

Lombard loan

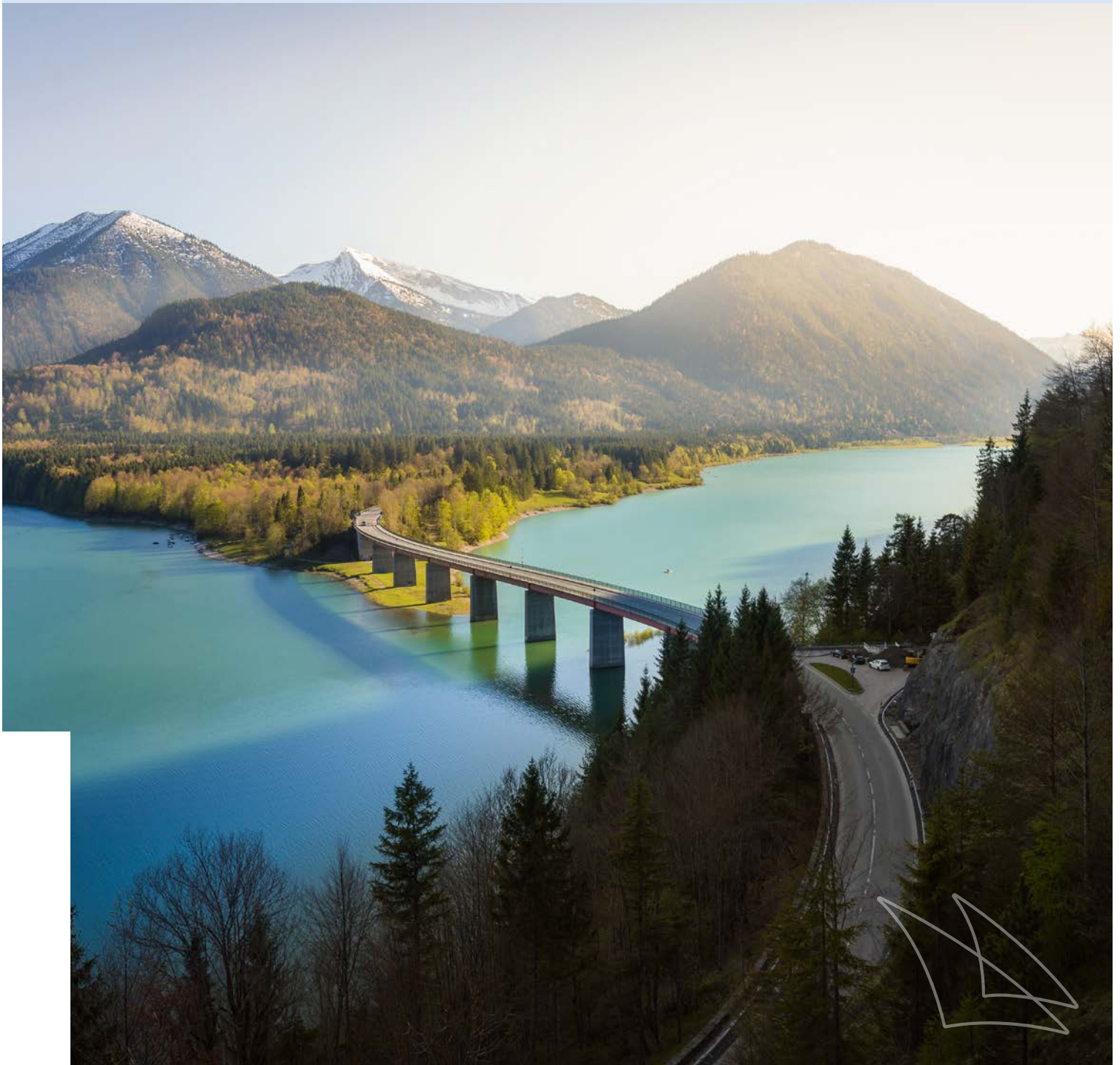


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A Lombard loan is a loan secured by freely transferrable and marketable assets that can be readily bought or sold in the market and/or selected insurance policies that are freely assignable and acceptable as security to Credit Suisse (the “Bank”).

