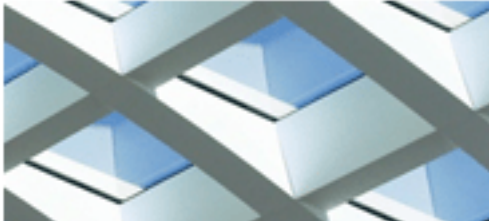


December 2009



**UBS AG**

**Credit Summary Report**

**RATING:** Q2  
**Other Ratings as of:** November 2009  
**Moody's:** Aa2  
**S & P:** A+  
**Best:** A+

**Domicile:** Zurich, Switzerland  
**Holding Company:** None

**U**BS AG (UBS) was formed in 1998 following the merger of two of Switzerland's largest banking groups, Union Bank of Switzerland and Swiss Bank Corporation. UBS is Switzerland's largest bank by assets, with domestic market shares of 20%-35% in most product areas serving 2.5 million retail customers and 135,000 corporate clients. It is the second largest wealth manager in the world and a major player in asset management and investment banking. UBS employs approximately 69,000 people in over 50 countries, with the majority split between Switzerland and the United States. PFI benefits from a diverse source of earnings and a very strong competitive position in U.S. life insurance and annuities, investment management and retirement services, as well as individual life insurance and annuities in Japan. However, PFI's profitability is highly reliant on financial market performance and the company has been hurt by the global economic slowdown, most notably in the annuity businesses and the investment portfolio.

UBS operates four major business groups: Wealth Management and Swiss Banking, Wealth Management Americas, Investment Bank, and Global Asset Management. In 2007 and 2008, UBS suffered significant losses in its mortgage-backed securities and related structured products holdings in its investment banking division resulting in full-year net losses of \$4.7 billion and \$20.3 billion, respectively. Results for 2008 also suffered from restructuring charges, legal settlements, own debt valuation charges, and fees to the Swiss National Bank (SNB) for their assistance. In October 2008, the SNB stepped in and injected \$5.8 billion of capital into UBS through mandatory convertible notes giving the government a 9% stake in the bank. The SNB also set up a fund to accept \$39 billion of illiquid trading assets from UBS in an effort to cap further losses. UBS's image and reputation were severely damaged resulting in the Wealth Management and Asset Management divisions losing assets at an alarming rate. UBS saw approximately \$150 billion leave the firm along with a portion of their highly valuable advisor staff in the second half of 2008.

The loss of assets slowed over the first three quarters of 2009 but remained significant, negatively affecting commission and fee income. Write-downs and asset impairments were also reduced in 2009 but not enough to produce positive results. With the bank focused on deleveraging the balance sheet, downsizing the investment bank, and replacing the senior management team, UBS did not benefit as much as peers when the performance

of the financial markets turned around in the second and third quarters of the year. Operating performance is showing signs of stabilizing; however, through the first nine months of the year UBS has recorded a \$3.4 billion net loss.

As of September 30, 2009, total assets have been reduced 27% to \$1.4 trillion, compared to \$1.9 trillion at YE08 while risk-weighted assets were reduced 35% over the same time frame. The reduction in assets along with the new capital led to a very strong Tier 1 capital ratio of 15.0%. As the bank returns to profitability, its risk appetite will likely increase leading to some downward pressure on the capital ratio; however, the bank has stated a strong capital position is a high priority.

The liquidity position of the bank has been fairly resilient throughout the financial crisis. The loan to deposit ratio has not exceeded 74% and the bank borrows significantly less cash in the repo market than it lends. The deleveraging of the balance sheet has allowed UBS to reduce short-term liabilities significantly while working to extend its maturity profile. The bank placed its first covered bond issue in 3Q09 along with \$3.8 billion of unsecured long-term debt as credit spreads continued to tighten and access to the debt markets improved.

UBS faces significant headwinds in the months and years ahead. The restructuring process, though progressing according to plan, will take time to fully implement and show benefits. The asset transfer with the SNB has helped to stabilize earnings and the capital injection places the bank on solid footing. Repairing the reputation of the institution following legal battles and large write-downs is a key component to reversing asset outflows and returning the bank to profitability. UBS is now rated a 3 on our internal rating scale.

UBS AG

**Strengths:**

- A leading international bank with good brand recognition
- Strong support from the SNB
- Robust capitalization levels and a stable liquidity position

**Weaknesses:**

- Reputation has been severely damaged following nine quarters of negative results
- Heavy reliance on fee-based businesses and equity market performance
- Risks related to the restructuring process and future profitability

**Key Statistics - UBS AG**

(CHF millions)	2008	2007	2006	2005	2004	CAGR/ Average
Total Assets	2,014,815	2,274,891	2,396,511	2,058,348	1,737,118	3.78%
Equity	40,802	43,826	55,775	51,634	39,367	0.90%
Equity/Assets	2.03%	1.93%	2.33%	2.51%	2.27%	2.21%
Net Income	-21,292	-5,427	12,257	14,029	8,016	NA
Tier 1 Capital Ratio	10.97%	9.10%	12.20%	12.90%	11.90%	11.41%
Total Capital Ratio	15.01%	12.20%	15.00%	14.10%	13.80%	14.02%
Return on Average Assets	-0.99%	-0.22%	0.55%	0.74%	0.51%	0.12%
Return on Average Equity	-65.45%	-14.23%	23.2	31.79%	23.62%	459.15%

Sources: Company reports and SEC filings.

**BNY MELLON**  
**CASH INVESTMENT**  
**STRATEGIES**

▶ A BNY MELLON ASSET MANAGEMENT COMPANY<sup>SM</sup>

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