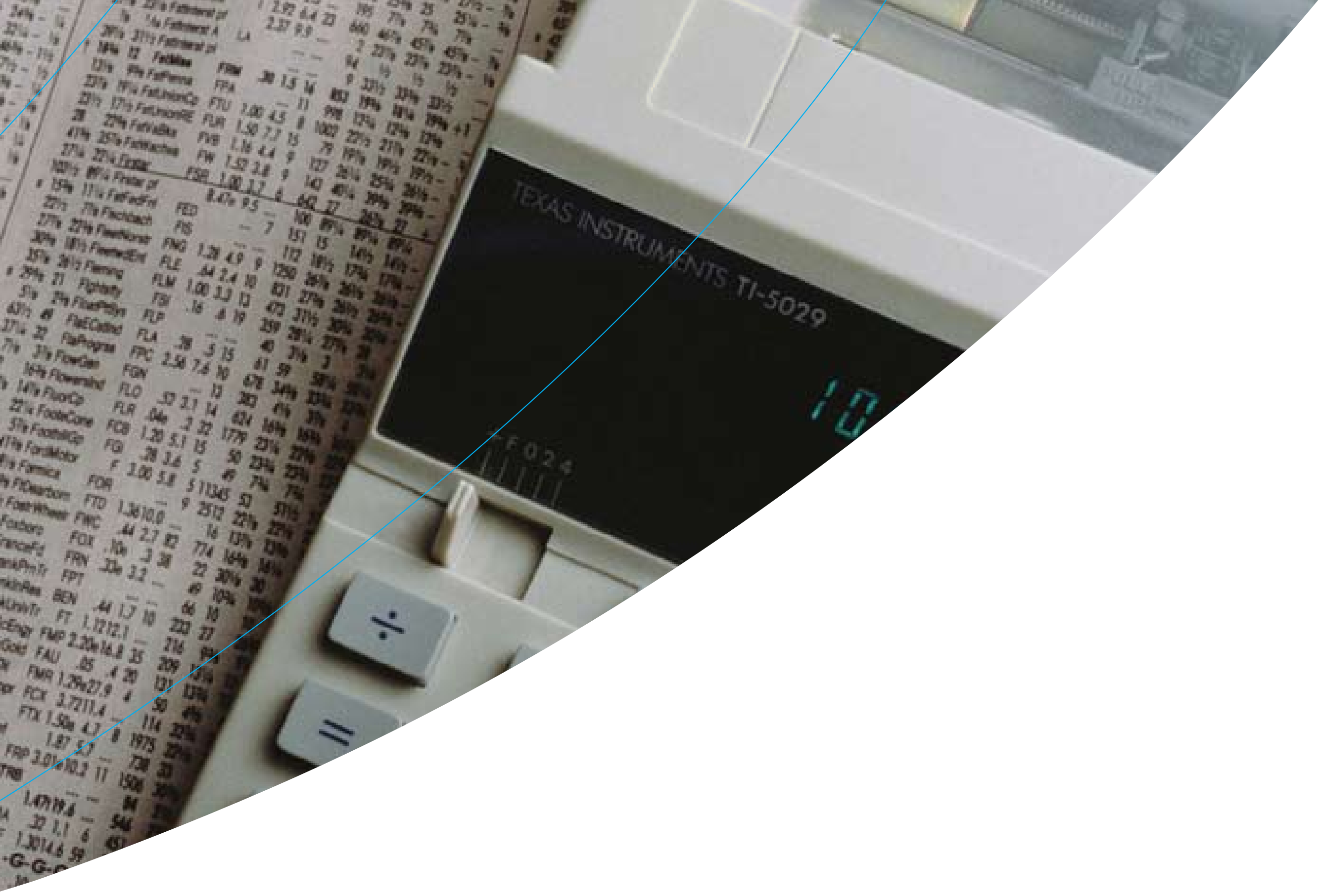
Warrants

Standard Bank



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Prospective purchasers of any warrant should ensure that they understand fully the nature of the warrants and the extent of their exposure to risks and that they consider the suitability of the warrants as an investment in the light of their own circumstances and financial condition. Warrants involve a high degree of risk, including the risk of their expiring worthless. Potential investors should be prepared to sustain a total loss of their investment in warrants. The warrants represent general, unsecured, unsubordinated, contractual obligations of the issuer and rank pari passu in all respects with each other. Purchasers are reminded that the warrants constitute obligations of the issuer only and of no other person. Therefore, potential purchasers should understand that they are relying on the credit worthiness of the issuer.

Introduction

Warrants are incredibly popular internationally, having been traded in top European and Asian financial markets since the early 1990s.

Top warrant markets include Germany, Switzerland, Italy, Australia, Hong Kong and the United Kingdom.

The South African warrants market has grown exponentially over the past few years. Standard Bank warrants have been at the forefront of this growth giving investors the ability to trade leading JSE Limited listed warrants simply, quickly and at low cost.

One of the key benefits of warrants is that they give investors the potential to maximise financial returns while strictly limiting potential losses. Importantly, Standard Bank warrants allow investors with either a bullish or bearish view to trade profitably through the issue of both call and put warrants. As the warrant market has developed so has the range of products offered by Standard Bank, which now includes index warrants, discount instalment warrants and turbo warrants.

One of the benefits of warrants is leverage. Put simply, coverage allows you to get exposure to a large parcel of underlying shares for a relatively small capital outlay. Standard Bank, one of the leading issuers of warrants, offers a wide range of warrants over shares in some of South Africa's leading companies and indices.

Standard Bank is committed to supporting a fair and active market in all Standard Bank warrants.