These assets must be deposited by you or someone designated by you in an account with the Bank and pledged in favor of the Bank or for insurance policies, assigned in favor of the Bank (collectively, the “Pledged Assets”). The loan proceeds can be used by you to invest in various securities or assets and/or used for your other financing needs. You can borrow up to a certain percentage of the current market value of the Pledged Assets. This percentage is called the loan-to-value (LTV) ratio and together with the market value¹ of the Pledged Assets determines the Collateral Value of the Pledged Assets ($LTV \times \text{Market Value} = \text{Collateral Value}$). The maximum loan amount that can be borrowed is limited to the lower of (i) the Collateral Value of the Pledged Assets, and (ii) your approved credit limit. You are required to ensure that the Collateral Value of the Pledged Assets is at all times at a level above your credit exposure. At any time, if the Collateral Value of the Pledged Assets falls below the credit exposure, you may receive a top-up notice from the Bank which will require you to deposit and secure in favor of the Bank additional assets in your account or to partially or fully pay back your loan within the period specified by the Bank in the top-up notice.

Investment risks

If you use your loan proceeds to invest in securities or other assets and the market value of these investments rises, you may get an enhanced return on your own invested capital. However, if the market value of these investments falls, the return on your invested capital will turn negative and could result in a loss of your own invested capital and the investment capital derived from the loan proceeds.

¹ For selected insurance policies, the current market value refers to the lower of first day or current cash surrender value of the policy.

How does a Lombard loan work?

A Lombard loan can be used for (i) drawing cash advances and overdrafts, (ii) issuing bank guarantees or standby letters of credit, and (iii) trading in derivatives/entering into exchange trading (including commodities trading).

Lombard loans are granted against a charge of your freely transferrable and marketable assets (that can readily be converted into cash) maintained in your account with the Bank – such as listed equities, bonds, and selected insurance policies with a surrender value.

You can borrow against your Pledged Assets up to a certain percentage of their current market value. The applicable LTV ratio is dependent on various factors including, without limitation, the type, currency, location, sector, quality, volatility, liquidity and tradability of the securities in question, as well as the overall diversification of your portfolio. In the case of insurance policies, the applicable LTV is dependent on the rating of the insurance company, currency of loans, type of insurance product and cash surrender value. The LTV ratios are determined by the Bank and will be reviewed and if necessary changed at its discretion. For example, an LTV ratio of 30% for a specific security could be revised downwards to 20% following a review of the general market conditions or the volatility/liquidity of the specific security or such other factors that the Bank determines should have an impact on the Collateral Value.

If the Collateral Value of your Pledged Assets is not sufficient to cover the amount of the loan that has been drawn, you may receive a top-up notice from the Bank requiring you to deposit and secure in favor of the Bank additional assets (top-up) in your account with the Bank, or to partially or fully pay back your loan. You may be called upon at short notice to do so. If you do not meet your obligations under a top-up call and a collateral shortfall continues to persist after the time period given by the Bank for the top-up, the Bank may declare a default. When this happens, the Bank may close out your open trade positions, terminate your loan and proceed to liquidate the Pledged Assets to cover the exposure. Where the Pledged Assets comprise an insurance policy, liquidation of the asset may mean that the Bank exercises any of its rights under the insurance policy, including, without limitation, a partial or full surrender of the insurance policy, which may result in a loss of partial or full insurance coverage under the insurance policy.

In certain situations (such as a volatile market), the value of the Pledged Assets may decline and/or its corresponding loan-to-value ratios may be adjusted to such level that the collateral value of the Pledged Assets reaches a level where the Bank is entitled to close out trade positions and/or liquidate and realize all or part of the Pledged Assets in your account, without further notice to you.

What are the benefits of a Lombard loan?

