FAIR VALUE RE-DESIGNATION

EQUITY DERIVATIVES

FAIR VALUE AND REDESIGNATION EXPLAINED

When a company makes a takeover offer for another company, the takeover offer will usually be in shares, in cash, or a combination of both.

WHAT HAPPENS TO MY DERIVATIVES WHEN THE UNDERLYING SHARES ARE SUBJECT TO A TAKEOVER BID?

When a company makes a takeover offer for another company, the takeover offer will usually be in shares, in cash, or a combination of both.

Re-designation of the derivatives when the offer is in shares

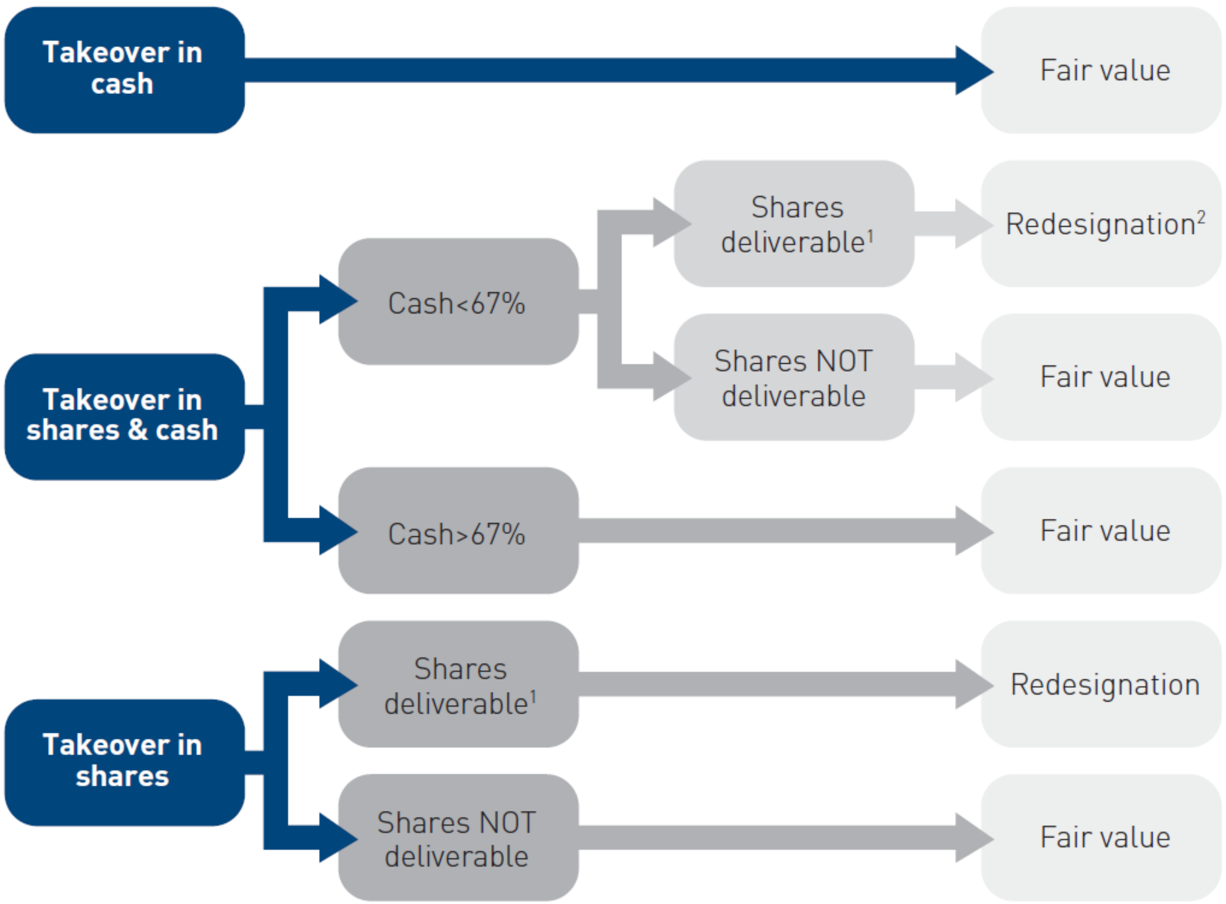
When company A makes a takeover offer for company B, solely in shares. The derivatives are re-designated as derivatives based on the shares of company A, using the exchange ratio of the bid. Re-designation can only take place if the shares1 of the offering company A are deliverable in the domestic market.

