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FOCUS: UBS Hlrs To Back Cap Hike, Welcome Ospel Resignation

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ZURICH (Dow Jones)--Several activist **UBS AG (UBS)** shareholders Tuesday said they will back a planned CHF15 billion rights issue, expressed relief that the bank's controversial chairman is stepping down but gave a lukewarm response to the appointment of the bank's chief legal counsel as his successor.

The huge losses posted by **UBS** on the write-down of the value of untradable assets - many of them tied to the meltdown of the U.S. market for risky home loans - and the ensuing need to raise new capital, has shaken up once-placid shareholders.

Swiss institutional shareholders, such as pension funds, have often been criticized for not exercising their combined voting power at company's annual general meetings. Swiss, as other continental European shareholders, have lagged their U.K. and U.S. counterparts in that respect but the unprecedented losses posted by **UBS**, and the sale of an estimated 9% stake to a sovereign wealth investor, have sprung them into action.

Swiss pension fund Profond, as well as shareholder activists Actares and Ethos, all voiced their dissatisfaction about **UBS's** plan to exclude current shareholders in the bank's first round of capital-raising last month, which included the sale of a mandatory convertible bond to the Government of Singapore Investment Corporation and an unidentified Middle Eastern investor.

UBS' plan to again strengthen its capital base is meeting their request to participate in the capital increase, and was welcomed even though it means that their holdings in **UBS** will be diluted further.

"I've confirmed to **UBS's** board this morning that we will support their proposal," said Herbert Braendli, President of Profond.

More than a month ago, Profond had requested that **UBS** include a vote on a CHF10 billion rights issue at its upcoming annual general meeting, to be held April 23.

The fund will now support the **UBS** counterproposal.

Profond, which has CHF2.5 billion in assets under management, holds about one million **UBS** shares, valued at about CHF31.4 million at market prices. **UBS** has a total market capitalization of about CHF60.92 billion.

Announcing the capital increase, **UBS** also said Tuesday that it wrote down an additional \$19 billion in assets in the first quarter, leading to a net loss of CHF12 billion, and said that Chairman Marcel Ospel had decided not to stand for reelection.

"Sadly, write-downs of that size had to be expected; we are relieved that it is out in the open now, and hope there won't be any more," Braendli said.

"If there aren't any more write-downs, the capital base should be sufficient now," he added.

Other shareholders also expressed disappointment about the write-downs, but said they had become increasingly likely in recent weeks, when it became clear that the financial markets crisis was worsening and spreading to ever more market segments.

But shareholders were skeptical about the appointment of Peter Kurer as chairman, a Swiss national aged

59, who is a member of the **UBS** group executive board and is the bank's chief legal counsel.

"We have some reservations about the nomination of Peter Kurer as new chairman," said Roby Tschopp, chairman of Actares, a lobby group that doesn't own **UBS** shares, but is voting on behalf of shareholders who transfer their voting rights to the group. "Kurer is a member of the bank's executive committee and as such (is) a member of the group of people who share responsibility for the current situation. We (would) have preferred an outsider."

Kurer may turn out to be just a temporary solution, because Ospel had only over the last two days decided that he won't stand for reelection, Tschopp said.

This view was shared by Dominique Biedermann, president of Ethos fund, an influential Swiss shareholder lobby group that manages the investments of several Swiss pension funds.

Biedermann said that Kurer's appointment was probably only "transitional."

He urged **UBS** to appoint more experienced bankers to its board of directors, which has often been criticized for the lack of banking expertise among its members.

In March, **UBS** started to address this concern, by nominating former Morgan Stanley (MS) chief financial officer David Sidwell as a non-executive board member.

Sidwell, a U.K. citizen born in 1953, retired at the end of last year as chief financial officer at Morgan Stanley, where he had played a central role in the U.S. investment bank's efforts to improve its risk-taking and capital allocation.

Back then, some analysts suggested that he was taken on board to be considered as an eventual successor to Ospel, though some had remained skeptical as to whether a non-Swiss would be acceptable at the helm of the country's largest bank.

"It certainly wouldn't be a problem that Sidwell isn't Swiss," Actares' Tschopp said. "It's feasible that he will eventually take on the role as chairman, but it's too early now to speculate."

The surge in **UBS**'s share price Tuesday is testimony to shareholder relief that uncertainties about the extent of first-quarter losses and the size of a fresh capital increase have been removed. The resignation of Marcel Ospel was also welcomed and contributed to a rise of CHF2.76, or 10%, to CHF31.70, in **UBS**'s share price.

"I was surprised that everything went so fast today: Ospel's departure, the write-downs and the capital increase," said Robert Scholl, manager at pension fund Aargauische Pensionskasse, which controls 1 million **UBS** shares and has around 8 billion Swiss francs in assets. "But it seems that everything is on the table now and I don't expect more write-downs. Maybe **UBS** has even built reserves with the latest write-downs. I believe everyone is content now."

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

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(Goran Mijuk in Zurich contributed to this article) [01-04-08 1311GMT]

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