



# UBS Investor Day 2004

## Credit Risk

Marco Suter, Group Chief Credit Officer

# Credit exposure at UBS

**The portfolio of credit risks at UBS is well diversified ...**

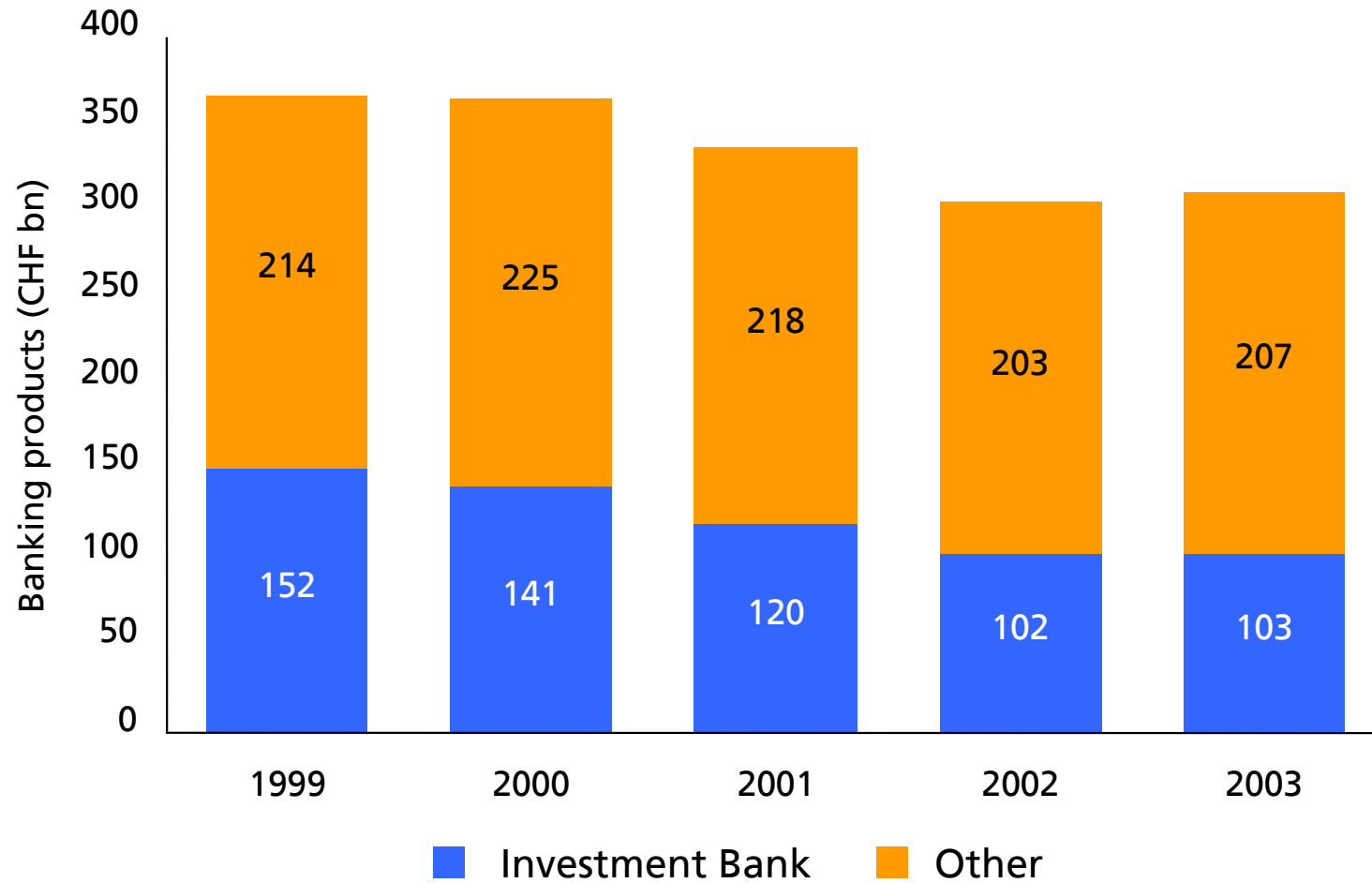
| Exposures as of 31.03.2004<br>All amounts in CHF million | WM&BB          | Investment<br>Bank | WM USA        | Other        | UBS            |
|--|----------------|--------------------|---------------|--------------|----------------|
| <b>Total Loans, gross</b>                                | <b>179'904</b> | <b>56'040</b>      | <b>14'295</b> | <b>5'451</b> | <b>255'690</b> |
| <b>Contingent Liabilities</b>                            | <b>11'266</b>  | <b>3'789</b>       | <b>359</b>    | <b>1'111</b> | <b>16'525</b>  |
| <b>Irrevocable Commitments</b>                           | <b>1'967</b>   | <b>52'292</b>      | <b>346</b>    | <b>70</b>    | <b>54'675</b>  |
| <b>Total Banking Products</b>                            | <b>193'137</b> | <b>112'121</b>     | <b>15'000</b> | <b>6'632</b> | <b>326'890</b> |
| <b>Unsecured OTC products (PCE<br/>Exposure)</b>         | <b>1'902</b>   | <b>51'880</b>      | <b>0</b>      | <b>352</b>   | <b>54'134</b>  |
| <b>Other derivatives</b>                                 | <b>1'377</b>   | <b>14'889</b>      | <b>0</b>      | <b>0</b>     | <b>16'266</b>  |
| <b>Securities lending &amp; borrowing</b>                | <b>1'127</b>   | <b>27'700</b>      | <b>0</b>      | <b>0</b>     | <b>28'827</b>  |
| <b>Repo</b>  | <b>34</b>      | <b>24'584</b>      | <b>158</b>    | <b>0</b>     | <b>24'776</b>  |
| <b>Total Traded Products</b>                             | <b>4'440</b>   | <b>119'053</b>     | <b>158</b>    | <b>352</b>   | <b>124'003</b> |
| <b>Total "illiquid" Credit Exposure</b>                  | <b>197'577</b> | <b>231'174</b>     | <b>15'158</b> | <b>6'984</b> | <b>450'893</b> |