Traded on the JSE Limited, warrants are an exciting and innovative investment tool for the South African investor.

What is a warrant?

A warrant is a financial instrument that will pay out an amount of cash (or underlying) at a specified date in the future if the underlying on which it is based (most often a share or an index) is above (in the case of calls) or below (in the case of puts) a predetermined price (that is known as the strike or exercise price).

Warrant definitions

Before entering a warrant trade it is important to understand the specific terms and conditions of the warrant. These are set before a warrant is issued and can only change as the result of a corporate action (such as a share split).

Basics of call and put warrants

Standard Bank warrants provide a simple, low cost way to gain exposure to shares listed on the JSE Limited.

The two basic types of warrants are “call warrants” and “put warrants”. Call warrants allow investors to profit from share price rises. Put warrants allow investors to profit from share price falls.

Strike (exercise) price

The strike price is the level that the underlying security (for example, Anglo American PLC) needs to be above (for calls) and below (for puts) in order for the warrant to have a positive value at expiry. This price is set at the outset by the issuer and cannot change (except in the case of a corporate event, for example a share split).

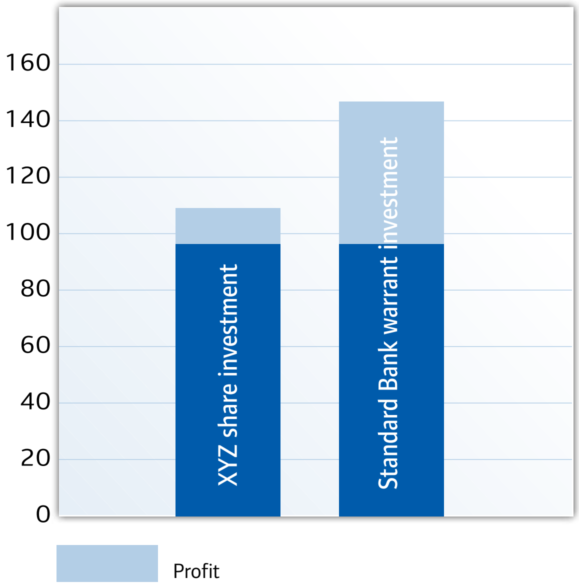


Diagram 1

In the scenario described on the left, the warrants provide a much higher percentage return.

Call warrants

A call warrant gives the holder the right, but not the obligation, to buy the underlying share for a fixed price known as the "exercise price" at a future date. Taking up this right is known as "exercising the warrant". However, call warrants can be traded without the need to exercise the underlying share, thereby making them ideal as short-term trading instruments.

Put warrants

A put warrant gives the holder the right, but not the obligation, to sell the underlying share to the warrant issuer for the exercise price at a future date.

Expiry date

Both call and put warrants have an "expiry date". An "American-style" warrant can be exercised at any time up to and including the expiry date. A "European-style" warrant can be exercised only on the expiry date. The terms of issue of a particular warrant will specify the style of exercise.

Conversion ratio

The number of warrants that you need to exercise in order to gain exposure to one unit of the underlying.

Benefits at a glance

Standard Bank warrants are traded on the JSE Limited. This means that you can buy and sell warrants with the security of knowing that you are trading on a regulated exchange via a registered stockbroker.

The South African warrant market is regulated by the Financial Services Board (FSB), under the Stock Exchange Control Act (SECA).

You can trade profitably by buying and selling warrants on the JSE Limited, as you can with shares, but with significantly lower costs. Since Standard Bank warrants are much cheaper than the underlying shares, both brokerage and interest costs are lower.

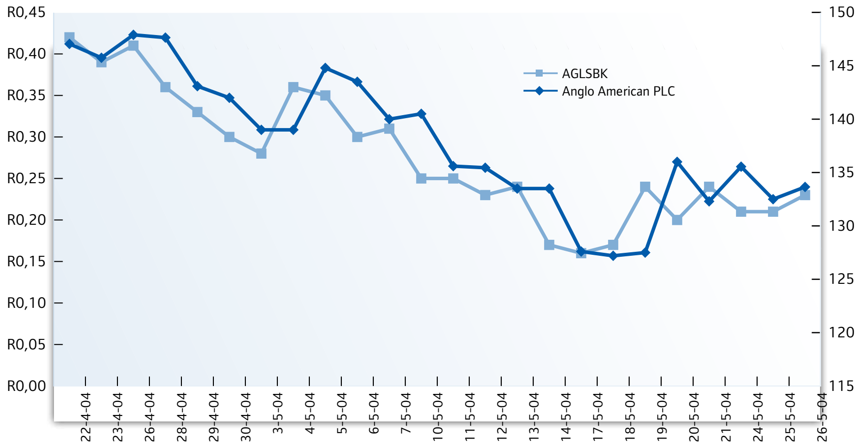
Through the use of put warrants, which give investors the ability to go "short" of the market you can make a profit when a share falls in value.

Standard Bank warrants are a leveraged share investment. Since Standard Bank warrants are considerably cheaper than the shares but can capture up to 100 percent of the price movement of the shares, the warrants are an effective way to leverage your investment. Using call warrants as an example, "leverage" means that for a given increase in the share price, warrant holders will potentially make a greater profit as a percentage of capital invested. Conversely, for a given decrease in the share price, share price, holders will be exposed to a greater potential loss for a decrease in the share price as a percentage of capital invested.

However, you are never obliged to pay anything more than the initial price of the warrant, so the maximum amount you can lose is limited to the price paid for the warrant.

Diagram 2

This chart illustrates that, for movements in the share price, the Standard Bank call warrant will show greater price movement as a percentage than Anglo American PLC.



