

# Glossary

**Accession Deed** is a legal document used in commercial lending to formally add a new party, such as a subsidiary or guarantor to an existing loan offer or facility agreement. The accession deed is typically in a prescribed format (often referenced as a schedule in the loan offer or facility agreement) and ensures that the new party becomes bound by the terms and obligations of the original loan offer or facility agreement.

**Accrual Accounting** is a method of accounting where revenues and expenses are recorded when they are earned or incurred, regardless of when cash is actually received or paid. This approach gives a more accurate picture of a company's financial position by matching income and expenses to the period in which they occur, rather than when cash changes hands. Accrual accounting is required by most accounting standards for businesses. It forms the basis for preparing financial statements that show a true and fair view of financial performance.

**Acquisition** refers to the act of acquiring any real property, assets, shares, units, or other interests, either directly or by way of acquiring shares, units, or other interests in an entity. This can involve the purchase of physical assets, ownership stakes in companies, or other forms of investment. Often subject to lender approval and specific conditions in loan offer or facility agreements.

**Additional Guarantor** means an additional subsidiary that accedes as an additional guarantor in accordance with the relevant clause of the loan offer or facility agreement. In practice, this refers to a new entity within a group structure that formally takes on the obligation to guarantee the loan, thereby extending the lender's rights and protections to cover the new entity. This ensures that the lender's security and rights are extended to include new entities within the borrower's group.

**Additional Subsidiary** refers to an entity that is added to a group structure after the original loan offer or facility agreement is executed. The specific meaning is usually given in the relevant clause of the loan or facility agreement. In practice, an additional subsidiary often becomes part of the group's obligations, such as by acceding as a guarantor or being included in compliance requirements, once it is formally recognised under the loan offer or facility agreement. This ensures that new entities within a group are covered by the lender's rights and protections.

**Amortisation** the process of gradually repaying a loan over time through scheduled, periodic payments of principal and interest. This means that with each payment, a portion goes toward reducing the principal (the original amount borrowed), and another portion covers the interest. Over the life of the loan, the balance decreases until it is fully paid off.

**Annual Percentage Rate (APR)** the yearly cost of borrowing expressed as a percentage, including interest and some fees.

**Application Fee** a one-off fee charged by a lender to process a loan or credit application. Also known as an Establishment Fee.

**Accounting Records** the proper records that must be kept by a business or entity, ensuring that all transactions are accurately recorded. These records form the foundation for preparing financial statements and maintaining compliance with accounting standards.

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**Annual Budget** refers to a financial plan that includes projected income and expenses, a statement of financial performance, a cash flow statement, a balance sheet, and forecast capital expenditure for the succeeding twelve (12) month period. It is a comprehensive plan covering all expected financial activities for the year ahead.

***The annual budget typically includes:***

- *Projected income and expenses.*
- *Statement of financial performance.*
- *Cash flow statement.*
- *Balance sheet*
- *Forecast capital expenditure.*

The annual budget is essential for both internal management and for meeting lender requirements, as it helps demonstrate the borrower's ability to manage finances and meet obligations.

**Annual Review of Bank Facilities** is a periodic assessment conducted by a lender to evaluate the borrower's financial position, account conduct, and the performance of existing credit facilities.

***The review typically involves:***

- *Submission of updated financial statements (e.g., for the financial year ending June 30).*
- *Provision of tenancy schedules for commercial investment properties.*
- *Analysis of key financial ratios such as Interest Cover Ratio (ICR), Debt Service Cover Ratio (DSCR), and Loan-to-Valuation Ratio (LVR).*
- *Assessment of account conduct (e.g., repayment history, compliance with covenants).*
- *Review of security arrangements (e.g., property valuations, guarantees).*
- *Recommendation for renewal, extension, or modification of facility terms, or for approval of new facilities.*

***Purpose:***

*The annual review ensures that the borrower remains creditworthy, facilities are being used appropriately, and risks are managed. It may also trigger changes to facility limits, security, or terms if the borrower's situation has changed.*

***Typical Steps:***

1. *Lender requests updated financials and supporting documents from the borrower.*
2. *Lender reviews account conduct and compliance certificates.*
3. *Financial ratios and security values are analysed.*
4. *Recommendations are made for facility renewal, extension, or amendment.*
5. *Next review date is set (usually 12 months later).*

***Key Insights:***

- *Annual reviews are required for most commercial lending arrangements.*
- *They help lenders monitor risk and ensure facilities remain suitable for the borrower's needs.*

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- *Failure to provide required information or poor account conduct can lead to facility reduction or withdrawal.*

**Assets** in accounting are resources owned or controlled by a business as a result of past events, from which future economic benefits are expected to flow to the company. They can be physical (like inventory, vehicles, buildings), monetary (cash, investments, receivables), or intangible (software, patents, trademarks).

#### **Key Characteristics of Assets:**

1. *Future Economic Benefit: The asset will provide economic benefits to the business in the future, either directly (e.g., inventory sold for cash) or indirectly (e.g., equipment used in production).*
2. *Control: The business has control over the asset's use and can restrict access to others.*
3. *Past Transaction: The business acquired control of the asset due to a past transaction or event.*

#### **Types of Assets in Accounting:**

- *Current Assets: Short-term resources expected to be converted into cash, sold, or used up within one year. Examples include cash, accounts receivable, inventory, prepaid expenses, and marketable securities.*
- *Non-Current (Fixed) Assets: Long-term resources used for more than one year, such as property, plant, equipment, and intangible assets like patents.*

#### **Examples:**

- *Cash and cash equivalents.*
- *Accounts receivable.*
- *Inventory.*
- *Equipment and vehicles.*
- *Buildings and land.*
- *Patents and trademarks.*

**Balloon Payment** a large, final payment due at the end of a loan term, after smaller regular payments have been made.

**Base Rate** the benchmark interest rate set by a lender, which is used to determine the interest charged on variable-rate loans.

**Borrower** is the individual or business entity who receives funds from a lender with an obligation to repay under specified terms. In commercial lending, the borrower is central to the loan relationship and is subject to a range of rights and responsibilities.

#### **Key Responsibilities of a Borrower:**

- *Repayment: The borrower must repay the loan according to the agreed schedule, including principal and interest.*

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- *Compliance: The borrower must comply with all terms and conditions set out in the loan or facility agreement, which may include financial covenants, reporting requirements, and restrictions on certain activities.*
  - *Disclosure: The borrower is often required to provide information undertakings, such as notifying the lender of defaults, material adverse changes, or legal claims.*
  - *Use of Funds: The borrower must use the loan funds for the approved purpose, as specified in the loan offer or facility agreement. Misuse of funds can trigger a breach of contract or default.*
  - *Security: The borrower may need to provide security (assets pledged to the lender) to secure the loan. If the borrower defaults, the lender can claim these assets.*

### **Types of Borrowers:**

- *Individual Borrower: A person taking out a personal loan, mortgage, or credit facility.*
- *Business Borrower: A company or business entity borrowing funds for operations, expansion, or investment.*
- *Group Borrower: Sometimes, a group structure is involved, where subsidiaries or related entities may also become borrowers or guarantors.*

### **Borrower's Rights:**

- *Access to Funds: Once all conditions precedent are met, the borrower can draw down the loan funds.*
- *Request for Variations: The borrower may request changes to the facility terms, subject to lender approval.*
- *Early Repayment: The borrower can repay the loan early, though this may attract penalties or fees.*

### **Borrower's Obligations in Practice:**

- *Provide regular financial statements and compliance certificates.*
- *Notify the lender of any significant changes or risks.*
- *Maintain insurance and keep assets in good condition if they are pledged as security.*
- *Avoid actions restricted by negative undertakings (e.g., taking on new debt, selling major assets without consent).*

The borrower is the party who receives and uses the loan funds, but must adhere to a range of contractual, financial, and operational obligations to maintain the lender's trust and protect the lender's interests. Failure to comply can result in default, triggering lender remedies such as demanding repayment or claiming security.

**Banking Code of Practice** it is a set of standards and guidelines that lenders voluntarily agree to follow. The code covers areas such as customer service, responsible lending, dispute resolution, and transparency. It is designed to promote good lending practices and protect customers' interests.