**... across business groups and products**



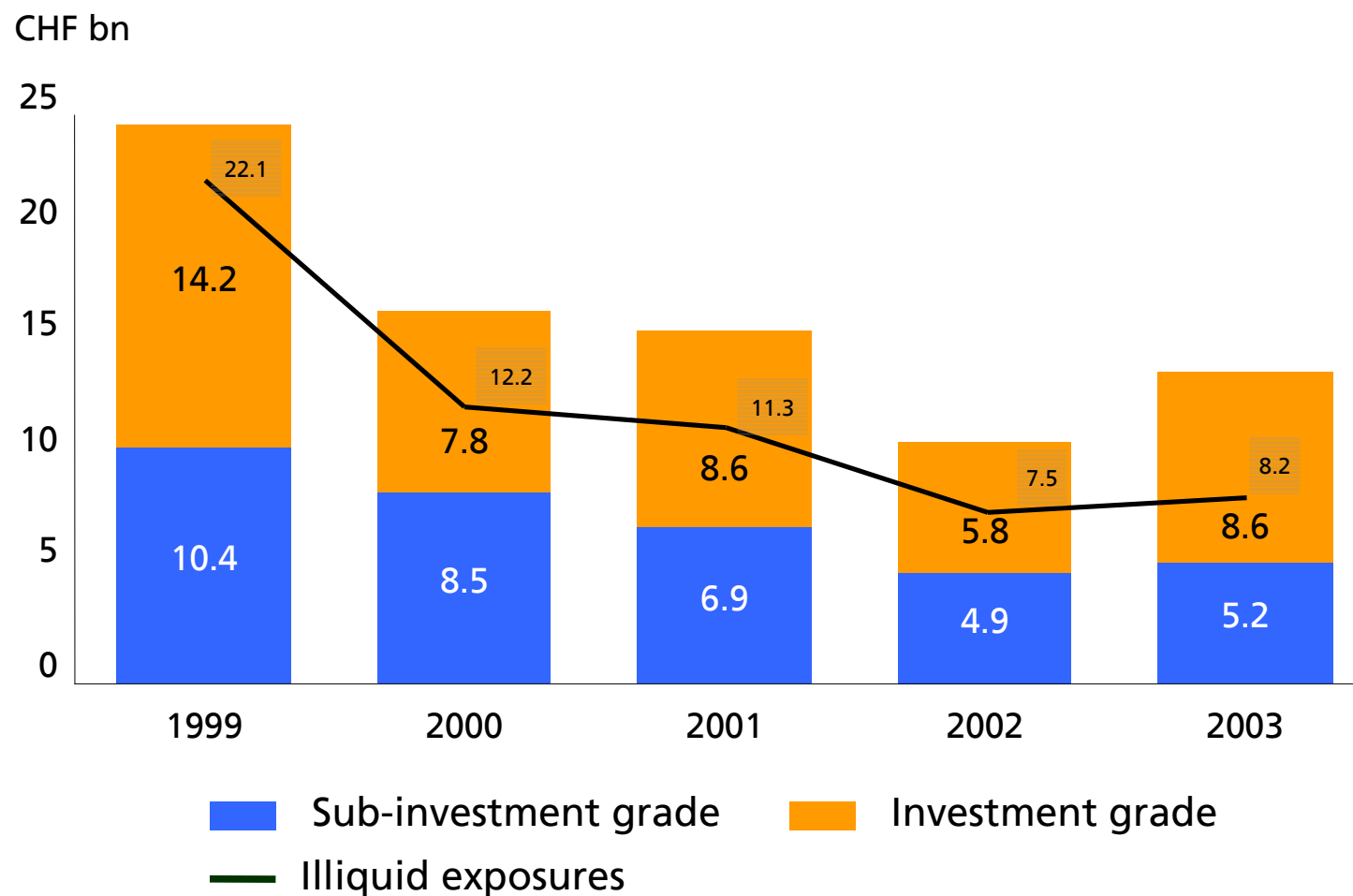
# Development of banking products exposure

