



STANDISH



UBS AG

RATING: Q2
Other Ratings as of: December 2008
Moody's: Aa2
S & P: A+
Fitch: A+

State of Domicile: Zurich, Switzerland
Holding Company: None

UBS 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. Today, UBS is Switzerland's largest bank by assets, with a dominant market share in domestic banking. It is also the largest private bank in the world as well as the leading franchise in European investment banking. The company's growth, diversification and strong fundamentals have enabled UBS to develop an established franchise as well as global brand recognition. Currently, the bank employs approximately 83,560 individuals in over 50 countries, with the majority split between Switzerland and the Americas.

UBS operates three major business groups: (i) Global Wealth Management and Business Banking (with CHF \$2.1 trillion in invested assets globally), (ii) Investment Bank (global investment banking), and (iii) Global Asset Management (institutional asset management and mutual funds). Since the 2000 purchase of Paine Webber, UBS has not made a large acquisition, instead focusing on smaller purchases and organic growth. During 2006, the number of small acquisitions increased. UBS purchased Banco Pactual, Brazil's leading investment bank and asset manager, for between US\$1 billion and US\$2.6 billion, depending on performance over the next five years. UBS also purchased the private service branch network of Piper Jaffray in August 2006, consisting of 90 branch offices, 700 financial advisors and client assets of US\$52 billion.

In 2007 and 2008, UBS suffered significant losses to its mortgage-backed securities and related structured products holdings in its investment banking division. These losses occurred because UBS abandoned its traditional conservative asset allocation and invested significantly into US mortgage-related securities. When Lehman Brothers failed in September 2008, UBS suffered just below \$300 million in losses due to exposure to Lehman. In October 2008, the Swiss National Bank (SNB) stepped in and injected CHF 6 billion of capital into UBS through mandatory convertible notes. The SNB also took \$60 billion of illiquid securities and other assets off of UBS's balance sheet and placed them into a separate fund entity, capping further losses to UBS. This move was essential to reduce UBS's balance sheet and recapitalize the firm back to healthy levels.

UBS, for several years now, has been using and promoting the UBS name for all three business groups, leaving behind acquired brands like Paine Webber. The Wealth Management and Business Banking group has more than 4,400 financial advisors in international markets, with another 7,300 advisors in the U.S. UBS is also the leading retail and corporate bank in Switzerland, with market shares of 25-35% in most product lines. Global Asset Management manages money for institutions and mutual funds, with traditional and alternative investments.

The Investment Bank ran into trouble when it created Dillon Reed Capital Management (DRCM), which led to an overweight of exposure to the US mortgage market. After a range of trading activities was transferred to DRCM, the Investment Bank replaced them with client-driven origination, trading and structuring of mortgage-backed securities, which involved taking principal risks. In 2007, UBS closed DRCM and reorganized the Investment Bank by enacting new regulations to limit the amount of risk the department can take. UBS now feels that the Investment Bank is well-structured and positioned for sustainable growth.

UBS has updated a set of financial goals, having consistently exceeded the ones it used previously. The targeted return on equity through all cycles is 20%. Other goals include double digit EPS growth and indicators for net new money inflows and efficiency. UBS had visibly improved shareholder returns through 2005, then began to show weakness in 2006 which led to reporting losses in 2007. The loss in 2007 was a result primarily of mortgage related exposures in the US. On the positive side, the company's Global Wealth Management and Business Banking businesses produced record results for the year.

In light of UBS AG's dedicated strategic focus, good brand recognition, reduced expense structure, steadily improving asset quality and more than sufficient capital levels, we continue to find UBS AG deserving of our Q2 rating in the Standish Stable Value Credit Universe.

UBS AG

Strengths:

- Strong global franchise with emphasis on higher margin/growth businesses
- Strong capitalization, especially in regard to risk profile
- Improving asset quality, lower impaired assets and loan loss provisioning
- Success in improving expense structure

Weaknesses:

- Operates in highly competitive banking segments globally, including investment banking, that make increased profitability difficult
- Domestic private banking initiative may be hindered by saturated and increasingly competitive domestic market
- While having made some progress in addressing costs, UBS still maintains an above average cost structure

Key Statistics

(CHF millions)	2007	2006	2005	2004	2003	CAGR/ Average
Total Assets	2,274,891	2,384,733	2,060,250	1,737,118	1,553,979	10.00.%
Equity	42,536	55,775	44,324	33,941	33,659	6.03.%
Equity/Assets	1.87%	2.34%	2.15%	1.95%	2.16%	2.09%
Net Income	(3,845)	12,750	13,971	8,017	6,319	N/A
Tier 1 Capital Ratio	9.1%	12.2%	12.9%	11.9%	12.0%	11.62%
Total Capital Ratio	12.2%	15.0%	14.1%	13.8%	13.5%	13.72%
Return on Average Assets	-0.17%	0.57%	0.74%	0.49%	0.46%	0.42.%
Return on Average Equity	-7.8%	25.5%	35.7%	23.7%	17.4%	18.9.%

Source: Company reports and SEC filings.



► A BNY MELLON ASSET MANAGEMENT COMPANYSM

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