more than money

Equity Options

Options and Approved Options with Loans

Earn Option Premium by Selling Call Options over ASX Listed Shares

NAB's Equity Options Facility enables investors to sell Call Options over a new or existing parcel of ASX listed securities.

Selling Call Options

When selling Call Options, the investor is paid the Option Premium in return for granting NAB, the buyer of the call options, the right to purchase the underlying stock at the Exercise Price. A European style option may only be exercised on the Expiry Date while an American style option can be exercised at any time up until the expiry of the option.

The Option Premium received by the investor selling Call Options is dependent on a number of variables. The below table illustrates the impact of increasing each of these variables on the Option Premium received by you:

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

What happens on the Expiry Date?

Market Price below Exercise Price

If the Market Price is less than the Exercise Price, the Call Option will expire and your obligations to NAB under the Call Option will end.

Market Price is equal to or greater than the Exercise Price

If the Market Price is equal to or greater than the Exercise Price, the Call Option will be automatically exercised.

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.

If you have elected Cash Settlement, you will pay the Cash Settlement Amount to NAB, calculated using the following formula: (Market Price – Exercise Price) x Securities per Option.

Key Terms

- Minimum notional value for Options is $50,000 (Notional Price x Number of Options);
- You can request a term for an Option from 30 days to 5 years; and
- Available over a wide variety of ASX listed securities.

Who might sell Call Options over securities to receive Option Premium?

- Investors who own the securities and are open to selling them at the Exercise Price, often referred to as a "covered-call" investment strategy;
- Investors seeking to acquire the securities and are open to selling them at the Exercise Price, often referred to as a "buy-write" investment strategy; and
- Investors seeking to profit from the view that the price of the securities is likely to remain below the Exercise Price.

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:

- The price of the underlying Securities may increase materially beyond the Exercise Price. The investors exposure to any increase in the price of the Securities is limited to the Exercise Price;
- The investor is exposed to potential losses resulting from a fall in the price of the underlying Securities.
- When selling Call Options to NAB 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 1

Chris owns 5,000 BHP shares which last traded at $26.50. Chris doesn't expect the BHP share price to trade above $28.00 in one month and would like to sell Call Options to enhance his investment returns.

NAB offers to buy 5,000 European Call Options with an Expiry Date in 1 month and an Exercise Price of $28.00 for $0.1943 per option.

The below table illustrates the potential outcomes for Chris given various Market Prices on the Expiry Date.

Market Price at Expiry Date of Call Options	% change in Market Price at Expiry Date	Market value of securities at Expiry Date of Call Options	Option Premium	Cash Settlement Amount[2]	Forecast Dividends[3]	Profit / (Loss)[4]	Profit/Loss as % of Investment Amount[1]	Annualised Return
$29.1500	10.00%	$145,750	$972	-$5,750	$0	$8,472	6.39%	77.79%
$28.0000	5.66%	$140,000	$972	$0	$0	$8,472	6.39%	77.79%
$26.5000	0.00%	$132,500	$972	$0	$0	$972	0.73%	8.92%
$25.1750	-5.00%	$125,875	$972	$0	$0	-$5,654	-4.27%	N/A
$24.5500	-7.34%	$122,750	$972	$0	$0	-$8,779	-6.63%	N/A
$23.8500	-10.00%	$119,250	$972	$0	$0	-$12,279	-9.27%	N/A

Case Study 2

Phillip owns 5,000 BHP shares which last traded at $26.50. BHP is forecast to trade on an ex-dividend basis in 41 days. An AUD fully franked dividend of 0.79 per share is expected. Phillip doesn't want to risk selling Call Options and having the options exercised early which could result in him selling his 5,000 BHP shares prior to the ex-dividend date. He expects BHP will fall in value by at least the $0.79 value of the dividend by the ex-dividend date.

NAB offers to buy 5,000 European Call Options with an Expiry Date in 47 days and an Exercise Price of $25.71 for $0.8169 per option. The European Call Options are exercisable at expiry only, therefore Phillip does not risk having the Call Options exercised prior to the ex-dividend date.

The below table illustrates the potential outcomes for Phillip given various Market Prices on the Expiry Date.

Market Price at Expiry Date of Call Options	% change in Market Price at Expiry Date	Market value of securities at Expiry Date of Call Options	Option Premium	Cash Settlement Amount[2]	Forecast Dividends[3]	Profit / (Loss)[4]	Profit/Loss as % of Investment Amount[1]	Annualised Return
$29.1500	10.00%	$145,750	$4,085	-$17,200	$5,643	$5,777	4.36%	33.86%
$27.8250	5.00%	$139,125	$4,085	-$10,575	$5,643	$5,777	4.36%	33.86%
$26.5000	0.00%	$132,500	$4,085	-$3,950	$5,643	$5,777	4.36%	33.86%
$25.7100	-2.98%	$128,550	$4,085	$0	$5,643	$5,777	4.36%	33.86%
$25.1750	-5.00%	$125,875	$4,085	$0	$5,643	$3,102	2.34%	18.18%
$23.8500	-10.00%	$119,250	$4,085	$0	$5,643	-$3,523	-2.66%	N/A

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 Investment Amount = Number of Reference Securities multiplied by the Indicative Market Price.

2 Cash Settlement Amount = (Market Price – Exercise Price) x Securities per Option. Payable where the Market Price is greater than the Exercise Price at expiry.

3 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.

4 Profit/Loss = market value of shares on Expiry Date *plus* Option Premium *plus* Cash Settlement Amount *plus* Forecast Dividends.

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