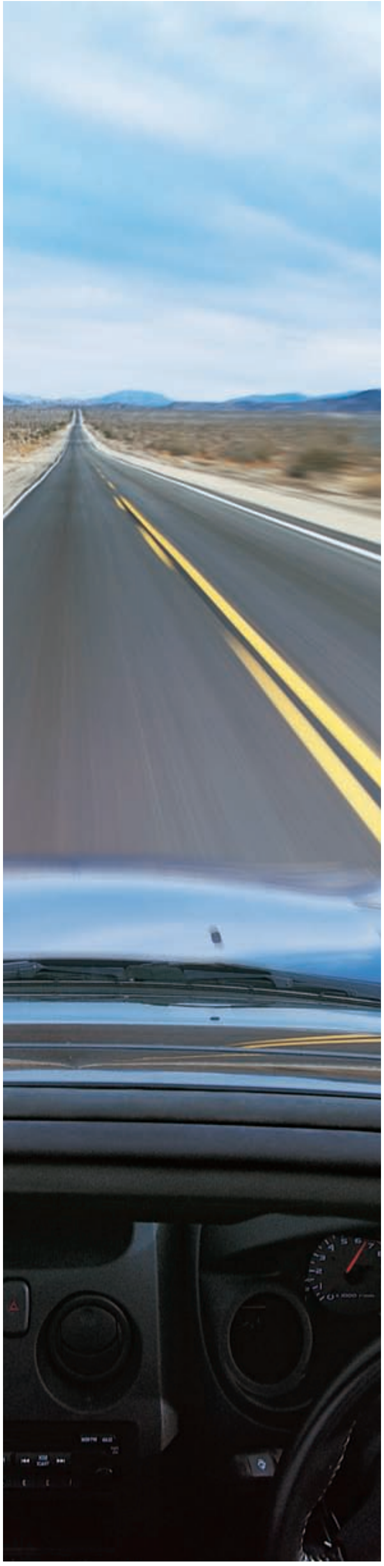
Share instalments
Turbo series

Standard Bank

Investors on the JSE Limited have recently been able to invest in an exciting new type of financial product known as a Share Instalment.



What are Share Instalments?

Share Instalments are instruments that allow you to gain exposure to some of the JSE Limited's leading companies. The holder of the Share Instalment enjoys many of the benefits (capital growth and dividends) of directly owning some of the country's leading stocks without having to pay the full purchase price on day one.

The fact that you only pay a portion of the cost of the underlying stock upfront means that you gain geared exposure through the Share Instalment. This allows you to magnify potential gains arising from movements in the underlying share price.

Until recently Share Instalments were issued at around 50% of the underlying share price on issue date. This resulted in share instalments having approximately two times gearing at inception.

As investors have become more familiar with the product, so too has demand for more highly-geared Share Instalments. To cater for this need Standard Bank is pleased to announce the issue of its range of Turbo Share Instalments.

What are Turbo Share Instalments (Turbos)?

Turbo Share Instalments are structurally identical to ordinary instalments, the only difference being that they are issued with an exercise price of 75% of the underlying share instead of the current 50% level.

What does this do?

Turbos have **higher gearing** than other Share Instalments. At listing date **the gearing will be in the region of three times**, giving investors increased leverage.

Pricing – *please note*

The price of the Share Instalment will change with any movement in the price of the underlying security. Twice-geared Share Instalments will move on an almost 1:1 basis with the underlying security.

