

# Risk control

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# Key messages

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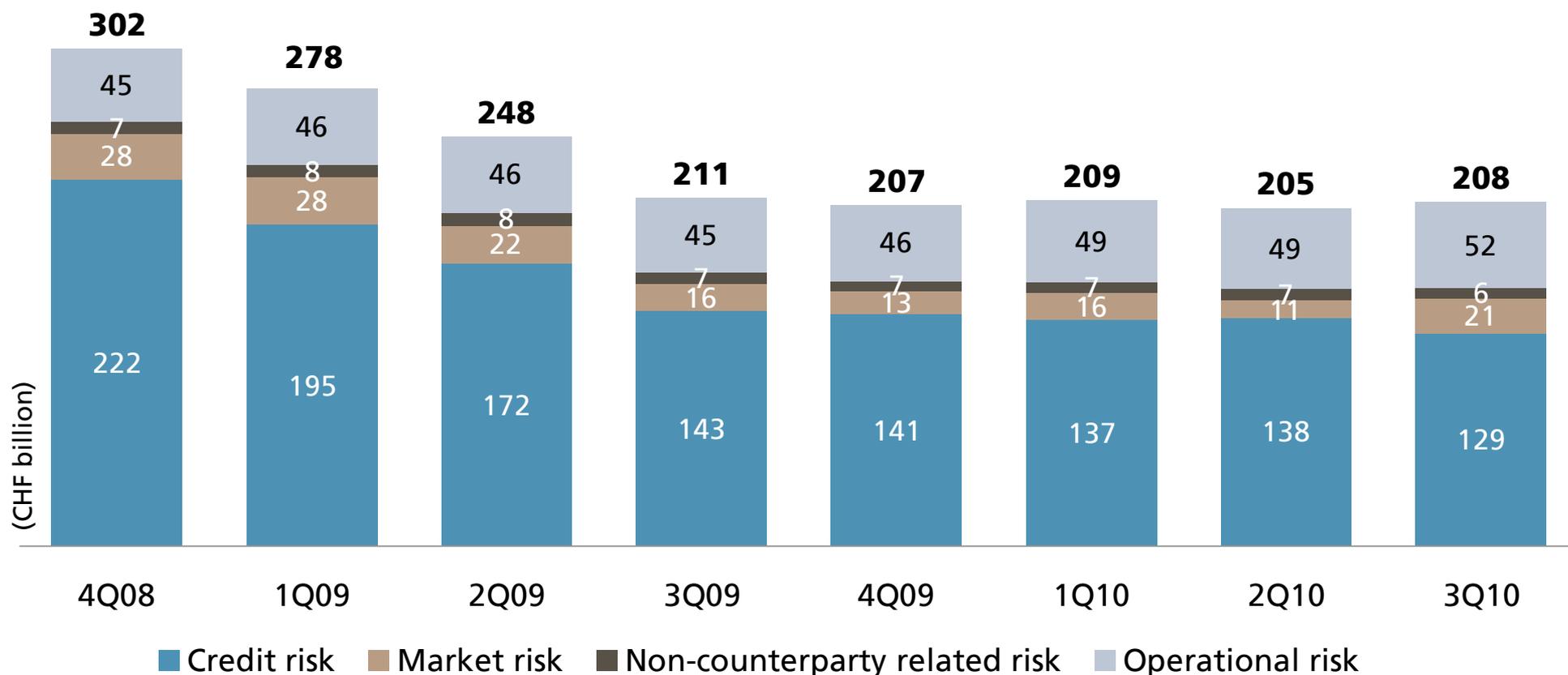
Our risk profile today is low. It will increase in line with growth in our businesses