**BBSY** stands for the **Bank Bill Swap Rate**. BBSY is a benchmark interest rate used in Australia. It is commonly referenced in floating-rate commercial loans and other financial products. The rate is published daily. It is shown at approximately 10:00 a.m. (Sydney time) on the page "BBSY" of the Reuters Monitor System.

**Bookkeeping** is the process of recording and organising all financial transactions for a business. It ensures that all income, expenses, assets, and liabilities are accurately tracked, forming the foundation for preparing financial statements and maintaining compliance with accounting standards.

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**Break Cost** a fee charged if a fixed-rate loan is repaid early. Charged to compensate the lender for lost interest income or extra funding cost caused by early repayment.

**Capitalisation Rate (Cap Rate)** is a financial metric used to estimate the rate of return on an investment property. It is calculated by dividing the property's net operating income (NOI) by its current market value or acquisition cost.

**Key Points:**

- *Purpose: The cap rate helps lenders, investors, and analysts assess the profitability and risk of real estate investments.*
- *Interpretation: A higher cap rate indicates a higher potential return (but often higher risk), while a lower cap rate suggests lower returns and lower risk.*

**Cash Accounting** is a method of accounting where revenues and expenses are recorded only when cash is actually received or paid. This means income is recognised when money comes in, and expenses are recognised when money goes out, rather than when they are earned or incurred. Cash accounting is simpler than accrual accounting and is often used by small businesses. It does not match income and expenses to the period in which they occur, which can make it less accurate for tracking financial performance over time.

**CFADS** stands for **Cash Flow Available for Debt Service**. The amount of operating cash flow available to pay both interest and loan principal repayments. Gives lenders a clearer view of true repayment capacity.

**Why it's more accurate than EBITDA: CFADS adjusts for:**

- *Tax payments.*
- *Changes in working capital.*
- *Capital expenditure (capex).*

**Commitment Fee** is a fee paid by a borrower to secure access to a credit facility, regardless of whether the facility is drawn.

**Conditions Precedent (CPs)** a checklist of requirements a borrower must meet before loan funds can be drawn.

**Common CPs include:**

- *Signed loan offer or facility agreement.*
- *AML/KYC.*
- *Registered security documents (e.g. mortgage or GSA).*
- *Current insurance certificates.*
- *Up-to-date ATO statements.*

**Collateral Security** refers to an asset or property that is pledged by a borrower to a lender as a guarantee for the repayment of a loan or debt. If the borrower defaults on the loan, the lender can seize and sell the collateral to recover the outstanding amount.

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### **Key Points:**

- Collateral security can take many forms, including real estate, vehicles, equipment, inventory, or financial instruments such as stocks or bonds.
- The purpose of collateral security is to provide the lender with assurance that they will be compensated for the loan, even if the borrower is unable to repay the debt.
- Collateral security reduces the risk for lenders by providing them with a tangible asset they can claim if the borrower defaults.
- Offering collateral security may make it easier for borrowers to obtain financing and secure loans at more favourable terms, such as lower interest rates or higher loan amounts.

### **How Collateral Security Works:**

- When a loan offer or facility agreement is signed, the borrower pledges specific assets as collateral security.
- If the borrower defaults, the lender has the right to seize and sell the pledged collateral to recover any outstanding debt.
- Charges over collateral are often registered with a public registry, which establishes the lender's claim and priority over the asset.

### **Examples:**

- A business pledges equipment as collateral for a loan. If the business cannot repay, the bank can seize and sell the equipment.
- A homebuyer offers the property as collateral for a mortgage. If the borrower defaults, the bank can take possession and sell the property.

Collateral security is a fundamental concept in commercial lending, providing lenders with protection and borrowers with access to better loan terms. It ensures that loans are more likely to be repaid and that both parties are protected in the event of default.

**Commitment** in respect of a facility, refers to the amount specified as such in the relevant part of the loan offer or facility agreement, or any other amount agreed by the lender, and as reduced or cancelled under the loan offer or facility agreement.

**Commitment Period**, in respect of a Commitment, the commitment period is the timeframe during which the lender's commitment is valid, ending at the earlier of the specified period, maturity date, or cancellation.

**Compliance Certificate** is a formal document provided by the borrower to the lender. The certificate confirms that the borrower is in compliance with the financial covenants and other requirements set out in the loan offer or facility agreement. Compliance certificates are typically required to be submitted periodically (e.g., monthly, quarterly or annually) and accompany financial statements or other reporting documents.

**Cost of Goods Sold** refers to the direct costs associated with producing or purchasing the goods that a company sells during a specific period. This includes the cost of materials, labour, and other expenses directly tied to the production of goods or acquisition of merchandise for resale. COGS is deducted from revenue to determine gross profit on the income statement.

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**Covenant Testing** refers to the process by which a lender periodically checks that the borrower is meeting the financial covenants set out in the loan offer or facility agreement. These covenants are legally binding promises requiring the borrower to do or refrain from doing certain things (such as maintaining a minimum net worth or specific financial ratios).

**How Covenants Testing Works:**

- *The lender will test each of the required financial ratios (such as Interest Cover Ratio, Debt Service Cover Ratio, Loan-to-Value Ratio) on the provision of each compliance certificate and financial statements.*
- *Testing typically occurs at regular intervals (e.g., monthly, quarterly, annually) or whenever the borrower submits financial statements or compliance certificates.*
- *The purpose is to ensure the borrower remains compliant with the loan offer or facility agreement and to monitor risk.*

**Credit Facility** a type of loan or line of credit provided by a lender that allows a business to borrow funds up to a specified limit as needed.

**Cross Default** is a provision in a loan offer or facility agreement stating that if a borrower defaults on any other loan or financial obligation, it automatically causes a default under the current agreement as well. The main purpose of a cross default clause is to protect lenders from wider financial distress by allowing them to take action if the borrower is experiencing trouble elsewhere.

**Current Ratio** is a financial metric used in accounting to measure a company's ability to pay its short-term obligations with its short-term assets. Current assets include cash, accounts receivable, inventory, and other assets expected to be converted into cash or used up within one year. Current liabilities are debts or obligations due within one year, such as accounts payable, wages payable, and short-term loans. The current ratio indicates liquidity: a ratio above 1 suggests the company can cover its short-term debts; a ratio below 1 may signal liquidity risk.

**Default** means failure to meet the repayment or other obligations set out in a loan offer or facility agreement.

**Key Points:**

- *A default can occur if the borrower misses scheduled loan payments.*
- *It can also happen if the borrower breaches other terms or covenants in the loan offers or facility agreement (such as providing false information, failing to maintain required insurance, or violating financial ratios).*
- *Default may trigger lender remedies, such as demanding immediate repayment, enforcing security, or taking legal action.*

**Drawdown** is the act of accessing or receiving funds from an approved loan or credit facility.

**Key Points:**

- *Drawdown usually occurs only after all conditions precedent (such as signed documents, registered security, and insurance) are met.*
- *The borrower can access the loan funds under an approved facility once these requirements are satisfied.*

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- *Drawdown marks the point at which the borrower begins to use the funds provided by the lender.*

**Debt** refers to all moneys borrowed and financial accommodation raised, including the face value of bills and promissory notes, the net amount payable under risk management transactions, and the unamortised principal amount of all non-cancellable hire purchase or finance lease agreements for which a borrower is liable. It generally excludes any amount claimable under any contingent instrument or for which a party is contingently liable.

