more than money

Equity Options

Options and Approved Options with Loans

Borrow to invest in ASX Listed Shares

NAB's Approved Options with Loans enable you to finance the purchase of ASX listed securities with no margin calls during the term of the loan while the Approved Option provides you with protection at Expiry from adverse share price movements.

Borrowing to invest in ASX listed securities using Approved Options with Loans

Put Options with Loans

Put Options protect the securities against a fall in value below the Exercise Price at Expiry. To protect the shares you pay NAB an upfront non-refundable amount (Option Premium). You may borrow up to the Exercise Price of the Put Options, multiplied by the number of ASX listed securities subject to the Put Options, with no margin calls.

Collar Options with Loans

Collar Options protect the securities against a fall in value below the Floor Price at Expiry. To reduce the upfront, non-refundable cost of protecting the securities (Fixed Option Premium) a Cap Price is established. In electing to set a Cap Price you forego any security price gains greater than the Cap Price at Expiry. You may borrow up to the Floor Price of the Collar Options, multiplied by the number of ASX listed securities subject to the Collar Options, with no margin calls.

The cost of Approved Options is dependent on a number of variables. The below table illustrates the impact of increasing each of these variables on the Option Premium (Fixed Option Premium in the case of Collar Options) paid by you:

Increasing Variable	Impact on Option Premium
Exercise/Floor Price relative to the Market Price	↑
Time to Expiry Date	↑
Implied Volatility	↑
Estimated dividends	↑
Interest Rates	↓
Cap Price relative to the Market Price	↑

What happens at Expiry?

Market Price is less than or equal to the Exercise Price / Floor Price

If the Market Price is less than or equal to the Exercise/Floor Price, the Option will be automatically exercised.

For Put Options, if you have elected Physical Settlement, you will receive the Physical Settlement Amount from NAB, calculated using the following formula: Exercise Price x Securities per Option. The Physical Settlement Amount is set off against your obligation to pay NAB the Amounts Owing under the Loan.

For Put Options, if you have elected Cash Settlement you will receive the Cash Settlement Amount from NAB, calculated using the following formula: (Market Price – Exercise/Floor Price) x Securities per Option. The Cash Settlement Amount is set off against your obligation to pay NAB the Amounts Owing under the Loan. You may:

- Repay the Loan in cash by the Expiry Date; or
- Request NAB to enter a new Approved Options with Loans transaction.

For Collar Options, if you have elected Cash Settlement NAB will pay you the Variable Option Premium calculated using the following formula: (Floor Price – Market Price) x Securities per Option. The Variable Option Premium is set off against your obligation to pay NAB the Amounts Owing under the Loan. You may:

- Repay the Loan in cash by the Expiry Date;
- Request NAB to sell your securities on your behalf and set off the proceeds against your Amount Owing; or
- Request NAB to enter a new Approved Options with Loans transaction.

Market Price greater than Exercise Price / Floor Price

If the Market Price is greater than the Exercise/Floor Price (and less than the Cap Price in the case of a Collar Option) the Option will expire unexercised.

You will be required to pay all Amounts Owing under the Loan by the Maturity Date. You may:

- Repay the Loan in cash by the Expiry Date;
- Request NAB to sell your securities on your behalf and set off the proceeds against your Amount Owing; or
- Request NAB to enter a new Approved Options with Loans transaction.

Market Price greater than or equal to Cap Price in the case of Collar Options

If the Market Price is greater than or equal to the Cap Price, the Collar Options will be automatically exercised. You will be required to pay NAB the Variable Option Premium calculated using the following formula: (Market Price – Cap Price) x Securities per Option.

You will be required to pay all Amounts Owing under the Loan by the Maturity Date. You may:

- Repay the Loan in cash by the Expiry Date;
- Request NAB to sell your securities on your behalf and set off the proceeds against your Amount Owing; or
- Request NAB to enter a new Approved Options with Loans transaction.

Tailor your investment

Approved Options with Loans provide you with the flexibility to tailor your investment and risk management strategy by choosing:

- The ASX listed securities you would like to invest in;
- Your preferred level of protection (Exercise Price for Put Options or Floor Price for Collar Options) at Expiry of the Options;
- To reduce the cost of protection by electing to cap your return at Expiry (Collar Options);
- The amount you want to borrow – up to your selected level of protection;
- Your preferred Loan term; and
- A fixed or variable interest rate on the Loan.

Key Terms

- Minimum loan amount of $50,000;
- Loan terms from 6 months to 5 years;
- Available over a wide variety of ASX listed securities;
- No margin calls; and
- Potential to claim interest as a tax deduction.