De-listing of the derivatives and settlement at Fair Value when the offer is in cash

When company X receives a takeover offer from company Y, solely in cash. The derivatives listed on company X cannot be continued. As soon as the offer becomes effective, the derivatives will be de-listed. The derivatives are then settled in cash, using the Fair Value method. This method preserves, besides the intrinsic value, also the remaining time value.

Other situations

The Fair Value method is also used when the cash component represents more than 67% of the total consideration of the offer, and when the takeover offer is in shares which are not deliverable in the domestic market.



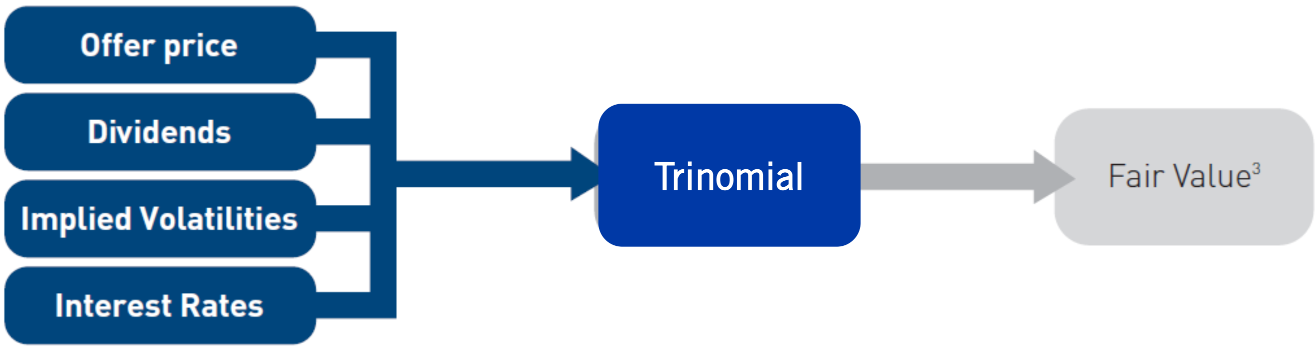
1 In the UK market, the deliverable could be in Crest Depository Interest (CDI) form.

2 Please note that the ratio method is used to replace the cash element with shares.

Fair Value Method Explained

Fair values are calculated using the Trinomial option valuation model.
The necessary inputs to calculate fair values using this model are:

- The price of the takeover offer
- Interest rate (i.e. Overnight Index Swap, the applicable rate for the remaining life time of the option)
- Dividend forecast by an independent provider, i.e. “Markit Dividends”
- Implied volatilities for each option series, determined on the basis of the daily closing prices of these series, 10 days prior to the announcement of the offer



3 Fair Values are calculated for each series and take into account strike price, remaining lifetime and the option style (European or American) and type (call or put).

Re-Designation Example

Company A takes over company B, whereby shareholders receive three shares in company A for each share in company B, the derivatives listed on company B are re-designated and will continue to trade with the company A shares as underlying value. The original lot size is multiplied by three and the exercise prices of the options are divided by three.

Fair Value Example

When company X takes over company Y, whereby shareholders receive €50.00 for each share held in company Y, the derivatives will be de-listed and settled at Fair Value, using the implied volatilities that are based on the closing prices of these series 10 days prior to the announcement of the offer.