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EQUITIESFIRST Progressive Capital

BORROWER-FRIENDLY MECHANISM IN TIMES OF MARKET CORRECTION

As the market is correcting, many shareholders who have pledged their shares have been getting margin calls from their respective lenders. They often can't top up within the tight timeline.

When there is a margin call, the borrower needs to top up in either shares or cash. Otherwise, the lender has the right to sell part, or all of the collateral in the market.

In situations which the share price has dropped drastically and the market value of the collateral is not sufficient to cover the loan amount, the borrower will be personally liable.

EquitiesFirst offers an alternative solution for its borrowers. We offer a borrower friendly margin call mechanism with non-recourse features. Given our lower margin call threshold, it is harder to trigger a margin call event and even if it happens, the borrower is given five (5) business days to top up or can walk away with no further obligations.

Key Takeaways:

- EquitiesFirst offers a more borrower friendly margin call mechanism than other lenders in the market
- When the market is correcting, it is more likely for shareholders who have pledged their shares to get margin calls. Therefore, it is important to partner with a lender with a more flexible margin call mechanism
- For shares pledged with EquitiesFirst, the price of the collateral needs to drop by 52% before there is a margin call

WHAT IS MARGIN CALL & WHY SHOULD BORROWERS CARE ABOUT IT

Margin calls happen when the price of the collateral drops below a predetermined level. When this occurs, the lender will request the borrower to either deposit more collateral (shares) or top up the value difference in cash. If the borrower fails to cure the deficiency in time, the lender has the right to sell part or all the collateral in the market. The shareholder can lose the future upsides of the shares during a forced sale event. The shareholder typically has a tight timeframe (depending on the case, it can range from hours to days) to bring up the deficiency.

TYPICAL TERMS AND MARGIN CALL MECHANISM WITH A TRADITIONAL LENDER

With a traditional lender, a shareholder will typically get a 25% LTV when he pledges his shares and if the share price drops by 20%, there will be a margin call event. For instance, if the shareholder has USD 100 worth of a listed company, he will get USD 25 loan by pledging the shares and he will need to top up the collateral (either in shares or cash) when the market value of the shares drops below USD 80. In this case, if the value of the stock drops drastically to below USD 20, the borrower will be personally liable. **Traditional lenders can also call margin on a drop in the trading volume, as well as the share price.**

EQUITIESFIRST'S BORROWER-FRIENDLY MARGIN CALL

In comparison with other lenders in the market, EquitiesFirst offers more competitive commercial terms and a borrower-friendly margin call mechanism. This is important in a bear market because 1) the shareholders can borrow more with our 65% typical LTV and 2) as the market is correcting, there is a longer buffer before there is a margin call. With EquitiesFirst, even if there is a margin call, the borrower has more flexibility.

The benefits of partnership with EquitiesFirst include:

1. **Non-purpose loan with higher LTV**
   Our typical LTV is 65%. This is more than 3x higher than the market. The loan capital can also be used for any purposes by the borrower and is not subject to restrictions

2. **Margin call advantage**
   Our margin call threshold is 80% of the LTV. Given our 65% typical LTV, the margin call threshold is around 52%. **This means the value of the collateral needs to drop from 100 to below 52 on a 3-day average basis before there is a margin call.** When this occurs, the shareholder will have a written notice and 5 business days to top up either through shares or cash

3. **Non-recourse loan**
   The borrower's liability is limited to the shares used for the transaction. EquitiesFirst forgoes the right to pursue repayment if the borrower chooses to default on the loan obligation.

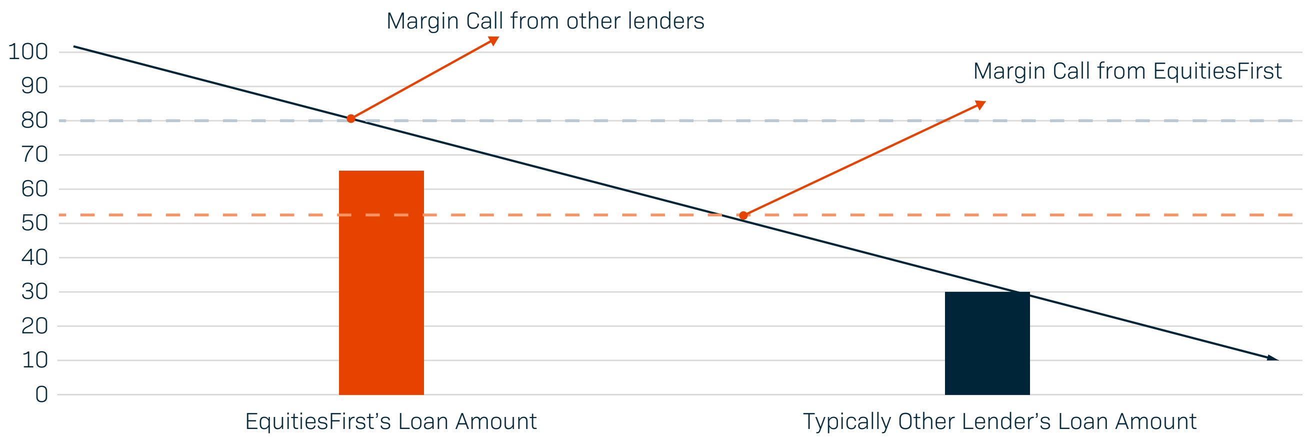
EquitiesFirst's financing solution offers shareholders more liquidity and flexibility, which are crucial in times of uncertainty.