RWAs will be more volatile as reported under Basel 2.5

Disciplined risk management is at the core of UBS

# UBS risk-weighted assets

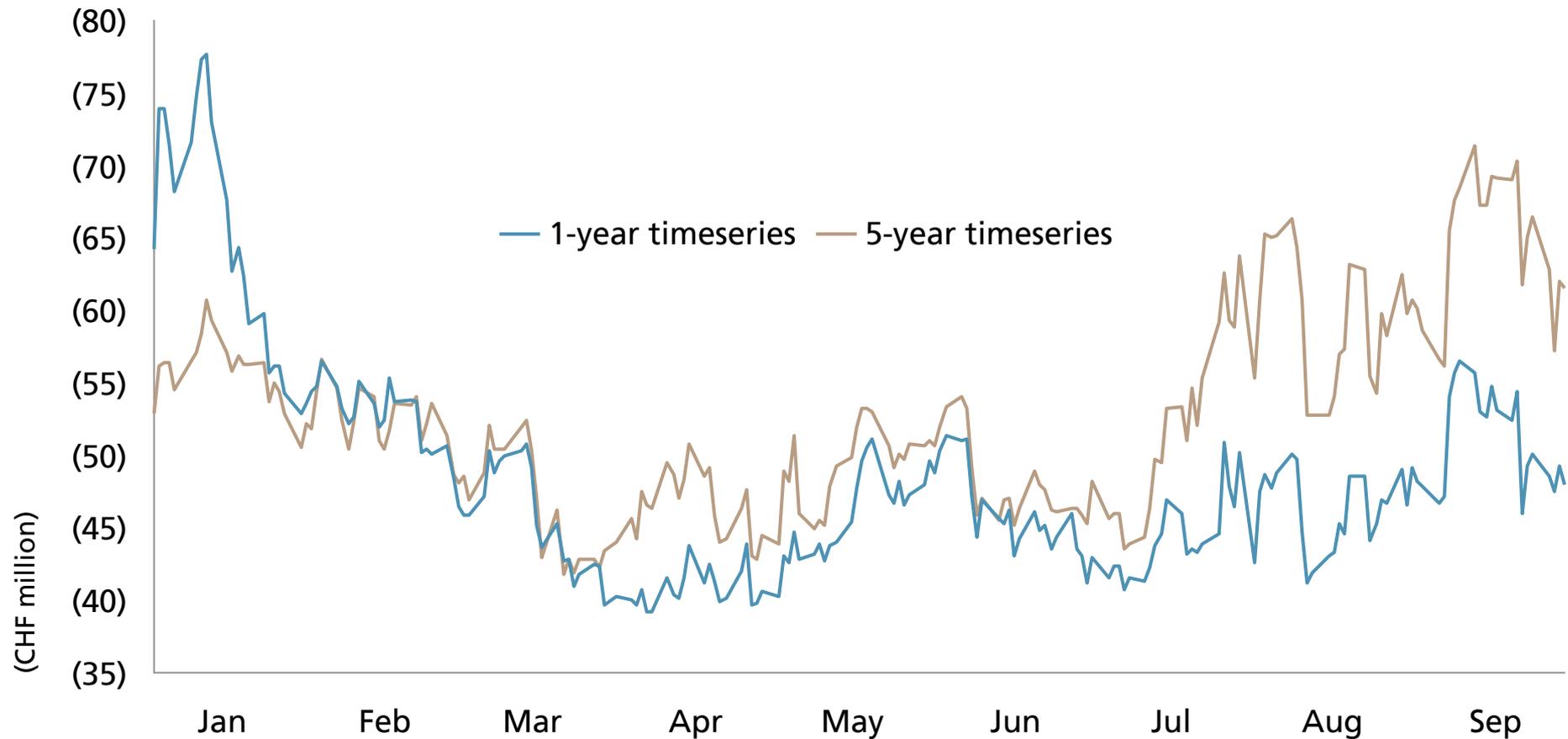
## Development by risk category



**Both the mix and absolute level of RWAs have remained stable in 2010**

# Market risk: Investment Bank