How to trade warrants

Warrants trade like any share listed on the JSE Limited South Africa. Warrants trade via the JSE Limited's electronic trading system (SETS) executed via any registered stockbroker and are settled under the STRATE (Share Transactions Totally Electronic) system.

Warrants are short-term trading instruments that will respond to moves in the underlying security. At all times the warrant will move in line with the underlying security and can be traded continuously and do not need to be held until expiry.

Example

Assume that stock of XYZ, a leading company is priced at R100 per share. You believe the stock is likely to appreciate by R10 over the next two months. You want to profit from this anticipated price increase by taking exposure to 1 000 shares.

Alternative 1 – Buy the underlying share

Buy XYZ shares: purchase 1 000 shares at R100 each. With brokerage and Uncertified Securities Tax, your entry cost will be R101 174,78.

Projected Costs*

Projected share cost at bid price:	R100 000
UST:	R250
STRATE:	R10,60
Brokerage @ 0,8%	R800
VAT on charges:	R113,48
Insider Trading Levy:	R0,70
Overall projected cost:	R101 174,78
	= 1,17% brokerage

* Prices as per Standard Bank Online Share Trading

Alternative 2 – Buy call warrants listed over XYZ

Buy XYZ call warrants: let's assume they are Standard Bank call warrants trading over XYZ shares. The warrants are currently priced at R1 each, and your warrant broker informs you that the warrant currently has a delta of 0,50 (this gives relative change in the price of a warrant for a 1-cent change in the underlying) and a conversion ratio of 10 for 1; that is, you need 10 warrants to exercise into one share.

Therefore to gain exposure to 1 000 shares, you purchase 20 000 XYZ call warrants at R1. To get this figure you divide the delta (0,5) by the cover ratio (10) to get 0,05. You then divide the number of shares you wish to get exposure to (1 000) by this number (0,05) to get to the 20 000 XYZ calls needed to gain exposure to 1 000 shares.

Therefore for each R1 share price increase, the warrant price is likely to increase by 5 cents. This figure is attained by multiplying the share price move (R1)* by the delta of the warrant (0,5 or 50%) and dividing this number by the conversion ratio of (10)*.

The reason for dividing by the conversion ratio is that you need 10 warrants to gain exposure to one share.

Projected Costs*

Projected share cost at bid price:	R20 000
UST:	R50
STRATE:	R10,60
Brokerage (flat fee):	R55
VAT on charges:	R9,18
Insider Trading Levy:	R0,14
Overall projected cost:	R20 124,92*
	= 0,62% brokerage

* Prices as per Standard Bank Online Share Trading

Scenario – stock price rises to R110

If the stock has increased in price by R10 from R100 to R110 then given the delta of the warrant, you would expect the Standard Bank call warrant to have increased in value by approximately R1 from a price of R1 to R2.

* Note that this is true for the day of purchase, however, over time all warrants will gradually decline in value, due to time decay. While very small over one day, over several months time decay may have a significant impact on the value of the warrant.

The table below compares the two alternatives. In this example, the profit from trading the warrant is more than double the profit that you would have realised on the share trade, on a capital outlay that is one fifth of the size.

Table 1*

Summary of profit and loss for a R10 increase in the XYZ share price	Alternative 1: Invest in 1 000 XYZ shares at R100 each	Alternative 2: Invest in 20 000 Standard Bank call warrants over XYZ at R1 each
Purchase price	(R100 000)	(R20 000)
Trading costs	(R1 174,78)	(R124,92)
Sale price	R110 000	R30 000
Brokerage	(R1 016 05)	(R75,06)
Profit	R7 809,17	R9 800,02
Percentage return	7,8%	49%

* Note: In the above example the transaction cost involved gaining exposure to an equivalent amount of the underlying via the warrants is less than 1/10th of directly purchasing the underlying. This is due to lower brokerage and UST fees, which are charged as a percentage of the total transaction.

Standard Bank warrants' prices are published daily on our website at www.warrants.co.za and many online share services.

Price movement

What happens if the share price falls?

In the above example, say the share price of XYZ falls to R95. The price of the Standard Bank call warrant will also decline. Given the warrant's delta of 50% the warrant price should fall by about 25 cents.

The table below compares the two alternatives. In this case, the loss in the warrants is higher.

Table 2

Summary of profit and loss for a R5 decrease in the XYZ share price	Alternative 1: Invest in 1 000 XYZ shares at R100 each	Alternative 2: Invest in 20 000 Standard Bank call warrants over XYZ at R1 each
Purchase price	(R100 000)	(R20 000)
Brokerage and UST	(R1 174,78)	(R124,92)
Sale price	R95 000	R15 000
Brokerage	(R879,15)	(R74,85)
Loss	R7 053,93	R4 800,23
Percentage return	–7%	–24%

What if the share price stays the same?

If the share price remains the same, the warrant value will decay over time, all other things being equal. The rate of decay will depend on several factors, but tends to increase as the warrant approaches the expiry date. See "What is time decay" for more information.

Put warrants – trading strategy

Because put warrants give the holder the right to sell a share at a fixed price, their value will tend to move in the opposite direction to the share price. They will become more valuable as the share prices falls, and will become worthless if the share price is above the exercise price on the expiry date.

Like call warrants, put warrants are a leveraged investment. This means that the price of a put warrant is likely to move more, in percentage terms, than the share price.

Strategy 1: Profit from a falling market

You don't need to exercise a warrant to make a profitable trade. If your view is that the underlying share price will fall, you could take advantage by buying a put warrant. If the market price of the share does fall, then the price of the put warrant will rise, all other things being equal. Since the warrants are traded on the JSE Limited you can close the trade and take a profit by selling the put warrant at a higher price.