## Banking Products



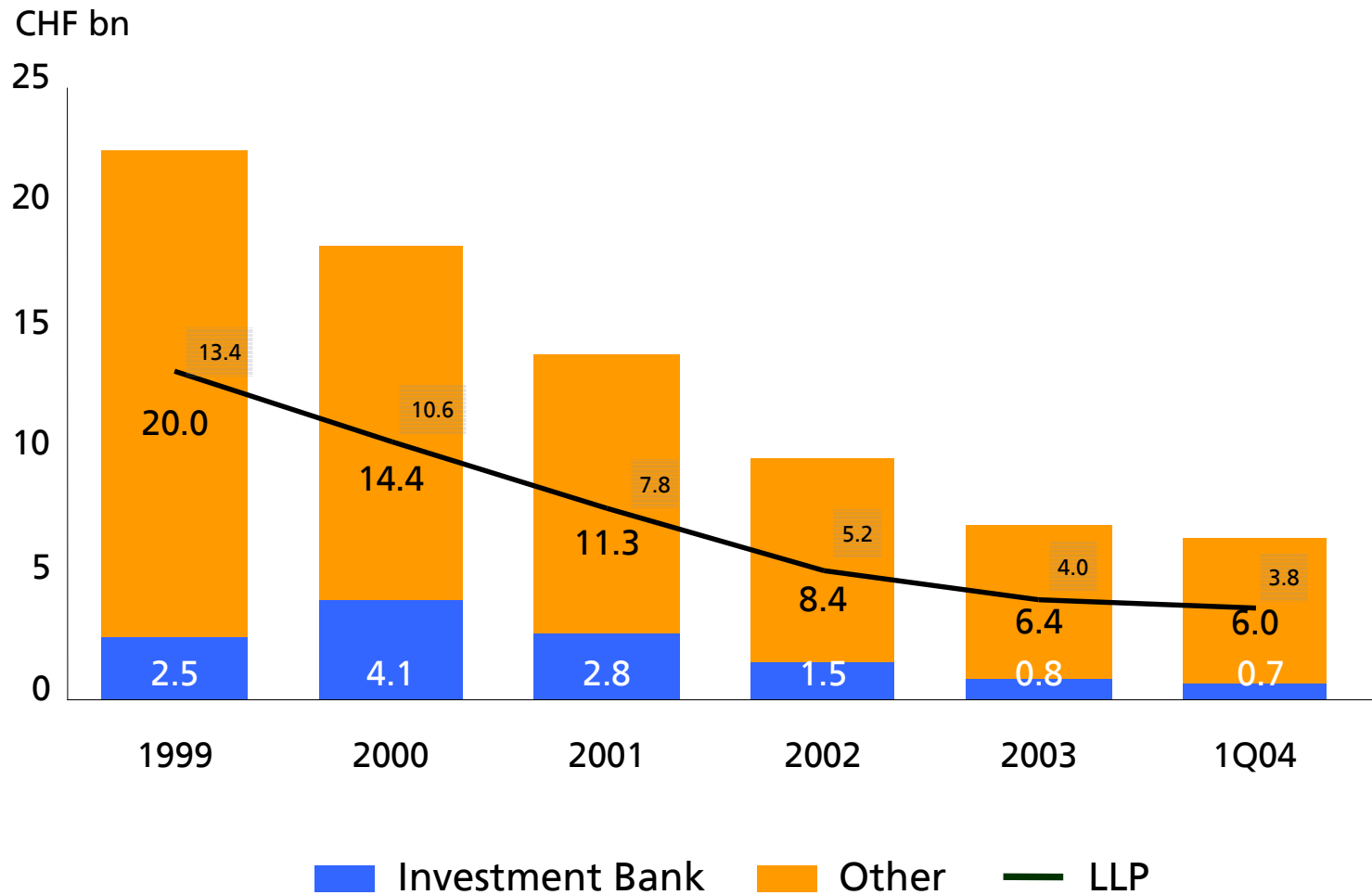
# Development of emerging markets exposure

