X-pand into the Future

e u r e x *circular 024/04*

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Recipients: All Eurex members and vendors
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⚠ **Action Required** ⚠ **High Priority**

HypoVereinsbank AG – Capital Increase

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Content may be most important for:

- Front Office / Trading
- Middle + Back Office
- IT /System Administration
- Auditing / Security Coordination

Attachments:
None

Summary:
On February 26, 2004, HypoVereinsbank AG announced a capital increase to be raised through a subscription rights offer to the HypoVereinsbank AG shareholders. The subscription ratio will be 5:2. The subscription price for the new HVM shares will be at least EUR 14. As a result of the capital increase an adjustment to the Eurex options on shares of HypoVereinsbank AG (HVM) and to the HypoVereinsbank basket (HVMB) is required. This circular contains a description of the adjustment procedure.

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HypoVereinsbank AG – Capital Increase

On February 26, 2004, HypoVereinsbank AG announced a capital increase raised through a subscription rights offer to the HypoVereinsbank AG shareholders. For every five old shares of HypoVereinsbank AG, shareholders will be offered rights to subscribe to two new shares of HypoVereinsbank AG with dividend entitlement for the fiscal year 2004. According to HypoVereinsbank AG the subscription price for the new HypoVereinsbank shares will be at least EUR 14 per share. The subscription period has not yet been decided.

The capital increase will be managed as follows:

- Five old shares of HypoVereinsbank AG give the right to subscribe to two new shares of HypoVereinsbank AG
- The subscription price for the new HypoVereinsbank AG shares will be at least EUR 14
- The subscription period has not yet been decided
- The new HypoVereinsbank AG shares will have dividend rights from the fiscal year 2004

As a result of the capital increase, an adjustment to the Eurex option on shares of HypoVereinsbank AG pursuant to Section 2.1.7 (3) of the Contract Specifications for Futures Contracts and Options Contracts at Eurex Deutschland and Eurex Zürich will be required. The Eurex Exchanges will calculate the adjustment factor (R-factor) on the basis of the Xetra closing auction price on the last cum trading day. The strike prices will be reduced by multiplying them by the R-factor. The contract size will be increased correspondingly, so that the original contract value is maintained. The version number of the adjusted series will be increased by 1.

The R-factor is calculated as follows:

R = ((number of old shares / number of new shares) * (1 - (issue price of new shares / closing auction price))) + (issue price of new shares / closing auction price)

The adjusted series and the resulting new contract sizes will be published via the Market Supervision Messages window immediately after the close of trading.

On exercise of an adjusted series, a cash payment will be made for the number of shares in excess of the standard contract size.

New series with version number 0 and the standard contract size of 100 will be introduced with effect from the ex day. All outstanding orders and quotes will be deleted after close of trading on the last cum trading day.

On the days before the capital measure the Contract Cover Assignment Entry window in the Clearing GUI should be used to delete all allocations of shares covering short call positions for the product HVM.

Further details, particularly concerning the subscription period and the issue price of the new HypoVereinsbank AG shares will be published promptly via the Market Supervision Messages window.

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Treatment of the HypoVereinsbank Basket (HVMB) in the Context of the HypoVereinsbank AG Capital Increase

Once the R-factor has been determined according to the procedure described above, the capital adjustment factor (K-factor) is calculated. With the help of the K-factor the contract size of the HypoVereinsbank share as a component of the basket is changed and split into one part for physical delivery (100) and a cash part. On exercise the cash part is multiplied by the appropriate closing auction price of the HypoVereinsbank share and subtracted from the resulting amount.

The basis prices remain unchanged.

The following example explains the adjustment procedure:

Closing auction price HRX	= 22.00
Closing auction price HVM	= 18.00
Theoretical subscription value	= 1.14
R-factor	= 0.9367
K-factor (1 / R-factor)	= 1.0676
HVM contract size = 100 * 1.0676	= 106.7600

So, in this example, the new contract size would be 106.7600

The calculated contract size applies to all series.

The following example shows the exercise of an option with a basis price of 16.00:

Resulting amount = 100 * 16.00	= 1,600.00
Less cash part HVM = 6.7600 * 16.86	= 113.97
Amount payable	= 1,486.03

After exercise the subscriber holds the following share position:

100 HVM * 16.86	= 1,686.00
25 HRX * 22.00	= 550.00
Position value	= 2,236.00

When evaluating the basket option the K-factor should always be taken into consideration from the ex date. The basket price is calculated from that point as follows:

Basket price = HVM price ex * K-factor + 0.25 HRX price

The correct factors will be published in the Market Supervision Messages window directly after close of trading.

Please note that on the system side Eurex makes no inputs for the basket, only changes within the context of the delivery process are made.

All outstanding orders and quotes will be deleted after close of trading on the last cum trading day.

The new position limit will be published in the Market Supervision Messages window once the capital measure has been concluded.

Please contact the Functional Help Desk on +49-69-211-1 12 10 should you have any further questions.

Frankfurt, March 2, 2004

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