#### **Key Points:**

- *Debt is a financial obligation undertaken by a borrower that must be repaid to the lender, usually with an additional payment of interest.*
- *Debt can be secured (collateralized by assets) or unsecured (not backed by collateral).*
- *Common forms of debt include loans, bonds, promissory notes, mortgages, and credit card balances.*
- *Debt is composed of two main elements: principal (the original amount borrowed) and interest (the cost of borrowing).*
- *Debt may be used by individuals, businesses to fund purchases, investments, or operations.*

#### **Types of Debt:**

- *Secured Debt: Backed by collateral (e.g., mortgages, auto loans).*
- *Unsecured Debt: Not backed by collateral (e.g., credit cards, personal loans).*
- *Revolving Debt: Credit that can be used, repaid, and used again (e.g., credit cards, lines of credit).*
- *Term Debt: Borrowed for a set period with scheduled repayments (e.g., term loans).*

#### **In Practice:**

- *Debt loan offers and facility agreements specify the amount borrowed, repayment schedule, interest rate, and consequences of default.*
- *Failure to repay debt as agreed can lead to legal action, repossession of collateral, or bankruptcy.*

#### **Summary:**

*Debt is a core concept in commercial lending, representing money borrowed that must be repaid with interest. It is fundamental to personal, business, enabling purchases and investments that might not otherwise be possible.*

**Debt Service Cover Ratio (DSCR)** measures a borrower's ability to service debt obligations from operating cash flow.

**Formula:**  $DSCR = A \div B$

*A: EBITDA of the Group over 12 months.*

*B: The total of Interest expenses, amortisation payments, principal repayments on chattel mortgages for vehicles.*

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**Default Event** means the occurrence, without the prior written consent of the lender, of any default event specified in the loan offer or facility agreement, including in the relevant default clause, whether or not within the power or control of the borrower.

**Key Points:**

- *Default events are predefined situations in a loan offers or facility agreementd that allow the lender to demand repayment or enforce security.*
- *Examples include missed loan payments, breach of financial covenants, insolvency, or providing false or misleading information.*
- *When a default event occurs, the lender may have the right to take actions such as demanding immediate repayment, enforcing security, or taking legal action.*

**Default Interest** is applied when a borrower fails to make payments or otherwise breaches the loan offer or facility agreement, serving as a penalty and compensating the lender for increased risk or administrative costs. Charged at the Default Rate.

**Default Rate** is typically specified in the loan offer or facility agreement, often as an aggregate of the default rate plus the standard interest rate.

**Director's Guarantee** is a personal guarantee provided by a company director to secure a business loan.

**Key Points:**

- *The director personally commits to repay the loan if the company cannot.*
- *This guarantee gives the lender additional security, especially in cases where business assets alone may not be sufficient.*
- *Director's guarantees are common in SME lending and are often required by lenders to reduce risk.*

**Drawing** refers to the act of accessing or receiving funds from an approved credit facility. Specifically, it means the provision of financial accommodation under a loan offer or facility agreement.

**Key Points:**

- *A drawing is the act of accessing funds or financial accommodation under an approved facility.*
- *Multiple drawings may occur under a facility, each with its own terms and dates.*
- *Drawings are tracked and recorded in the loan account.*

**Drawdown** when the borrower accesses the loan funds under an approved facility. Usually allowed only after Conditions Precedent (CPs) are met (e.g. signed documents, registered security, insurance).

**Drawdown Date** means the date on which a drawing is to occur. The drawdown date is specified in the loan offer or facility agreement. It marks the day when the borrower can access or receive the loan funds under an approved facility. Each drawing under a facility will have its own drawdown date, as set out in the loan offer or facility agreement.

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**Drawdown Notice** is a formal communication from the borrower to the lender, specifying the amount and date on which the borrower wishes to access funds under an approved loan or credit facility. The notice is typically required by the loan offer or facility agreement and must be submitted before the actual drawdown occurs.

**Distribution** means any dividend, fee (including any management fee), payment or other distribution whether of cash or other assets, other than a redemption, repurchase, defeasance, retirement or repayment in respect of any units in a trust. In loan offers and facility agreements, distributions are often regulated to ensure the borrower maintains sufficient resources to meet obligations.

**Early Repayment** paying off a loan before the scheduled end date, which may attract penalties or fees depending on the agreement.

**EBITDA** stands for Earnings Before Interest, Taxes, Depreciation, and Amortisation. It adjusts net profit by excluding non-cash, one-off, or financing-related items to show operating profitability.

**Key Adjustments Include:**

- *Adding back interest expense.*
- *Deducting interest income, taxes, distributions received.*
- *Adding back non-recurring losses and costs associated with debt/equity raising.*
- *Excluding unrealised gains, AIFRS adjustments, and acquisition accounting impacts.*

EBITDA is used to measure a company's financial performance and its ability to generate earnings from operations, independent of financing and accounting decisions.

**Employee Provisions** are amounts set aside by a company to cover probable future obligations related to employees. These provisions are recognised as liabilities on the balance sheet and expenses in the income statement, reflecting anticipated costs such as annual leave, long service leave, sick leave, bonuses, and other employee benefits that have accrued but are not yet paid.

**Entity** refers to any legal, administrative, or fiduciary arrangement, organisational structure, or other party, including a person, that can enter into loan offers or facility agreements, own assets, incur liabilities, and participate in financial transactions.

**Types of Entities in Commercial Lending:**

- *Individuals: Natural persons who can open accounts, borrow funds, or invest.*
- *Corporations: Companies or businesses, often structured as limited liability entities, that can borrow, lend, and issue securities.*
- *Trusts: Legal arrangements where assets are managed by a trustee for the benefit of beneficiaries.*
- *Partnerships: Groups of individuals or entities who jointly own and operate a business.*
- *Governmental Agencies: Public bodies that may borrow, lend, or regulate financial activity.*
- *Other Structures: Includes associations, clubs, and non-profits.*

**Role of Entities in Loan Offers or Facility Agreements:**

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- *Entities are the parties to loan offers or facility agreements, guarantees, and security documents.*
  - *The definition of "entity" is broad to ensure all possible parties, whether individuals, companies, trusts, or others are covered by the terms and obligations of loan offers or facility agreements.*
  - *Entities may be borrowers, guarantors, security parties, or beneficiaries in commercial lending transactions.*

#### **Why the Definition Matters:**

- *Ensures clarity and inclusiveness in loan offers or facility agreements.*
- *Allows lenders to enforce obligations and rights across a wide range of legal structures.*
- *Supports compliance with regulations and risk management.*

**Equity** represents the residual interest in the assets of an entity after deducting liabilities. It is what remains for the owners (shareholders, partners, or sole proprietors) once all debts and obligations have been settled.

#### **Equity may include:**

- *Share capital (for companies).*
- *Retained earnings (profits kept in the business).*
- *Reserves (amounts set aside for specific purposes).*
- *Other comprehensive income.*

#### **Presentation:**

*Equity is shown in the equity section of the balance sheet. It reflects the ownership value in the business and is a key indicator of financial health.*

#### **Significance:**

*Equity provides a cushion for creditors and is used to assess the solvency and stability of an entity. Positive equity means the entity's assets exceed its liabilities; negative equity indicates insolvency.*

**Events of Default** are predefined events or situations in a loan offer or facility agreement that allow the lender to demand repayment or enforce security.

#### **Common Examples of Events of Default:**

- *Missed loan payments.*
- *Breach of financial covenants.*
- *Insolvency.*
- *Providing false or misleading information.*

#### **Key Points:**

- *When an event of default occurs, the lender may have the right to take actions such as demanding immediate repayment, enforcing security, or taking legal action.*
- *The specific events that constitute an event of default are detailed in the loan offer or facility agreement.*

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**Excess** an excess on a bank account typically refers to the amount by which withdrawals or debits exceed the available balance or the agreed credit limit. For example, if you have an overdraft facility and you withdraw more than the approved limit, the excess is the amount over that limit. Lenders may charge higher interest rates or additional fees for any excess amount.

**Facility** refers to a type of loan or line of credit provided by a lender that allows a business or individual to borrow funds up to a specified limit as needed. The facility is governed by a loan offer or facility agreement, which sets out the terms, repayment schedule, interest rates, fees, security, covenants, and default conditions. Facilities can take various forms, including term loans, revolving credit facilities, overdrafts, and trade finance arrangements.

**Key points:**

- *A facility provides flexible access to funds, up to an agreed limit.*
- *The terms and conditions are detailed in a loan offer or facility agreement.*
- *Facilities may be used for purposes such as business expansion, asset purchase, working capital, or trade finance.*
- *The loan offer or facility agreement includes clauses on repayment, interest, fees, security, covenants, and what happens in case of default.*

**Facility Agreement** is the main loan contract between borrower and lender. It sets out the loan amount, repayment schedule, interest, fees, security, covenants, and default conditions. It is a comprehensive contract that governs the relationship between the borrower and the lender.

