

UBS Libor Cap Warrants.

Keeping interest rate risks within limits.

Is your mortgage financing based on short-term money market rates (e.g. UBS Libor mortgage 3 months), and would you like efficient protection against rising interest rates? If so, then UBS Libor Cap Warrants are the answer.

UBS Libor Cap Warrants at a glance.

Maximum interest rate: You select your maximum rate of interest (strike) from the range on offer. Your choice will be based on your willingness to take risks as well as your initial financial situation.

Lifetime: The term of the interest rate hedge is limited. You choose from the lifetimes on offer.

Reference interest rate (Underlying Asset): CHF-Libor for 3 months

Nominal value: Every UBS Libor Cap Warrant corresponds to a nominal value of CHF 10,000 or CHF 1,000. For example, if you wanted to secure the interest rate for a mortgage of CHF 500,000, you would buy 50 or 500 UBS Libor Cap Warrants.

Example.

Initial situation

UBS Libor mortgage CHF 500,000, Current Libor 1.0%, customer interest rate 2.3%, Interest rate hedging for 3 years.

Calculation based on CHF 10,000 nominal value

Buy 50 UBS Libor Cap Warrants of CHF 10,000 nominal value with an interest rate cap of 3.25% (i.e. max. customer interest rate of 4.55%) and a lifetime of 3 years.

Purchase price UBS Libor Cap Warrant = CHF 60 per warrant; 50 warrants at CHF 60 = CHF 3,000 (prices given as a guide).

In this example, the purchase price corresponds to 0.60% of the total financing, equivalent to 0.20% p.a.

If you bought UBS Libor Cap Warrants of CHF 1,000 nominal value, you would require 500 units to cover the same debt balance.

Recommendation.

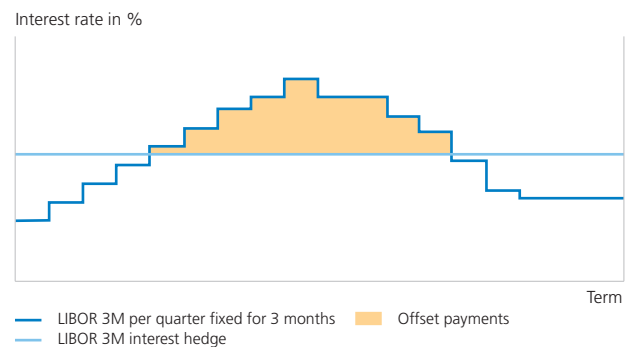
UBS Libor Cap Warrants and financing based on short-term money market rates (e.g. UBS Libor mortgage 3 months) are an optimal product combination. With UBS Libor Cap

Warrants, you secure the Libor as your reference interest rate. Your maximum interest costs are then made up of the interest rate cap you have selected for the Libor and your margin. If the current price is very low, it might be worth buying UBS Libor Cap Warrants some time before you conclude a loan agreement. For example, if convert your UBS Libor mortgage into a long-term fixed-rate mortgage, you will no longer need the UBS Libor Cap Warrants and can sell them on the stock exchange at their current price.

How UBS Libor Cap Warrants work.

UBS Libor Cap Warrants function like risk insurance. You pay a one-off premium (purchase price UBS Libor Cap Warrants) and receive the assurance that a specific maximum rate will not be exceeded. The value of your UBS Libor Cap Warrants will vary during their lifetime. The closer the interest rate (dark blue line in chart) is to your hedged rate of interest (light blue line), the higher the value of your hedge. At the end of the lifetime, after making any necessary offset payments, the UBS Libor Cap Warrants have no further value.

Hedging with UBS Libor Cap Warrants



If the reference interest rate (CHF-Libor for 3-month) rises above the cap selected, UBS will pay you the difference. The difference with the cap is measured at the beginning of each quarter and any value in excess will be credited to your account at the end of the quarter.

How you benefit.

Limited increase in mortgage costs.

If your mortgage has a variable interest rate, you can limit the risk of rising interest costs. With UBS Libor Cap Warrants, for example, hedge a UBS Libor mortgage (3 months) on a one-to-one basis. Other credit products can be hedged on an approximate basis.

You still benefit from declines in mortgage rates.

Although you have protected yourself against rising mortgage rates, you still benefit from any drop in mortgage rates. In a normal interest rate environment, short-term financing based on short-term money market rates is cheaper than financing based on long-term capital market rates. With the combination of, say, a UBS Libor mortgage and UBS Libor Cap Warrants, you benefit from better interest rates and can still protect yourself against high interest rates.

Can be bought and sold at any time.

You can buy and sell UBS Libor Cap Warrants at any time from UBS.

Current prices.

Current prices for UBS Libor Cap Warrants can be asked at your UBS advisor.

What else you should know.

- Libor stands for “**L**ondon **I**nter**b**ank **O**ffered **R**ate”. The CHF-Libor for 3-month is the interest rate for 3-month CHF funds first-class banks offer amongst themselves. It reflects the general interest rate level for short-term funds in CHF and is published daily in various media.
- UBS Libor Cap Warrants are independent of any loans held.

- You pay the usual brokerage for securities trading when you buy and sell UBS Libor Cap Warrants.
- Natural persons resident in Switzerland cannot deduct the purchase price of UBS Libor Cap Warrants held as private assets from income subject to direct federal tax. The differences credited, on the other hand, represent non-taxable income. Treatment is usually the same with regard to both cantonal and municipal taxes.
- The cost of the hedge is an important factor, the basic principle being that the lower the selected interest rate cap and the longer the selected lifetime of the interest rate hedge, the higher the hedge costs.
- The prices of UBS Libor Cap Warrants are subject to variation. Prices are determined by the current level of interest rates and interest rate fluctuations on the money market. The longer the lifetime and the closer the hedged rate of interest to current rates, the higher the hedge costs.
- UBS Libor Cap Warrants do not qualify legally as insurance.
- In any case, your financial risk with respect to UBS Libor Cap Warrants is limited to the payment of the one-off premium on purchase.

Any questions?

Your UBS advisor will be happy to advise you and present you with some sample calculations.



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