



Investing with Minimum Issuer Risk

COSI® – Collateral Secured Instruments in Detail

Unique Collateral

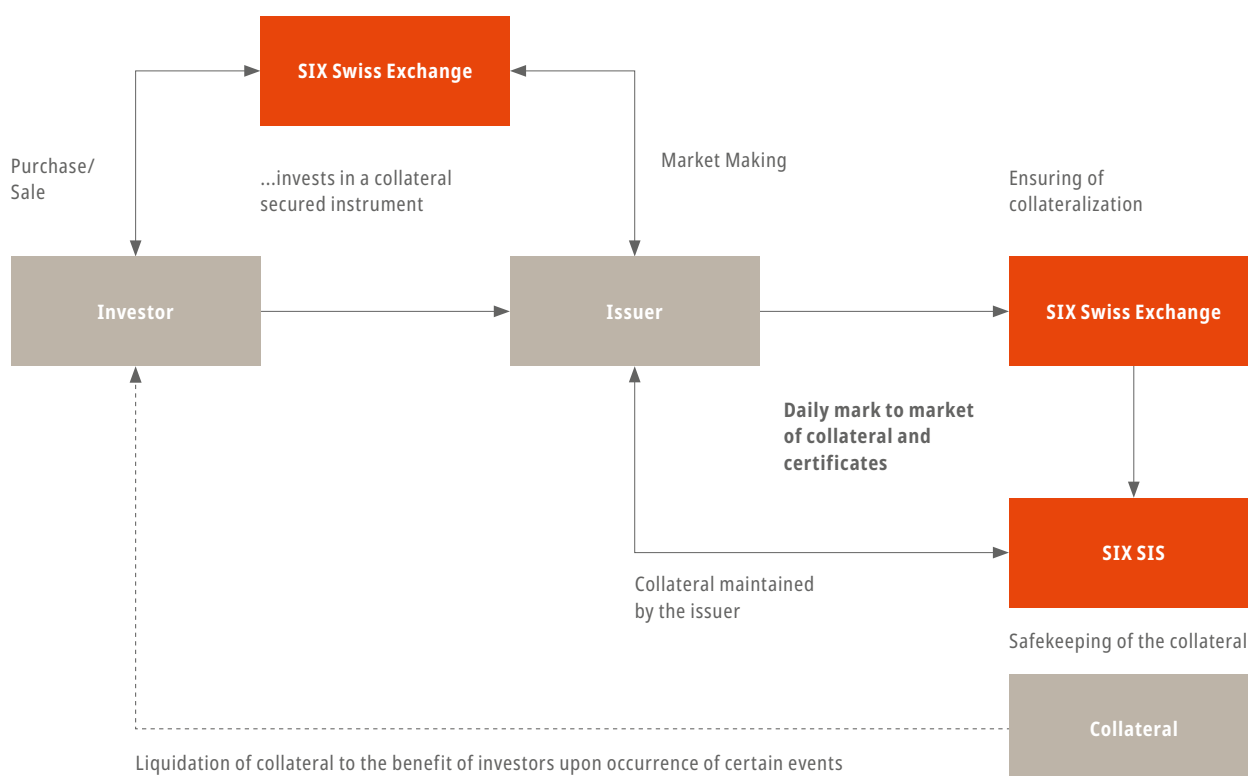
The internationally unique collateralization COSI® minimizes issuer risk and makes COSI products extremely safe investments for private and institutional investors. Made by SIX.

In principle, structured products are only available in the legal form of a bearer debenture. The disadvantage in this regard is that investors incur not only the market risk associated with any type of investment, but also an issuer-related default risk. Just how significant that risk is depends on the creditworthiness of the issuer. If the issuer is not able to uphold its payment obligations, the investor's capital commitment is jeopardized. That's where COSI come in: thanks to collateral backing of the structured product's current value, the default risk posed by the issuer is minimized to the greatest extent possible.