**Facility Amount Owing** means, at any time for a facility, the amount actually or contingently owing by a borrower to a lender under the facility and includes interest, fees and costs.

**Financial Covenant** is a legally binding promise in a loan offer or facility agreement, requiring the borrower to do or refrain from doing certain things. Most commonly, to maintain specific financial ratios or thresholds (such as minimum net worth, debt service cover ratio, or interest cover ratio). These covenants are designed to help lenders monitor the borrower's financial health and manage risk throughout the life of the loan.

**Testing:**

*Lenders periodically check compliance with financial covenants, often when the borrower submits financial statements.*

**Consequences:**

*Breaching a financial covenant can trigger a default event, allowing the lender to demand repayment, enforce security, or take other actions.*

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### **Why It Matters:**

*Financial covenants are fundamental in commercial lending because they protect the lender by requiring the borrower to maintain financial discipline and transparency. They also provide early warning signals if the borrower's financial position deteriorates.*

**Financial Indebtedness** means any indebtedness for or in respect of moneys borrowed or any amount raised under any acceptance, credit, bill acceptance or bill endorsement facility or other financial accommodation.

### **It includes:**

- *Moneys borrowed (loans, advances).*
- *Amounts raised under credit facilities, bill acceptance, or bill endorsement.*
- *Other forms of financial accommodation.*

### **Exclusions:**

*It generally excludes any amount claimable under any contingent instrument or for which a party is contingently liable.*

### **Key Points:**

- *Financial indebtedness covers all obligations to repay borrowed money or amounts raised through various banking instruments.*
- *It is a broad term used in loan offers or facility agreements and facility contracts to define what constitutes debt for compliance and reporting purposes.*

**Financial Model** a three way financial model is an integrated financial model that links a company's income statement, balance sheet, and cash flow statement into one dynamically connected spreadsheet. The model is used to forecast a company's future financial performance and analyse how operational, investing, and financing decisions impact all aspects of the business.

### **Core Components:**

- *Income Statement (Profit & Loss Statement): Shows revenues, expenses, and profit or loss over a period.*
- *Balance Sheet: Presents assets, liabilities, and equity at a specific point in time.*
- *Cash Flow Statement: Tracks cash inflows and outflows, showing how cash is generated and used.*

### **Key Features:**

- *Integration: Changes in one statement automatically flow through to the others, ensuring consistency and accuracy.*
- *Forecasting: Used to project future results, typically over 3-5 years, based on historical data and assumptions.*
- *Scenario Analysis: Allows credit analysts to test how different business decisions or external factors affect financial outcomes.*

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### **Why It Matters in Commercial Lending:**

- *Lenders use three way financial models to assess loan applications, monitor borrowers' financial health, and evaluate risk.*
- *The model provides a holistic view of a company's ability to generate profits, manage assets and liabilities, and maintain liquidity, critical for credit analysis and lending decisions.*

### **Example Workflow:**

- *Gather historical financial data.*
- *Input assumptions (growth rates, margins, capital expenditures, etc.).*
- *Build forecasts for each statement.*
- *Link the statements so that changes in one (e.g., increased debt) affect the others (e.g., interest expense, cash flow).*
- *Analyse scenarios and sensitivities to test risk and resilience.*

**Financial Statements:** Prepared according to accounting standards. Show a true and fair view of financial condition, results of operations, and, if relevant, consolidated group performance. Signed by two directors or the sole director/secretary (if there are only one).

### **Includes:**

- *a statement of financial performance*
- *a statement of financial position, and*
- *a statement of cash flow,*

Together with any notes to those documents and any accompanying reports, statements, declarations and other documents or information.

**Fixed Rate** an interest rate that remains unchanged for a set period or the entire term of the loan.

**Gearing Ratio** is a financial metric that measures the proportion of a company's borrowed funds (debt) to its equity. It indicates how leveraged a company is and helps assess financial risk. In commercial lending and credit analysis, the gearing ratio is used to evaluate a borrower's capital structure and the degree to which its operations are funded by debt versus equity.

### **Interpretation:**

- *High gearing ratio: Indicates a high proportion of debt to equity, meaning the company is highly geared and faces greater financial risk. Such companies may be more vulnerable to economic downturns or rising interest rates.*
- *Low gearing ratio: Indicates a lower proportion of debt to equity, suggesting more conservative financial management and lower risk.*

### **Why It Matters in Commercial Lending:**

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- *Risk Assessment: Lenders use the gearing ratio to assess the risk of lending to a company. Excessive debt can lead to financial difficulties and increase the risk of default.*
  - *Credit Decisions: The ratio helps lenders decide whether to extend credit, set loan covenants, or require additional collateral.*
  - *Industry Context: Acceptable gearing ratios vary by industry. Capital-intensive sectors may operate with higher gearing, while service-oriented businesses typically prefer lower gearing.*

### **Types of Gearing Ratios:**

- *Debt-to-Equity Ratio: Total Debt / Shareholders' Equity.*
- *Debt Ratio: Total Debt / Total Assets.*
- *Equity Ratio: Shareholders' Equity / Total Assets.*

### **Summary:**

*The gearing ratio is a key indicator of financial leverage and risk in commercial lending. It helps lenders, investors, and analysts understand how much of a company's operations are funded by debt versus equity, guiding decisions on creditworthiness and financial stability.*

**Floating Rate** an interest rate on a loan that varies with a benchmark or market interest rate, such as the central bank's base rate.

**General Security Agreement (GSA)** is a document that gives the lender security over all present and future assets of the business. It is commonly used in business lending arrangements and is registered on the Personal Property Securities Register (PPSR) in Australia.

### **Key points:**

- *The GSA provides the lender with a legal right to claim the business's assets if the borrower defaults on the loan.*
- *It covers all assets, both current and those acquired in the future.*
- *Registration on the PPSR establishes the lender's claim and priority over the assets.*
- *GSAs are standard in most commercial lending arrangements to protect the lender's interests.*

**General Accounting Standards** refer to the set of rules and principles that govern how financial statements are prepared and presented. In Australia, for a body corporate, this means the accounting standards as defined in the Corporations Act, and, where not inconsistent, generally accepted accounting principles and practices in Australia, applied consistently. For other entities, it refers to accounting standards issued by the Australian Accounting Research Foundation on behalf of the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia, as well as generally accepted accounting principles and practices in Australia, applied consistently. Compliance with these standards is required for statutory and regulatory purposes.

**Group** means the borrower and the guarantors.

**Gross Leverage Ratio (GLR)** shows how much gross debt exists compared to EBITDA.

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**Formula:**  $GLR = A \div B$

*A: Consolidated gross drawn debt (excluding corporate credit cards)*

*B: Consolidated EBITDA*

**Group Entity** refers to each member of a group structure involved in a commercial lending arrangement. In the context of loan offers or facility agreements, a group entity typically means any entity (such as a company, trust, or other legal structure) that is part of the borrower's group. This includes the borrower, guarantors, and any subsidiaries or related entities that are consolidated for financial reporting or are bound by the terms of the agreement.

**GST** means any tax under any GST law as defined in section 195-1 of A New Tax System (Goods and Services Tax) Act 1999 (Cth).

**Guarantee & Indemnity** a third party promises to repay the loan if the borrower cannot.

**Types:**

- *Personal Guarantee: Given by directors or owners*
- *Corporate Guarantee: Given by another company in the group*

Common in commercial lending.

**Information Undertakings** are commitments made by a borrower in a loan offer or facility agreement to keep the lender informed about key events, risks, and changes that could affect the loan or the borrower's financial position. These undertakings require the borrower to notify the lender of specific matters and provide information as reasonably requested.