- Free up liquidity to re-invest or meet external cash needs without selling investments.
- Bridge the gap between future maturities and current investment opportunities.
- Enhance your portfolio diversification and/or overweight asset classes without changing the existing asset allocation.
- Adjust your risk/return profile by changing the leverage ratio (loan size to amount of investment portfolio).
- Use foreign currency loans to hedge or to generate yield enhancements.
- Potentially enhance your return on equity.
- Combine the Lombard loan with foreign exchange or derivative products to reduce or cap your borrowing costs or to find a tailor-made solution for your special liquidity needs and repayment schedules.



What are the key risks of a Lombard loan?

- Lombard loans are granted on an uncommitted basis and are repayable at any time on demand by the Bank.
- If the Pledged Assets decline in value and/or the Bank adjusts the corresponding loan-to-value ratios of the Pledged Assets, which it is entitled to do at its sole discretion at any time, you will either have to provide additional assets as collateral or reduce or pay back the outstanding loan in the applicable amount within the time period stipulated by the Bank. You may be called upon at short notice to do so. In certain situations (such as a volatile market), the value of the Pledged Assets may decline and/or its corresponding loan-to-value ratios may be adjusted to such level that the collateral value of the Pledged Assets has reached a level where the Bank is entitled to close-out trade positions and/or liquidate and realize all or part of the Pledged Assets in your account, without further notice to you.
- During the term of the loan, you may not withdraw, sell or otherwise deal with the Pledged Assets without the prior consent of the Bank.
- For derivatives trading facilities, if the mark-to-market value of your position(s) deteriorates or the margin required is increased, you may be required to deposit additional assets as collateral or close out some or all of your position(s) and realize your marked to market losses. The level of margin required to support derivatives trading facilities are determined by the Bank at its discretion and may be changed from time to time.
- If the loans are used to support foreign exchange and commodities trading, you would take on the risk of foreign exchange and commodities trading and you should be aware of and accept the risks associated with such trading activities.
- If your portfolio contains debt instruments, such as bonds or money market instruments, interest rate fluctuations may have an adverse impact on the value of these investments.
- Lombard loans against single investment or concentrated asset portfolios bear higher risk than loans against a diversified portfolio.
- Lombard loans against insurance policies may require you to provide additional assets as collateral and/or may become repayable on demand by the Bank if (i) an event of adverse change in credit rating or (ii) default of the insurer occurs.
- If the insurer of the insurance policy assigned to the Bank as collateral becomes insolvent or defaults on its obligations, you remain responsible for payment of your Lombard loan to ensure all debts due and payable to the Bank are satisfied.
- If you fail to deposit additional collateral or reduce a loan amount or close out some or all of your trading positions within the time period as stipulated by the Bank, the Bank may call a default and close out some or all your open positions and liquidate a part or all of your Pledged Assets. In the worst case, even after selling all your Pledged Assets, there may still be an outstanding loan balance for which you will be liable to the Bank.
- Where the Pledged Assets comprise an insurance policy, liquidation of the asset may mean that the Bank exercises some of its rights under the insurance policy, including without limitation, a partial or full surrender of the insurance policy, which may result in a loss of partial or full insurance coverage under the insurance policy. In the worst case, even after liquidating all your Pledged Assets, there may still be an outstanding loan balance for which you will be liable to the Bank.
- The closing out or unwinding of any open positions before maturity may result in substantial additional unwinding costs for which you will be responsible. This may result in further losses to you.

You may consider applying for a Lombard loan if...

- You understand and accept the risks associated with a Lombard loan and have the financial capacity to bear or mitigate the risks and potential financial losses.
- You have readily available financial resources to meet any top-up-notice and to service interest payments as well as ensuring loan repayment.
- You have the financial capacity to bear unrealized losses and hold the Pledged Assets during volatile market conditions.
- You believe the borrowing costs are lower than the expected future performance of your total investment portfolio.
- You regularly review your portfolio leverage strategy and adjust it to current market conditions.

