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## Dow Jones **News**wires

### **FOCUS: UBS To Reveal Next Week If Another Cap Hike Is Due**

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ZURICH (Dow Jones)--Next week, when UBS AG (UBS) sends out the agenda for its annual general meeting, investors will sift through the letter to get the answer on one question: Will the Swiss bank ask shareholders for another capital increase?

UBS, based in Zurich, has been hard hit by the global financial crisis that started out with the demise of the market for risky home loans in the U.S., but has since spread to other market segments.

The crisis has cost the Swiss giant around \$18 billion so far and forced it to take up fresh money from sovereign wealth funds. Thanks to the capital increase and other measures worth more than CHF19 billion, the bank is still among the world's best-capitalized.

But UBS still has more than \$70 billion in risky assets on its books and analysts are expecting more write-downs. While some say that this could force it to take up fresh capital again, others believe such a step isn't necessary.

"We acknowledge limited visibility on the size of UBS' write-downs for the first quarter," Matthew Clark and Vasco Moreno, banking analysts at research company Keefe, Bruyette & Woods, said in a recent report. "If (the write-down) is more sizable than our forecast, further capital-raising measures are likely."

They recently raised their forecast to CHF15 billion in write-downs, from an earlier estimate of CHF5 billion.

Some are also saying that recent measures taken by the U.S. Federal Reserve, such as offering Treasury securities in exchange for hard-to-value mortgage-backed securities, have helped to revive the market, and therefore may have reduced the size of potential write-downs on such assets.

But several UBS shareholders don't share this view and are asking for an immediate capital improvement.

Swiss pension fund **Profond** confirmed Friday that it has made a proposal to UBS to let shareholders vote on a CHF10 billion capital increase at the Swiss bank's upcoming annual general meeting.

"We are asking for an immediate capital increase, through a rights issue," said Herbert Braendli, president of **Profond**. "In our opinion, the bank's capital base isn't strong enough to absorb all of the write-downs that will probably become necessary."

**Profond**, which has CHF2.5 billion in assets under management, holds about 1 million UBS shares, valued at about CHF29.5 million at market prices. UBS has a total market capitalization of about CHF61.09 billion.

UBS confirmed that it received the request, but declined further comment.

Under Swiss law, a company has to accept proposals for agenda items if the requests meet all legal requirements. The board can then endorse it, recommend to vote against it or set a counterproposal.

The bank will send out agenda items for the AGM by Wednesday, along with the invitation to the meeting, which is scheduled for April 23.

"We will wait for the decision of UBS' board; whether it will back or turn down the request for a capital hike," said Dominique Biedermann, president of Swiss activist shareholder group Ethos, which is acting as asset

managers for small and medium-sized pension funds.

"But should UBS have to take massive write-downs, say around CHF15 billion, we would like the bank to make a rights issue," he said.

**Profond** and Ethos were among the most critical shareholders at UBS' meeting last month when the bank asked investors to back a capital hike that was sponsored by two sovereign wealth funds.

Both investors said UBS' plan eclipsed the interests of existing shareholders. They asked for a regular rights issue, which UBS denied at the time, saying such a move would have been too time-consuming and costly.

Since then, the dispute has prolonged a rift between some minority shareholders and the bank's board, and a rights issue could bridge the growing divide.

"The proposal of **Profond** is good and it is also a window of opportunity for UBS," said Hans Geiger, professor of finance at the Swiss Banking Institute, a unit of the University of Zurich. "It could help mend ties between the bank's small shareholders and the board."

"Generally, it is quite simple: A lot of capital is good and sparse capital is bad," he said. "UBS could ask its shareholders for another increase, although, I understand, this might be psychologically difficult for the board. But shareholders would probably back it because the bank has in the past 10 years paid back around three-quarters of its profits to shareholders in the form of dividends or share buybacks."

Despite the calls for a capital increase, such a step doesn't appear to be an absolute necessity, analysts say.

According to analysts, even after writing down as much as CHF15 billion, UBS would still achieve its target of Tier 1 capital 11%-12%. This is clearly above legal requirements, but the bank deems such a strong capital base necessary to safeguard its profitable wealth-management business.

Estimates for first-quarter write-downs hover around CHF15 billion. For the year as a whole, the range becomes wider, with estimates ranging between CHF14 billion and CHF25 billion.

Tier 1 capital denotes a bank's ability to take up risks. Under European banking rules, the minimum level is 4%, but the Swiss regulator has set higher minimum targets for its two leading banks, Credit Suisse Group (CS) being the other.

"Internationally, UBS is very well capitalized and far above the average," said Alain Bichsel, spokesman for the Swiss Banking Commission. He declined, however, to say whether this would still be the case in the wake of another write-down.

Company Web site: <http://www.ubs.com>

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