Strategy 2: Protecting a stock holding

If your view is that the underlying share price will fall, but you don't want to sell your holding and lose the benefits of holding the share (such as dividends and the potential upside), you could protect your position by buying a put warrant over the share. Standard Bank put warrants are deliverable contracts.
This means that if the share price is lower than the exercise price on expiry date, you can exercise the warrant and deliver your shares to Standard Bank in return for the exercise price.

Monitoring warrant prices

Standard Bank warrants' prices are published daily on our website at www.warrants.co.za and many online share services. The different series of warrants can be

identified by their JSE Limited codes. This is an example of a code, with an explanation of what each part of the code stands for.

AGL Same as the three letter JSE Limited code for the underlying share, for example Anglo American

SB Issuer code: SB denotes Standard Bank

A A-O Indicates call warrants listed over the underlying shares.
P-Z Indicates put warrants listed over the underlying shares

Pricing and valuation

The price of Standard Bank warrants is dependent upon the following factors:

- Underlying share price
- Time to expiry
- Volatility (the market's expectation of future share price variation)
- Interest rates
- Dividend expectations

The table below shows the direction (up or down) that the value of Standard Bank call and put warrants will move in response to a change in these market variables in most situations.

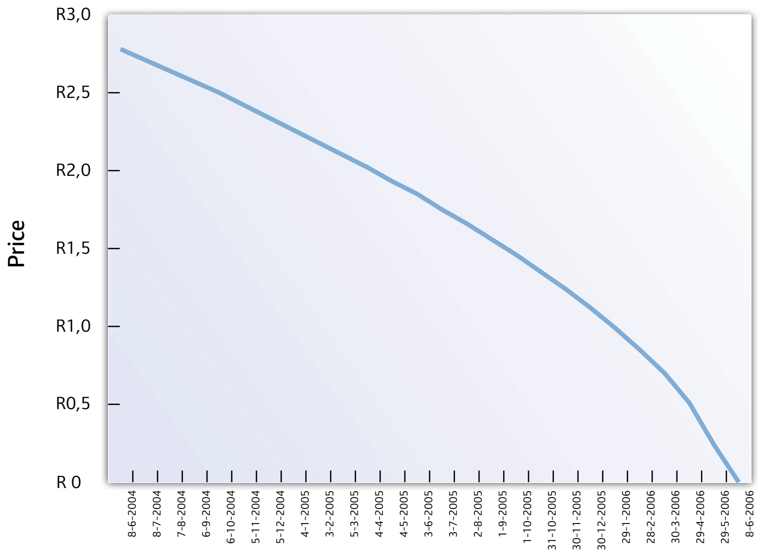
Market variable	Change in variable	Change in call warrant price	Change in put warrant price
Underlying price	↑	↑	↓
Time to expiry	↓	↓	↓
Volatility	↑	↑	↑
Interest rates	↑	↑	↓
Dividends and expectations	↑	↑	↑

Share price

The sensitivity of a warrant to a change in the underlying price is called the delta. It gives the relative change in the price of a warrant for a 1% change in the underlying. When dealing with warrants with a conversion ratio of greater than one, remember to divide the delta by the conversion ratio.

Diagram 3 shows the gradual decline of a Standard Bank call warrant over the two year life of the warrant. In this example, the share price used has remained constant throughout the period at a level equal to the exercise price of the warrant. If the share price was above the exercise price, the value of a call warrant would decay to the intrinsic value at expiry, being the difference between the share price and exercise price, divided by the conversion ratio. For example: If the share price was R105, then the value of a call warrant with a R100 exercise price and a 10:1 conversion ratio would tend towards the intrinsic value of R0,50.

Diagram 3



Time to expiry

All warrants lose value with the passage of time. This change, known as theta, is the value per day (expressed in cents) that the warrant price is reduced by. Over the course of a warrant's life the theta increases and is highest in the last three months of a warrant's life.

Dividends expected

Holders of Standard Bank warrants do not receive the dividends paid on the underlying shares. However, the dividend stream is priced into the warrants so that warrant holders aren't prejudiced in holding warrants over ex-dividend dates.

Warrants do not carry voting rights, nor do they allow the holder of the warrant to participate in rights issues or bonus issues of the underlying share. However, in the case of rights and bonus issues, the terms of Standard Bank warrants are automatically adjusted so that neither the warrant holder nor warrant issuer is disadvantaged by any such dilutions or similar events that affect the underlying share.

Any changes in expected dividends generally have a small impact on the value of the warrants compared with other variables. Generally when a company announces that it will change its dividend yield there will be a change in the price of a warrant. As a rule of thumb, the higher the dividend yield, the lower the value of a call warrant and the higher the value of a put.

Interest rates

The sensitivity of a warrant price to short-term variations in interest rates is called the rho. For normal changes in interest rates the impact of rho on the pricing of the warrant is very small.

Volatility

By definition volatility is a statistical measure of the tendency of a market or security to rise or fall sharply within a short period of time. Volatility is typically calculated by using variance or annualised standard deviation of the price or return.

In layman's terms volatility is a measure of the speed of a market. Slow moving markets have low volatility

Warrant traders are not just interested in the direction of a market move but also the speed with which it moves.

levels while fast moving markets have high volatility levels. In a low volatility market price movement is limited and warrants will be relatively cheap. While in a high volatility market, the chances for extreme price movement are greater and hence the warrants will be more expensive.

Why is it important?