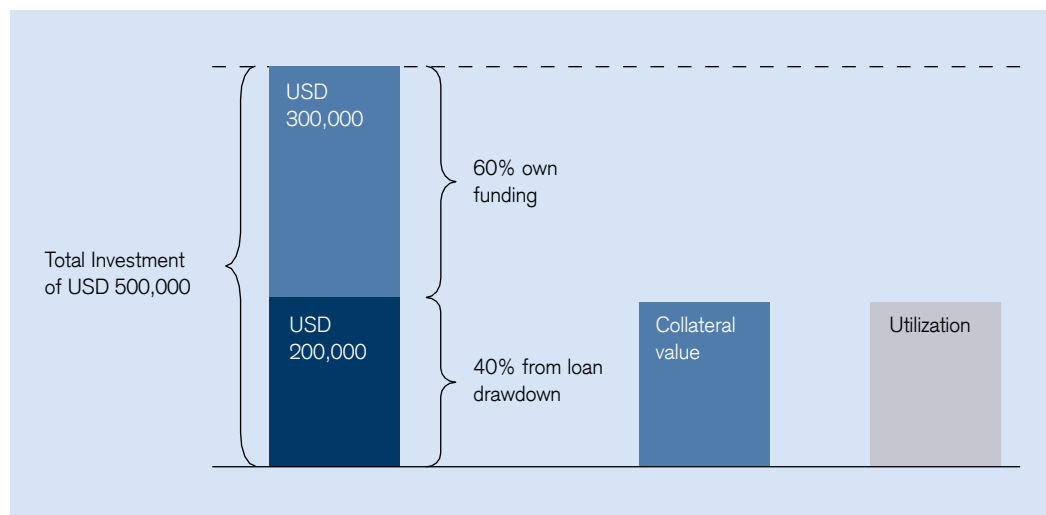


Illustrative example of a Lombard loan

At inception

The lower of approved limit or Collateral Value of the Pledged Assets (total Collateral Value of individual securities = corresponding market value x LTV) defines and caps the amount available for utilization under a Lombard loan. The credit utilization level is the sum of the total loan amount that is actually drawn down plus guarantees/SBLC issued and margin trading exposure executed by you.

Any reduction in the market value of the Pledged Assets or any adjustment of LTVs applied by the Bank may lead to a change in Collateral Value and therefore lead to a change in the amount available for additional utilization.

