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26 May 2009

Summary of Government Interventions in Financial Markets
Switzerland

Overview

Since October 2008, the Swiss National Bank (**"SNB"**) has injected capital into UBS; has put in place a number of swap facilities to ensure CHF liquidity; has extended its guarantee of deposits, has announced plans to adopt a "quantitative easing" approach to monetary policy by buying up issued bonds; and has decreased its short-term interest rates to between 0 and 0.75 per cent. (as of 12 March 2009), all in order to increase liquidity and to limit the risks of rapid deflation and inflation.

The SNB also signalled in mid-March 2009 that it would take further active steps in the coming months in order to forcefully relax Switzerland's problematic monetary and currency conditions, including purchasing in the foreign exchange market and decreasing short-term interest rates to 0.25 per cent.

State guarantees

On 5 December 2008, the Swiss Federal Department of Finance (**"FDF"**) increased deposit protection from CHF 30,000 to CHF 100,000 per depositor and institution as part of its adoption of a dispatch on the package of measures designed to strengthen Switzerland's financial system, and increased the depositor protection upper system limit from CHF 4bn to CHF 6bn. This measure would make the level of protection for deposits in Switzerland substantially higher than the increase in the EU minimum limit.

Specifics of the measure are available on:
http://www.efd.admin.ch/dokumentation/medieninformationen/00467/index.html?lang=en&msg-id=22499.

Investments/Recapitalisations

The Swiss authorities took on 16 October 2008 a 10 per cent. stake in UBS and forced UBS and Credit Suisse to increase their capital base. These actions followed UBS's announcement that it had written down some USD 44bn (GBP 25bn) of toxic assets and raised USD 27bn in fresh capital and that it had seen almost USD 75bn of assets in wealth and asset management withdrawn in the third quarter.

Terms and features of the actions taken by the Swiss authorities:

- The SNB and federal banking commission effectively pumped USD 60bn into UBS by taking virtually the last USD 49bn of its toxic assets off its books into a special purpose vehicle and owned by the SNB, called the SNB StabFund.
- The decision to take on USD 49bn of toxic UBS assets — USD 31bn in the US and USD 18bn of non-US debt — into the SNB StabFund. This will be funded by USD 6bn of UBS equity acquired via the government and USD 54bn from the SNB.
- The aim is gradually to sell off these illiquid assets, with the central bank receiving the first USD 1bn of any profits, and it and UBS sharing the rest on a 50-50 basis.
- On 10 February 2009, SNB and UBS have agreed not to transfer certain categories of assets, effectively reducing this maximum volume of assets from USD 60bn to USD 39.1bn. These comprise securities backed by student loans and assets that have been wrapped by monoline insurers. UBS will still finance 10 per cent. of the transfer amount. Owing to the reduction of the overall amount, the maximum risk to be borne by the SNB has declined considerably, to roughly USD 35bn.
- The government took a 9.3 per cent. stake in UBS with a CHF 6bn (GBP 3bn) capital injection. Credit Suisse, the country's second-biggest bank, turned down the offer of state aid.
- These moves will drive up the capital ratio of UBS, whose ratio stood at 10.8 per cent. at the end of September. Credit Suisse announced that its capital ratio is at 14.1 per cent. as of 7 May 2009.
- The SNB will obtain the dollars to make the loan through a USD-CHF swap with the Federal Reserve. It will also turn to the market for refinancing. As the operation is entirely in USD, the SNB contends that this will not affect its monetary policy.
- After full repayment of the loan, the SNB will participate in the profits generated by the SPV, namely profits of USD 1bn plus 50 per cent. of any remaining equity after full repayment of the loan. UBS has also agreed to strengthen its capital base and to comply with best practice for compensation schemes and policies (as determined in consultation with the Federal Banking Commission).
- In December 2008, the SNB StabFund purchased the first tranche of assets amounting to USD 16.4bn. Additional assets amounting to USD 22.7bn were transferred in separate tranches at the end of March 2009. It concluded its transfer of UBS assets on 3 April 2009.
- The SNB StabFund showed a loss of USD 1.69bn for the year ending 31 December 2008, which exceeds the fund's equity contribution from UBS by approximately USD 50m. However, the fund is protected against this loss by a secondary loss protection (an option for 100m UBS shares).
- The SNB itself declared a CHF 4.7bn loss for 2008 on 4 March 2009. It attributed this loss primarily to exchange rate losses on foreign currency investments and stated that the loss protection provided to UBS and the purchase of UBS's illiquid assets did not affect SNB's net results.