VaR

## 1-day 95% management VaR to 30.9.10

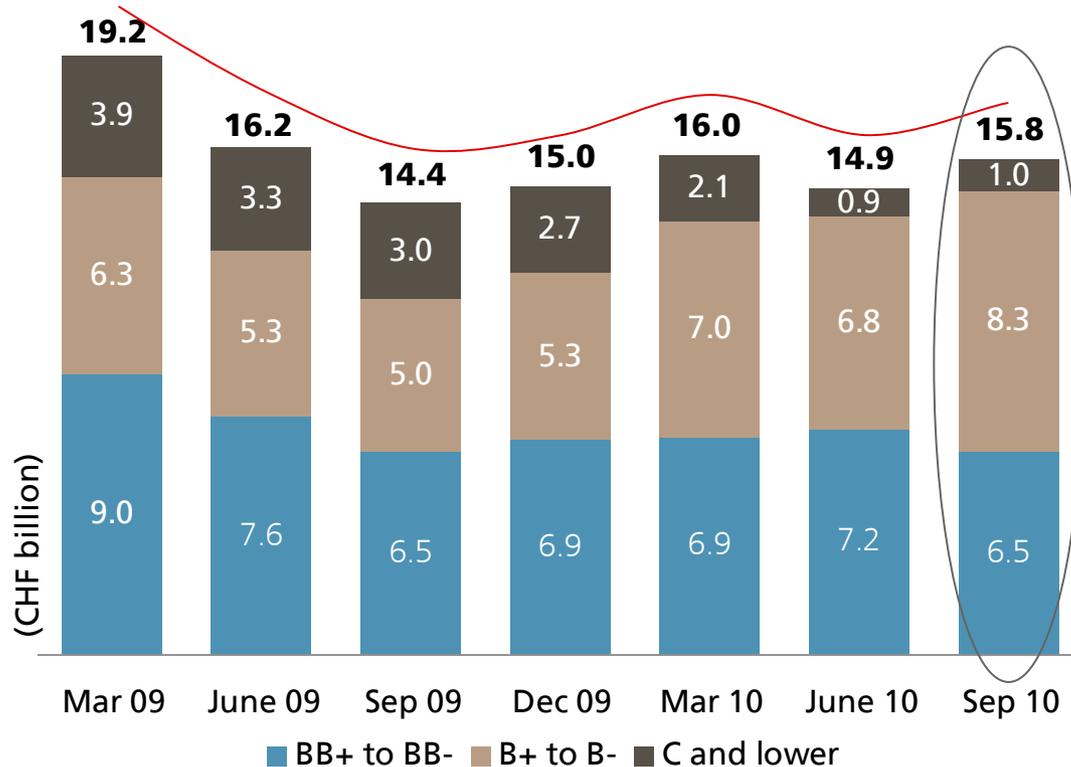


- Reflects active risk management
- Overall VaR remains low

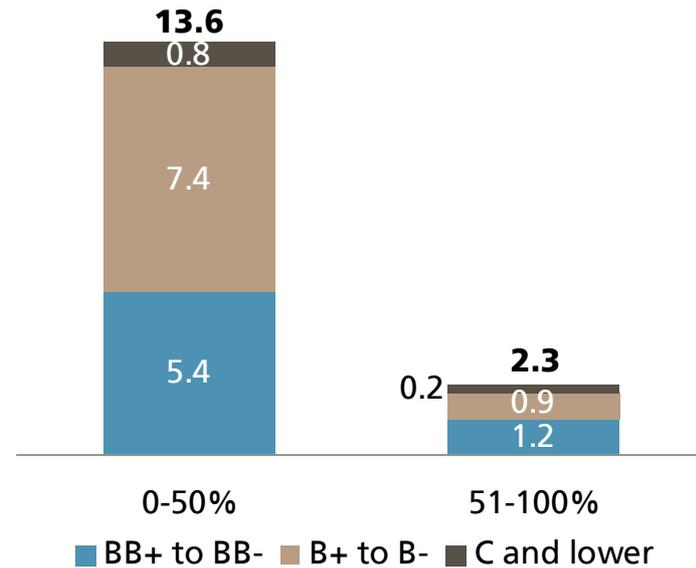
# Credit risk: Investment Bank

## Banking products portfolio

### Sub-investment grade exposure



### Sub-investment grade