SIX Swiss Exchange Ltd ("SIX Swiss Exchange") in collaboration with SIX SIS Ltd ("SIX SIS"), a subsidiary of SIX Securities Services Ltd ("SIX Securities Services"), offers issuers a service for the collateralization of certificates. By this procedure, the current value of a Collateral Secured Instrument ("COSI") is secured by a collateral provider in favor of SIX Swiss Exchange. The collateralization is based on the "Framework Agreement for Collateral

Secured Instruments" ("Framework Agreement"), which the issuer and the collateral provider conclude with SIX Swiss Exchange and SIX SIS. Investors are not parties to the Framework Agreement. However, the Framework Agreement is of significance to the legal position of the investors in the event of a liquidation of collateral. If certain events defined in the Framework Agreement occur (so-called liquidation events), the collateral will be liquidated. Upon the occurrence of a liquidation event, the COSI shall become due and payable within a certain time period. At that point in time, investors' claims against SIX Swiss Exchange for the payment of their pro-rata share of the net liquidation proceeds of the collateral arise automatically. Investors have no further claims against SIX Swiss Exchange or SIX SIS. At their request, investors may obtain from the issuer a free of charge copy of the Framework Agreement in German or as an English translation. Other rules and regulations of SIX Swiss Exchange pertaining to the collateralization of certificates can be accessed at www.six-swiss-exchange.com.

The COSI[®] collateralization mechanism by SIX



What is the collateralization of certificates all about?

Certificates are bearer debt instruments (claims). The investor who purchases a certificate incurs a default risk, the level of which depends on the solvency of the issuer. The insolvency of the issuer may lead to a total loss by the investor. In order to minimize this risk, SIX Swiss Exchange in collaboration with SIX SIS offers a service for the collateralization of certificates. The collateralization is based on the Framework Agreement that the issuer and the collateral provider conclude with SIX Swiss Exchange and SIX SIS. Based on the Framework Agreement, the collateral provider undertakes to grant SIX Swiss Exchange

a right of lien on selected securities (book entry securities, securities embodied in a certificate or value rights). The COSI and the collateral are valued on each banking day. The collateral provider is obliged to adjust the level of the collateralization to any changes in value. Investors do not themselves have a surety right to the collateral. However, the collateralization works to their benefit in so far as the collateral shall be liquidated upon the occurrence of certain events as defined in the Framework Agreement (liquidation events) and the net proceeds of the liquidation of the collateral are distributed proportionately among the investors.

Fair and up-to-date valuation

The rules for determining the effective current values are based on SIX Swiss Exchange's "Special Provisions governing Collateral Secured Instruments". Specifically, the current values of COSI are calculated as follows:

Method A: Fair value procedure

The fair value procedure is essentially based on prices for the certificates as calculated by third parties (so called "fair values") in so far as such prices are available, which are taken into account in the determination of the current values of the COSI according to the following rules. Normally, after the first trading day for a certificate, scenario no. 16 applies. In this regard, three prices are of relevance in determining the current value of the certificate:

- two fair values for the certificate, as calculated by third parties; and
- the certificate's closing bid price on SIX Swiss Exchange for the previous trading day (hereinafter, the "prior-day closing price").

If the prior-day closing price is the highest of these three values, the current value of the certificate is always that price; otherwise, the middle price of the three is applicable. If for some reason certain prices are not available on a given trading day, the calculation is based on the prices available at that time (scenarios 1 through 16).

Scenario no.	CBP ¹	FV1 ²	FV2 ³	PCP ⁴	Current value of the certificate corresponds to
1	-	-	-	-	ISP ⁵
2	-	-	-	x	PCP
3	-	-	x	-	ISP or FV2 depending on which value is greater
4	-	x	-	-	ISP or FV1 depending on which value is greater
5	x	-	-	-	ISP or CBP depending on which value is greater
6	-	-	x	x	FV2 or PCP depending on which value is greater
7	-	x	-	x	FV1 or PCP depending on which value is greater
8	x	-	-	x	CBP or PCP depending on which value is greater
9	-	x	x	-	FV1 or FV2 depending on which value is greater
10	x	-	x	-	CBP or FV2 depending on which value is greater
11	x	x	-	-	CBP or FV1 depending on which value is greater
12	-	x	x	x	FV1 or FV2 depending on which value is greater
13	x	-	x	x	CBP or FV2 depending on which value is greater
14	x	x	-	x	CBP or FV1 depending on which value is greater
15	x	x	x	-	If CBP is lower than F V1 and F V2, then FV1 or F V2 depending on which of these two values is lower; if CBP is equal to or greater than FV1 and/or FV2, it is always CBP
16	x	x	x	x	If CBP is lower than F V1 and F V2, then FV1 or F V2 depending on which of these two values is lower; if CBP is equal to or greater than FV1 and/or FV2, it is always CBP

Method B: Bond floor procedure

The bond floor procedure is based on the following rules for determining the bond floor in accordance with the specifications of the Federal Tax Administration (Berne/Switzerland). If available, the current value of the certificate is always at least the bond floor, otherwise an equal or higher price is used.

