Margin Call – Close Out Process

Lombard loan
The Lombard loan is a loan collateralized by securities (capital market investments such as equities, bonds, fund units, etc.) which are pledged and deposited with the lender. Because securities are subject to fluctuations in value, loans are not granted for 100% of the value deposited. The bank calculates a security margin. The maximum loan-to-value ratio for the securities deposited is the market value of the securities minus the security margin. Your securities custody account that serves as collateral for the Lombard loan will usually be broadly diversified. This means that the investments are spread over various securities, countries, sectors, currencies and asset classes in order to reduce the risk that the value of the collateral is insufficient to cover the loan. Under collateralization typically occurs faster when portfolios are insufficiently diversified or the loan-to-value ratio is utilized to a significant extent. The following describes the measures usually taken by UBS in the event of depreciation in the value of your portfolio. UBS is entitled to alter these measures at any time and in individual cases to diverge from this procedure at its own discretion.

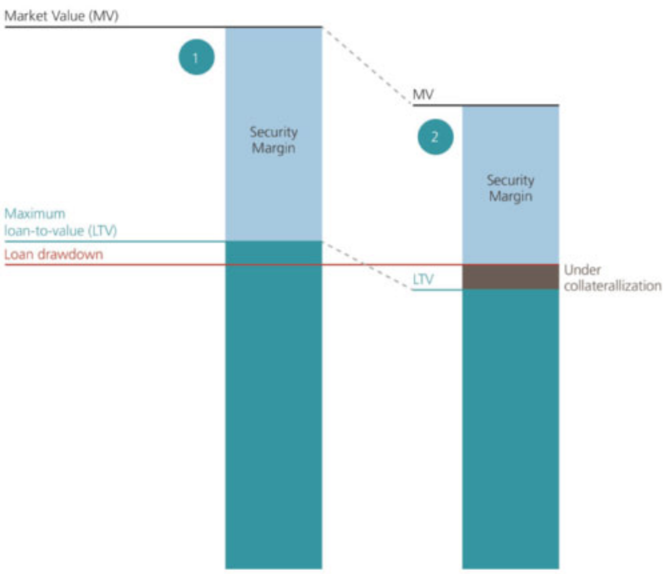
Depreciation in the value of your portfolio
You are obliged to ensure that there is sufficient collateral to cover all loan outstandings on your account. If UBS observes that the value of the collateral securing the loan has declined, your UBS client advisor will contact you and request you to provide additional collateral (margin call) or to undertake other risk-mitigating measures.

Risk-mitigating measures
- Provide cash to either increase the loan-to-value ratio of the collateral or (partially) repay the loan
- As agreed with your client advisor, provide other liquid assets, for example, by transferring securities from another bank to UBS
- Sell the securities at best and perhaps buy other securities with a higher loan-to-value ratio
- Close out open trading positions that can be used to reduce margin requirements

Please note that while these measures are being taken, further deteriorations in the market may necessitate additional measures. It is important that our client advisors can reach you easily in order to discuss any need for further action.

If you fail to comply with a UBS margin call within the period given, UBS is entitled to close out the transactions without any further notification.

Example:
The following graph illustrates two different stages:



1 Maximum loan-to-value ratio > loan drawdown:
The maximum loan-to-value ratio is higher than the amount of the loan drawn down. The security margin is sufficient and the status is OK.

2 Maximum loan-to-value ratio < loan drawdown:
If the price of the securities deposited declines to such an extent that the security margin is no longer sufficient or the loan drawdown is higher than the loan-to-value ratio, risk-mitigating measures must be defined and implemented immediately.

Key information at a glance
- Keep an eye on the price movements of your securities. Analyze and discuss your portfolio regularly with your client advisor in order to arrange a reduction in the loan, if necessary.
- If possible, do not utilize loan-to-value ratios to the maximum.
- The bank is entitled to demand additional collateral or to take all necessary measures in the event of an overrun.
- Depending on how the market performs, the bank can request at any time that you provide additional collateral or repay the loan partially or entirely.
- The bank may alter the maximum loan-to-value ratios, which can result in a margin call or even a close out.

Risks regarding Lombard loans

Risks

Leverage effect
The use of borrowed capital can generate a higher return on equity when the expected investment objective is realized. However, this potentially higher return on equity goes hand in hand with a higher investment risk, since the loan costs (interest costs and redemption) are fixed. A certain expenditure item has to be considered in view of a related but uncertain return on investment. This so-called leverage effect typically results not only in higher chances of profits, but also higher risks of loss. In the extreme case of total loss of equity, this can result in obligations to repay the loan still having to be met.

Unforeseeable market changes
If a collateral loan is taken out for investment purposes, the equity risk will increase since there is no guarantee of how much return the investment will actually yield. Depending on the market situation, it is possible that the interest on borrowed capital will be higher than the returns. In this case, you would generate a negative leverage effect.

Minimum cover requirements
If the value of your securities falls below a certain limit, you may be asked by UBS to furnish additional collateral (margin call) or to repay the loan in part or in full. If you are unable to meet this obligation to make an additional capital contribution or repay the loan, UBS may liquidate some or all of the investments used to secure the loan.

Liquidity bottlenecks
Insufficient funds to cover interest installments due or redemption of the loan may result in the sale of the pledged investments at an inopportune point in time.

Change in risk-return characteristics
Taking up a collateral loan increases the portfolio risk (particularly in highly volatile markets).

Currency and interest fluctuations
Currency and interest rate fluctuations can have a severe impact on expected return and the value of the investment. If the loan currency is not the same as the currency of the collateralized securities and investments, exchange rate fluctuations may have a negative effect. This increases the loss potential of an investment strategy.

Tax implications
Private individuals subject to unlimited tax liability in Switzerland can, as a rule, deduct the debt and the cost of interest when their taxable assets or income are calculated. However, loans used to finance security transactions are one of the criteria used by the Swiss Tax Authorities to determine whether a taxpayer is to be treated as a professional securities dealer. If so, capital gains that would otherwise be tax-free are taxed as income. The fiscal consequences of this for persons resident abroad are determined by reference to the applicable foreign tax law.

This publication is intended for marketing and information purposes only and does not constitute a recommendation to take out a Lombard loan or an offer or a solicitation of an offer for a Lombard loan. Furthermore, this publication does not constitute a recommendation, an offer or a solicitation of an offer to buy or sell investment products or other products, irrespective of whether these products are acquired with own capital or financed with a Lombard loan.

Tax treatment depends on the personal situation of each client and may be subject to changes in the future. In all cases, clients are advised to obtain the necessary customized advice on the tax consequences of a Lombard loan from an independent advisor. Before acquiring investment or other products with the assets provided by a Lombard loan, you should obtain relevant professional advice. Please note that UBS reserves the right to alter its services, products and prices at any time without prior notice.

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