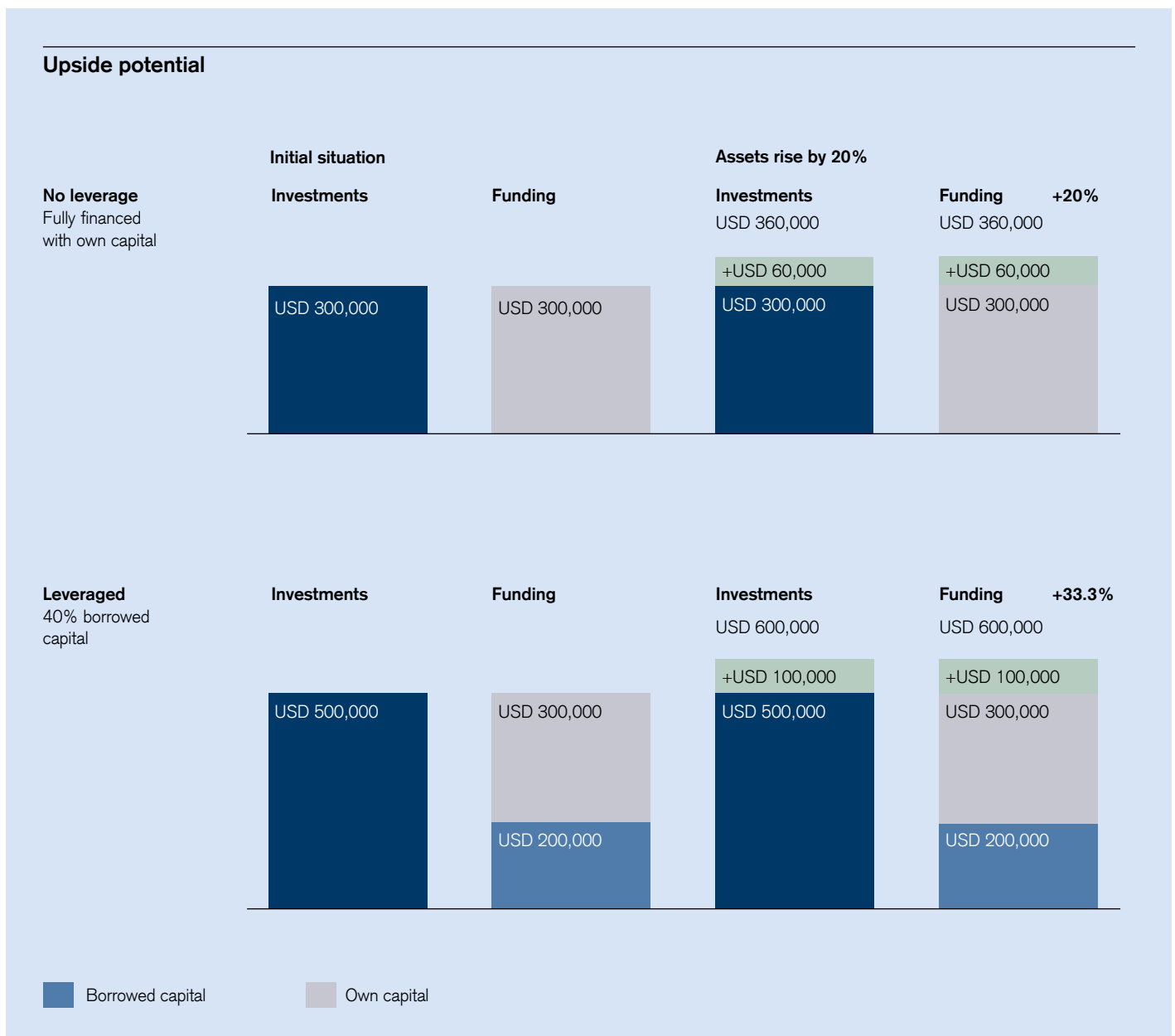


At inception, if you wish to bring in funding of USD 300,000, you can either buy the investment worth USD 300,000 or build the investment by a mix of own capital and borrowed capital. If the LTV of this investment is 40%, then the full investment amount after leverage will be $USD\ 300,000 / (100\% - 40\%) = USD\ 500,000$. Hence, your own capital investment is a minimum of USD 300,000 and borrowed capital investment is capped at USD 200,000.

Scenario 1: Portfolio value increases by 20%. Non-leveraged solution vs. leveraged solution.

In the event the portfolio value of your investment increases by 20% and your investment was fully financed by your own capital of USD 300,000, the portfolio value of your investments will be USD 300,000 x 1.2 = USD 360,000. Return on your investment of USD 300,000 will then be USD 60,000/USD 300,000 = 20%.