Scenario no.	CBP ¹	PCP ⁴	BFP ⁵	Current value of the certificate corresponds to
17	–	–	–	ISP
18	–	x	–	PCP
19	–	–	x	ISP or BFP depending on which value is greater
20	x	–	–	CPL ⁷ or CBP depending on which value is greater
21	x	–	x	BFP or CBP depending on which value is greater
22	x	x	–	CPL or CBP depending on which value is greater
23	–	x	x	BFP or PCP depending on which value is greater
24	x	x	x	BFP or CBP depending on which value is greater

References used in the foregoing tables:

¹ The closing bid price for the COSI on SIX Swiss Exchange of the previous trading day

² The first fair value of the COSI as calculated by a third party on the basis of the underlying securities' closing prices of the previous trading day

³ The second fair value of the COSI as calculated by a third party on the basis of the underlying securities' closing prices of the previous trading day

⁴ The current value of the COSI as determined in accordance with method A or B on the previous trading day

⁵ The original issue price of the COSI

⁶ The bond floor price for the COSI on the previous trading day as determined by SIX Financial Information in accordance with the specifications of the Federal Tax Administration, Berne (Switzerland)

⁷ The capital protection level according to the COSI's redemption provisions

A value available for the given day is indicated with (x); an unavailable value is expressed by (–).

Which companies calculate the current values of COSI?

At present, the current values of COSI are determined by the following companies:

- Solvians Switzerland Ltd, Baar/Switzerland (www.solvians.com)
- swissQuant Group Ltd, Zurich/Switzerland (www.swissquant.com)
- SIX Financial Information Ltd, Zurich/Switzerland (www.six-financial-information.com);
is mandated by the Federal Tax Administration to calculate the bond floor price on a daily basis

Frequently Asked Questions



Which certificates can be collateralized?

The service of SIX Swiss Exchange and SIX SIS facilitates the collateralization of certificates that are listed and traded on SIX Swiss Exchange. Possible trading currencies for COSI are Swiss franc (CHF), Euro (EUR), British pound (GBP), Japanese yen (JPY) and US dollar (USD). Condition for collateralization is the availability of relevant prices (fair market price, bond floor and/ or required capital-protection level) for the COSI. The term to maturity of the COSI may not exceed eight years. The issuer undertakes to ensure that market making for the COSI is in place for the entire period during which the COSI are admitted to trading; bid prices for COSI must be posted continually in the secondary market.

How does the collateralization of certificates work?

The collateral provider undertakes to secure the current value of the COSI in favor of SIX Swiss Exchange. The Collateralization shall take the form of a conventional right of lien. Investors do not themselves have a surety right to the collateral. The collateral is booked into an account of SIX Swiss Exchange with SIX SIS. There is no allocation of collateral to specific issues of COSI. It is compulsory that the collateralization be properly maintained during the entire term of the COSI. Partial collateralization of a given issue is not possible.

Should the value of the collateral fall below the total current values of all the COSI, the collateral provider is obliged to make the additional collateral available on the same day. Where the value of the collateral increases above the total current values of the COSI, SIX Swiss Exchange shall return to the collateral provider collateral equivalent to the excess collateralization on the same day. The Framework Agreement constitutes the legal basis for the collateralization. The Framework Agreement is concluded to the benefit of investors in the COSI. The Framework Agreement is a so-called genuine contract to the benefit of third parties in accordance with Article 112 of the Swiss Code of Obligations.

How is the actual amount of collateralization determined?

The amount of collateralization depends on the current values of the COSI. The method for calculating the current value shall be determined for each COSI upon application for (provisional) admission to trading and shall remain unchanged for the entire term of the COSI. The issuer shall disclose in the listing prospectus according to which of the methods described below (A or B) the current value of the COSI shall be calculated. The current values shall be determined in the trading currency of the COSI on each banking day. On that basis, the necessary level of collateralization shall be expressed in Swiss francs.

What type of collateral is accepted for the collateralization of certificates?

Collaterals from the following categories are acceptable for the collateralization of certificates:

- Securities accepted by the Swiss National Bank with regard to repo transactions;
- Securities accepted by the European Central Bank;
- SIX Delta¹ eligible collateral;
- Shares that are represented in recognized stock indices, the acceptance criteria of which are designed to ensure that the shares have sufficient market liquidity.

¹ Rule-based category of collateral of SIX Swiss Exchange, with sole application of the admission criteria valid until the end of 2014 according to the "Instruction sheet on Collateral eligible for SNB repos", excluding Collateral being already accepted by the SNB or the ECB.