## Overall emerging markets exposure (including tradable assets)



# Impaired loans and loan loss provisions

## Impaired loans and loan loss provisions



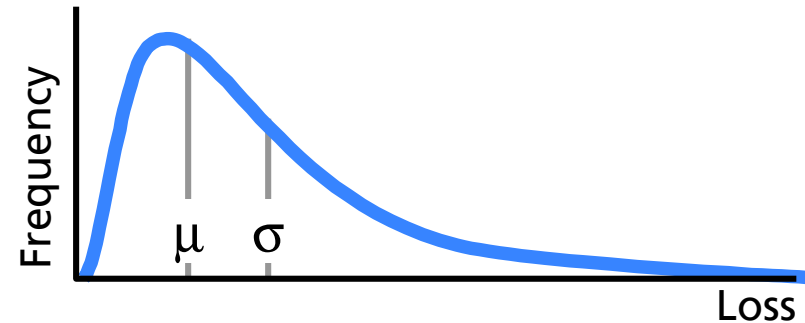
## Credit loss expense: our performance

| (CHF m)          | 1999         | 2000       | 2001         | 2002         | 2003        |
|------------------|--------------|------------|--------------|--------------|-------------|
| WM&BB            | (965)        | 695        | (124)        | (238)        | (67)        |
| Investment Bank  | 0            | (562)      | (360)        | 126          | (4)         |
| WM USA           | n.a.         | (3)        | (15)         | (15)         | (3)         |
| Corporate Center | 9            | 0          | 1            | 12           | 2           |
| <b>Total</b>     | <b>(956)</b> | <b>130</b> | <b>(498)</b> | <b>(115)</b> | <b>(72)</b> |

# Nature of credit risk

## Credit events have many causes, are difficult to predict ...

- ◆ Low probability of a very bad outcome



- ◆ Significance of risk concentrations
  - Large individual counterparty exposures
  - Significant exposures on geographic areas or industry sectors
- ◆ Limited possibilities for protection
  - Predominantly medium-term exposures
  - Varying degree of market liquidity
- ◆ "Ex ante" approval for individual credit limits
  - counterparty assessment
  - transaction assessment

# The key factors to success

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# Credit culture - "our genetic fingerprint"

