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EUROPEAN VIEW

By Haig Simonian

Sometime in the next five days, shareholders of UBS will receive a letter with the agenda for next month's annual meeting of Switzerland's biggest bank.

Rather than being destined for the waste bin, the procedural details this time should warrant closer attention for what they might reveal about Europe's biggest casualty from the US subprime crisis.

Already, a small Swiss pension fund has tabled a motion for a SFr10bn rights issue to help UBS address possible further writedowns on its securities linked to US residential mortgages.

Another capital raising may seem superfluous after last month's approval for steps to raise SFr19bn in fresh funds, mainly through SFr13bn from strategic investors in Singapore and Saudi Arabia. But Profond, a SFr2.5bn pension fund for small and medium sized Swiss companies, thinks more cash is needed to address the bank's looming new losses.

The prognosis for UBS is certainly not good. Credit Suisse, its arch rival and a bank so far relatively unscathed by the US meltdown, last week warned of a probable first quarter loss. While business at its big investment bank had been profitable in January and February, turmoil in March made red ink highly likely, it warned.

Although their models are not identical, the prediction sent a shiver through all banks exposed to the troubled US credit markets – UBS especially. Better than expected figures from Wall Street earlier in the week had suggested the worst might be over. But the US quarter ended in February: Credit Suisse was the first to talk about March, and its words cast a long shadow.

Analysts had already been leapfrogging themselves with estimates for additional writedowns UBS might have to make this year, based on fast deteriorating markets. The maximum of \$21bn may be extreme. But many respected analysts have settled for the \$15-\$16bn range. UBS has not commented, and its next scheduled disclosure is not until first quarter results on May 6.

In such an information vacuum, the AGM of April 23 has grown unusually important. Herbert Bra(uuml)ndli, chairman of Profond's board of trustees, says he has been told his motion will be on the agenda. More important, Mr Bra(uuml)ndli says he has been told privately by the bank that another capital increase will be necessary – confirming the view of many in the market that only an additional infusion of funds will suffice to maintain the high capital ratios UBS requires to protect the crucial blue chip image of its powerhouse private banking business.

What will be decisive is the gloss UBS puts on its AGM agenda. Officials only say for now that the motions are being weighed up and shareholders will be informed of

the board's recommendations in due course. When that letter comes – probably at the beginning of next week – investors should give it a thorough read, before, as in the past, tossing it in the trash.