**Typical Information Undertakings Include:**

- *Notifying the lender of defaults or potential defaults.*
- *Informing the lender about legal claims above certain thresholds.*
- *Reporting material adverse changes in the business or financial condition.*
- *Updating the lender about insurance or key lease changes.*
- *Sharing correspondence from regulators.*
- *Providing any other information the lender reasonably asks for.*

These requirements help the lender monitor risk, maintain oversight, and respond proactively to issues that may impact the loan.

**Interest Cover Ratio (ICR)** a measure of the borrower's ability to cover interest payments from earnings.

**Formula:**  $ICR = EBITDA \div Interest\ Expense$

**Interest-Only Loan** a loan where repayments only cover the interest for a certain period; principal is repaid later.

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**Insolvency Event** refers to specific situations where an individual or a corporation is unable to meet their financial obligations as they fall due or enters into formal insolvency proceedings.

***For a natural person, examples include:***

- *Inability to pay debts as they fall due.*
- *Bankruptcy proceedings or appointment of a trustee in bankruptcy.*
- *Entering into arrangements or compositions with creditors.*

***For a corporation, examples include:***

- *Orders for winding up or appointment of a liquidator.*
- *Entering into schemes of arrangement or assignments for the benefit of creditors.*
- *Appointment of a receiver or administrator.*
- *Suspension of debt payments or failure to comply with statutory demands.*
- *Any similar event under applicable law.*

These events typically trigger lender rights under loan offer or facility agreements, such as demanding immediate repayment or enforcing security.

**Interest Expense** means, for any period the aggregate amount of all interest, or amounts in the nature of interest, paid in cash or accrued in respect of all debt for which a group entity is liable or contingently liable, less any net amount paid or accrued to the borrower under any risk management transaction.

**Interest Rate** is the percentage charged by a lender on the principal amount of a loan or credit facility. It determines the cost of borrowing and is typically expressed as an annual percentage.

***Key points:***

- *The interest rate may be fixed (unchanging for a set period or the entire term) or floating (variable, linked to a benchmark or market rate).*
- *It is outlined in the loan offer or facility agreement and directly affects the total amount of interest paid by the borrower.*
- *The interest rate can be influenced by factors such as the lender's base rate, market conditions, and the borrower's creditworthiness.*

**Interest Rate Risk Management** means a hedge product such as interest rate swap, interest rate option which includes cap, floor and collar transactions, or any other similar products which limits exposure to a change in liability due to movements in interest rate.

**Inventories** are physical items that a business holds for the purpose of selling or using in production. In accounting, inventories are classified as a current asset on the balance sheet, since they are expected to be converted into cash within one operating cycle.

**Liabilities** are legally binding obligations that a business or entity owes to another person or organisation. They represent amounts that must be settled in the future, typically through the transfer of money, goods, or services.

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### **Key Characteristics:**

- *Present obligation: A liability is a duty or responsibility to another entity that must be settled, usually by payment, services, or transfer of assets.*
- *Settlement in the future: Liabilities are settled over time, resulting in an outflow of economic resources (cash, goods, or services).*
- *Defined or estimated amount: Liabilities can be explicitly defined (like a loan with a repayment schedule) or estimated (like provisions for warranties or contingent liabilities).*
- *Legal or constructive obligation: Liabilities may arise from contracts, laws, company policies, or expectations created by past actions.*
- *Expected outflow of resources: Settlement typically reduces the entity's future economic benefits.*

### **Types of Liabilities:**

- *Current Liabilities: Debts or obligations due within one year (e.g., accounts payable, wages payable, taxes payable, short-term loans).*
- *Non-Current (Long-Term) Liabilities: Debts or obligations due after one year (e.g., long-term loans, mortgages, bonds payable).*
- *Contingent Liabilities: Potential obligations that depend on the outcome of future events (e.g., pending lawsuits, guarantees).*

### **Examples:**

- *Trade payables (amounts owed to suppliers).*
- *Accrued liabilities (expenses incurred but not yet invoiced).*
- *Wages payable (earned by employees but not yet paid).*
- *Taxes payable (income, payroll, sales taxes).*
- *Notes payable (interest and principal on loans).*
- *Deferred revenue (advance payments for goods/services not yet delivered).*

### **Presentation in Financial Statements:**

*Liabilities are reported on the balance sheet under two main classifications: current liabilities and long-term liabilities.*

**Line of Credit** an arrangement with a lender allowing a business to borrow up to a certain limit and repay as needed.

**Line Fee** is a fee charged by a lender for providing access to a credit facility. The line fee is typically calculated as a percentage of the total facility limit (not just the amount drawn) and is charged periodically often monthly or quarterly regardless of whether the borrower uses the full facility.

### **Key characteristics:**

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- *Charged on the facility limit: The line fee is usually applied to the maximum amount available under the facility, not just the amount actually borrowed. For example, if the facility limit is \$5 million but the client only draw \$3 million, the line fee is still calculated on the \$5 million.*
  - *Separate from interest: The line fee is distinct from the interest charged on borrowed funds. Interest is paid on the amount drawn, while the line fee compensates the lender for making the funds available.*
  - *Purpose: The fee covers the lender's administrative costs and the risk of holding funds available for the borrower, even if not fully used.*
  - *Typical rates: Line fees can vary but are often quoted as an annual percentage (e.g., 2.0% p.a.) and may be payable monthly or quarterly in advance or arrears.*

### **Summary:**

*A line fee is a recurring charge for the availability of a credit facility, calculated on the total approved limit, and is payable whether or not the borrower fully utilises the facility. It is a standard feature in commercial lending and is considered alongside interest and other fees when evaluating the total cost of borrowing.*

**Loan** means the principal amount of each loan, cash, or commercial advance drawn or to be drawn under a facility, and, if drawn, being outstanding at that time. In commercial lending, a loan is a sum of money provided by a lender to a borrower, with the agreement that the borrower will repay the principal amount plus interest, according to the terms set out in the loan offer or facility agreement.

### **Key points:**

- *The loan is governed by a loan offer or facility agreement, which outlines the terms, repayment schedule, interest, fees, security, covenants, and default conditions.*
- *Loans can take various forms, including term loans, revolving credit facilities, and overdrafts.*
- *The principal is the original sum borrowed, and interest is the cost of borrowing that amount.*

**Loan Purpose** the specific use of loan funds approved by the lender (e.g. asset purchase, business expansion, working capital).

### **Must align with:**

- *Credit approval conditions.*
- *Loan offer or Facility agreement.*
- *Lender's risk appetite .*

### **Misuse of funds may lead to:**

- *Breach of contract*
- *Loan review or default*

To always be used as approved by the lender, straying from the agreed purpose can trigger legal or financial consequences.

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**Loan Valuation Ratio** is a financial metric used in commercial lending to assess the relationship between the value of a loan and the value of the collateral or security property pledged for that loan. Typically, in banking practice, this ratio is used to determine how much of the asset's value is being financed by the loan, which helps lenders evaluate risk and set lending limits. A lower ratio indicates less risk for the lender, as the loan is well-covered by the asset's value. A higher ratio may signal increased risk, as the loan approaches or exceeds the asset's value.

**Management Accounts** are financial reports prepared for internal use by a company's management team. They typically include profit and loss statements, balance sheets, cash flow statements, and other financial analyses. Unlike statutory accounts, which are prepared annually for external reporting, management accounts are usually produced monthly or quarterly to help managers monitor performance, make informed decisions, and manage the business effectively.

**Margin** the amount added to a base interest rate by a lender to determine the interest rate applied to a loan.

**Material Adverse Effect (MAE)** refers to a serious negative event or change that could impact the borrower's ability to meet loan obligations. In loan offers or facility agreements, an MAE is typically defined as a significant negative impact on the borrower's business, assets, or financial condition, which may affect their capacity to repay the loan or comply with the terms of the agreement.

**Examples of Material Adverse Effect:**

- *Insolvency.*
- *Lawsuits.*
- *Loss of key contracts.*
- *Regulatory breaches.*

Lenders may treat an MAE as a trigger for a loan review or even a default event, allowing them to demand repayment or alter the terms of the facility.

**Material Document** are critical legal and financial documents referenced in loan offers or facility agreements. They provide evidence of ownership, obligations, valuations, and due diligence. The definition is broad to ensure all relevant documents affecting the borrower's obligations and the lender's security are included.