Swap facilities

On 15 October 2008, the SNB and the ECB jointly announced that they would conduct EUR/CHF foreign exchange swaps providing CHF against EUR with a term of 7 days at a fixed price in order to improve liquidity in short term CHF money markets in their jurisdiction. The swap points, will be calculated by using the ECB rate (currently 3.75 per cent.) and the SNB 1-week repo rate plus 25 basis points. The foreign exchange swaps started on 20 October 2008 and will be in place as long as needed, at least until July 2009.

Detailed information on the SNB's EUR/CHF foreign exchange swaps of the SNB are available on:

http://www.snb.ch/en/mmr/reference/fx_swap_mb_20081029/source/fx_swap_mb_20081029.en.pdf

http://www.snb.ch/en/mmr/reference/fx_swap_mb_20081016/source/fx_swap_mb_20081016.en.pdf

Narodowy Bank Polski (**"NBP"**), the Polish central bank, joined the swap operations in November 2008 and the Hungarian Magyar Nemzeti Bank joined the operations on 2 February 2009. On 28 April 2009, the ECB, SNB and NBP announced they would extend these one-week foreign exchange swap operations at least until the end of July 2009. The purpose is in order to support the short-term CHF money markets.

On 19 December 2008, the SNB declared that it would continue as long as needed its US dollar liquidity-providing operations at terms of 7, 28 and 84 days. The SNB has commenced these operations as a liquidity providing instrument in October 2008. The operations will be carried out as fixed rate tenders with full allotment.

On 2 February 2009, the temporary reciprocal swap lines between the Federal Reserve and SNB were extended to 30 October 2009.

The SNB also agreed to enter into a new temporary currency swap arrangement with the US Federal Reserve on 6 April 2009. The swap line enables the Federal Reserve to draw CHF liquidity of up to CHF 40bn against USD when needed. The new swap line mirrors the existing arrangement that enables the SNB to draw USD against CHF. Both swap arrangements are authorized through to 30 October 2009.

Notable developments with commercial banks (and other key financial players)

UBS

On 16 October 2008, SNB announced that it will loan up to USD 54bn to SNB StabFund, a SPV set up to take over illiquid assets currently held by UBS. The capital base of UBS will be reinforced by the Swiss authorities, subscribing to mandatory convertible notes to the value of CHF 6bn. This measure is directly connected to relieving UBS of illiquid assets. It allows UBS to fund an entity with the necessary equity capital, without diminishing its own capital base. For the Swiss authorities, the mandatory convertible notes have the advantages that the commitment is securely and commensurately compensated (coupon of 12.5 per cent.) and that the Swiss authorities will not, at least not initially, become a co-owner of the bank.

Interest will be charged at one-month USD Libor plus 250 basis points. The term of the loan is eight years (to be extended to a maximum of 12); the SNB will have no recourse against UBS for this credit.

On 3 April 2009, SNB StabFund completed its purchase and transfer of UBS assets. This transfer will increase the fund's portfolio by assets in the amount of USD 22.2bn. The purchase price was valued at USD 0.7bn below the book value of the assets at UBS at the end of September 2008. Including the assets already taken over in December 2008, the total volume of assets transferred to the StabFund's portfolio amounts to USD 38.7bn. This transfer comprises securities totaling USD 8.6bn, loans worth USD 5.7bn and derivatives positions of USD 8.6bn (before the USD 0.7bn reduction in the purchase price). A total of 55% of the assets are denominated in US dollars; the rest in EUR, GBP, Swedish krona and Japanese yen.

On 5 November 2008, it was reported that UBS AG will now have to get bonuses approved by Switzerland's banking regulator, the Swiss Federal Banking Commission ("**EBK**"), after receiving its recapitalisation package from the Swiss Government. EBK will have to approve the amount, composition and distribution of this year's bonus pool. In February 2009, EBK allowed CHF 2bn to be distributed to UBS employees by way of bonuses.

On 11 March 2009, UBS reported a record CHF 20.9bn (USD 18bn) loss for 2008, more than initially reported. In February 2009, it announced it would cut 2,000 more jobs in order to return to profitability.

On 10 February 2009, the Swiss Financial Market Supervisory Authority (**"FINMA"**) permitted UBS to distribute CHF 1.8bn of variable remuneration, including discretionary payments, to for the pervious year.