Warrant traders are not just interested in the direction of a market move but also the speed with which it moves. If the market does not move fast enough the warrant will have less value because of the reduced likelihood of the share reaching its strike price by expiry. Given that it is the least easily predictable of the variables that go into pricing a warrant Standard Bank keeps volatility adjustments to a minimum. Any volatility changes (either up or down) are phased in over a period of time and not in one go.

Market marking and the matrix

All the above variables have an impact on the price of the warrant. As each variable changes the price of the warrant will change.

The most important of these on a daily basis are changes in the price of the underlying.

To allow investors to gauge the impact of changes of the underlying on the warrant Standard Bank publishes the prices at which it makes its markets on a pricing matrix which is accessible from the website or via email subscription (sign up on the website).

Market makers keep the market running efficiently by continuously quoting both bid (buy) and offer (sell) prices in their warrants as per the matrix and this adds liquidity to the market ensuring that warrant traders are able to efficiently enter and exit positions.

What are the risks?

Standard Bank warrants are primarily exposed to changes in the underlying share price. The value of Standard Bank call warrants usually increases as the underlying share price rises and usually decreases as the underlying share price falls. Standard Bank put warrants provide the opposite exposure, rising in value when the share price falls, and falling in value when the share price rises. In addition to the exposure to changes in the underlying share price, the warrants are exposed to changes in the expected volatility of the underlying share price; market interest rates; the expected dividends of the underlying share and the time to expiry. Standard Bank warrants are a leveraged investment. Like other leveraged share investments, they provide more exposure to both increases and decreases in the share price when compared with investing directly in the underlying shares. Investors should understand that they may lose their entire investment in Standard Bank warrants.

Standard Bank warrants are not bank deposits. They are unsecured obligations of the issuer and in the event of the winding up of the issuer would rank equally with other unsecured creditors of the issuer and ahead of subordinated debt and obligations to shareholders.

The value of Standard Bank call warrants usually increases as the underlying share price rises and usually decreases as the underlying share price falls. Standard Bank put warrants provide the opposite exposure, rising in value when the share price falls, and falling in value when the share price rises.

Frequently asked questions

Question: *Is it possible to have more than one warrant listed on a share?*

Answer: Numerous warrant investors and stockbrokers have asked whether it is possible to have more than one warrant listed over a share. In Germany, there are more than fifty warrants listed on the ordinary shares of DaimlerChysler! In South Africa for example, there are numerous call and put warrants listed over Anglo American PLC.

Question: *What is the bid/offer or buy/sell spread?*

Answer: You will often hear about a bid/buy price and offer/sell price next to every warrant The bid price is the price at which investors can sell their warrant while the offer price is the price at which to buy. The difference between the two prices is known as the spread. Assume that the bid price on a warrant is 11c and the offer price is 12c. If you bought the warrant you will pay a price of 12c. If you wanted to sell the warrant immediately you would receive 11c making a 1c loss. Ordinarily, the issuer is the party making the spread. The 1c spread is the price charged by the issuer for acting as both buyer and seller.

Question: *What are the risks involved in warrant investment?*

Answer: Like all investments, warrants are not immune from risks. The first risk relates to risks inherent in the underlying share. Seeing as a warrant obtains its value from the underlying share, any downward movement in the price of this share will result in downward movement in the price of a call warrant. Secondly, the warrant is affected by a takeover of the underlying share by a third party. Let's say that the strike price of a warrant is R35 and the share is trading at R25. If the takeover occurs at a price of R30, warrant investors would not exercise their warrants, as they would be paying R35 for shares potentially worth R30. In this case the warrant could expire worthless. Thirdly, warrants have an expiry date and therefore a limited life. Unless the share price is above the exercise price upon expiry, the warrant will expire worthless.

Question: *What are the advantages of buying warrants?*

Answer: Firstly, warrants cost only a fraction of the price of shares. However, in percentage terms, their prices generally rise and fall more steeply than shares. Warrants can therefore provide investors with greater exposure to share price movements. Secondly, warrants typically cost less than trading the underlying shares. Brokerage costs are reduced because the price of warrants is less than the underlying share prices. Thirdly, warrants can be used as a form of insurance to protect an existing share portfolio in a falling market. Finally, warrants can be used to free up capital invested in shares. An investor may sell existing share holdings and purchase a corresponding number of warrants for a fraction of the cost.

Question: *How liquid is the warrant market?*

Answer: Warrant issuers make markets in their respective warrants. This means that the issuer of the warrant will be a buyer and a seller of its own warrants. Investors who buy warrants can always sell them back to the issuer (as long as they have a positive value). It is on account of this that the warrant sector has established itself as one of the most liquid sectors on the JSE Limited.

Question: *Do I have to hold until expiry?*

Answer: No. Warrants are short-term trading instruments and can be traded throughout their life. The price of a warrant will move in line with the underlying on which it is based and can be sold at any point during the life of the instrument. The price at which Standard Bank is a buyer of its warrants are published on its website at www.warrants.co.za.

In percentage terms, given the greater gearing, barrier warrants will yield greater profits than conventional warrants.

Barrier warrants

What are barrier warrants?

Barrier warrants are warrants over individual shares and Indices traded on the JSE Limited. Like a conventional warrant, the performance of a barrier warrant is linked to the value of the underlying share price. As the price of the underlying share increases, all other things being equal: barrier call warrants will increase in value; and barrier put warrants will decrease in value.

Barrier warrants offer greater gearing than conventional warrants. Technically this is because barrier warrants have both a higher delta and a lower price than conventional warrants.

How are barrier warrants different?

Barrier warrants are identical in most respects to conventional JSE Limited listed warrants. The difference is that barrier warrants have a barrier price. If the price of the underlying share crosses the barrier price the warrant lapses – that is it disappears completely and gives the holder no further rights.