exposure by rating bucket and by LGD (30.9.10)

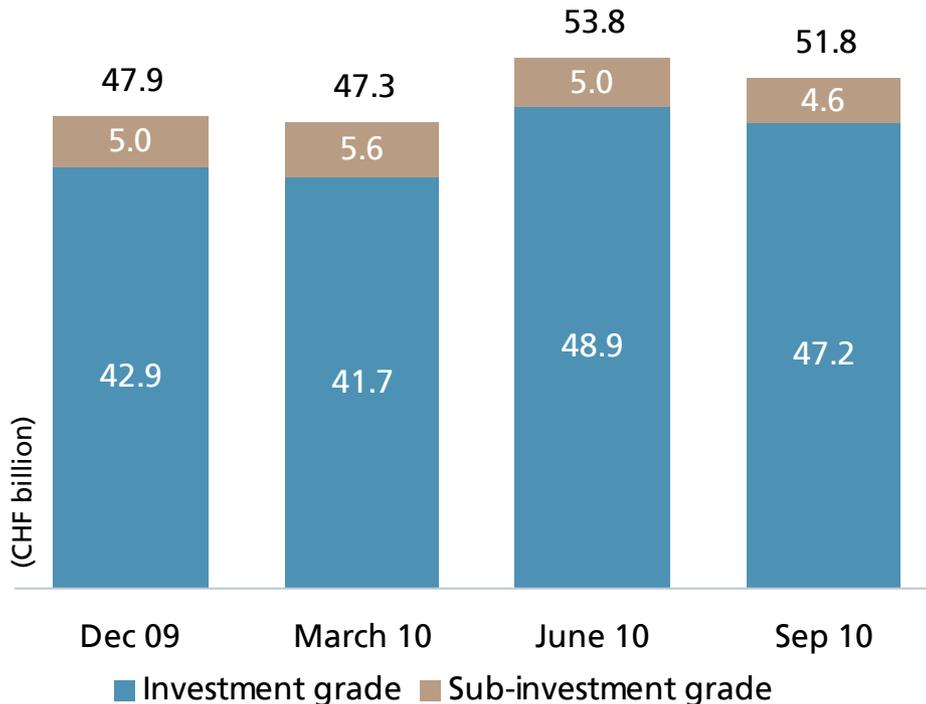


- Entire Investment Bank Banking products portfolio = CHF 43.4 billion
- CHF 15.8 billion is rated Sub-investment grade, of which CHF 2.3 billion has an LGD higher than 50%
- Year-to-date net credit recovery of CHF 107 million