Furthermore, on 18 February 2009, to avert the threat to UBS's liquidity situation, FINMA ordered UBS to surrender a limited quantity of client data and hand it over to US authorities. FINMA took these protective measures to protect the interests of creditors and investors of UBS clients and to ensure the stability of the Swiss financial system.

On 19 March 2009, to boost capital, UBS offered to buy back EUR 1bn (USD 1.3bn) of its subordinated debt causing a decline in the cost of protecting European bank bonds from default.

UBS won dismissal of a lawsuit in the U.S. District Court in New York brought by investors who bought auction-rate securities from it. The investors accused UBS of steering them to instruments promoted as safe as cash that later turned out to be illiquid. The decision, on 31 March 2009 and still subject to appeal, is the first to dismiss consolidated auction-rate securities cases against banks.

UBS reported a loss of almost CHF 2bn in its first quarter, compared with a net loss of CHF 9.5bn in the fourth quarter of 2008. This change was mainly due to lower losses on risk positions from businesses the bank is now discontinuing. This information was provided at the bank's Annual General Meeting on 15 April 2009.

Credit Suisse

Unlike UBS, Credit Suisse turned down the offer of any state aid but it has raised CHF10bn from sovereign wealth fund Qatar Investment Authority and a group of private investors, including Israeli firm Koor Industries.

On 4 December 2008, Credit Suisse Group AG announced that it was cutting 5,300 jobs (11 per cent. of its workforce) after losses of USD 2.5bn in the first 2 months of the third quarter.

The bank reported a net loss of CHF 6.02bn (USD 5.2bn) for fourth quarter 2008 on 11 February 2009, which makes it a full year net loss of CHF 6.02bn (USD 5.2bn).

On 24 April 2009, the board of directors of Credit Suisse proposed changes to its share capital to maintain its group's strategic flexibility for the future. The board of directors proposed the creation of additional conditional capital of CHF 3.98m, leaving a new overall total of CHF 4m, which is equivalent to a total of 100m registered shares.

Summary of proposed key legislation/regulation

The Swiss Government is reported to be planning changes to the country's corporate laws to allow demands of compensation repayments from executives and board members.

Other developments

New bills

On 2 February 2009, the SNB announced the intention to issue SNB bills in USD, termed "SNB USD Bills", which can be counted as liquid assets. This is a new monetary policy instrument, in which SNB will issue its own debt certificates in USD with terms of less than one year in denomination of USD 0.5m and offered with terms of 28, 84 and 168 days. Results of the auction were announced on 16 February 2009 and can be found here. They will be used until further notice to finance the SNB's loan to the SNB StabFund. Auctions of the SNB USD Bills will be held every two weeks and parties authorised to participate in the CHF repo market and the primary and new issues markets of the Eurex Zurich Ltd are eligible to participate.

Bond purchases

In a statement issued on 12 March 2009, the SNB admitted it had adopted the policy of purchasing CHF issued by private sector borrowers in order to bring about a relaxation of conditions in the capital markets.

The SNB's bond purchases may include so-called covered bonds, securities that are backed by loans and bank assets. In February 2009, Switzerland loosened capital rules for issuers of covered bonds, which may open up about CHF 20bn in lending this year.

Short selling

SIX Swiss Exchange Europe (**"SWX Europe"**), the cross-border trading platform for pan-European blue chips on 19 September 2008 announced a ban on short selling of shares of publicly quoted financial companies on SWX Europe, including the creation or increase of net short positions, either naked or covered.

However, the ban has been lifted effective 16 January 2009. As a result, the creation or increase of net short positions, either naked or covered, in shares of publicly quoted financial companies traded on SWX Europe is now permitted.

Interest Rate

The SNB announced on 12 March 2009 an interest rate cut to counter the country's rapid deflation and prevent any further appreciation of the CHF against the EUR and gave signals of possible further action in the future. The SNB aims to help increase liquidity by engaging in additional repo operations, buying CHF issued by private sector borrowers and purchasing foreign currency on the foreign exchange markets. The SNB is lowering the target range for the three-month CHF Libor by 25 basis points, narrowing it to 0 – 0.75 per cent.

On 6 May 2009, Thomas Jordan, a Governing Board member of the Swiss National Bank, said that the bank is watching the value of the CHF closely and is ready to block any further "unwelcome" appreciation of the currency against the EUR.

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April 2009