LOAN COMPARISON - BEAR CASE SCENARIO

Risk management is always what an investor needs to keep in mind when making decisions. A good decision can maximize the upside potential and limit the downside risks at the same time. The following chart demonstrates how EquitiesFirst's solution can help on both sides. For every USD 100 worth of shares, EquitiesFirst can on average provide USD 65 financing to the borrower compared to around USD 25 from other lenders. It gives the borrower higher upside potential with more capital for investments.

On the other hand, the margin call threshold for EquitiesFirst is 80% of the LTV. Given that our typical LTV is 65%, the share price needs to drop around 52% before there is a margin call. This gives the borrowers more of a buffer before they receive a margin call and therefore limits their downside risk. Unlike other lenders, EquitiesFirst only calls margin on price not volume.

MARGIN CALL COMPARISON BETWEEN EQUITIESFIRST AND OTHER LENDERS



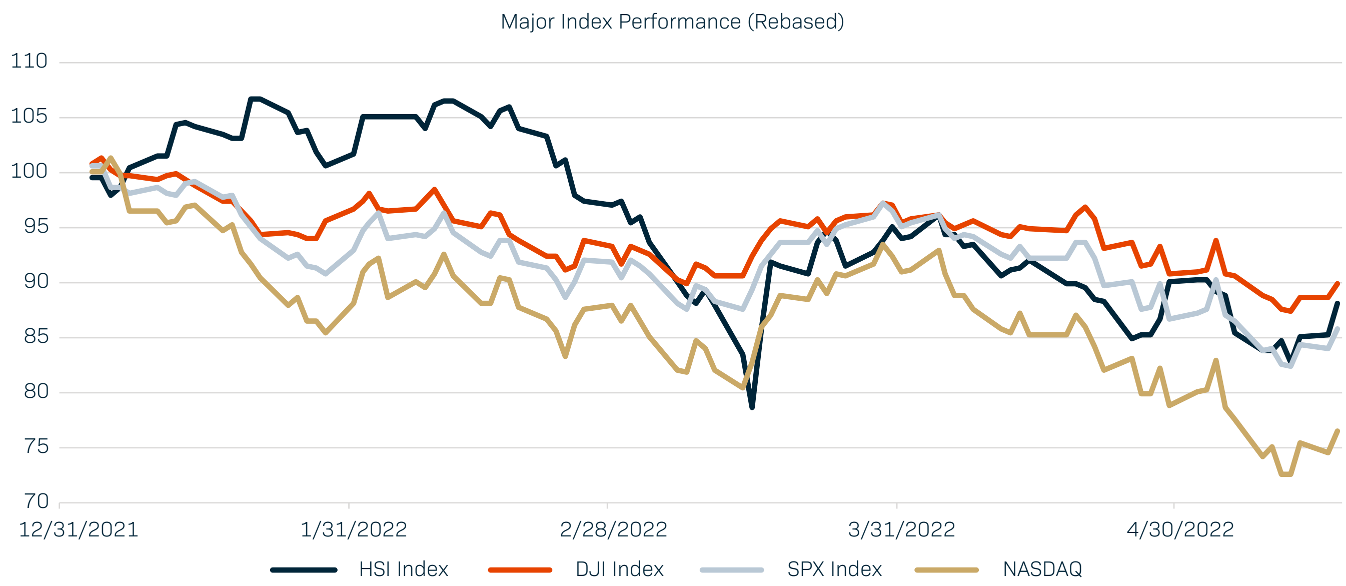
Source: EquitiesFirst

CASE STUDY: TENCENT (700:HK)

For illustrative purposes, we have created a case study with Tencent (700 HK). Assuming a shareholder of the company has pledged the shares to a private bank on 1 January 2018 (the share price was at HKD400), he will get margin call when the share price drops to HKD 320 (20% drop). If the borrower does not have additional shares or cash for topping up, the private bank will sell its positions in the market to cover the loan. When this occurs, the shareholder will lose all of the future upside (the share price of Tencent reached HKD 600 two years after).

On the other hand, if the borrower pledges the shares to EquitiesFirst, he wouldn't get margin call during the same period because of to our borrower-friendly margin call. The margin call threshold would be around HKD 200, which is around 20% lower than the lowest price during the period.

SHARE PRICE PERFORMANCE OF MAJOR INDICES GLOBALLY



As the market is correcting, major indices have dropped 10-25% respectively. When the market is correcting, it is more likely for shareholders who have pledged their shares to get margin calls. Therefore, it is important to partner with a lender with a more flexible margin call mechanism.

Source: Bloomberg

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