The presence of the barrier means that barrier warrants cost less to buy than conventional warrants. However, if the underlying share price moves in the anticipated direction (up for calls, down for puts) the barrier warrant gives exactly the same rights, and yields exactly the same profit, as a conventional warrant on similar terms.

In percentage terms, given the greater gearing, barrier warrants will yield greater profits than conventional warrants.

Barrier call warrants

Barrier call warrants resemble conventional call warrants in that they allow the investor to profit if the underlying share rises, however should the underlying share fall below a predetermined level the warrant automatically lapses out of the money. This allows the barrier warrants to be cheaper than normal warrants as well as offering greater gearing than conventional stock warrants.

Example

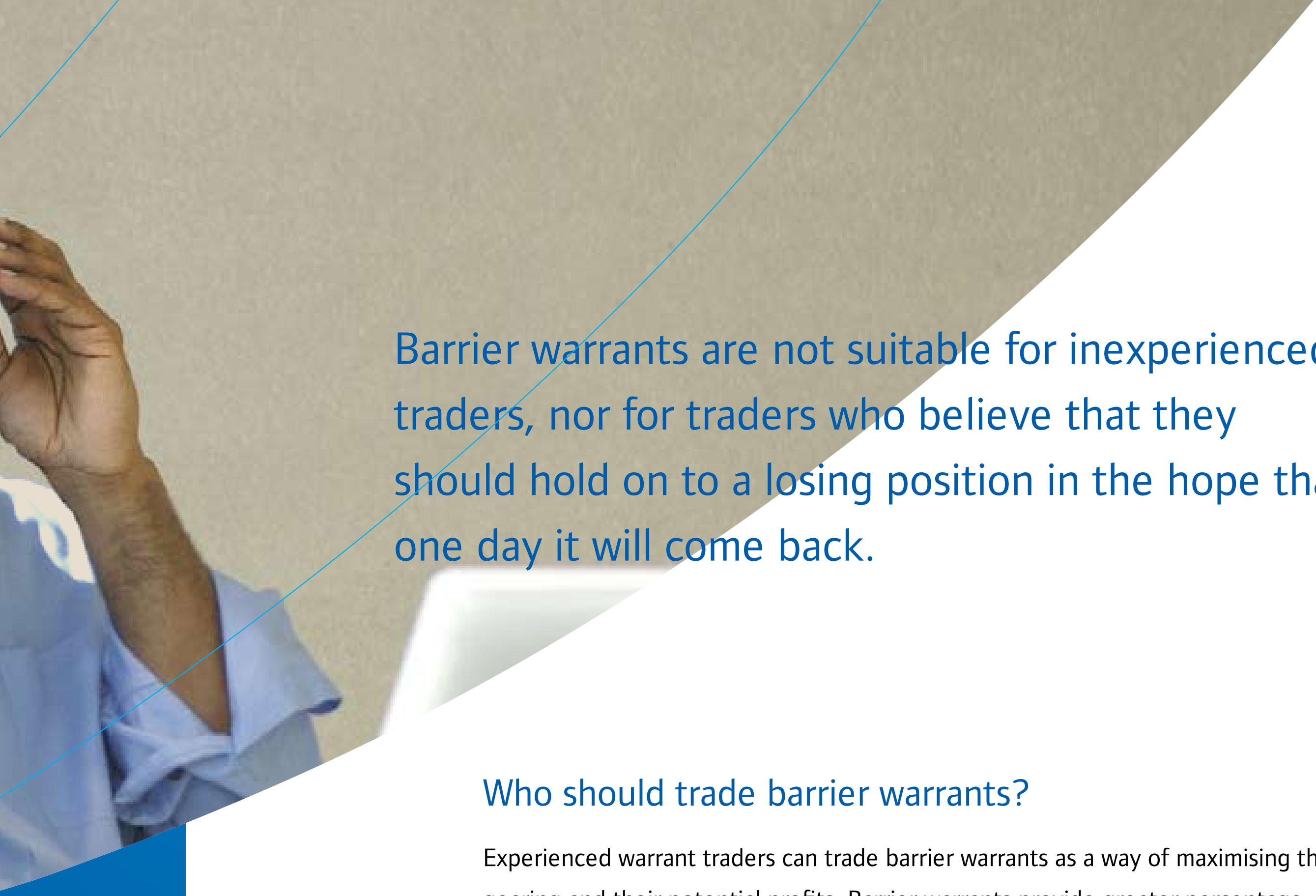
Exercise price	Barrier price	Share price	Barrier price	Vanilla warrant price
R60	R30	R70	R1,43	R1,59
		R60	R0,79	R0,90
		R50	R0,34	R0,40
		R40	R0,09	R0,12
		R30	R0 (lapsed)	R0,02
		R20	R0 (lapsed)	R0,01

Barrier put warrants

Barrier put warrants resemble conventional put warrants in that they allow the investor to profit if the underlying share falls, however should the underlying share rise above a predetermined level the warrant automatically expires. Once again this means that barrier put warrants are much cheaper than conventional put warrants and allow for greater gearing relative to conventional put warrants.

Example

Exercise price	Barrier price	Share price	Barrier price	Vanilla warrant price
R60	R80	R50	R1,23	R1,30
		R60	R0,65	R0,73
		R70	R0,30	R0,41
		R80	R0 (lapsed)	R0,20
		R90	R0 (lapsed)	R0,12



Barrier warrants are not suitable for inexperienced traders, nor for traders who believe that they should hold on to a losing position in the hope that one day it will come back.

Who should trade barrier warrants?

