

**Financial information on the SNB StabFund
Limited Partnership for Collective Investment
(stabilisation fund)**

1 Introduction

Assessment as at
31 December 2008

As part of the package of measures adopted by the Confederation, the Swiss Federal Banking Commission (SFBC) and the National Bank in October 2008 to strengthen the Swiss financial system, the National Bank established the SNB StabFund Limited Partnership for Collective Investment (stabilisation fund) in November 2008 to take over illiquid assets from UBS. Details on this transaction are set out in chapter 6.2 of the accountability report (p. 78). By the end of 2008, UBS had transferred assets in the amount of USD 16.4 billion to the stabilisation fund.

Impairment tests revealed that value adjustments of USD 965.8 million had to be made on the securities already transferred and entered in the balance sheet at amortised cost.

With retroactive effect from 1 October 2008, the stabilisation fund bears all risks for the remaining assets in the amount of approximately USD 23 billion that have not yet been transferred. These assets were, for the most part, valued at current fair values, which led to further valuation losses. After deducting the equity contribution that UBS had to make for this tranche, a loss of USD 889.6 million remains, which is fully reflected in the interim results. It should be borne in mind that, as a result of the illiquid markets, fair value has considerably lost its relevance as an indicator.

The stabilisation fund prepared interim results for the year ended 31 December 2008, which reported a loss of USD 1.69 billion. This loss exceeds the stabilisation fund's equity contribution by USD 50.1 million.

Owing to the fund's balance sheet loss, the SNB concluded a subordination agreement in favour of the stabilisation fund and StabFund (GP) AG, so that the orderly and long-term liquidation of the illiquid assets purchased may go ahead as planned. Given the uncertain market situation, no reliable assessment can be made as to whether the reported loss is permanent.

2 Income statement and balance sheet

In USD millions

Income statement from 1 October 2008 to 31 December 2008

	Q4 2008
Net result from assets transferred	196.6
Value adjustments on investments transferred	-965.8
Net result from assets not transferred ¹	-889.6
Gross income from investments	-1 658.8
Operating expenses	-10.4
Interest expenses for SNB loan	-21.4
Quarterly result	-1 690.6

¹ Including the contractually agreed equity contribution made by UBS. Only contains the reduced portfolio (cf. *Events after balance sheet date* in individual financial statements on p. 111, and in consolidated financial statements on p. 176).

Balance sheet as at 31 December 2008

Assets		31.12.2008
	Item no. in Notes	
Liquid assets		584.7
Short-term receivables		0.1
Loans and receivables	01	14 640.3
Instruments at fair value		-
Other assets		0.0
Total assets		15 225.2
Liabilities		
SNB loan	02	14 255.1
Other liabilities		130.6
Contractual agreements	03	889.6
Equity contribution ¹	04	1 640.5
Quarterly result		-1 690.6
Total liabilities		15 225.2

1 Corresponds to UBS's equity contribution in the amount of 10% of the securities transferred and serves as primary loss protection.

3 Accounting and valuation principles

Basic principles

In accordance with art. 108 of the Federal Act on Collective Investment Schemes (CISA), the stabilisation fund prepares its accounts in accordance with the International Financial Reporting Standards (IFRS). The consolidated financial statements have been adjusted in line with the group accounting guidelines. The Swiss Financial Market Supervisory Authority (FINMA) granted a request for an extended financial year, with the first annual result to be prepared for the year ending 31 December 2009.

PricewaterhouseCoopers Ltd (PwC), which has also served as auditor of the SNB since 2004, has been appointed auditor of the stabilisation fund. The information presented on the stabilisation fund was audited for the purpose of the consolidated financial statements.

Recording of transactions

In accordance with art. 52 para. 3 of the FINMA Ordinance on Collective Investment Schemes (CISO-FINMA), the transactions of the stabilisation fund are recorded in accordance with trade date accounting.

Valuation

The assets acquired are debt securities which – due to their long investment horizon – are stated in the balance sheet at amortised cost. Since these securities are not traded in an active market, they are assigned to *loans and receivables*. The effective interest method is applied.

Prior to each reporting reference date impairment tests are conducted to determine the recoverable value of assets.

Given the preponderance of US assets, the US dollar is the functional currency of the stabilisation fund.

Foreign currency valuation prices

Valuation prices

	31.12.2008	1.10.2008	Change
	In USD	In USD	In percent
1 euro (EUR)	0.7194	0.7111	+1.2
1 pound sterling (GBP)	0.6955	0.5629	+23.6

4 Notes to the income statement and balance sheet

Loans and receivables

Item no. 01

The stabilisation fund purchased illiquid assets in order to liquidate them in the long term. Assets are entered in the balance sheet at amortised cost.

In USD millions	31.12.2008	1.10.2008	Change ²
Book value ¹	14 640.3	16 404.5	-1 764.2

1 The book value as at 1 October 2008 corresponds to the purchase price of the assets agreed upon by the parties and is based on fair value calculations. Impairment tests were conducted at the end of 2008 and, where necessary, value adjustments were made.

The fair value equivalents amounted to USD 16,404.5 million as at 1 October 2008 and USD 11,828.8 million as at 31 December 2008. As a result of the illiquid markets, fair value may be considerably higher or lower than the values that can be realised in the market.

2 Including sales and repayments and exchange rate gains/losses from investments in euros and pounds sterling.

SNB loan¹

Item no. 02

The SNB entered into a subordination agreement with the stabilisation fund and StabFund (GB) AG in the amount of USD 100 million.

In millions	31.12.2008	
	In original currency	In USD
Commitments in USD ²	12 020.0	12 020.0
Commitments in EUR ²	615.0	854.9
Commitments in GBP ²	960.0	1 380.2
Total	-	14 255.1

1 Loan contributions will be made in the respective currency of the portfolio acquired and at the time of the transfer of the securities.
2 Interest charged at the one-month Libor plus 250 basis points.

Contractual agreements

Assets for which the transfer to the stabilisation fund has been agreed but not yet effected are – for the most part – stated at fair value. They amount to roughly USD 23 billion (valued as at 30 September 2008) and correspond to the reduced maximum amount communicated on 10 February 2009.

With retroactive effect from 1 October 2008, the stabilisation fund bears all risks for these assets. Based on the contractual agreements, the profit and loss components are therefore transferred to the stabilisation fund. The transfer of assets is scheduled for the first quarter of 2009.

The net result from these investments comprises the payments to be made by UBS for primary loss protection in the amount of 10% of the purchase price.

Equity contribution

The stabilisation fund's equity capital is divided into 6,000 shares. Of these, 5,998 shares are held by the limited partner, LiPro (LP) AG, and 2 shares by the general partner, StabFund (GP) AG. The SNB is the sole shareholder of both companies.

Assessment of risk

The portfolio of the stabilisation fund consists primarily of financial instruments backed by different types of claims (mortgages, loans, etc.). Risks are therefore primarily determined by the uncertainty as to how the value of these claims will develop. Future general economic trends constitute an important risk factor. Since a large part of the securities are backed by US residential and commercial mortgages, developments in real estate prices in the US play a crucial role.

The Board of Directors of StabFund (GP) AG establishes investment guidelines and monitors compliance. It is also responsible for the stabilisation fund's management. The valuation of assets is carried out in consultation with independent valuation agents.