principal reserves the right to deduct withholding tax and other taxation deductions where required to do so under any applicable taxation laws.
- Statement of interest:
  - Interest paid monthly - Principal will send you a statement of interest earned for each taxation year. The statement will be issued by 31st July each year;
  - Interest paid on maturity – Principal will send you a statement of interest earned within 30 days of maturity of the investment term.
- Investment confirmation – Principal will send you confirmation of your investment within a few days of accepting your application.
- Registry – Principal will operate a registry in-house of the Unsecured Notes. Principal will issue confirmation upon acceptance of an investor's application, as outlined above.
- No costs – Principal does not impose any management fees.

## ANNEXURE B

### RISK FACTORS

This section identifies the major risks associated with an investment in the Unsecured Notes, as identified by the Board of Directors of Principal.

Principal's business is subject to risk factors, both specific to its business activities, and of a general nature. There are a number of risks which may, either separately or in combination, materially adversely affect Principal's ability to perform its obligations in respect of the Unsecured Notes.

There are no guarantees that the Investment will achieve its stated objectives, or that any forward looking statements or forecasted returns in this IM will eventuate. Accordingly, an Investment in the Unsecured Notes should be considered in light of these risks.

The Board maintains an active risk management policy which aims to monitor risk and manage the likely impact of such risks through risk diversification and credit risk strategies. Despite Principal's best efforts, Principal cannot provide any assurances as to its ability to manage all risks.

Before deciding to invest in the Unsecured Notes, you should:

- read this IM in its entirety;
- consider risk factors that could affect the financial performance of Principal;
- review these factors in light of your personal circumstances; and
- seek professional advice from your professional advisors.

Some risks associated with an Investment are described below. It is not an exhaustive list of the risks.

#### **Credit risk**

Principal relies on customers to repay their loans and any accrued interest. The Company mitigates this risk in the following ways, depending on the product.

For premium funding, the Company takes security over the policy or policies subject to the loan. If the customer defaults in their repayment obligations, Principal cancels the policy and receives a refund for the unexpired term of the policy, thus reducing Principal's exposure to bad debts.

For fee funding, the Company has arrangements in place with the service provider who becomes responsible to repay the loan if the borrower defaults. For equipment finance, the Company retains ownership of the goods until the loan is repaid in full.

However, if a borrower fails to meet his or her loan repayments as and when they fall due and for whatever reason Principal is unable to get full repayment by way of any security it has as outlined above, unless Principal can secure alternative repayment arrangements with the borrower, it may make a loss on that loan. If this occurred on a significant number of loan accounts during a short period of time, Principal's ability to satisfy its repayment obligations on the Unsecured Notes may be compromised.

Principal self insures; it does not have credit insurance.

Principal implements various risk management strategies to diversify its risk, and aims to manage Principal's exposure to credit risk. As part of this policy, Principal conducts credit searchesthrough a credit reference agency to ascertain a prospective client's credit worthiness.

### **Liquidity risk**

Credit risk and general economic conditions will also affect liquidity risk, that is, Principal's ability to have access to cash resources to repay principal and pay interest when due under the Unsecured Notes. A liquidity risk arises from Principal's reliance on cash receipts to pay its debts as they fall due.

The distribution by Principal of its products through a broad range of insurance brokers diversifies the composition of the underlying customer base, and segments risk both geographically and by industry to help reduce both credit and liquidity risks.

### **Interest rate risk**

Interest received on loans to customers is Principal's main income. Interest rate risk arises from the need to ensure that interest received on loans to customers and on bank balances is sufficient to pay interest due on the Unsecured Notes as well as to pay all of Principal's expenses.

Interest rates paid on the Unsecured Notes and charged on loans are set by the Board, and are subject to market factors. It is the policy of management to constantly monitor Principal's portfolio of products in order to ensure that interest rate margins are maintained.

### **Movement in interest rates**

The interest rate for the Unsecured Notes is fixed for the term of the investment. The interest rate does not vary, for instance, with changes in market rates, as is often the case on typical traditional bank loans or personal loans. If those rates fall, investors will still be entitled to the interest rate that Principal has agreed to pay. If interest rates rise, Principal is not obliged to increase the rate of interest that it will pay.

### **No market**

The Unsecured Notes will not be listed and there will be no formal market. Accordingly, subject to law, you will not be able to transfer your Investment to another party.

### **Reliance on key management**

Relative to its size, Principal has a strong management structure. The loss of any senior management staff (for example through death, total and permanent disablement or resignation) however, could cause disruption to the conduct of Principal's business in the short term.

### **Management of growth**

No assurance can be given of Principal's ability to manage future growth.

### **Technology**

The implementation and maintenance of technology to manage and report on loan accounts is a critical element to the Company's business system. Similarly, systematised backup and disaster recovery for loan account data must be maintained to ensure efficiency is maximised.

### **Additional funding**

As Principal's business grows, there may be a need to raise additional funds. There is a risk that equity or debt funding will not be able to be obtained on terms acceptable to Principal. If Principal is unable to raise additional funds, this may limit its ability to explore new opportunities, or may compromise Principal's ability to satisfy its repayment obligations on the Unsecured Notes.

### **General economic conditions**

Principal's operating and financial performance is influenced by a variety of general economic and business conditions including the level of inflation, interest rates and government fiscal, monetary and regulatory policies.

Prolonged deterioration in general economic conditions, including a substantial increase in interest rates, could have a corresponding adverse impact on Principal's operating and financial performance.

### **Government policy**

The introduction of new legislation or amendments to existing legislation and regulations by governments, and the decisions of courts and tribunals, can impact adversely on the assets, operation and, ultimately, the financial performance of Principal. Likewise, any adverse changes in political or regulatory conditions in Australia could affect the business.

### **Unforeseen circumstances**

Major unforeseen circumstances, such as major unforeseen litigation, might occur in respect of Principal's business and its assets, and which may affect the ability of the business to meet all of its obligations under the Unsecured Notes.

### **Insurance**

Principal insures against fire and theft including document reinstatement, but as with any business it may not be covered for all possible events or claims which could be insured. The Company self insures its credit risk, and therefore is not covered by insurance for that risk.