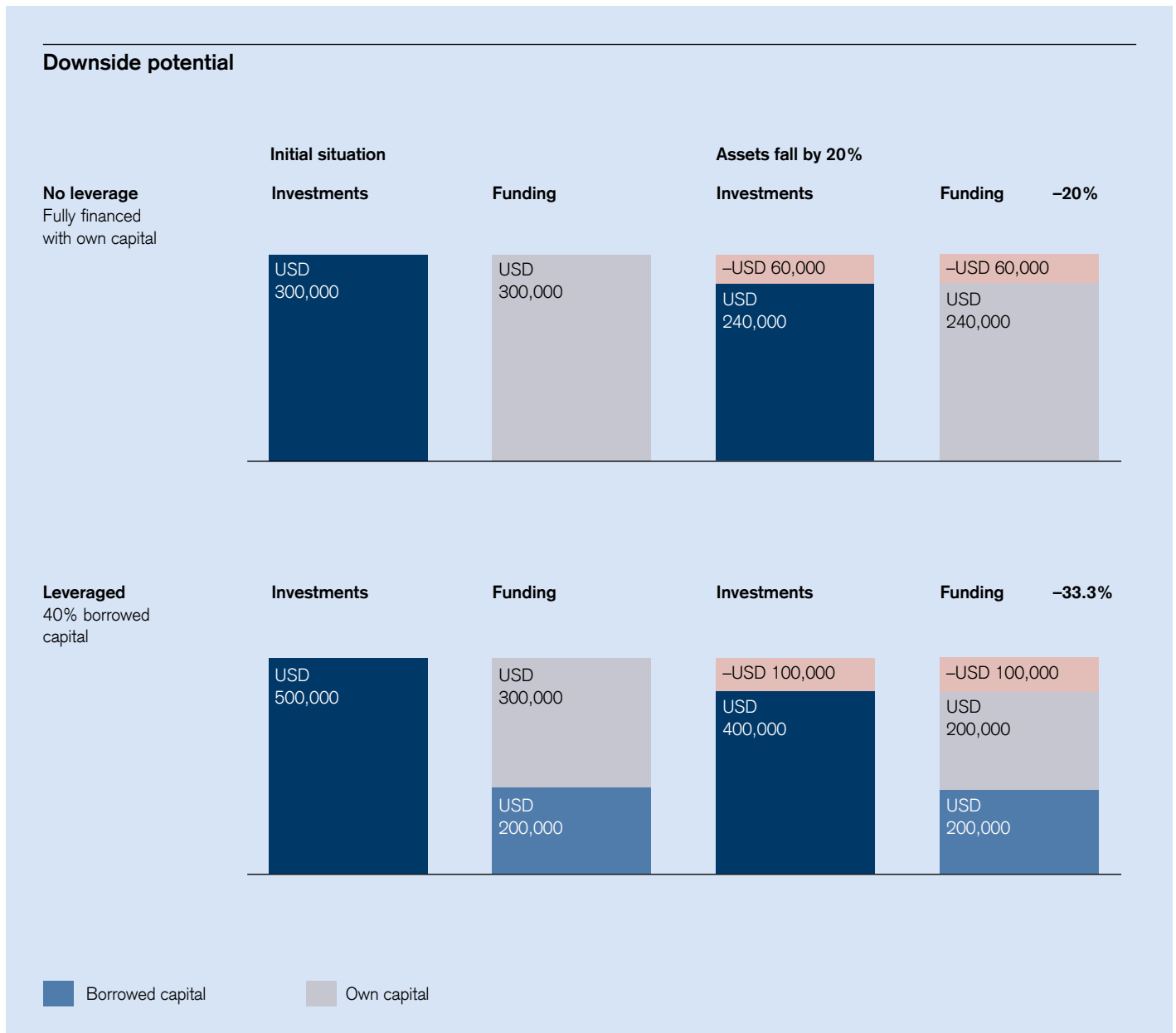
However, if your investment was financed through 40% leverage, then the portfolio value of your investment will be USD 500,000 x 1.2 = USD 600,000. Return on your investment of USD 300,000 will then be USD 100,000/USD 300,000 = 33.3%. Since you have borrowed USD 200,000 on which interest is payable to the Bank, the investment gain of USD 100,000 will be reduced by the amount of interest paid and thus the return on your investment will be correspondingly reduced.



Scenario 2: Portfolio value decreases by 20%. Non-leveraged solution vs. leveraged solution.

In the event the portfolio value of your investment falls by 20% and your investment was fully financed by your own capital of USD 300,000, the portfolio value of your investment will be USD 300,000 x 0.8 = USD 240,000. Return on your investment of USD 300,000 will then be (USD 60,000)/USD 300,000 = -20%.

However, if your investment was financed through 40% leverage, then the portfolio value of your investment will be USD 500,000 x 0.8 = USD 400,000. Return on your investment of USD 300,000 will then be (USD 100,000)/USD 300,000 = -33.3%. These investment losses will be further increased because of the borrowing costs of the loan.



Worst case scenario: Portfolio value decreases by 100%. Non-leveraged solution vs. leveraged solution.