Not permissible as collateral are (i) securities of companies in which the issuer or the collateral provider directly or indirectly hold at least twenty percent of the share capital or voting rights; or (ii) securities of companies that themselves have interests or voting rights in the issuer or the collateral provider in such an amount; (iii) shares of the issuer or the collateral provider; and (iv) issues for which the issuer or the collateral provider act as borrower. Depending on the type of collateral, certain margins are applied (so-called haircuts) which are provided for in the Framework Agreement. The relevant value of the securities used for collateralization is calculated on the basis of their market value less the counter value of the margin.

Is it possible to change the collateral provider?

A change in the collateral provider is possible. For this Frequently Asked Questions 7 purpose, the new collateral provider must become a party to the issuer's Framework Agreement. The accession will take effect upon its approval, provided that the issuer's COSI are completely collateralized by the new collateral provider. Under this condition, the new collateral provider assumes the function of the previous collateral provider.

Which events can lead to a liquidation of the collateral?

Upon the occurrence of certain events, the collateral will be liquidated. In particular, a liquidation event arises if and when:

- the collateral provider fails to provide the required collateral, fails to do so in due time or if the collateral provided is not free from defects, unless any such defect is remedied within three banking days;

- the issuer fails to fulfill a payment or delivery obligation under a COSI upon maturity according to the issuing conditions, fails to do so in due time or if its fulfillment of such obligations is defective, unless any such defect is remedied within three banking days;
- the Swiss Financial Market Supervisory Authority-FINMA (Berne/Switzerland) orders protective measures with regard to the issuer or the collateral provider under Article 26 paragraph 1 letter (f) to (h) of the Federal Act on Banks and Savings Banks, or restructuring measures or liquidation (winding-up proceedings) pursuant to the provisions of the Federal Act on Banks and Savings Banks;
- a foreign financial market supervisory authority, another competent foreign authority or a competent foreign court orders an action that is comparable with the aforementioned FINMA measures;
- the market making obligation for the COSI is breached for ten consecutive banking days;
- the collateral provider's participation at SIX SIS ceases;
- the provisional admission of the COSI to trading lapses or is canceled and the issuer fails to satisfy the investors' claims within thirty banking days of the lapse or cancellation of the provisional admission; or
- the COSI are delisted at the request of the issuer or for some other reason and the issuer fails to satisfy the investors' claims within thirty banking days of the last trading day.

The Framework Agreement provides for the exact time at which each liquidation event occurs. SIX Swiss Exchange is under no obligation to investigate the occurrence of a liquidation event. In determining the occurrence of a liquidation event, SIX Swiss Exchange bases its decision on reliable sources of information only. SIX Swiss Exchange shall determine with binding effect whether an incident qualifies as a liquidation event and at what point in time a liquidation event occurred.

Collateralized certificates with reference entities: factors to consider

A certificate may be structured in such a way that, among other factors, repayment of the certificate and preservation of its value are largely dependent on a reference bond and, by extension, indirectly on its issuer as well. Collateralization of the certificate (COSI) only minimizes the issuer-related default risk, but has no influence on any default or repayment events in respect of the obligor of the reference bond or in respect of risks associated with the reference bond per se (e.g. the obligor of the reference bond being declared bankrupt or insolvent, payment default, restructuring, or early repayment of the reference bond in part or in full).

What are the effects of a listing or admission to trading of the COSI on a secondary exchange?

Apart from the primary listing of the COSI at SIX Swiss Exchange the issuer may apply for a listing or admission to trading on one or more secondary exchanges. All aspects and events related to a listing or admission to trading of the COSI on a secondary exchange shall be disregarded under the Framework Agreement. In particular, the prices of the COSI quoted on the secondary exchanges shall not be taken into account for the determination of the current values of the COSI and events which are related to a listing or admission to trading of the COSI on a secondary exchange, such as the suspension of the market making at a secondary exchange or the delisting of the COSI from a secondary exchange, shall not be deemed a liquidation event under the Framework Agreement. SIX Swiss Exchange is at its own discretion entitled to make public the occurrence of a liquidation event and the maturity of the COSI pursuant to the Framework Agreement in the countries where a listing or admission to trading of the COSI on a secondary exchange is maintained as well as to inform the secondary exchanges or any other bodies about such occurrences.

What happens in the case of a liquidation event?