**Examples include:**

- *The constituent documents of a corporate entity.*
- *The Trust Deed of a Trust.*
- *Shareholders agreement.*
- *Unitholders agreement.*
- *Each contract for sale for the acquisition or disposal of a Security Property.*
- *Valuation.*
- *Any technical due diligence report relating to a Security Property.*
- *Any financial due diligence report.*
- *Any document that amends, varies or supersedes any other Material Document.*
- *Any other document agreed by the borrower and lender to be a Material Document.*

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**Negative Undertakings** are specific commitments or promises made by a borrower in a loan offer or facility agreement, where the borrower agrees not to take certain actions without the lender's prior consent. These undertakings are designed to protect the lender by restricting the borrower's ability to engage in activities that could increase risk or reduce the lender's security.

### **Common Examples of Negative Undertakings**

- *Take on new debt or grant new security interests.*
- *Pay dividends or make distributions.*
- *Sell major assets.*
- *Change the business model or company structure.*
- *Enter into joint ventures.*
- *Give guarantees or engage in speculative derivatives.*

These restrictions help ensure that the borrower's financial position remains stable and that the lender's interests are safeguarded throughout the term of the loan.

**Net Operating Income (NOI)** is a key financial metric used to measure the profitability of an income-generating property or business before deducting financing costs and taxes. It represents the total income generated from operations, minus all operating expenses (such as maintenance, management fees, utilities, and property taxes), but before interest, depreciation, amortisation, and income taxes are subtracted.

**Net Working Capital** is a measure of a company's short-term financial health and liquidity. It represents the difference between a company's current assets and current liabilities. In commercial lending, net working capital is used to assess whether a business has enough resources to meet its short-term obligations and operate efficiently.

- **Current assets** include cash, accounts receivable, inventory, and other assets expected to be converted into cash or used up within one year.
- **Current liabilities** are debts or obligations due within one year, such as accounts payable, wages payable, and short-term loans.

A positive net working capital indicates that the company can cover its short-term debts; a negative value may signal liquidity risk.

**Notes to Financial Statements** are supplementary disclosures that accompany the main financial statements (such as the balance sheet, income statement, and cash flow statement). They provide additional detail, context, and explanations about accounting policies, assumptions, and specific line items, helping users understand the numbers and the company's financial position more fully. Notes clarify how figures are calculated and what accounting standards are used. They include information about contingent liabilities, related party transactions, significant events, and accounting changes.

**Offer Letter (Loan Offer)** a formal document from a lender outlining the details and terms of a loan or credit facility being offered.

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**Overdraft** is a type of short-term finance that allows a business (or individual) to withdraw more money from their bank account than is actually available, creating a negative balance. This facility is typically linked to a trading or business account and is designed to provide a flexible cash buffer for managing day-to-day operations and covering temporary cash flow gaps. Overdrafts are commonly used as part of a working capital facility, alongside other options like invoice finance and trade finance.

**Key Points:**

- *Overdrafts are flexible and can be drawn and repaid as needed, up to an agreed limit.*
- *Interest is usually charged only on the overdrawn amount, and the rate may be variable.*
- *The facility is subject to the bank's terms and conditions, and exceeding the agreed limit can result in higher interest rates or fees.*

**Permitted Acquisition** means any acquisition that meets certain criteria set out in the loan offer or facility agreement or is made with the lender's written consent.

**The criteria often include:**

- *The acquisition is of the assets of a business or marketable securities in the entity conducting a business (the new target) using a facility under the agreement, provided that:*
  - *No default event or potential default is subsisting or would occur as a result of the acquisition (including based on a look-forward test of the financial undertakings).*
  - *It is consistent with the core business and objectives of the borrower.*
  - *It is consistent with any business plan adopted by the borrower from time to time.*
  - *The acquisition is accretive to the EBITDA of the borrower.*
  - *On completion of the acquisition, all non-permitted financial indebtedness of the new target is repaid and any non-permitted security interest is discharged or released.*
  - *The new target is otherwise acceptable to the lender (acting reasonably).*

**Permitted Capex** refers to the types and amounts of capital spending that a borrower is allowed to make under the terms of a loan offer or facility agreement, without needing further lender approval. The purpose of these restrictions is to ensure that the borrower does not make large or risky investments that could jeopardise their ability to meet loan obligations, unless such spending has been reviewed and accepted by the lender.

**Permitted capex is typically defined in three main ways:**

**Budgeted Capex:**

*Capital expenditure that is specifically included in an Annual Budget that has been reviewed and accepted by the lender. The borrower can spend up to the budgeted amount for that period without seeking further approval.*

**Small Unbudgeted Capex:**

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Capital expenditure not included in the Annual Budget, but which does not exceed a certain threshold (for example, \$200,000 in aggregate over any rolling 12-month period). This allows the borrower some flexibility for minor or unforeseen investments.

### **Lender-Approved Capex:**

Any capital expenditure that is not covered by the above categories but is approved in writing by the lender. This provides a mechanism for the borrower to seek approval for larger or non-standard investments as needed.

### **Why Permitted Capex Matters**

- *Risk Management: By limiting unapproved capital spending, lenders can better manage the risk that the borrower will overextend financially or invest in projects that could threaten their ability to repay the loan.*
- *Financial Discipline: Borrowers are encouraged to plan and justify their capital spending, aligning it with business objectives and lender expectations.*
- *Flexibility: The permitted capex structure allows for both planned and limited unplanned investments, balancing control with operational flexibility.*

**Permitted Disposals** means disposals in the ordinary course of day-to-day trading of the borrower and its subsidiaries at arm's length; or disposals approved in writing by the lender.

### **Key points:**

- *These are transactions where the borrower is allowed to sell, transfer, or otherwise dispose of assets without breaching the terms of the loan offer or facility agreement.*
- *The definition is designed to allow normal business operations (such as selling inventory or obsolete equipment) while ensuring that significant or unusual disposals require lender oversight and approval.*
- *Any disposal outside of these permitted categories would typically require the lender's prior written consent to avoid triggering a default or review event.*

**Permitted Distribution** are payments or transfers (such as dividends, fees, or other distributions of cash or assets) that a borrower is allowed to make under the terms of a loan offer or facility agreement, without breaching the agreement or triggering a default.

**Permitted Financial Accommodation** means any financial accommodation or granting of any guarantee, indemnity or other undertaking to support the obligations provided by any related entity of the borrower or its subsidiaries, with the prior written consent of the lender. Permitted financial accommodation is narrowly defined to ensure the borrower does not provide guarantees, indemnities, or other undertakings to support obligations of related entities without lender oversight. Any accommodation outside these categories would typically require the lender's prior written consent to avoid triggering a default or review event.

**Permitted Financial Indebtedness** means financial indebtedness that is allowed under the terms of a loan offer or facility agreement, without breaching the agreement or triggering a default. It is narrowly defined to ensure the borrower does not take on excessive or risky debt without lender oversight. Any indebtedness outside these categories would typically require the lender's prior written consent to avoid triggering a default or review event.

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**Permitted security** refers to the types of security interests a borrower is allowed to grant over their assets under the terms of a loan offer or facility agreement, without breaching the agreement or triggering a default. The permitted security structure ensures the lender's interests are safeguarded throughout the term of the loan.

**Personal Property Securities Register (PPSR)** an Australian government register of security interests in personal property, used to record security given for loans.

**Pre-payment** means a payment that is made by the borrower before it is due to be made.

**PPSA** means the Personal Property Securities Act 2009 (Cth).

**Principal** the original sum of money borrowed, excluding interest.

**Principal Outstanding** at any date means the aggregate principal amount of all outstanding financial accommodation under the facility to the borrower as at that date.

**Quarter** means each period of three consecutive months normally concluding 31 March, 30 June, 30 September, and 31 December.

**Receiver** means a receiver, manager or receiver and manager appointed by or on behalf of a lender under any transaction document, and when two or more persons are appointed as receivers, managers or receivers and managers refers to each person severally as well as any two or more of them jointly.

**Redraw Facility** a feature that allows a borrower to withdraw extra repayments made on a loan, subject to terms and conditions.

