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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 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 can be found here.

Investments/Recapitalisations

On 16 October 2008, the SNB announced that it will loan up to USD 54bn to an SPV set up to take over illiquid assets currently held by UBS. The loan is entirely secured by a portfolio of assets assigned by UBS. The portfolio consists of securities valued at USD 60bn, with prices as per 30 September 2008 and based on the lower of either the book value or a value determined by the SNB on the basis of independent opinions. The securities are mainly debt instruments backed by US residential and commercial mortgages. This amount was reduced to USD 39.1bn on 10 February 2009.

The Swiss authorities took on 16 October 2008 a 10 per cent. stake in UBS and forced each of UBS and Credit Suisse to increase its 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and raised USD 27bn in fresh capital and that it had seen almost USD 75bn of assets in wealth and asset management withdrawn in the third quarter.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 ratios of Switzerland's two biggest banks, with Credit Suisse at 13.7 per cent. and UBS, whose ratio stood at 10.8 per cent. at the end of September, climbing higher towards tough new rules due from 2013.
- 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 are to be transferred in separate tranches by the end of March 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).
- 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.

Narodowy Bank Polski (**"NBP"**) joined the swap operations in November 2008 and Magyar Nemzeti Bank is to join the operations on 02 February 2009. On 16 January 2009, the ECB, SNB and NBP announced they would extend these one-week foreign exchange swap operations at least until the end of April 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.

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 an 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 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 AG 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.

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).

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.

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. The EBK will have to approve the amount, composition and distribution of this year's bonus pool.

Other developments

New bills

On 2 February 2009, the SNB announced the intention to issue SNB bills in US Dollars, 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 US Dollars 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 Swiss Franc bonds 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. Last month, 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 January 16, 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 Swiss franc against the Euro and gave signals of possible further action in the future. The SNB aims to help increase liquidity by engaging in additional repo operations, buying Swiss Franc bonds 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.

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