Risks

Please refer to Section 5 of the PDS dated 24 January 2024 for a full set of risks, some of which are summarised below:

- Borrowing to invest may magnify any losses;
- Protecting a security below its purchase price will expose you to potential losses;
- Share price growth may not be sufficient to cover any option premium or interest paid to NAB;
- In the case of Collar Options with Loans the price of the underlying securities may increase materially beyond the Cap Price. Your exposure to any increase in the price of the securities is limited to the Cap Price;
- When entering Approved Options with Loans you are required to mortgage the underlying securities to NAB; and
- Corporate actions or market disruption events may lead to an amendment to or early termination of the Facility by NAB.

Case Study

Lucy wants to borrow to invest $200,000 into an ASX listed company with the aim of earning income from dividends, participating in the potential growth in the share price and achieving potential tax efficiencies. She wants to minimise her upfront capital contribution but does not want exposure to margin calls.

Lucy decides to fund the purchase of the investment using Collar Options with Loans. A loan term of 15 months is nominated with the aim of capturing the next three forecast dividends – forecast gross dividends (ordinary cash dividends plus franking credits) of $20,896.99 are expected over the investment term.

She requests a Floor Price be set at 90% of the purchase price of the shares. The Collar Options protect Lucy's investment against a fall in value below 90% of each shares purchase price at Expiry of the Collar Options. To reduce the cost of protecting the shares (Fixed Option Premium) she elects to set a Cap Price at 115% of the purchase price of the shares. This means Lucy will forego any share price gains greater than 15% at expiry of the Collar Options. To purchase the Collar Options Lucy pays NAB the upfront non-refundable Fixed Option Premium amount of $1,324 on the Settlement Date.

She borrows $180,000 from NAB to fund the purchase of the shares with no margin calls. The loan is interest only with a fixed interest rate of 10.35%p.a. Lucy enters a loan schedule with interest payable monthly in arrears for the first three months followed by a 12-month prepayment of interest.

Case Study *continued*

Total interest of $23,223.53 is payable over the term of the investment. Lucy will claim the full 15 months of interest as a tax deduction this financial year. Her upfront capital contribution of $20,000 towards the purchase of the shares is payable on the Settlement Date.

Lucy's total contribution to the transaction is $44,548 consisting of: (1) Capital of $20,000; (2) Fixed Option Premium of $1,324; and (3) total interest of $23,223.53.

In this example, the $24,548 cost of her investment (Fixed Option Premium plus total interest) exceeds the forecast gross dividends of $20,896. Lucy requires the share price to increase 1.83% at expiry to cover the $3,652 pre-tax net cost.

The below table illustrates a number of pre-tax outcomes for Lucy's investment at the Expiry Date of her Collar Options.

% Change in Market Price at Expiry	Market value of shares at Expiry	Capital	Fixed Option Premium *plus* Interest Expense	Variable Option Premium	Forecast Gross Dividends	Loan Amount	Profit/Loss	Return on Outlay^
20%	$240,000	$20,000	$24,548	-$10,000	$20,896	$180,000	$26,348	59.15%
15%	$230,000	$20,000	$24,548	$0	$20,896	$180,000	$26,348	59.15%
10%	$220,000	$20,000	$24,548	$0	$20,896	$180,000	$16,348	36.70%
0%	$200,000	$20,000	$24,548	$0	$20,896	$180,000	-$3,652	-8.20%
-10%	$180,000	$20,000	$24,548	$0	$20,896	$180,000	-$23,652	-53.09%
-20%	$160,000	$20,000	$24,548	$20,000	$20,896	$180,000	-$23,652	-53.09%

Contact us

To find out more about NAB Equity Options and Approved Options with Loans call us on 1800 343 070 (8:30am to 5:30pm EST Monday to Friday), or contact your NAB Private Wealth Investment Specialist.

1 Variable Option Premium is calculated as follows:
- Where the Market Price on the Expiry Date is greater than the Cap Price the Variable Option Premium is payable by the investor to NAB. In this case the Variable Option Premium is calculated as follows: (Market Price – Cap Price) x Securities per Option; or
- Where the Market Price on the Expiry Date is less than the Floor Price, the Variable Option Premium is payable by NAB to the investor. In this case the Variable Option Premium is calculated as follows: (Floor Price – Market Price) x Securities per Option.

2 Forecast Dividends: ordinary cash dividends plus franking credits. The ordinary dividend and franking forecasts used are indicative only and obtained from Bloomberg. Franking is assumed based on most recent dividends. These illustrative examples assume ordinary dividends and franking credits are fully available to the investor. You need to form your own view on the dividend and franking prospects of any share you choose to invest in.

3 Profit/Loss = Market value of shares at Expiry Date of Collar Options *plus* Variable Option Premium *plus* Forecast Dividends *less* Loan Amount *less* Outlay.

4 Return on Outlay = Profit/Loss *divided by* Outlay. Outlay = Capital *plus* Fixed Option Premium *plus* Interest Expense.