**Refinance** replacing an existing loan with a new one, often to secure better terms.

**Registered Mortgage** is a legally binding agreement in which a borrower grants all rights to property, typically real estate, as a guarantee to secure a loan from the lender. The mortgage deed is officially registered with a government authority (such as a land titles office or sub-registrar), which gives the lender a legal claim over the property. If the borrower defaults on the loan, the lender has the right to take possession of or sell the property to recover the debt.

**Related Entity** refers to any entity that has a relationship with the borrower or its subsidiaries, as specified by law. This can include parent companies, subsidiaries, or other entities that are connected through ownership, control, or other legal arrangements.

**Repayment Arrangements** are formal agreements between a borrower and a lender that specify how a loan or debt will be repaid over time. These arrangements outline the structure, schedule, and terms under which the borrower will make payments, including the frequency, amount, interest rates, and duration of the loan.

**Key Elements of Repayment Arrangements:**

- *Repayment Structure: Common types include Interest-Only, Principal & Interest, and Balloon Payments. The structure determines how much of each payment goes toward interest and how much toward principal reduction.*

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- *Schedule: Specifies when payments are due (e.g., monthly, quarterly) and over what period the loan will be repaid.*
  - *Terms and Conditions: Includes interest rates, penalties for missed payments, and any special provisions (such as the ability to make extra repayments or restructure the loan if needed).*
  - *Legal Framework: The arrangement is a binding contract that protects both parties and can be enforced in court if necessary.*

### **Why Repayment Arrangements Matter:**

- *They ensure the loan is repaid in a manner that aligns with the borrower's cash flow and financial capacity.*
- *Well-structured arrangements help avoid financial stress for the borrower and reduce risk for the lender.*
- *They provide clarity and predictability, helping both parties manage expectations and obligations.*

### **Examples:**

- *Interest-Only: The borrower pays only interest for a set period, with principal due later.*
- *Principal & Interest: Each payment includes both interest and a portion of the principal, reducing the loan balance over time.*
- *Balloon Payment: Smaller regular payments with a large final payment at the end of the term.*

### **Summary:**

*Repayment arrangements are critical in commercial lending for structuring how loans are repaid, ensuring sustainability for both the lender and the borrower, and providing a clear, enforceable framework for debt repayment.*

**Repayment Date** refers to the latest repayment date for any facility under a lender's loan offer or facility agreement.

### **Scheduled Repayment:**

*Most loans and facilities have a clearly defined repayment schedule, with the final repayment date (maturity date) marking the end of the loan term. This is when the last payment of principal and any outstanding interest or fees are due.*

### **Early Repayment or Termination:**

*If the borrower repays the loan early, or if the facility is cancelled (for example, due to a breach of contract or at the borrower's request), the repayment date becomes the date of that early repayment or cancellation. In such cases, all outstanding amounts become immediately due.*

### **Default Events:**

*If a default event occurs (such as missed payments or breach of covenants), the lender may demand immediate*

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repayment of all outstanding amounts. The repayment date then accelerates to the date the lender makes this demand.

### **Multiple Facilities:**

In loan offers or facility agreements with multiple facilities (e.g., term loan, revolving credit, overdraft), each facility may have its own repayment date. When the term is used without reference to a specific facility, it usually means the latest of all repayment dates.

**Repayment Schedule** the agreed plan for repaying a loan, including the amounts and frequency of payments.

**Representations & Warranties** are legally binding statements and guarantees made in loan offers and facility agreements. They serve as core protections for both lenders and borrowers by establishing factual baselines and assurances about the parties' current condition, assets, compliance, and other material matters.

### **Key Points:**

- *Representation: A statement of fact (about past or present circumstances) made by one party to induce another to enter into a contract. For example, a borrower may represent that its financial statements are accurate and that it has no undisclosed liabilities.*
- *Warranty: A contractual promise that a stated fact is accurate and will remain so, with liability if it isn't. For example, a borrower warrants that it owns the assets pledged as collateral.*
- *Purpose: These clauses provide a factual baseline for the lender at signing and throughout the life of the loan. If a representation is false or a warranty is breached, the lender may have contractual remedies such as declaring default, accelerating repayment, requiring indemnification, or enforcing collateral.*
- *Common Categories: Organisational authority, enforceability, accuracy of financial statements, absence of undisclosed liabilities, tax compliance, litigation status, ownership of assets, and regulatory compliance.*

### **Why They Matter:**

- *Risk Allocation: Representations and warranties allocate risk between contracting parties and compel disclosure of material information.*
- *Remedies: If statements prove false or promises are breached, the injured party may seek damages, rescission, or other contractual remedies.*
- *Transparency: They ensure transparency and trust, allowing each party to assess risks before committing to an agreement.*

### **Summary:**

In commercial lending, representations and warranties are fundamental to loan offers and facility agreements and other contracts. They clarify facts, provide assurances, and protect parties by establishing accountability and recourse if statements are inaccurate or promises are unfulfilled.

**Reserves** in accounting refer to amounts set aside from profits or retained earnings to cover future liabilities, contingencies, or specific purposes. They are not physical funds, but rather accounting entries that reflect

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prudent financial management and compliance with accounting standards. Reserves are typically shown in the equity section of the balance sheet, under headings like "Retained Earnings," "General Reserve," or "Capital Reserve." Notes to financial statements often explain the nature and purpose of each reserve.

**Review Event** means the occurrence of a potential default or a default event, or such other event which is specified in the loan offer or facility agreement to be a review event.

**Key points:**

- *Review events are triggers that prompt the lender to reassess the terms, risks, or continuation of the facility.*
- *They may include breaches of covenants, material adverse changes, or other specified events in the agreement.*
- *When a review event occurs, the lender may have the right to request updated information, adjust facility terms, or even demand repayment.*

**Revolving Credit Facility** a credit facility that allows a business to borrow, repay, and re-borrow funds up to an agreed limit.

**Risk Management Facility** are designed to help borrowers manage financial risks, such as interest rate fluctuations or currency movements. Common risk management transactions include interest rate swaps, options, caps, floors, collars, and other derivatives. The facility is governed by a specific agreement outlining the terms, conditions, and types of risk management products available.

**Security** assets pledged by the borrower to secure a loan, giving the lender the right to claim those assets if the loan is not repaid.

**Secured Moneys** means all moneys, liabilities, debts, or obligations due or payable from or by a security party to the lender, whether incurred or arising.

**Securities** refer to the legal documents and arrangements that grant the lender rights over assets pledged by the borrower to secure a loan. Securities can include mortgages, charges, liens, guarantees, and other forms of collateral agreements. These documents specify the assets subject to security, the lender's rights, and the terms under which the lender can enforce those rights if the borrower defaults. Securities are fundamental to protecting the lender's interests and ensuring repayment.

**Security Interest** means any legal right over the borrower's assets to secure the loan. In substance, whether or not in form, it is a security for the payment or performance of any liability.

**Security interests can include:**

- *Any security interest under the Personal Property Securities Act (PPSA) and any mortgage, charge, pledge, lien, trust, or right created or conferred in relation to any asset.*
- *Any title retention interest or other legal or equitable proprietary title or interest retained or reserved in any asset, including credit or conditional sale agreements, hire purchase agreements, sale and leaseback agreements, financial leases, or bailments.*

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- *Any other right conferred on, or agreement with, any creditor to be paid in priority or preference by recourse to any asset or its proceeds.*
  - *Any deposit of moneys by any person with any other person under any agreement where those moneys are payable to or withdrawable by that person upon condition that that person or any third party must perform any other liability of that person or any third party to the other person.*

Security interests are fundamental in commercial lending, as they provide lenders with legal rights over assets pledged by borrowers. They ensure that lenders can claim assets if the borrower defaults, protecting the lender's interests.

**Security Party** is any entity (borrower or guarantor) that has pledged assets or provided guarantees to secure a loan offer or facility agreement. Security parties are responsible for fulfilling obligations under the loan offer or facility agreement, and their assets may be claimed by the lender if there is a default.

