3.29.2 SWITZERLAND - STRUCTURED COVERED BONDS

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In addition to instruments issued under the Swiss covered bond act, the statutory Swiss Pfandbriefe as described above, two Swiss banks (Credit Suisse and UBS) have chosen to establish covered bond programmes based on contractual agreements with the relevant parties. Instruments issued under such contractual agreements qualify as structured covered bonds that allow Credit Suisse and UBS to also access the deeper liquidity of the non-CHF denominated covered bond market.

The programmes are both backed by prime Swiss domestic residential mortgage collateral.

Given that the two covered bond programmes are based on contractual agreements, the issuers have been free to include various structural features designed to enhance investor protection and ensure a robust AAA/Aaa rating. Both of the programmes launched to date have adopted very similar structures, the minor differences are highlighted where appropriate below.

I. FRAMEWORK

Although not relying on the Swiss covered bond act, both programmes use Swiss (as well as English) legal frameworks to ensure, inter alia, a segregation of the assets and the bankruptcy remoteness of the guarantor.

The issuers have separately mandated two Swiss-based special purpose companies (Credit Suisse Hypotheken AG and UBS Hypotheken AG) to guarantee their payment obligations for the benefit of the covered bondholders. The guarantee then comes into operation following an issuer event of default, subject to certain conditions. All covered bonds issued under the respective programme rank pari passu with each other and share equally in the security. Furthermore, the covered bonds are either fungible with an existing series, or constitute a new series with different terms.

The guarantors are ring-fenced, bankruptcy-remote entities that will be unaffected by the insolvency of the group to which they are consolidated (both guarantors are majority-owned by their respective issuer).

II. STRUCTURE OF THE ISSUER

Both issuers today are large financial institutions regulated by the Swiss banking regulator, "Swiss Financial Market Supervisory Authority" (FINMA).

The covered bonds issued by Credit Suisse and UBS are direct, unsubordinated, unsecured and unconditional obligations benefiting from a guarantee given by the respective guarantor vehicles. Before an issuer event of default, the issuers shall make all payments of interest and principal on the covered bonds.

III. COVER ASSETS, VALUATION AND LTV CRITERIA

In both programmes, the collateral consists of Swiss mortgage loans to private individuals and the related mortgage certificates securing such mortgage loans. The geographical scope for the mortgage assets is limited to Swiss domestic mortgage loans.

For Credit Suisse, the LTV limit is set at 70% while for UBS at 80%. When calculating the appropriate loan balance within the asset coverage test (ACT), Credit Suisse allows higher LTV loans to be included in the pool, but loan amounts exceeding the cap are disregarded. For Credit Suisse, the LTV ratio of the mortgage loans cannot be more than 100%. UBS does not allow loans with LTV above 80% to be included in the Cover Pool, and if this LTV cap is breached after inclusion the loan amounts exceeding

the cap will be credited with a reduced multiplication factor. In addition, the ACT gives reduced value to loans more than 90 days in arrears.

Substitution assets can be included in the cover pool. Their aggregate value can make up to a maximum of 15% of the cover pool and may consist of cash and short-term investments such as bank deposits, domestic Pfandbrief bonds and AAA government debt.

For both programmes LTV is calculated using market values.

For all properties that comply with its standard valuation boundaries (eg value below CHF3mn or property less than 15 years old) Credit Suisse utilises a hedonic automatic valuation model provided by IAZI, one of the two main providers of such automated appraisals in Switzerland. Should the purchase price lie above 15% off the IAZI valuation, Credit Suisse performs an onsite valuation of the property (this also applies for properties that fall outside the valuation boundaries).

UBS uses a hedonic automated valuation model from Wüst&Partner (the second main provider) for all loan applications. W&P and IAZI together value about two-thirds of all residential property transactions in the country. Input factors for the W&P model are property characteristics such as year of construction, volume of property and net living space. Additionally, the property's positioning within the local area and macro-level information (e.g. accessibility, tax level and price level of the municipality) are taken into account. If UBS deems on-site valuation as appropriate these will by specialist UBS staff (e.g. engineers or architects).

In order to ensure that the overcollateralisation (OC) level is compatible with the triple-A rating objective, the programmes include a dynamic Asset Coverage Test (ACT) that requires the balance of the mortgages in the collateral pool to significantly exceed the balance of the outstanding covered bonds. The level of OC will depend on the credit quality of the mortgages in the cover pool as well as other risks as assessed by the rating agencies.

IV. ASSET-LIABILITY MANAGEMEMT

Both covered bond programmes benefit from a number of safeguards:

- Exposure to market risk (i.e. interest rate and currency risks) needs to be neutralised by use of derivatives. Subject to certain rating triggers, swaps with suitable counterparties have to be entered into to ensure that exposure to market risk is properly hedged;
- Liquidity risk is mitigated by the requirement to establish a reserve fund as well as by other contractual arrangements. All of the bonds issued to date have a pre-maturity test to ensure repayment of the bonds on a hard bullet basis (although other structural enhancements, such as extensions, are available to the issuers if in future investors or rating agencies prefer it);
- Cash flow adequacy is secured through the asset-coverage and interest-coverage tests and the contractual obligation to neutralise any exposure to interest rate and currency risk;
- Commingling risk is mitigated by the hedging strategy as well as the requirement of all collections arising from the cover assets to be swept into the Hypotheken accounts after loss of F1/P-1 short-term ratings of the issuers;
- Minimum rating requirements are in place for the various third parties that support the transaction, including the swap counterparties and account banks. There are also independent audits of the calculations undertaken on a regular basis;

As a default of the issuer does not accelerate the covered bonds, an amortisation test has been created to ensure that no time subordination exists between the covered bonds series. The amortisation test will fail if the aggregate loan amount falls below the outstanding balance of all the covered bonds.

