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Berne/Zurich, 16 october 2008

Press release

Steps to strengthen the Swiss financial system

Swiss National Bank finances transfer of illiquid assets of UBS to a special purpose vehicle

The major Swiss Banks UBS and CS Group today are announcing measures to strengthen their capital base. At the same time, the Swiss National Bank (SNB) establishes the possibility to transfer illiquid assets to a special purpose vehicle (SPV) for orderly liquidation. The SNB has reached agreement with UBS on a long-term financing and orderly liquidation of illiquid securities and other troubled assets in the amount of no more than USD 60 billion. CS Group refrains from making use of such a possibility.

The step taken by the SNB is part of measures of the Swiss Federal Government to strengthen the Swiss financial system. It is based on the SNB's statutory mandate to contribute to the stability of the financial system. The SNB is convinced that it will result in a sustainable reduction of strains in the Swiss financial system. The stabilization thus reached will be favorable for the development of the Swiss economy as a whole and is in the interest of the country.

According to the agreement with the SNB, UBS sells the securities to a special purpose vehicle and provides capital in the maximum amount of USD 6 billion, which will serve as a first protection against losses. The SNB finances the purchase of these assets by granting the SPV a secured long-term loan in an amount not exceeding USD 54 billion and obtains control over the SPV. After full repayment of the loan, the SNB participates in profits generated by the SPV with USD 1 billion up-front and with 50% of eventually remaining equity value. UBS can thus be relieved from all relevant remaining risks stemming from problem-ridden segments of credit markets. As part of these measures, UBS has agreed to strengthen its capital base and to comply with best practices for compensation schemes and policies as determined in consultation with the Federal Banking Commission.

The loan granted by the SNB in an amount not exceeding USD 54 billion will be secured by a security interest perfected in all of the SPV’s assets. The SPV pays interests at the one month USD-Libor-Rate plus 250 basis points. Payments streams from interest payments, repayment of principal, and the sale of assets will be used primarily to repay the SNB loan after coverage of operating expenses. The term of the credit will be 8 years but can be extended to a maximum of 12 years in order to permit an orderly liquidation of the assets. The SNB will have no recourse against UBS for this credit. The SNB's credit is in USD since the assets are primarily denominated in this currency. Initially, the SNB will provide for the necessary currency from the US Federal Reserve through a Dollar-Swiss-Franc swap. Thereafter, the SNB will turn to the market for refinancing. It does not intend to use its currency reserves.

The assets to be purchased by the SPV include mainly debt instruments backed by US-residential and commercial mortgages. Markets for most of these securities have been frozen or are illiquid since the beginning of the financial crisis. However, it is SNB's view that these assets are of real value. By establishing the SPV, it will be possible to sell them in the medium term or hold them until maturity. The portfolio also includes other US asset backed and auction rate securities as well as European and Asian Bonds. The purchase price will be determined based on the actual book value as well as an opinion of an independent valuation agent with the SPV paying the lower of the two prices per 30 September 2008. SNB will oversee the transfer of the assets to the SPV and their management and liquidation. UBS will serve as an asset manager, but the SNB has the right to appoint a replacement manager at any time.