**Security Party means:**

- *The Borrower.*
- *The Guarantor(s); and*
- *Each of them separately and all of them collectively.*

**Security Property** includes any asset (real or personal) that is pledged or subject to a security interest under the loan offer or facility agreement. This can cover real estate, equipment, inventory, receivables, intellectual property, or other assets specified in the security documents. The lender's rights over security property are detailed in the relevant security agreements and are enforceable if the borrower defaults.

**Settlement** the process of finalising a loan offer or facility agreement and disbursing the funds to the borrower.

**Subordination Deed** is a legal agreement where one lender agrees to rank behind another lender in repayment. This means that if the borrower defaults or is liquidated, the lender who signed the subordination deed will only be repaid after the senior lender has been paid in full.

**Common Uses:**

- *Shareholder loans.*
- *Mezzanine finance.*

The purpose of a subordination deed is to ensure that senior lenders (such as lenders) get paid first if the borrower defaults or goes into liquidation.

**Subsidiary** is an entity that is controlled by another entity (the parent), either through ownership of shares, units, or beneficial interests, or through control of governance (such as the board or trustee). Subsidiaries are consolidated in group financial statements, reflecting the parent's control and financial interest.

**Tax or Taxes** includes any tax, levy, duty, impost, deduction, compulsory loan, withholding, charge or rate imposed or assessed under any legislation or by a Governmental Agency, together with any associated interest, penalty, fine, fee or other charge.

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**Term** the period over which a loan or credit facility agreement remains in effect.

**Term Loan** is a loan from a lender that is repaid in regular payments over a set period (the “term”). It typically has a fixed or variable interest rate and is used for purposes such as business expansion, asset purchase, or refinancing. The terms, repayment schedule, and interest are outlined in the loan offer or facility agreement.

**Termination Date** is typically the date on which a loan, facility, or related agreement ends or is formally terminated. It marks the end of the contractual relationship for that specific agreement, after which no further obligations or rights exist unless otherwise specified.

**Title Documents** means each certificate, confirmation, grant, assurance, conveyance, deed and other document of title or evidencing title to, or rights to acquire, possess, use or dispose of, any security property.

**Trade Finance Facility** is a financial arrangement provided by lenders to support businesses in their import, export, or domestic trade activities. It helps manage cash flow, mitigate risks, and facilitate transactions between buyers and sellers, especially across borders.

### **Common Types of Trade Finance Facilities:**

#### **1. Letter of Credit (LC)**

- *Definition: A bank guarantee ensuring the seller gets paid if they meet the agreed-upon terms. Used to provide security for both buyer and seller in international trade.*
- *Example: An exporter in Australia ships goods to a buyer in India. The buyer’s bank issues an LC, guaranteeing payment to the exporter once shipping documents are presented.*

#### **2. Purchase Order (PO) Finance**

- *Definition: Financing based on purchase orders received, allowing businesses to pay suppliers and fulfill large orders even if they lack upfront cash.*
- *Example: A small business receives a large order from a retailer but doesn’t have enough cash to buy materials. PO finance provides funds to pay suppliers, enabling the business to fulfill the order.*

#### **3. Supply Chain Finance**

- *Definition: Offers suppliers advance payment and allows buyers to negotiate better payment terms. Helps optimize cash flow across the supply chain.*
- *Example: A supplier receives early payment for goods shipped, while the buyer gets extended payment terms, improving working capital for both parties.*

#### **4. Bank Guarantees**

- *Definition: A commitment from a bank to pay if the buyer or seller fails to meet contractual obligations.*
- *Example: A performance guarantee assures the buyer that the seller will complete the contract as agreed.*

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## 5. Documentary Collections

- *Definition: The bank acts as an intermediary, collecting payment from the buyer in exchange for shipping documents.*
- *Example: An exporter ships goods and instructs their bank to collect payment from the importer's bank upon presentation of shipping documents.*

## 6. Invoice Discounting

- *Definition: A short-term funding solution that allows businesses to access cash tied up in unpaid invoices.*
- *Example: A client issues an invoice to a customer with payment term of 60 days. The lender advances a percentage of the invoice total to the client.*

## 7. Export Credit Insurance

- *Definition: Insurance that protects exporters against non-payment or political risks in overseas markets.*
- *Example: An exporter insures their receivables, so if a foreign buyer defaults, the insurer covers the loss.*

## 8. Borrowing-Base Facility

- *Definition: A revolving credit facility based on the value of inventory and receivables.*
- *Example: A business uses its inventory and receivables as collateral to access a revolving line of credit for ongoing trade needs.*

**Trade Receivable** are amounts billed by a business to its customers when it delivers goods or services to them in the ordinary course of business. These billings are typically documented on formal invoices and are classified as current assets on the balance sheet if payment is expected within one year of the billing date.

**Trade Payable** are amounts owed by a business to its suppliers for goods or services purchased on credit in the ordinary course of business. These obligations are typically documented on formal invoices and are classified as current liabilities on the balance sheet, since payment is expected within one year of the purchase date.

**Trading Account** an account used by businesses for frequent transactions, often linked to business overdraft, lending, and loan offer or facility agreements.

**Transaction Document** are the critical legal and financial documents that collectively govern the rights, obligations, and processes involved in a commercial lending arrangement. They provide the contractual framework for the facility, security, risk management, and compliance requirements between the borrower and lender.

**Trust** means, for any relevant security party, any trust for which that security party acts as trustee in entering into a transaction document.

**Trust Deed** means, for any trust, the trust deed constituting that trust.

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**Trust Fund** means, for a trust, the assets of that trust.

**Trustee** means a security party in its capacity as trustee of a trust.

**Undrawn Commitment**, at any date and in respect of a facility, means the commitment less the principal outstanding under that facility as at that date.

**Undrawn Amount** the portion of a credit facility not yet accessed by the borrower.

**Usage Fee** is a charge imposed by the lender for the actual use of a loan or credit facility. It is typically calculated based on the amount of the facility that is drawn or utilised by the borrower, rather than the total facility limit. The usage fee is usually expressed as a percentage per annum and is charged on the amount of funds actually used (drawn) under the facility. It is separate from other fees such as line fees (which are charged on the total facility limit, regardless of usage). The purpose of the usage fee is to compensate the lender for the cost of funds and the risk associated with the amount actually advanced to the borrower.

**Valuation** a formal assessment of the value of security property (assets pledged as collateral for a loan), prepared by a licensed and independent valuer approved and appointed by the lender.

**Purpose:**

*Valuations are primarily used to determine the value of assets offered as security for a loan. This helps the lender assess risk, set loan amounts, and ensure adequate collateral coverage.*

**Who Prepares the Valuation:**

*Only licensed and independent valuers, approved by the lender, can prepare these valuations. This ensures objectivity and compliance with professional standards.*

**Instructions and Scope:**

*The lender typically provides specific instructions for the valuation, including the basis of value (e.g., market value, insurance replacement value, going concern value) and the properties or assets to be valued.*

**Updates:**

*Valuations may be updated periodically, especially if required by the lender for ongoing risk assessment or as a condition of loan renewal.*

**Loan Approval and Monitoring:**

*Accurate valuations are critical for initial loan approval, setting loan-to-value ratios (LVR), and ongoing monitoring of the lender's security position.*

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### **Risk Management:**

*Regular valuations help the lender manage risk by ensuring that the value of security property remains sufficient to cover the outstanding loan balance.*

### **Enforcement:**

*In the event of default, the valuation provides a basis for the lender to enforce its security and recover outstanding amounts through asset sale.*

**Waiver** the voluntary relinquishment of a right or claim under a loan agreement, often requiring the lender's written consent.

**Working Capital Facility** short-term finance to help a business manage day-to-day operations.

### **Types include:**

- *Overdraft – flexible cash buffer*
- *Invoice Finance – early access to receivables*
- *Trade Finance – supports import/export transactions*

Designed to smooth cash flow gaps due to the cash conversion cycle.

**Yield** is a financial measure that quantifies the income generated by an investment within a designated time frame, typically expressed as an annual percentage. In banking and finance, yield represents the return an investor earns on an asset, relative to the price or initial cost of the investment.