If a liquidation event occurs, the collateral will be liquidated provided this is not prevented by legal or actual hindrances. The remedy of a liquidation event is not possible. If a liquidation event occurs, SIX Swiss Exchange is, at its own discretion, entitled to privately liquidate all existing collateral immediately or at some later date, provided the applicable legal provisions do not prohibit such private liquidation. Otherwise, the collateral shall be delivered to the responsible person for liquidation. The liquidation encompasses all of the securities and relates to all of the issuer's COSI that are subject to collateralization under the provisions of the Framework Agreement. SIX Swiss Exchange can make public the occurrence of a liquidation event. If a liquidation event has occurred, SIX Swiss Exchange will make a binding determination of the current values of all of the issuer's COSI in their respective trading currency. The current values of the COSI on the banking day immediately preceding the date on which the liquidation event occurred shall be applicable. The investors' claims against the issuer in connection with the COSI are determined on the basis of these current values. In the case of COSI in a different trading currency than the Swiss franc, SIX Swiss Exchange shall, with binding effect for the parties to the Framework Agreement and the investors, convert the current values into Swiss francs. The exchange rates according to the regulations of SIX SIS for the banking day immediately preceding the date on which the liquidation event occurred shall be applicable.

The conversion of the current values pertains only to the amount and the effect of the payment of pro-rata net liquidation proceeds by SIX Swiss Exchange to the investors in COSI in a different trading currency than the Swiss franc and shall have no further effect on the relationship between the investor and the issuer. SIX Swiss Exchange shall make public the applicable current values of the COSI as well as the applicable exchange rates. Following a liquidation event, trading in all COSI may be suspended, and the COSI may be delisted.

What effect does the occurrence of a liquidation event have on the COSI?

The COSI will become due and payable thirty banking days after the occurrence of a liquidation event, provided the certificates have not fallen due already as a result of the issuer's bankruptcy. SIX Swiss Exchange shall make public the due date of the COSI.

What claims can be asserted by the investors?

When the COSI become due and payable in accordance with the provisions of the Framework Agreement, investors' claims against SIX Swiss Exchange for payment of a pro-rata share of the net liquidation proceeds of the collateral arise automatically. The maximum amount for each investor shall be his share of the pro-rata net liquidation proceeds that represents the total current values of his COSI. Should the combined current values of all investors in the issuer's COSI exceed the net liquidation proceeds, the payment of pro-rata shares of net liquidation proceeds will be made according to the ratio between the total current values held by individual investors and the total current values accruing to all investors in COSI of the issuer. In case of COSI in a different trading currency than the Swiss franc, the investor's claim against SIX Swiss Exchange for payment of a prorata share of the net liquidation proceeds will be determined according to the current value of the COSI expressed in Swiss francs. Any excess proceeds arising from the liquidation of the collateral will be paid to the collateral provider. Investors shall have no further claims against SIX Swiss Exchange, SIX SIS or any other persons or companies involved in the service of these two SIX companies.

How are the net liquidation proceeds paid to the investors?

Payments of the pro-rata net liquidation proceeds to the investors are made via the banking system. The payment is made exclusively in Swiss francs. Investors' claims shall not bear interest. Should the payment to the investors be delayed for any reason, SIX Swiss Exchange will be neither liable for default interest nor for any further damages.

Which consequences are associated with the payment of the net liquidation proceeds to the benefit of the investors?

SIX Swiss Exchange transfers the pro-rata share of the net liquidation proceeds due to investors with discharging effect to SIX SIS participants that hold the COSI directly or indirectly for the investors. In certain instances, SIX Swiss Exchange may execute the payment of proceeds in a different manner, in particular for those investors who hold their COSI via the issuer affected by the liquidation event. To the extent that pro-rata payments of net liquidation proceeds are paid out to the benefit of the investors, the investors' claims against the issuer of COSI expire. For COSI in a different trading currency than the Swiss franc, the extent of the expiry of investors' claims against the issuer is determined on the basis of the exchange rate of the respective trading currency of the COSI to the Swiss franc applicable on the banking day immediately preceding the day on which the liquidation event occurred. Decisive for the point in time when the investors' claims expire is the date on which SIX Swiss Exchange transfers the prorata share of net liquidation proceeds to the parties involved in the actual payment. SIX Swiss Exchange shall make public the date of the transfer. Upon payment of the pro-rata net liquidation proceeds to the benefit of the investors, the existing claims of SIX Swiss Exchange against the collateral provider for collateralization of the COSI expire.

What costs arise from COSI and who bears them?

