



Solar Income Plan – Corporate Actions

Background

The Solar Income Plan is a structured product linked not to an index or indices but to the performance of 5 specific FTSE 100 listed banking stocks.

Plan pays a regular income of 10% p.a. or 0.8% per month regardless of share performance.

Full return of capital payable in the event that at least 4 of the 5 stocks are at or above 50% of their respective start levels at the end of the term. If two or more have fallen to this extent capital return based on the worst performing share.

Strike for all 5 stocks was close on 2nd May 2008

Finals are close on 2nd May 2013.

Corporate Actions

Since the start of the Plan a number of events have occurred which require the original strike prices to be recalibrated. The most notable of these has been the replacement of the HBOS share by Standard Chartered following the take-over of HBOS by Lloyds TSB. As Lloyds TSB was already included in the 5 stocks a replacement stock was required.

Record of changes

Barclays – Strike Price = 476.00p – Recalibrated Strike Price = 463.565p

A new share issue gave the right to shareholders to purchase 3 new Barclays shares for each 14 in issue for an issue price of 282.00p per share. The new shares would be admitted to trading on 26th June 2008.

Closing price of the “old” shares on 25th June 2008 was 331.00p.

The Liffe Euronext Market notices for this action recalibrate the original strike based on the formulas below

- Value of entitlement = $(331-282)/((14/3)+1) = 8.647059$
- Ratio = $(331- 8.647059)/331$
- Applying this to the original strike price of 476.00 leads to a recalibrated strike price of 463.565p

HSBC – Strike Price = 889.50p – Recalibrated Strike Price = 775.1423p

A new share issue gave the right to shareholders to purchase 5 new HSBC shares for each 12 in issue for an issue price of 254.00p per share. The new shares would be admitted to trading on 20th March 2009.

Closing price of the “old” shares on 19th March 2009 was 451.25p.

The Liffe Euronext Market notices for this action recalibrate the original strike based on the formulas below

Value of entitlement = $(451.25-254)/((12/5)+1) = 58.01471$

Ratio = $(451.25- 58.01471)/451.25$

Applying this to the original strike price of 889.50p leads to a recalibrated strike price of 775.1423p

Lloyds TSB – Strike Price – 452.50p – recalibrated Strike price = 230.0839p

A new share issue gave the right to shareholders to purchase 0.6213 new shares for each 1 in issue for an issue price of 38.43p per share. The new shares would be admitted to trading on 20th May 2009.



Closing price of the "old" shares on 19th May 2009 was 100.3p.

The Liffe Euronext Market notices for this action recalibrate the original strike based on the formulas below

$$\text{Value of entitlement} = (100.3 - 38.43)/((1/0.6213)+1) = 23.70926$$

$$\text{Ratio} = (100.3 - 23.70926)/100.3 = 0.763617$$

However there was a subsequent action as follows

A new share issue gave the right to shareholders to purchase 1.34 new shares for each 1 in issue for an issue price of 37.00p per share. The new shares would be admitted to trading on 27th November 2009.

Closing price of the "old" shares on 26th November 2009 was 88.83p.

The Liffe Euronext Market notices for this action recalibrate the original strike based on the formulas below

$$\text{Value of entitlement} = (88.83 - 37.00)/((1/1.34)+1) = 29.68043$$

$$\text{Ratio} = (100.3 - 29.68043)/100.3 = 0.665874$$

Applying both ratios to original strike: $452.50 * 0.763617 * 0.665874 = 230.0839p$

RBS – Strike Price = 365.25p – Recalibrated Strike Price = 313.4999p

A new share issue gave the right to shareholders to purchase 11 new shares for each 18 in issue for an issue price of 200p per share. The new shares would be admitted to trading on 15th May 2009.

Closing price of the "old" shares on 14th May 2009 was 319.25p.

The Liffe Euronext Market notices for this action recalibrate the original strike based on the formulas below

$$\text{Value of entitlement} = (319.25 - 200)/((18/11)+1) = 45.23276$$

$$\text{Ratio} = (319.25 - 45.23276)/319.25$$

Applying this to the original strike price of 365.25p leads to a recalibrated strike price of 313.4999p

HBOS/Standard Chartered

After the start of the Plan but before the takeover of HBOS by Lloyds TSB, HBOS was subject to a corporate action. This led to a recalibration of its strike price from 495.5p to 494.871575p.

Lloyds takeover of HBOS was effective on 15th January 2009. As Lloyds was already in the five constituents for the Plan the issuer could not be included to give measurement in respect of the original HBOS shares. Standard Chartered was the next best match.

At close of business on 14th January 2009 the HBOS price was 70.1p and the close of business level of Standard Chartered was 745.5p.

To calibrate the effective strike level of Standard Chartered back to the start of the Plan the issuer/calculation agent used the following calculation

$$494.871575/70.1 * 745.5 = 5264.00p$$

The ongoing Standard Chartered price is now used to check the performance of this share.