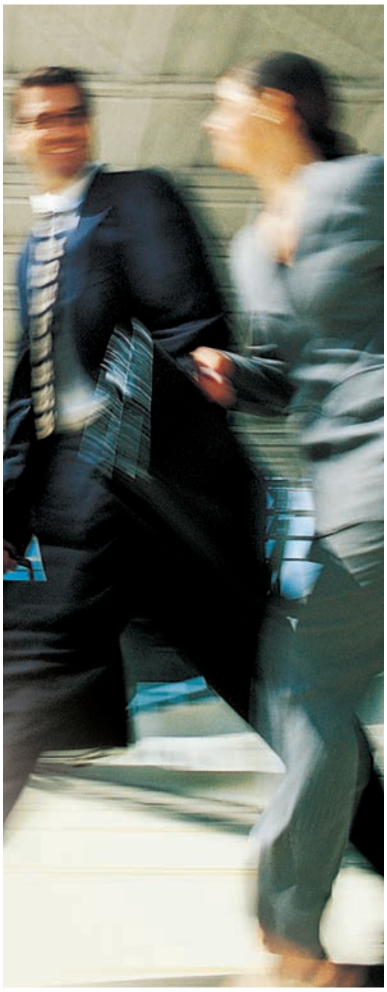
In the structuring of Standard Bank Share Instalments we price in some share price protection for the purchaser. What this means is that in a worst case scenario, if a share over which a Share Instalment is issued falls below the exercise price of the Share Instalment, the maximum amount the client will lose is the amount invested in the Share Instalment. This is achieved by including a put option as part of the structure with an exercise price and expiry date the same as that of the Share Instalment. Think of the put option as built-in insurance that limits your maximum potential loss to the amount initially paid for the Share Instalment.

The embedded put results in the net delta of the Share Instalment coming out slightly less than 1 for Share Instalments that are geared two times. In the case of Turbos, their higher levels of gearing mean that the net delta at issue date will be in the region of 0,9 or 90%. Delta is defined as the change in the price of an option for a 1% change in the underlying. It can range from 0 to 1, an option with a delta of 1 will move 1 cent for every 1 cent that the underlying moves, an option with a delta of 0,9 will move 0,9 cents for a 1 cent movement in the underlying.

Graph 1: Delta of Turbo Share Instalment with a strike price of R75

Depending on the movement of the share price post listing, the delta of the Turbo will also change – if the share price moves up, the delta will move back up towards 1, whilst if it falls it will move down towards a delta of 0,5 or 50% around the strike and towards zero if it falls lower. At this point the Turbo will have a value close to zero. This is seen in graph 1 above.

Standard Bank will, on a daily basis, publish a matrix of the price of all its Share Instalments with their deltas on its **www.warrants.co.za** website.



What am I buying when I purchase a Turbo Share Instalment?

When buying a Turbo Share Instalment you are purchasing the underlying share in two easy steps.

- There is an initial upfront payment. This provides you with exposure to the share over which the Turbo Share Instalment is issued.
- There is an optional 2nd payment (the exercise price). This can be paid at any time up to the expiry of the Share Instalment. At this point full ownership of the underlying instrument is taken.

For the term of the Turbo Share Instalment you will receive all the ordinary dividends paid by the underlying. Given the higher levels of leverage of Turbos, the dividend yield of these instruments will be (by a factor of their gearing) significantly higher than that of the underlying.

What happens during the term?

As a Turbo Share Instalment holder you have several options:

1. If you wish to take full ownership of the share, you exercise the Turbo Share Instalment at any time up to expiry, by making the final payment. At this point Standard Bank will deliver the shares into your share account.
2. If you wish to maintain your exposure to the underlying share, you can sell out of your existing Turbo Share Instalment and buy a new one over the same underlying with a longer term to maturity.
3. If you want to close down your exposure to the underlying share you can simply sell the Turbo Share Instalment on the market.
4. If, at expiry, you have not exercised your Turbo Share Instalment or sold out your position, you may automatically be reinvested into the next series of Turbo Share Instalments.

The Number of new Turbos will be set by the following formula:

Number of new Turbos = cash settlement amount / issue price of new Turbos.

(*Where cash settlement amount = closing price of the underlying share on expiry date – the exercise price of the Turbo Share Instalment.)*

Key benefits

• *Geared share exposure*

– For the term of the trade. Full ownership of the underlying share will be transferred to you on payment of the exercise price on or before the expiry date.

– As only a partial payment is made upfront, you receive gearing on any share price movements, in comparison to holding the underlying share itself.

• *Enhanced dividend yield*

– As the holder of the Turbo Share Instalment you receive the full ordinary dividends payable on the underlying share. For example, for a share trading at R100 paying an annual dividend of R5, the dividend yield on an outright share purchase would be 5%. With an initial Share Instalment of R33, the dividend yield would be 15,15%.