The collateral provider pays SIX Swiss Exchange a fee for the service of collateralizing the certificates. These costs may be taken into account for the pricing of a COSI and may therefore be borne by the investor, as the case may be. The pricing of the COSI is the responsibility of the issuer. The costs (including taxes and duties, as well as consulting fees) incurred in connection with the liquidation of collateral and the payment of the net liquidation proceeds to the investors are covered by the liquidation proceeds. For this purpose, SIX Swiss Exchange deducts a flat rate fee of 0.1 percent of the entire liquidation proceeds for its own expenses and for the expenses of third parties. If extraordinary liquidation and distribution costs are incurred, these additional costs may also be deducted in advance from the liquidation proceeds. SIX Swiss Exchange and SIX SIS are entitled to satisfy in advance out of the liquidation proceeds any outstanding claims they may have against the issuer and collateral provider under the terms of the Framework Agreement. The remaining net liquidation proceeds are available for payment to the investors in the COSI of the respective issuer.

Which risks are borne by the investor?

Collateralization cannot eliminate all investment risks associated with COSI. In particular, the market risk arising from price fluctuations in the COSI and the collateral as well as additional risks in connection with reference bonds remain fully with the investor. Collateralization eliminates the issuer default risk only to the extent that the proceeds from the liquidation of collateral upon the occurrence of a liquidation event (less the costs for the liquidation and payment) are able to meet the investors' claims. The investors bear the following risks, among others:

- The collateral provider is unable to provide the additionally required collateral if the value of the COSI increases or the value of the collateral decreases.
- Upon the occurrence of a liquidation event, the collateral cannot immediately be liquidated by SIX Swiss Exchange because of factual hindrances, or because the collateral must be handed over to the executory authorities for liquidation.
- The collateralization is challenged under the rules governing debt enforcement and bankruptcy, so that the collateral cannot be liquidated to the benefit of investors in COSI.
- The payment to the investors becomes delayed for factual or legal reasons.
- The calculation of the current value of a COSI proves to be incorrect, potentially resulting in insufficient collateralization of the COSI.
- The market risk associated with the collateral results in insufficient liquidation proceeds, or in extreme circumstances, the collateral might lose its value entirely before the actual liquidation can take place.
- The maturity of a COSI in a foreign currency according to the Framework Agreement may result in the investor incurring a loss. This because the current value of the COSI, which determines the investor's claim against the issuer, is calculated in that foreign currency, whereas the payment of the investor's pro-rata share of net liquidation proceeds is made in Swiss francs and accordingly determines the extent to which the investor's claim against the issuer expires.

Which rules govern the liability associated with the collateralization of certificates?

The Framework Agreement limits the liability of all parties concerned (i.e. the issuer, the collateral provider, SIX Swiss Exchange and SIX SIS) to acts of gross negligence and the willful violation of obligations. Further liability is excluded. The liability of SIX Swiss Exchange and SIX SIS in connection with the payment of the pro-rata net liquidation proceeds to the benefit of the investors is limited according to the provisions of the Framework Agreement.

What must investors bear in mind with regard to the judicial assessment of their claims?

The investor's legal position is determined by the provisions of the Framework Agreement. Investors are bound vis-à-vis SIX Swiss Exchange and SIX SIS to the provisions of the Framework Agreement and in particular to the choice of Swiss law as well as the selection of the city of Zurich (Switzerland) as the sole legal venue for the legal adjudication of claims.

How can investors obtain further information on the collateralization of certificates?

The Framework Agreement, which is decisive with regard to the legal position of investors in COSI, can be obtained from the issuer upon request free of charge in the German version or in an English translation. Further information on the collateralization of certificates is accessible via the website of SIX Swiss Exchange www.six-swiss-exchange.com.

SIX Swiss Exchange AG

SIX Swiss Exchange is one of the most important European stock exchanges. It offers outstanding liquidity in trading of Swiss securities and connects companies from around the world with international investors and trading participants. As a self-regulated exchange, it is able to provide particularly market-friendly conditions for listing and trading in Swiss and foreign equities, bonds, ETFs, ETPs, funds, and structured products. SIX Swiss Exchange multiplies the locational advantages of the Swiss financial center with first-class services and is an ideal listing location for companies of every origin, size and sector. It operates its own range of indices, which includes the SMI®, Switzerland's most important equity index.

www.six-swiss-exchange.com

www.six-structured-products.com

SIX

Markets
SIX Swiss Exchange
Pfingstweidstrasse 110
P.O. Box
CH-8021 Zurich

T + 41 58 399 2100
F + 41 58 499 2099
structured-products@six-group.com
www.six-swiss-exchange.com
www.six-structured-products.com

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