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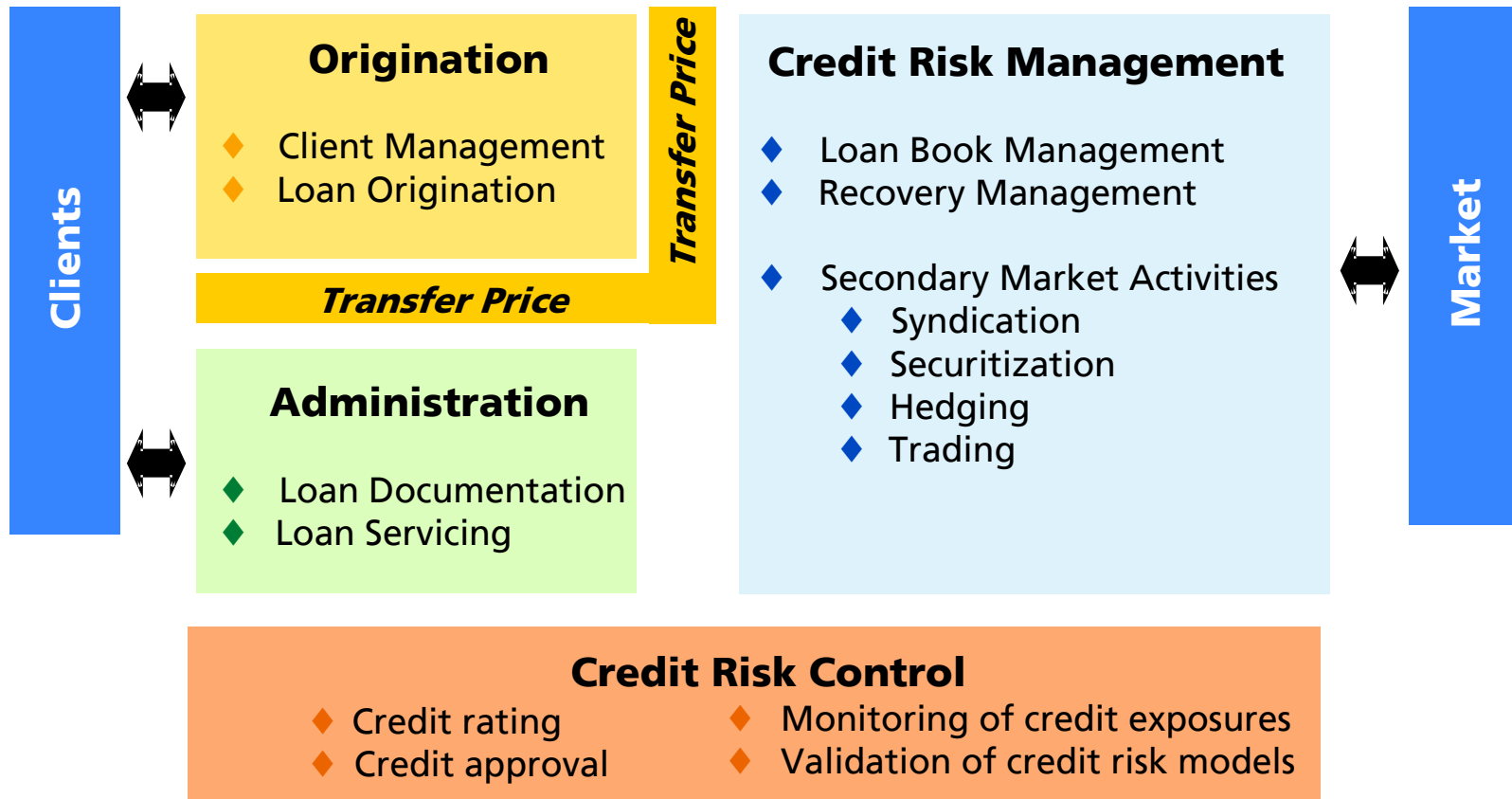
## **Credit risk policy must be aligned with corporate objectives ...**