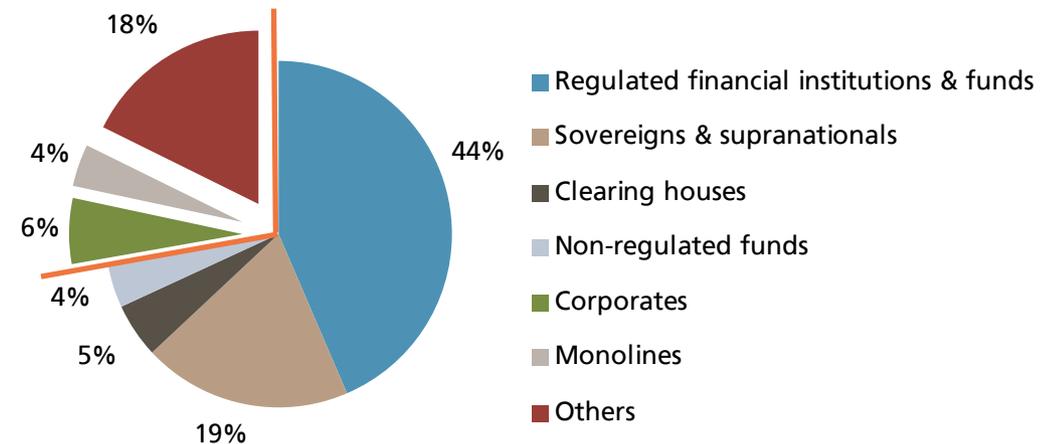
# Credit risk: Investment Bank

## Traded products portfolio

### Investment grade vs. sub-investment grade



### by counterparty type

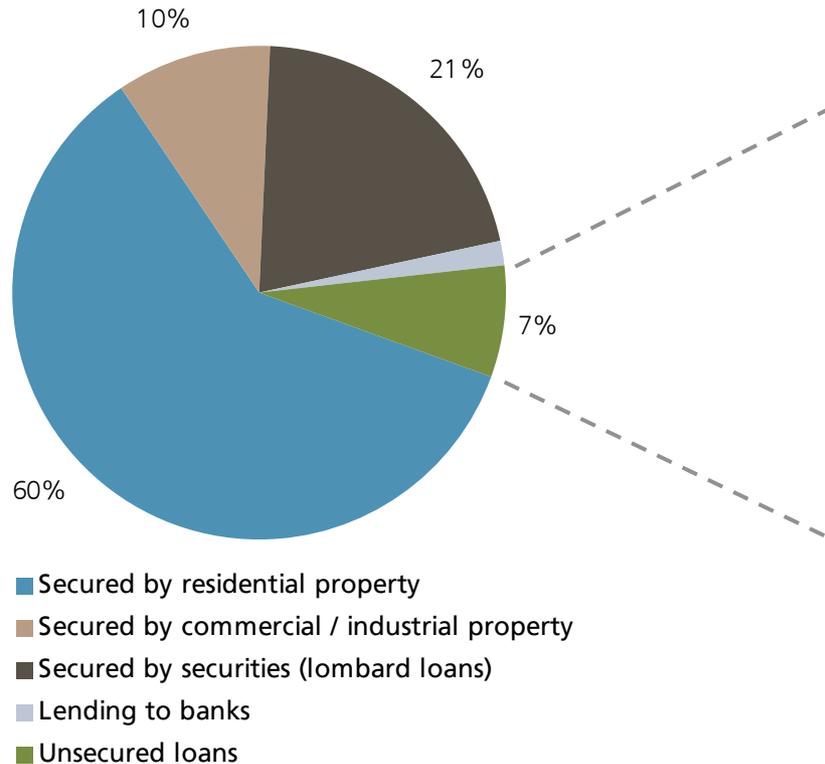


- For the majority of the non-collateralized portfolio, CVA is based on market observable credit spreads
- Dominated by investment grade counterparties with large concentration to regulated financial institutions and funds, and sovereigns
- Relatively short-dated (approx 25% less than 1 year, 40% 1-5 years, 35% over 5 years)