Experienced warrant traders can trade barrier warrants as a way of maximising their gearing and their potential profits. Barrier warrants provide greater percentage profits for the trader who correctly picks the direction of the underlying stock.

The penalty is that if the trader's view is wrong, and the warrant passes through the barrier, the warrant will lapse WORTHLESS.

Because the barrier warrant was cheaper initially than a conventional warrant, the loss in these circumstances is not necessarily greater than on a holding of conventional warrants. Many good traders will usually cut their losses if their view is incorrect, and the barrier warrant does this automatically.

Barrier warrants are not suitable for inexperienced traders, nor for traders who believe that they should hold on to a losing position in the hope that one day it will come back. These traders should continue to trade conventional warrants.

Potential traders should note that as a barrier warrant approaches the barrier, the statistical chance that the warrant will lapse increases quite sharply. Buying barrier warrants when the underlying price is close to the barrier should be considered extremely speculative.

Frequently asked questions (barrier warrants):

Question: If a barrier warrant only touches the barrier once but then recovers, does the warrant recover?

Answer: No. All barriers are one touch and if at any point during the life of the warrant the barrier is touched then the warrant expires worthless and cannot recover.

Question: If a barrier warrant touches the barrier during the trading day but then recovers to close higher at close, does the warrant still expire at zero?

Answer: As mentioned, if at any time during the life of the warrant the barrier is touched then the warrant expires worthless and cannot recover.

Turbos (barrier warrants where the strike is equal to the barrier)

Turbo warrants are a special class of barrier warrant where the knock-out barrier is set at the same level as the strike of the warrant. By setting the barrier at the same level as the strike the warrant becomes very close to delta one at all times above the strike/ barrier level.

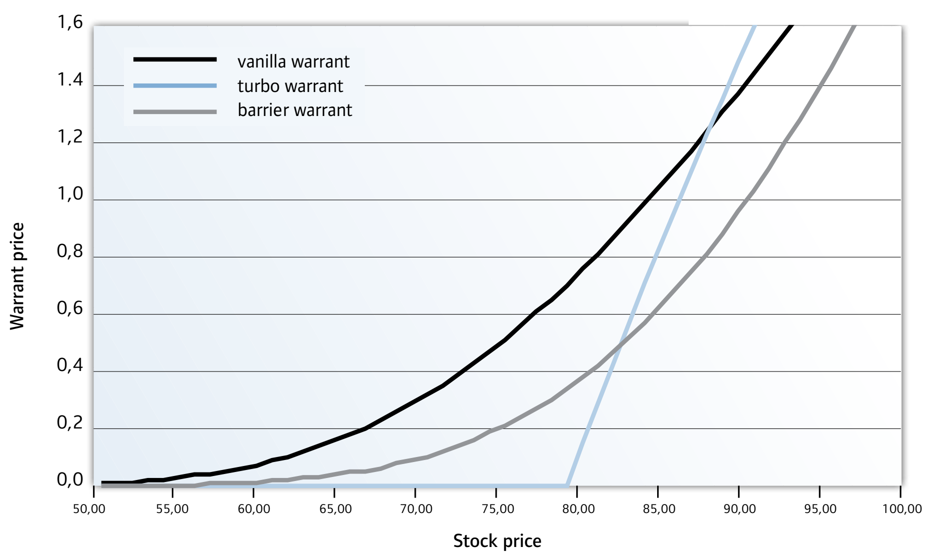
The advantage of having a warrant that is always delta 1 is:

1. Turbos move in an almost 1:1 ratio with the underlying.
2. Turbo warrants are not sensitve to changes in implied volatility (either up or down).
3. Turbo warrants have a linear theta over the life of the warrant.

Potential traders should note that as a barrier warrant approaches the barrier, the statistical chance that the warrant will lapse increases quite sharply and the gearing rises dramatically. Buying turbo warrants when the underlying price is close to the barrier should be considered extremely speculative.

Diagram 5

Comparison of vanilla, turbo and barrier warrants



Buying turbo warrants when the underlying price is close to the barrier should be considered extremely speculative.

Warrants versus Contract For Differences (CFDs) and Futures

Warrants are not the only form of gearing available to investors. You can also trade in CFDs and Individual Equity Futures (IEFs). All offer the ability to go both long and short of the market.

A Futures Contract is an agreement, to sell or buy a specific amount of a commodity or security at a specific price and time. Unless the contract is sold to another before settlement date, participants in the contract must buy or sell the underlying. Distinguished from a warrant, in which the options buyer chooses whether or not to exercise the option by the exercise date.

A CFD is a contract with an entity to exchange the difference between the opening value and the closing value of an instrument, whether that instrument is an individual equity, a bond, a future or option.

Both CFDs and Futures have a higher risk profile than warrants as you can lose more than your initial investment.

When trading warrants you pay the premium (price of the warrant) upfront and then have the right but not the obligation to exercise the warrant up until expiry.

When trading in futures CFDs you put up a margin amount. Should the underlying price fall by more than this margin amount then you are required to top up your margin account to avoid having your position closed out.

Warrants and IEFs are traded on regulated exchanges; warrants on the JSE Limited and IEFs on the South African Futures Exchange (SAFEX).

CFDs are currently unregulated.

Trading tips

1. Look to invest around 20% of your equity portfolio in warrants.
2. Trade your warrants in a separate trading account.
3. Don’t be greedy – view your warrant portfolio as a long-term investment, made up of short-term trades.
4. Use fundamental analysis to pick your stocks, combined with some technical analysis to help time your entry into the warrant.
5. Base any technical analysis on the underlying share, not the warrant.