- ◆ Universal commitment to a strong credit culture
- ◆ No tolerance for fiefdoms within the organization
- ◆ Assessment of all potential outcomes ("tail risk")
  - Future always bears scope for surprise
  - Limited appetite for long-term transactions
- ◆ Earnings protection through
  - Limitation of risk concentrations
  - High underwriting standards for individual transactions
- ◆ Reputation protection
  - Transparency of client's circumstances and transaction motivation

**... and be adopted by the business groups' origination  
and risk management functions**

# Credit risk organization

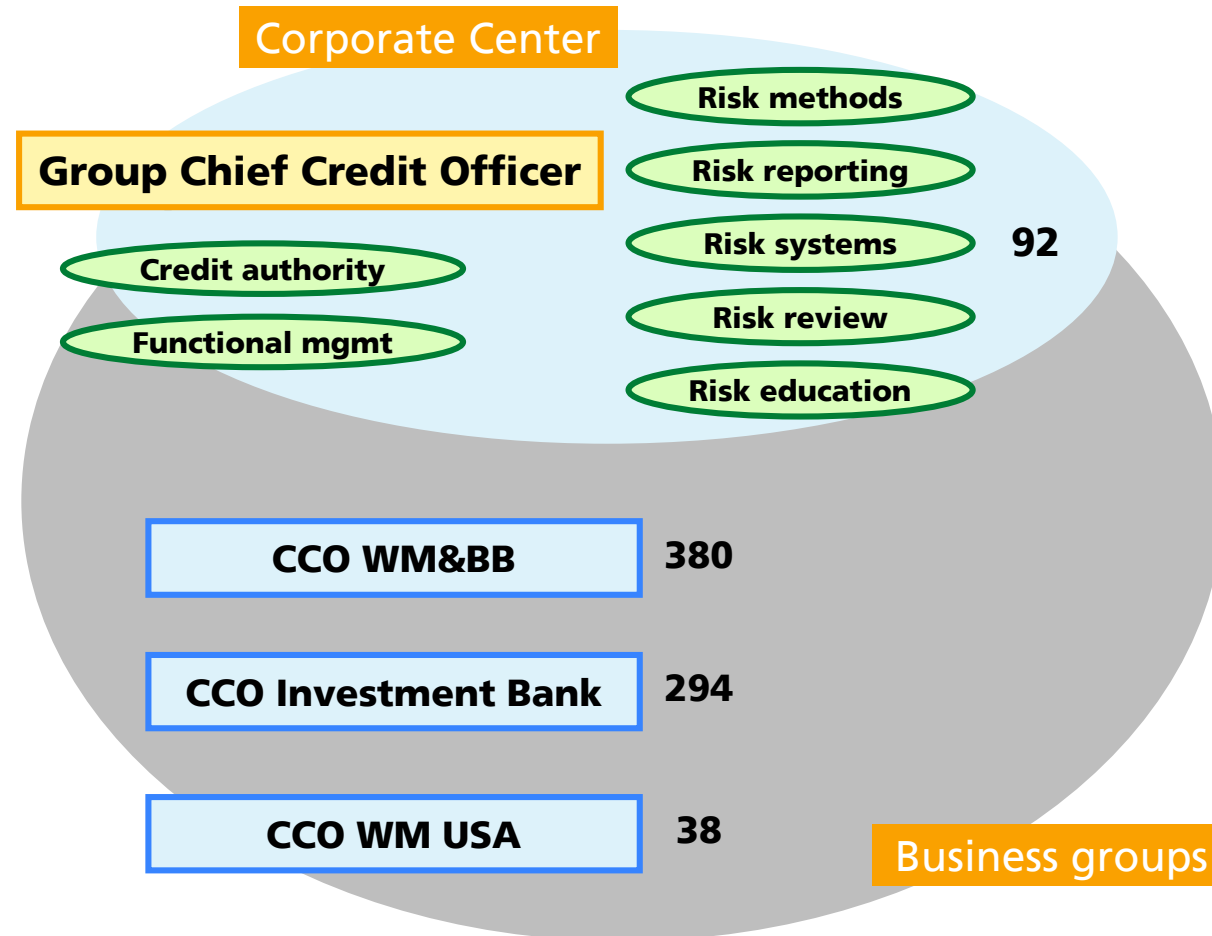
The right organization is key to successful ...



