Standard Bank

Equity Derivatives: 17th of September 2007

Exposure of Share Instalment Positions Post a Roll

It is very important to note that when Share Instalments roll that they roll on a rand for rand basis and <u>not</u> on an equivalent exposure (effective gearing) basis.

To work out the effective gearing of a share instalment one uses the following formulae:

(Share Price of underlying/price of share instalment) * Delta of the share instalment.

And to work out the number of new share Instalments that you will receive post a roll one uses the following formulae:

Number of new Instalments =
<u>**(Cash settlement amount / Calculated Price of new Instalment)*Number of old Instalments**</u>

*Where **cash settlement amount** = (the closing price of the underlying share on expiry date – the exercise price of the expiring Instalment)*
*Where **calculated price of new Instalment** = closing price of the new Instalment on the expiry date of the old Instalment as per the matrix offer price based off the closing price of the underlying share. **This may differ from the closing price of the Instalment on the JSE as this level is set before the official close of the market at 5.00 p.m.***
Please note:

1. *Any fractions will be rounded down and the cash amount paid into your trading account.*
2. *The new Instalments will take around 5 business days from the expiration date of the old series to be delivered into your trading account.*

What one has to consider is that when a share instalment rolls that the terms of the new instrument are reset for the year going forward i.e. one has a new strike and a longer expiry date for the new instalment compared the old one.

What this practically means is that the effective gearing and exposure that a holder has will change over the roll.

Below are two examples.

Old Instalment	Old Quantity	Delta	Underlying	Instalment Price	Effective Gearing	Exposure
FSRSTA	10,000	1.00	R 22.85	R 10.10	2.26	22,600 FSR
New Instalment	New Quantity	Delta	Underlying	Instalment Price	Effective Gearing	Exposure
FSRSTB	11,430	0.83	R 22.85	R 8.84	2.23	25, 489 FSR

New Instalment	Old Quantity	Delta	Underlying	Instalment Price	Effective Gearing	Exposure
OMLSTA	10,000	1	R 21.33	R 4.83	4.42	44,200 OML
New Instalment	**New Quantity**	**Delta**	**Underlying**	**Instalment Price**	**Effective Gearing**	**Exposure**
OMLSTB	6,310	0.81	R 21.33	R 7.66	2.30	14,513 OML

- The first point to note is that your rand for rand position remains the same pre and post the roll.
    - FSRSTA = R10.10* 10,000 = R101,000.00
    - FSRSTB = R8.84*11,430 = R101,041.00 [1]
    - OMLSTA = R4.83*10,000 = R48,300.00
    - OMLSTB = R7.66 *6310 = R48,334.60

- The 2nd point to note is that the exposure pre and post the roll changes.
    - On FSR it increases.
    - On the OML it decreases.

- Your exposure is calculated by:
    - Quantity of Instalments * Effective gearing
    - **FSRSTA = 22,600 FSR; FSRSTB = 25,489**
    - **OMLSTA = 44,200 OML; OMLSTB = 14,513 OML**
- **<u>Why is this case?</u>**
- Quite simply because when we roll and instalment we do a rand for rand and not an effective gearing switch.
- So whilst the rand value of your position over a roll will remain the same the effective gearing will change depending on the terms of the new instalment compared to the old (expiring) instalment.

<u>This is important point to realise as it will affect one's returns going forward</u>.

So what do I do if I wish to maintain my exposure pre and post the roll?

- FSRSTB sell out some instalments
- OMLSTB buy in some instalments

- The calculation for this is
    - (Initial Exposure/Effective gearing of new instalment) – Number of new instalments.
    - FSRSTB (22600/2.23) – 11,430 = sell 1,295 FSRSTB
    - OMLSTB (44,200/2.3)-63,10 = buy 12,907 OMLSTB
- Or just give us a ring and we will do the calculation for you.
- Call us on 0800 111 780 or email derivatives@standardbank.co.za.

[1] The reason for the slight difference is that the new instalments are being priced off their offer price, to close the position one would sell to the bid.

Share Instalment Brochure