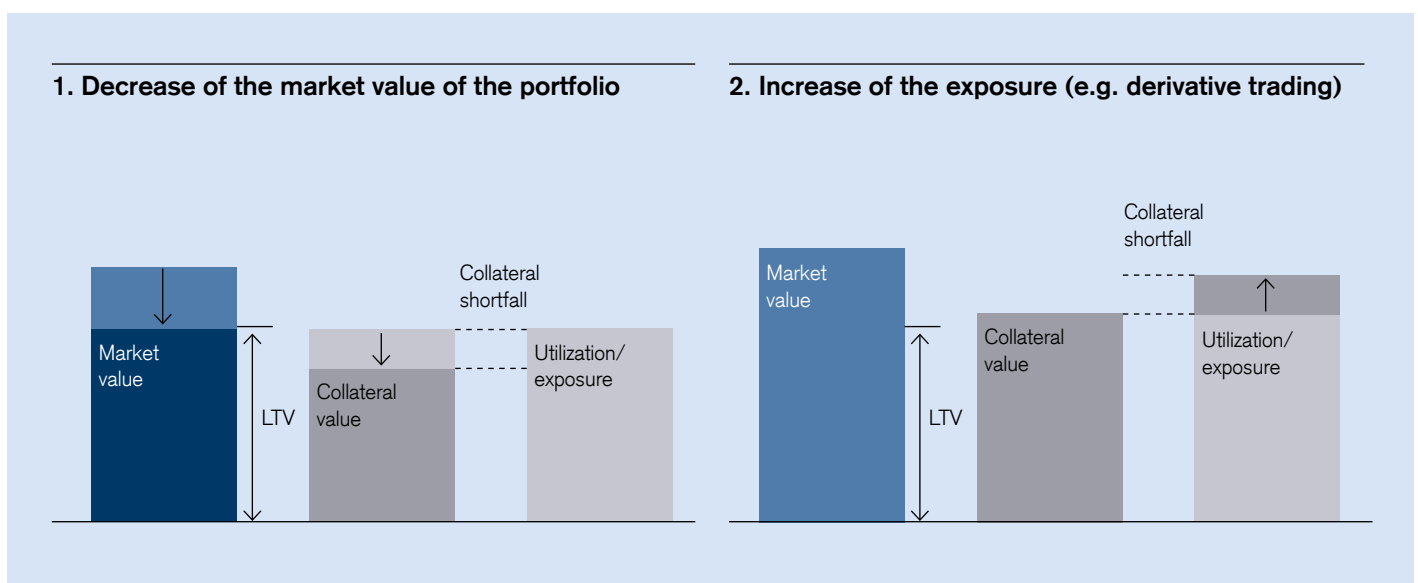
In the event the portfolio value of your investment falls by 100% and your investment was fully financed by your own capital of USD 300,000, you will lose your initial investment of USD 300,000.

If your investment was financed through 40% leverage, then you will lose not only the full value of your own investment capital (USD 300,000) but you will also have to pay back the loan of USD 200,000 and the related borrowing costs to the Bank.

Collateral shortfall and top-up notice.

If the Collateral Value falls below the credit utilization level (e.g. as a result of falling security prices or any adjustment of LTVs applied by the Bank) or the utilization increases above the Collateral Value or the approved credit limit (e.g. as a result of rising foreign exchange, forward or option trading exposure), a collateral shortfall and/or an excess of the (available) credit line occurs. Whenever a collateral shortfall occurs, you will be required to meet a "top-up notice." In this case, you must either reduce your credit utilization level (by closing out sufficient open positions), provide additional assets or securities as collateral or partially or fully pay back your loan within the period specified by the Bank in the top-up notice. If none of these steps is taken, the Bank will become entitled to liquidate the portfolio (or part thereof) to reduce your credit exposure. Where the Pledged Assets comprise an insurance policy, liquidation of the asset may mean that the Bank exercises any of its rights under the insurance policy, including without limitation, a partial or full surrender of the insurance policy, which may result in a loss of partial or full insurance coverage under the insurance policy. In a worst case scenario, the market value of your entire investment portfolio could fall to zero and as a consequence, you could lose your original capital, the Bank may sell or otherwise liquidate all your Pledged Assets and you will still be liable to the Bank for any remaining outstandings owed to the Bank from the loan.

Additionally, if you have any open trade positions or structured products that need to be unwound or closed-out before maturity as a result of your failure to meet a top-up call, you may incur substantial additional unwinding costs and marked to market losses that will result in further losses to you.





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