

Exercising company options and purchasing shares with protection

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Devising a strategy to maximise the value of your single share or option positions can often be complex. Whilst these positions can be financially rewarding, a large exposure to a single share is not without its risks.

Commonwealth Bank's Protected Loan enables you to choose whether you would like to protect the value of your share holding and/or access a convenient loan facility following the exercise of your options.

Introducing James

James is 47 years old and is a Director of AAA Ltd (AAA), an Australian listed company. James has 10,000 vested options with an exercise price of \$30.00 which he would like to exercise and also fund the purchase of the AAA shares.

Furthermore, James wishes to protect his shares now that AAA is trading at all time highs of around \$50.00. He would like some protection below current prices to ensure his shares do not depreciate drastically and would be happy to sell his shares at higher levels.

James is comfortable taking some risk on the downside and protecting his shares at around 88% of the current share price (\$44.00).

The strategy

James visits his financial adviser to explore his available investment options. After discussing his situation and also carefully considering his risk profile and time horizon, his adviser recommends taking out a Protected Loan with a Reduced Interest Rate offered under Commonwealth Bank's Options and Lending Facility. The Protected Loan will allow James to exercise his options and manage the risk of his new shareholding, as well as enable him to:

- ➔ hold his new shares with a level of downside protection
- ➔ benefit from price increases up to a capped level
- ➔ receive ordinary dividends and franking credits

James and his adviser request pricing for a one year Protected Loan. The pricing they receive is outlined in the table below:

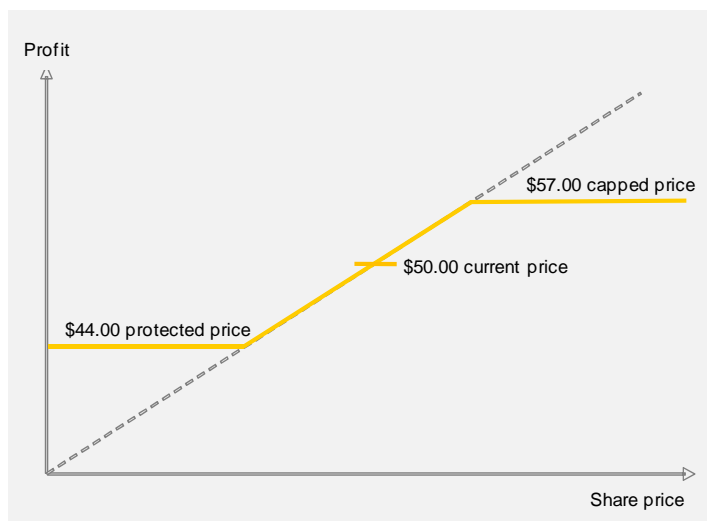
	%	\$
Protected price	88.00%	\$44.00
Cap price	114.00%	\$57.00

The protected price and capped price are based on an initial share price of \$50.00 multiplied by the applicable protected price or capped price percentage.

James and his adviser decide to proceed with the Protected Loan with a protected price of \$44.00 and a capped price set at \$57.00. James also chooses to draw down funds to make the exercise payment of \$30.00 which will allow him to diversify his share portfolio. He therefore borrows \$440,000 (i.e. \$44.00 per share x 10,000 shares) which is the maximum amount he is allowed to borrow (i.e. up to the protected price).

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James's Protected Loan strategy can be illustrated as follows:



The result

Implementing this strategy has enabled James to:

- ➔ Exercise his vested options for \$300,000, borrow up to the protected price of \$44.00 (or \$440,000) and use the remaining \$140,000 for other investment purposes/interest on the Protected Loan.
- ➔ Protect his share holding at a level of \$44.00 and enjoy the benefits of a price rise up to \$57.00 over the one year term.
- ➔ Incur an interest expense which may potentially be tax deductible.

Knowing that his strategy has a one year time horizon, James has already started to explore his available options at maturity. Depending on his situation at the time and the performance of his shares, James could select from the following options:

- ➔ Pay back the loan and keep his shares.
- ➔ Enter into another Protected Loan with a reduced rate for a further term, or another loan (subject to availability / credit approval).
- ➔ Sell his shares at the protected price of \$44.00 if the AAA share price is trading below this level.
- ➔ Retain his shares by either paying the amount above the Capped Price or selling a sufficient number of shares to repay his loan and the amount above the Capped Price. This option is available in the event where the shares are trading above the \$57.00 cap price at maturity.

Alternative: Buying a Collar Option

Another alternative available to James would be to purchase a Collar Option without borrowing under the Protected Loan with a reduced interest rate. In the example above James would enter into a Collar arrangement and protect his shares at \$44.00 and cap his upside at \$57.00 at no cost. Financing up to the protected price is also available when buying a Collar Option.

More information on buying Collar Options can be found in the Product Disclosure Statement.

Getting the right advice

As with any financial strategy, using a Protected Loan to borrow and invest is not without its risks. One of the key risks of using a Protected Loan is that your return could be negative, after taking into account the performance of your shares and borrowing costs over the term. That's why it's important to read the Product Disclosure Statement to ensure you are fully informed.

Call us on 1300 786 039 for more information about how your clients can exercise company options and purchase shares with protection to help achieve their goals.

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Important information

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