6. Avoid trading in far out of the money warrants that are nearing expiry.
7. Don't average down on losing trades rather look to exercise a stop loss.
8. Set yourself a time frame whenever you enter a trade.

When choosing a warrant

1. Look to trade in warrants with more than three months to expiry.
2. Look to trade warrants with between two and six times gearing.
3. If Time Decay is a concern trade long dated ITM (In The Money) warrants.

Before starting to trade in warrants ask yourself

1. Am I suited to trading warrants?
2. Do I understand the risks?
3. Do you have the time to check your warrant positions on a daily basis?

What is a discount share instalment?

Discount instalments are instruments that give the holder the benefit of gaining geared exposure to some of South Africa's leading shares without having to pay the full purchase price on day one.

Currently there are two types of instalments listed on the JSE:

1. Vanilla or standard instalments
2. Discount instalments

Vanilla instalments*

Under this form of instalment the holder becomes eligible to receive the full ordinary dividend payable on the underlying share that the instalment is listed over. In order to receive the dividend you will need to be the holder of the instalment on the LDT (Last Day to trade) of the underlying.

Discount instalments

Under discount instalments the holder of the instalment is not eligible to receive the dividend payable on the underlying share. However, the dividend stream of the share is discounted into the price of the instalment upfront. This has the effect of making discount instalments cheaper than vanilla instalments.

How do I go about trading discount instalments?

You can buy discount instalments on the JSE Limited via any registered stockbroker. The price at which the instalments are available is published daily on our website at www.warrants.co.za;
or call 0800 111 780 for the latest pricing matrix.

When buying a discount instalment the investor is in essence purchasing the underlying share forward at a future date.

AGL Same as the three letter JSE Limited code for the underlying share, for example, Anglo American

SD Issuer code: SB denotes Standard Bank
D indicates discount instalment

A A-O indicates discount instalments listed over the underlying

What am I buying when I purchase a discount instalment?

When buying a discount instalment the investor is in essence purchasing the underlying share forward at a future date. As an initial payment you will pay around half the value of the share as an initial down payment with the payment of the balance deferred until expiry.

When you purchase a discount instalment you enter into the following:

1. An initial payment in respect of the instalment.
2. An option to pay the final instalment (take up price) in respect of the instalment on expiry.

What happens at maturity?

At maturity, discount instalment holders will have two options:

1. You can pay the final instalment and take delivery of the underlying securities.
2. If you do not pay the final payment and the instalment still has a positive value, (worked out by taking the price of the underlying on expiry minus the strike price of the discount instalment) it will be paid out to the instalment holder.

Pricing

The price of the instalment warrant will change with any movement in the price of the underlying security. Standard Bank will publish daily a matrix of the price of the discount instalment in relation to the underlying security on its warrant website at www.warrants.co.za

* Please note: Currently Standard Bank does not offer vanilla instalments

Key benefits

- Geared Share exposure through the forward purchase
  - For the term of the trade, with full ownership of the underlying shares being transferred to the holder on the expiry date.
  - As only a partial payment is made upfront, the investor receives gearing on any share price movements, in comparison to holding the underlying share.
- No Margin Calls
  - The investor is not obligated to make the final instalment payment and there are no margin requirements that need to be maintained during the life of the discount instalment.
- Limited Downside
  - As a holder of a discount instalment you will have the option pay the final instalment and take delivery of the underlying. Should you choose not to make the final payment any positive value remaining in the instalment will be paid back to you.
- Flexibility to restructure existing share portfolios
  - By buying discount instalment warrants and selling out the underlying shares investors can maintain their exposure to the underlying shares and free up cash.

For more information about Standard Bank warrants contact us on:

Tel.: 0800 111 780
Internet: http://www.warrants.co.za
email: derivatives@standardbank.co.za

Glossary

American style
Means that the warrant can be exercised at any time up to and including the expiry date.

Barrier warrant
A warrant that has a predetermined level of the underlying at which level if touched the warrant immediately expires at zero value.

Conversion ratio
The number of warrants that must be exercised in relation to one share or an underlying parcel of shares.

Call warrant
A contract giving the holder the right, but not the obligation, to buy a share for the exercise price at a future date. (See also European style and American style.) Taking up this right is known as “exercising” the warrant.

Delta
The delta of the warrant represents the relative change in the value of the warrant to changes in the value of the underlying share price.

European style
Means that the warrant may be exercised only on the expiry date.

Exercise price
Fixed price at which a warrant holder may buy (in the case of calls) or sell (in the case of puts) a share.

Expiry date
Expiry date is the last day on which a warrant may be exercised.

Gearing

Simple gearing is the ratio of the share price to the warrant price. Effective gearing is the simple gearing multiplied by the warrant's delta. Delta is the measure of the relative change in the warrant price to a change in the price of the underlying.

Index warrant

A warrant where the underlying is a nominated index instead of an individual equity.

Intrinsic value

The amount a warrant would be worth if it were to expire today; the difference between the underlying price and the exercise price per share, divided by the conversion ratio.

Put warrant

A contract giving the holder the right, but not the obligation, to sell a share for the exercise price at a future date. (See also European style and American style.)

Time value

The additional value of a warrant (if any) over intrinsic value due to the remaining term of the warrant, and its limited risk characteristics.

Turbo warrant

A specific class of barrier warrant where the knock out barrier is set at the same level as the strike price.

Volatility

A measure of the variation in a price over time.

Warrant

An option contract traded on the JSE Limited issued by an institution such as The Standard Bank of South Africa Limited.

Registered credit provider (NCRCP 15)
Authorised financial services provider
The Standard Bank of South Africa Limited (RegisteredBank) Reg. No. 1962/000738/06 SBSA 810763-11/07