– A strong dividend income can be the cornerstone of any investment portfolio. This is especially true where cash flow is a priority. Investors can use Turbo Share Instalments to take advantage of the relatively high dividend yield of South African companies.

– For active investors, Turbo Share Instalments offer a perfect opportunity to participate in multiple upcoming dividends from numerous companies using the same capital investment. This strategy, known as a 'dividend yield play', entails rolling out of one share upon becoming ex-dividend and into another for its imminent dividend payment.

– Turbo Share Instalments have added appeal when trading for dividends, as they provide a leveraged exposure to the share while passing on the full dividends benefit. As a result you are able to boost your dividend income stream.

• *No margin calls*

– Unlike futures, you are not obligated to take up the underlying at expiry, and there are no margin requirements that need to be maintained during the term of the investment.

• *Partial share price protection*

– Using a margin lending facility can expose you to margin calls, and in the worst-case scenario, you are obligated to either pay in more margin or risk having your position closed out. Turbo Share Instalments, on the other hand, are not subject to a margin call no matter what the performance of the underlying share. You are not obligated to make the final payment and take up the underlying share; your maximum loss is limited to the initial amount invested.

• *Flexibility to restructure existing share portfolios*

– By selling out the underlying shares and replacing them with Turbo Share Instalments, you can maintain exposure to the underlying shares and free up cash, while still maintaining your dividend income stream.

– Turbo Share Instalments offer you the potential to accelerate your capital growth by leveraging an existing shareholding without

having to invest additional capital. This strategy, known as 'Cash Extraction', allows you to convert your existing shareholding into an equivalent number of Turbo Share Instalments plus a significant cash payment. The extra cash can either be reinvested into more Turbo Share Instalments to increase share exposure or deployed for other uses.

- *Quoted on the JSE Limited*

  Turbo Share Instalments can be bought and sold on the JSE, just like shares, so you are able to trade Share Instalments through your normal share portfolio.

- *No barrier/knock-out level*

  Unlike some similar listed instruments, Turbo Share Instalments have *no* barrier or knock-out level which, if breached, will result in the expiry of the instrument.

- *Rollover feature*

  Certain Turbo Share Instalments will have an automatic roll feature. This will generally be in instances where the underlying share has risen in price over the life of the existing series. As a holder, if you do not pay the exercise price on or before the expiration date and the Turbo qualifies, you will automatically roll over into a new series. The exact terms and list of Turbos that will roll will be announced on SENS a week prior to the termination of the existing series. Please note: Automatic rolls are at the sole discretion of the bank and there are instances where Turbos will not roll and a client will receive a cash payout instead.

How do I go about trading Turbo Share Instalments?

You can buy Turbo Share Instalments through any registered stockbroker. As an issuer of Turbo Share Instalments, Standard Bank will continuously quote prices at which you can both buy and sell the product. This will give you easy entry to, and exit from, your investment.

How do I recognise Turbo Share Instalments?

By their strike price in relation to the underlying. Turbo Share Instalments will have a 6-letter short code which you enter in order to trade them on the JSE Limited. Turbo Share Instalments will differ slightly from normal Share Instalments in their coding. Where a normal Share Instalment would have a coding of say AGLSIA (the "SI" denoting a Standard Bank Instalment) a Turbo would be coded AGLSTA (the "ST" denoting a Standard Bank Turbo Instalment).

Share Instalments where the exercise price is around 50% of the share price or lower would be considered ordinary Share Instalments, while Share Instalments where the exercise price is around 75% of the price of the underlying would be considered Turbos.

Note

Share prices are dynamic and the ratio of the strike price of a Share Instalment to the price of the underlying is not fixed and will change over time. Thus one can have a situation where a Share Instalment is issued with an exercise price of 50% of the underlying at inception, but subsequent to issue the share price falls and so too does the price of the Share Instalment, so that the ratio of the exercise price to the underlying moves from the initial 50% closer to 75%. This would result in the Share Instalment becoming a Turbo. The opposite would also occur in the case of a strong upward movement of the underlying post issue, with a Turbo becoming more like a normal Share Instalment.

Tax implications

– Standard Bank recommends that potential investors seek their own independent tax advice before making an investment.

Contact details

Need more information?
Call us on **0800 111 780** or email **derivatives@standardbank.co.za.**