



RAND MERCHANT BANK

————— A division of FirstRand Bank Limited —————

Equities

RMB's experience of a developing
market

Equities - current situation

FCO

Stockbroking

Scrip Lending

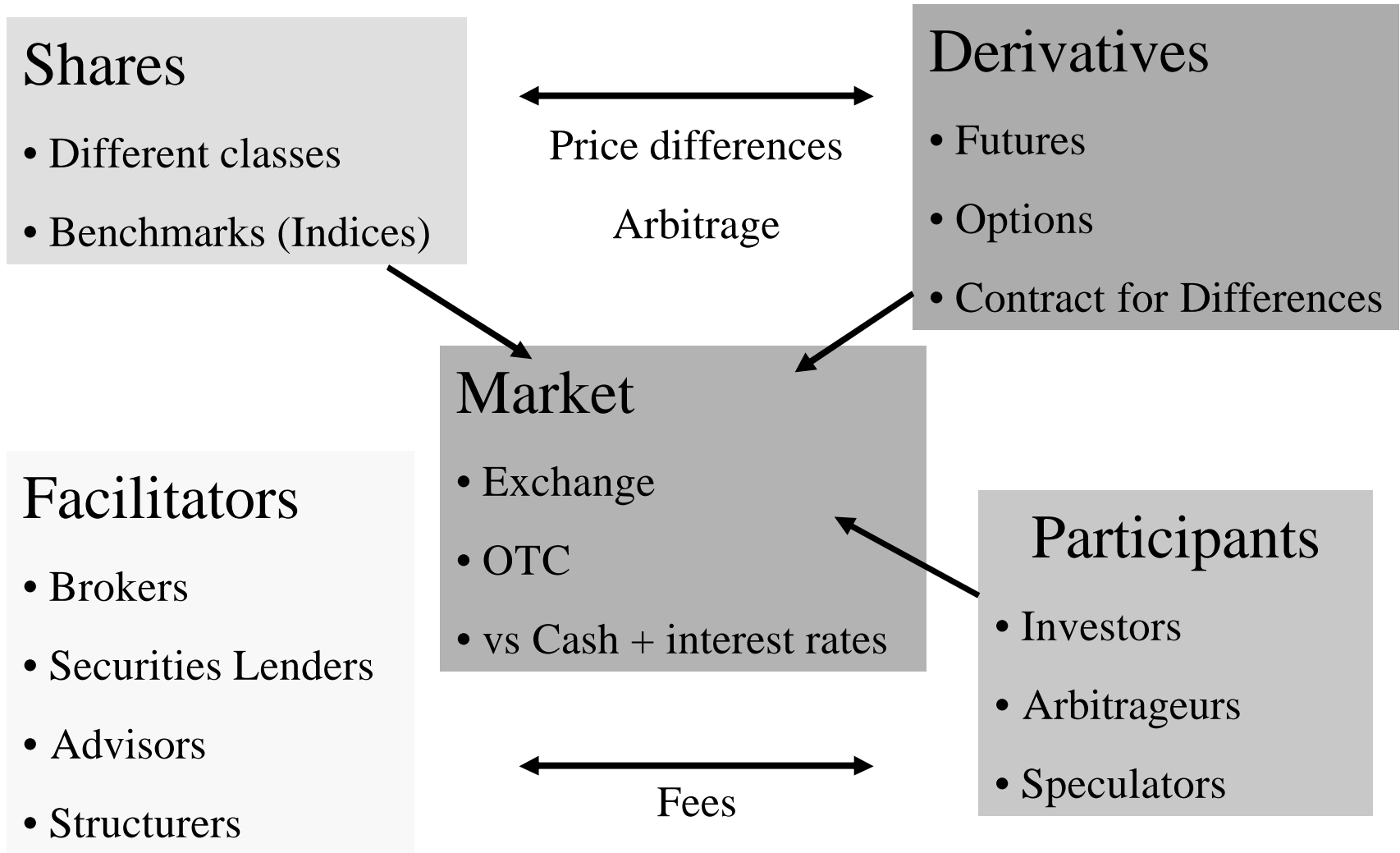
Proprietary Trading

Structuring

International & Local Arbitrage

Advisory - Corporate Finance

Building Blocks and Relationships



Stock Exchange

- First share trade 1838
- JSE 1887
- Open Outcry
- RMB started equities trading in 1987
- Corporate Membership 1995
- JET Automated Trading System 1996
- Liquidity Ratio from 4% to 35%

Indices

- Actuarial Society of SA
- Maintained by JSE, SAFEX
- All listed shares, excluding pyramids
- Calculated on a daily base.
- Base for Derivative Markets
- Free Float Adjusted Market Capitalisation

Indices -Sectors

- Various Sectors ie All gold , Chemicals
- Published on daily basis
- Used as benchmark - but wide
- Derivative Indices
- Started 1996
- Facilitate Investment (Benchmarking and tracking)
- Facilitate Arbitrage as futures and options are referenced to them

Top Indices

- ALSI TOP 40
- FINDI 30
- INDI TOP 25
- FINI 15
- RESI 20
- GOLDI 8

Futures

- Margined contract to buy at a future date and price (interest rate)
- JAPAN 1730
- SA - HOLCOM COMMODITY BROKERS IN 1973
- RMB started futures market in 1987
- SAFEX 1990
- ATS Traded
- USES
 - Speculative
 - Hedging
 - Arbitrage - reduce market to an interest rate. Buy low sell high
 - Investment

Options

- Option to buy or sell at a future date and set price
- Based on Black-Scholes theory (reduce equities to interest rates)
- Facilitates hedging of exposures and speculation
- Trade listed on JSE (warrants) and
- Over the Counter (OTC)
- Used in proprietary and structuring business

Stockbroking

- Traditional Stockbroking
 - Professional Fund Managers
 - Branch Network
 - High net worth Individuals
 - Staff
- NO research
- Willing Buyer/ Willing Seller

