

Loss guarantee: key terms of the loss protection agreement

1. General

Contracting parties: Confederation and UBS Group AG

• Signature date: 9 June 2023

• **Duration**: see section 5 (drawdown)

 Loss sharing: UBS will shoulder the first CHF 5 billion of losses and the federal government will bear the losses exceeding this amount up to a maximum of CHF 9 billion.

The agreement contains no statements on any federal government participation in losses exceeding CHF 14 billion. Without a legal basis, the federal government cannot commit to assuming losses in excess of CHF 9 billion. This would require a legal basis as well as parliamentary approval of a corresponding guarantee credit.

2. Scope of the guarantee cover

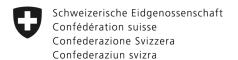
- The guarantee covers the assets to be wound down in the defined portfolios. These are generally Credit Suisse assets that do not fit the business area and risk profile of UBS.
- The guaranteed assets are specifically identified line by line, e.g. each individual loan. The perimeter is conclusively defined.

3. Loss calculation

- **Initial valuation**: the initial valuation of the covered assets is based on the carrying amount of the assets in the UBS balance sheet as at 31 May 2023 (reporting date). Revaluation losses are not covered by the guarantee.
- Covered losses: in principle, only realised financial losses are covered by the guarantee.
 Limited exceptions apply, among other things, to certain costs of hedging, realisation and
 litigation initiated for the purposes of asset value preservation and direct enforcement.
 Realised gains, relative to the current Credit Suisse valuation, on the realisation of assets
 will generally be offset against losses. In other words, a net approach will be adopted.

4. Loss estimate

The data required to estimate losses is expected to be available in the third quarter of 2023.

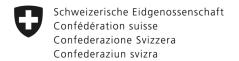


5. Drawdown

- **Drawdown prerequisite**: final realisation of all guaranteed assets.
- Residual positions: given that some of the assets in the portfolio are of a long-term
 nature, UBS may, after five years, elect to use a contractually defined mechanism to
 exclude residual positions from the guarantee in order to be able to draw on the
 guarantee. Residual assets excluded in this way will have no guarantee protection.
 Profits expected on such residual assets will generally be taken into account when
 calculating the net loss share.
- Payment mechanisms: once UBS draws down the guarantee, the federal government
 will request that FINMA confirm the amount of the loss in accordance with the ordinance
 of 16 March 2023. The Confederation will pay out the confirmed amount no later than
 nine months after receiving confirmation from FINMA. The nine-month payment
 timeframe will ensure that the federal government can raise the funds with minimum
 impact on the market.
- **Budget proviso**: the loss protection agreement does not contain a budget proviso, which would not be in line with the unconditional payment nature of a guarantee.

6. Governance

- Asset management principles: UBS is obliged to manage the assets in such a way that losses are minimised and realisation proceeds are maximised, taking account of its operating and financing costs associated with the assets. This objective is supported by a multi-layered incentive structure, e.g. with thresholds that are accompanied by enhanced oversight rights for the federal government, as well as a guarantee fee that is partly based on the losses incurred. In addition, the FDF order of 23 May 2023 provides for the obligation to implement incentive-based remuneration schemes, which are also referred to in the guarantee.
- Asset management framework: UBS must establish an asset management framework, a conflict management policy and a governance policy within 90 days of the agreement coming into force.
- Organisational structure: UBS is required to establish an appropriate organisational structure in the form of a separate organisational unit, including the appointment of an oversight committee and a management team. This organisational unit will be responsible for the management and realisation of the guaranteed assets. UBS is then obliged to put appropriate reporting systems in place and to ensure adequate resources. The composition of the oversight committee, including the representation of the Confederation, is to be agreed upon after the loss protection agreement comes into force.
- **Federal government rights**: the federal government has broad information and audit rights. Reporting will primarily take the form of quarterly reports, but the federal government may request additional information if it deems this necessary.



7. Guarantee fee/costs

- **Guarantee fee**: the guarantee fee consists of (i) a set-up fee, (ii) an annual maintenance fee to cover certain ongoing costs for the Confederation and (iii) an annual drawn portion fee, the amount of which will depend on the realised and expected losses.
- Costs: UBS will bear the initial and ongoing external costs and expenses of the
 Confederation incurred in connection with the guarantee (especially the costs of
 advisers), to the extent they are not covered by the guarantee fee, as well as the
 associated costs of FINMA. UBS has no right to instruct the Confederation's advisers,
 and there is no limit on the Confederation's options for appointing advisers.

8. Political aspects

 Within the framework of the agreement, UBS recognises the major importance of the enlarged UBS Group for the Swiss financial centre and is committed to maintaining its headquarters in Switzerland. Relocating the headquarters abroad would result in the federal government having the right to terminate the guarantee unilaterally.