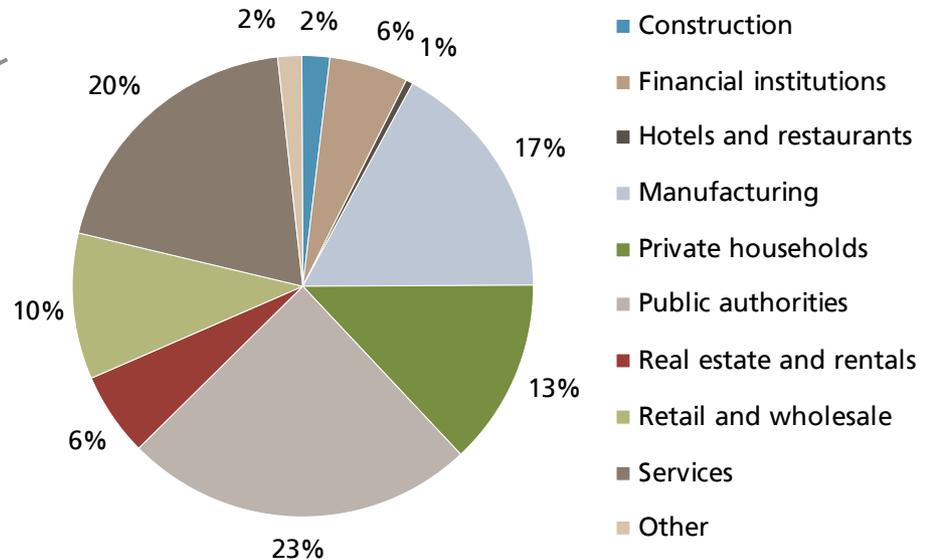
# Credit risk: Wealth Management & Swiss Bank

