Equity Options

Options and Approved Options with Loans

Protect the value of your ASX Listed Shares

NAB's Equity Options Facility enables you to tailor a risk management strategy that protects your ASX listed shares at Expiry from adverse share price movements. With the ability to protect shares on an individual basis or at an Index level, NAB offers a range of bespoke solutions.

Protect the value of your ASX listed shares with NAB Equity Options

Put Options

Buying Put Options over securities you own reduces your risk of loss if the price of those securities decreases by the Expiry Date. To protect the securities, you select an Exercise Price and pay NAB an upfront non-refundable amount (Option Premium). The Put Options protect the securities against a fall in value below the Exercise Price at Expiry.

Collar Options

Buying Collar Options over securities you own reduces your risk of loss if the price of those securities decreases by the Expiry Date. To protect the securities, you select a Floor Price and pay NAB an upfront non-refundable amount (Fixed Option Premium). To reduce the 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.

Depending on the securities subject to the Collar Options and the Floor Price you elect, it may be possible to establish a "Zero Cost Collar". In the case of a Zero Cost Collar the Cap Price is set for a given Floor Price such that the Fixed Option Premium is zero.

The Collar Options protect the securities against a fall in value below the Floor Price at Expiry.

The cost of a Put Option and a Collar Option is dependent on a number of variables. The provided 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	↑

Ability to borrow without margin calls

Should you wish to borrow against securities you own NAB allows you to enter into Approved Options with Loans. Approved Options are either Put Options or Collar Options. Subject to a minimum Loan Amount of $50,000, NAB will allow you to borrow a maximum amount calculated as follows without margin calls:

- Put Options with Loans:
  - Exercise Price x Securities per Option
- Collar Options with Loans:
  - Floor Price x Securities per Option

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 be required to deliver the underlying Securities to NAB in exchange for receiving 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 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.

Other Option Combinations

Bought Put Spreads

Involves you buying a Put Option while simultaneously selling a Put Option with a lower Exercise Price but with the same Expiry Date. The Put Spread reduces your risk of loss on securities you own by a maximum of the difference between the two Exercise Prices less the Option Premium paid to NAB.

Put Spread Collars

Involves you buying a Collar Option while simultaneously selling a Put Option with a lower Exercise Price than the Floor Price but with the same Expiry Date. You might consider buying a Put Spread Collar if you expect the decrease in the price of securities you own to be limited.

Tailor your risk management strategy

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

- The ASX listed securities you would like to protect;
- 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 option value of $50,000 (Market Price x Securities per Option);
- Option terms from 1 month to 5 years;
- Available over a wide variety of ASX listed securities and the S&P/ASX 200 Index;
- Minimum loan amount of $50,000;
- Loan terms from 6 months to 5 years;
- 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:

- 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 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 Collar Options or Approved Options with Loans you are required to mortgage the underlying securities to NAB;
- Borrowing to invest may magnify any losses; and
- Corporate actions or market disruption events may lead to an amendment to or early termination of the Facility by NAB.

Case Study

Paul holds an overweight exposure to an ASX listed company. He has owned shares in the company for several years over which time the share price has increased materially. He recognises the holding poses concentration risk to his portfolio but does not wish to sell the shares due to the capital gains tax implications.

Paul decides to enter Collar Options over his shares in the company valued at $500,000. Paul is fundamentally happy with the company and is comfortable being exposed to some downside risk. Paul elects to set the Floor Price on his Collar Options at 85% of the current Market Price. To reduce the cost (Fixed Option Premium) of the Collar Options he elects to set a Cap Price at 115% of the current Market Price. Paul pays NAB an upfront, non-refundable amount (Fixed Option Premium) of $5,893 to purchase the Collar Options. Paul transfers his shares to a CHESS Sponsored Holding with National Margin Services Pty Ltd, a wholly owned subsidiary of National Australia Bank Limited. The shares are held in Paul's name and NAB takes a mortgage over the shares and the Collar Options. Paul retains voting rights and eligibility for any ordinary cash dividends paid by the company.

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

% Change in Market Price at Expiry Date of Collar Options	Market value of securities at Expiry Date of Collar Options	Change in value of securities	Fixed Option Premium	Variable Option Premium[1]	Forecast Dividends[2]	Total value of investment at Expiry of Collar Options[3]	Change in value of investment at Expiry of Collar Options
40%	$700,000	$200,000	$5,893	-$125,000	$39,647	$608,754	21.75%
20%	$600,000	$100,000	$5,893	-$25,000	$39,647	$608,754	21.75%
10%	$550,000	$50,000	$5,893	$0	$39,647	$583,754	16.75%
0%	$500,000	$0	$5,893	$0	$39,647	$533,754	6.75%
-10%	$450,000	-$50,000	$5,893	$0	$39,647	$483,754	-3.25%
-20%	$400,000	-$100,000	$5,893	$25,000	$39,647	$458,754	-8.25%
-40%	$300,000	-$200,000	$5,893	$125,000	$39,647	$458,754	-8.25%

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 Total value of investment at Expiry Date of Collar Options = Market value of securities at Expiry Date of Collar Options *Less* Fixed Option Premium *Plus* Variable Option Premium *Plus* Forecast Dividends.