V. COVER POOL MONITOR & BANKING SUPERVISION

Although there is no mandatory reporting requirement, both of the issuers have committed to provide detailed and regular disclosure. The issuers are regulated Swiss financial institutions, which are subject to regulation, supervision and examination by the Swiss banking regulator (FINMA). The issuers are responsible for the monthly pool monitoring and Asset Coverage, Interest Coverage and Amortisation Test calculations. The results are checked and verified by an independent asset monitor who immediately advises the trustee upon their breach. The cover pools themselves are audited by independent professional auditors at regular intervals.

In addition, rating agencies are involved in the programme and re-affirm the ratings of the program upon a pre-defined issuance volume. They also monitor the amount of over-collateralisation required to maintain the triple-A ratings.

VI. SEGREGATION OF COVER ASSETS & BANKRUPTCY REMOTENESS

Upon transfer for security purposes of the mortgage loans and the related mortgage certificates, each of the guarantors (Credit Suisse Hypotheken AG and UBS Hypotheken AG) becomes the legal holder of the mortgage loans as well as the legal owner of the mortgage certificates.

In an insolvency scenario over the issuers Credit Suisse or UBS, the mortgage notes and the related mortgage certificates would not form part of Credit Suisse or UBS's estate. Accordingly, the asset cover pool may be managed and enforced by the guarantors independently from the corporate insolvency proceedings of Credit Suisse or UBS AG.

There are a number of trigger events for default, the first being an issuer event of default. This can occur in a number of situations including the following:

> Failure to pay any interest or principal amount when due;

> Bankruptcy proceedings being ordered by a court or authority against the issuer;

> Failure to rectify any breach of the asset coverage or interest coverage test;

An issuer event of default would not accelerate payments to covered bondholders, but would allow the trustee to start proceedings against the issuer or the guarantor. .

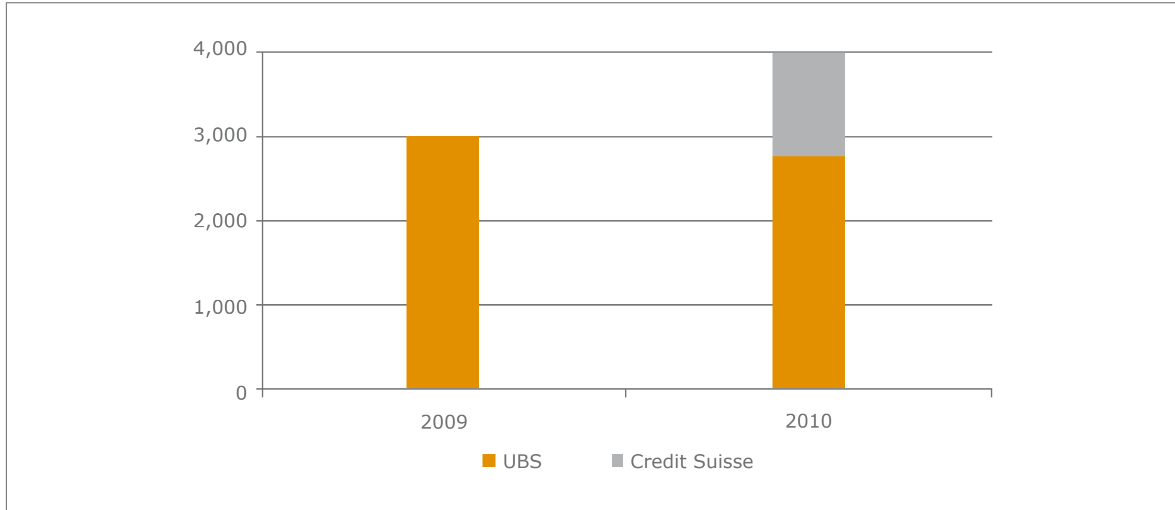
The second event of default is the guarantor event of default. This would arise after an issuer event of default if the guarantor failed to make any payments when due, an amortisation test failed or the guarantor was declared bankrupt. A guarantor event of default would cause the acceleration of payments to covered bondholders and their early redemption at the amount relevant to that particular covered bonds series.

VII. RISK-WEIGHTING AND COMPLIANCE WITH EUROPEAN LEGISLATION

Swiss general-law based covered bonds have a 20% risk-weighting under the CRD Standard Approach. They fall under Liquidity Category III (structured covered bonds) of the ECB eligible assets criteria.

VIII. APPENDIX: SWISS STRUCTURED COVERED BONDS STATISTICS

> Swiss general-law based Covered Bond Issuance*, EUR m



* as of end-March 2011

Source: Credit Suisse, UBS