## Banking products exposure

**WM&SB banking products portfolio**  
(total CHF 205 billion)



**of which: unsecured loans by industry sector**

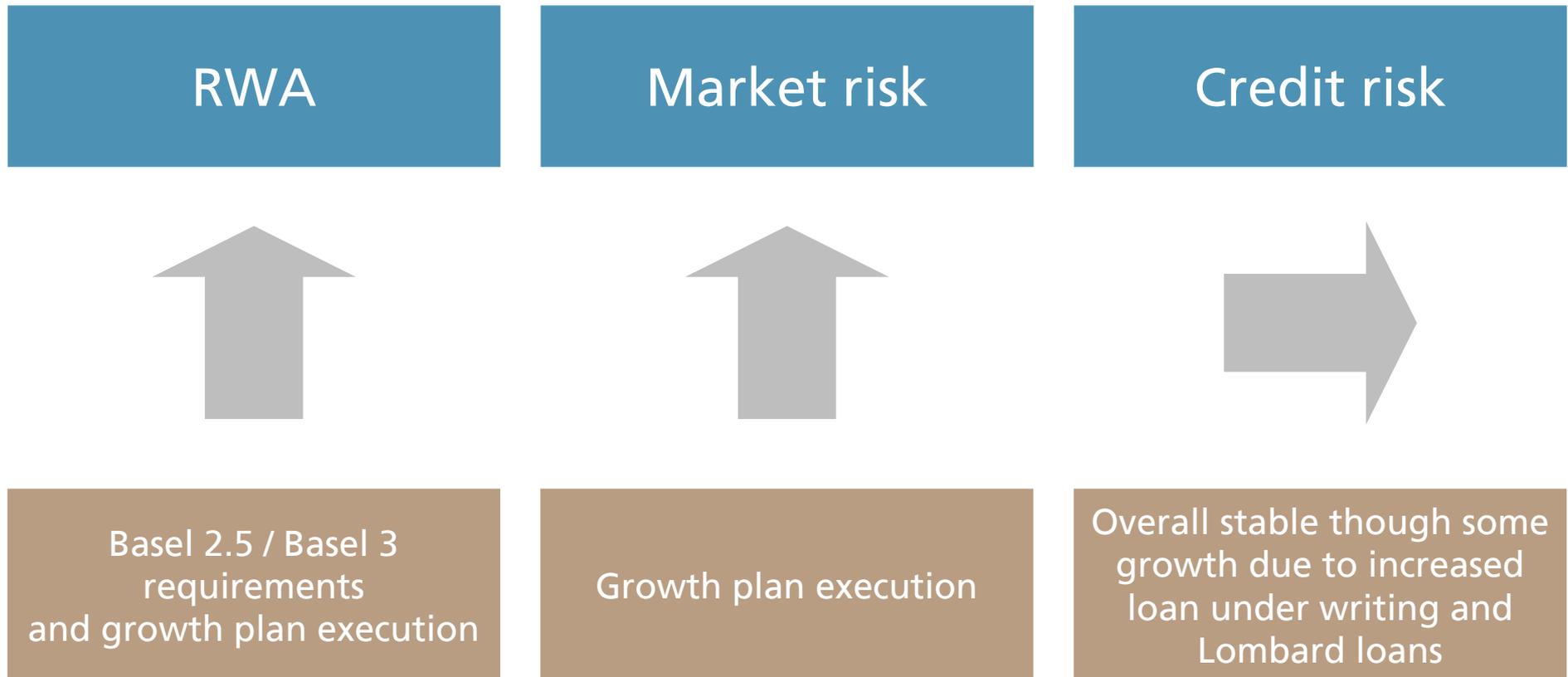


- Product mix dominated by secured lending in real estate and marketable securities
- Small portion unsecured with wide industry distribution
- Year-to-date credit loss expense: CHF 9 million

# Risk profile

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## Expected developments



# Key messages

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# Basel 2.5

## Introduction of four new measures to supplement the current market risk capital

### Stressed VaR

- 10-day 99% VaR with model inputs calibrated to historical data from a period of significant financial stress relevant to the firm's portfolio

### Incremental risk charge (IRC)

- New capital charge for default (as against price volatility) and credit migration risk on the trading book

### Comprehensive risk measure (CRM)

- Carve out measure from securitization treatment for a correlation portfolio

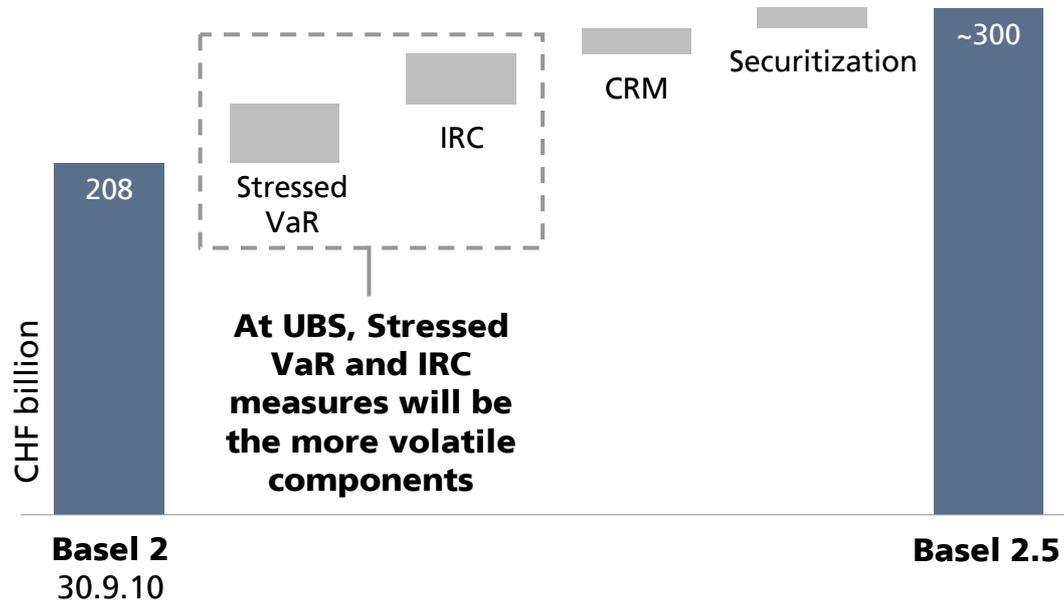
### Securitization

- In lieu of calculating IRC, securitization exposure in the trading book will be subject to higher capital requirements calculated off the Rating Based Approach used in the banking book

**The impact of these four components on our current portfolio plus expected business growth results in an expected RWA of ~CHF 300 billion under Basel 2.5**