Securities Lending Business

- Borrow shares from current holders
- Facilitate short equity sales - reduce market to an interest rate
- Because of arbitrage
- Credit risk mitigated by collateral

Index Arbitrage

- The main objective is to take advantage of the miss-pricing between the Futures and Equity markets, to create a risk free income
- Buy Portfolio of shares, sell similar derivative instrument.

Structured Derivative Products

- Type of Products:
 - Capital Guarantees
 - Forwards
 - Warrants (options)
- Capital Guarantees:
 - Terms 1 - 5 years
 - Different percentage guaranteed
 - Various Unit Trust Funds and distribution channel

Structured Products

- Current Distribution Channels
 - RMB Investment Services
 - Momentum
 - FNB Brokers
 - Sanlam Investment Services
 - Standard Bank Unit Trusts
 - ABSA Investment Services
 - SAGE

Volatility Trading

Volatility Arbitrage

- Using financial technology to generate profits via proprietary trading of a volatility arbitrage book.
- **Objective:** To make highly specific relative trades using a scientific approach to gain small exposure to one or two risk factors (e.g. correlation and volatility).

Financial Engineering / Structuring

- Engineering financial products to meet specific financial or investment objectives.
- **Objective:** To generate a gross spread from creating, developing and offering structured products.

Structuring

- **Institutional**

- Tax efficient guaranteed returns in Rand
- Guaranteed return funds
- Passive fund management

International & Local Corporate Arbitrage

- Corporate Action Arbitrage
- Relative Value Arbitrage
- Progressed to dual-listed companies and foreign offers (currencies trade on interest rate differentials)
- Equity Linked Debt (convertible bonds)
- Capital Structure Arbitrage (equity vs debt)
- Debt and derivatives now play a large role - entire capital structure reduced to *risk adjusted* interest rate