# Basel 2.5

## Basel 2.5 will result in an increase of the volatility of RWAs



- Stressed VaR and the IRC measures will add to the volatility of the RWAs
- Early adoption mandated by FINMA on 1 January 2011
- RWAs of ~CHF 300 billion as reported under Basel 2.5 takes our growth plans into account

# Key messages

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# Risk management and control principles

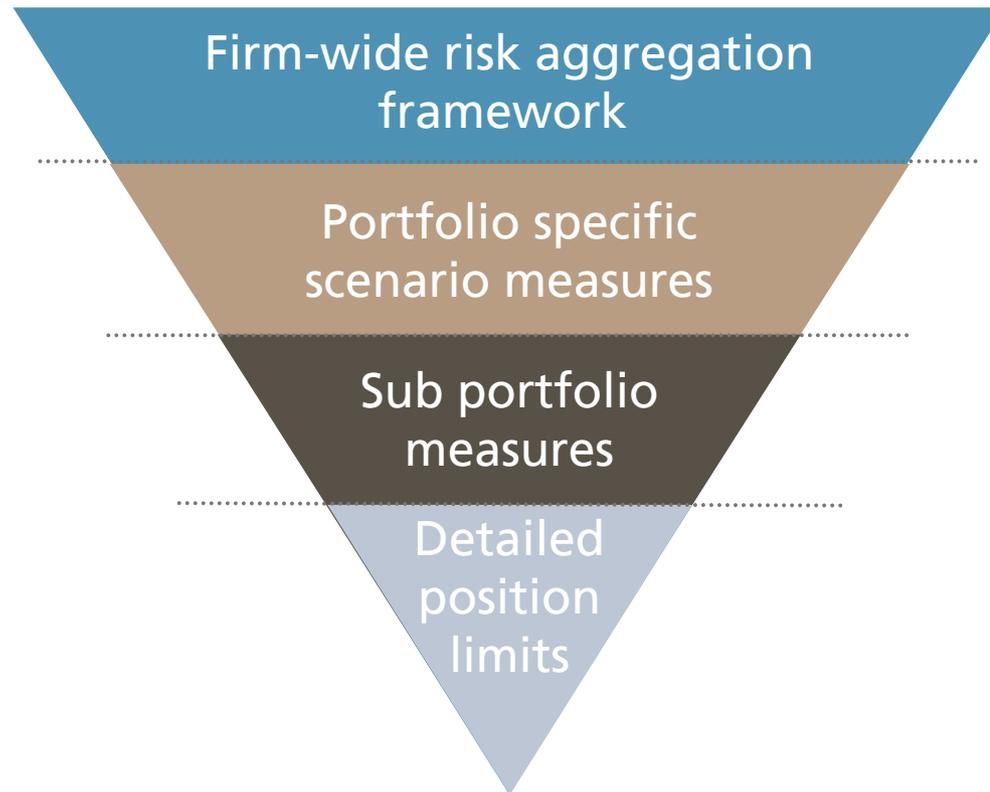
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- 1 Protection of financial strength
- 2 Protection of reputation
- 3 Business management accountability
- 4 Independent controls
- 5 Risk disclosure

**Five key principles underpin UBS's risk management and control framework and allow the firm to achieve an appropriate balance between risk and return**

# How do we control risk?

## One single measure is not sufficient



- Firm-wide risk exposure metrics are complemented with a granular limit framework with portfolio and position limits at the group and divisional level
- Statistical measurement
- Stress measures
- Risk sensitivities
- Jump to zero / recovery controls

**All elements of the framework play a key role in the decision-making processes in the Bank**

# How do we control the entry / re-entry into new business?

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## Disciplined process in place



- Review and approval process in place
- Ensures all material risks are identified, evaluated and appropriately addressed, and that the infrastructure is in place to support the business
- Elevated risks, including reputation risks, are escalated to senior management
- Proposals are reviewed and approved by all impacted control and logistics functions
- Compliance with conditions imposed as part of the approval are tracked and reviewed

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