... optimization of risk and reward in the credit business

# Credit risk control at UBS ...

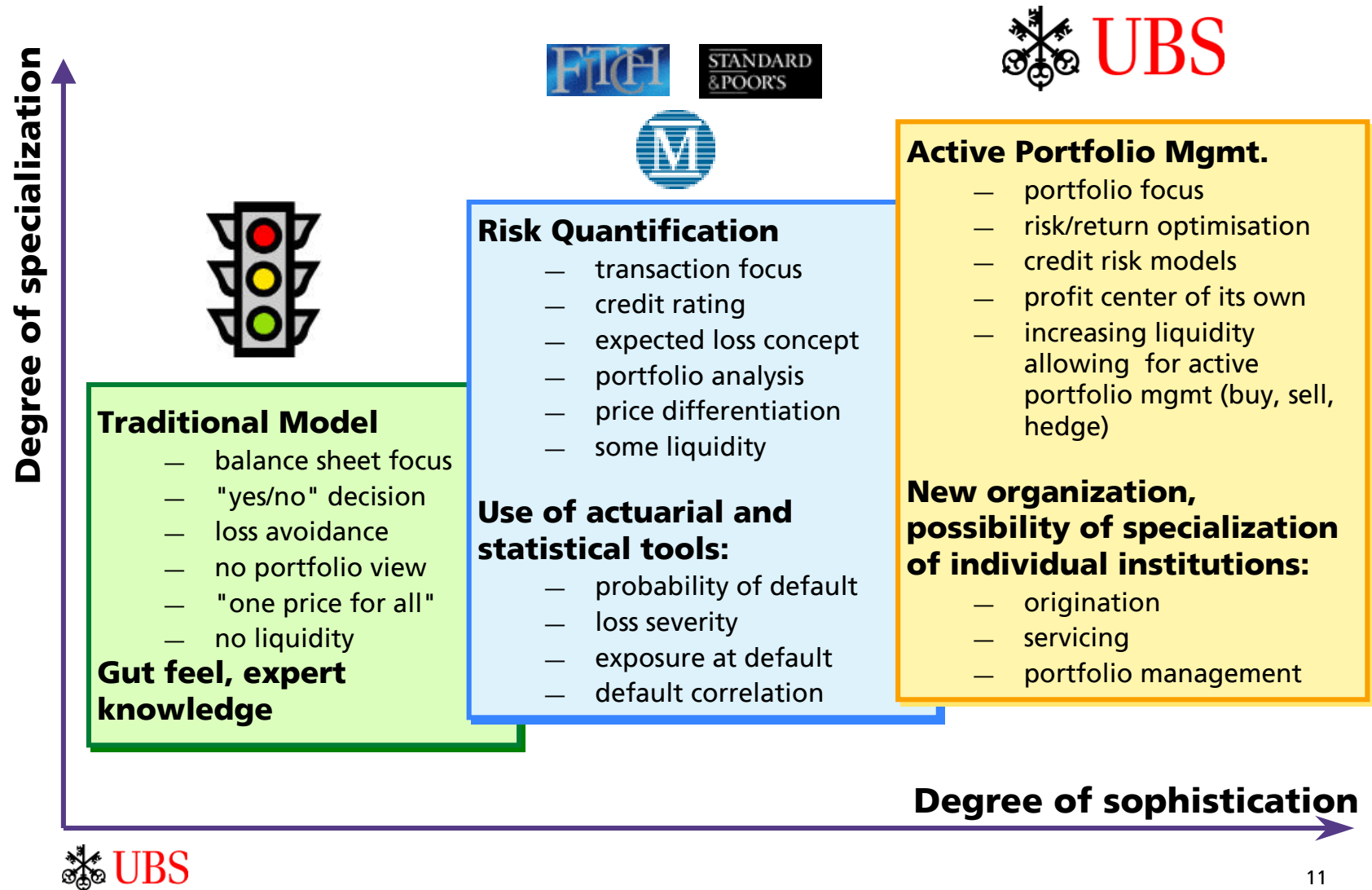
... is functionally independent from the business line, ...



... but an integrated partner of the business groups

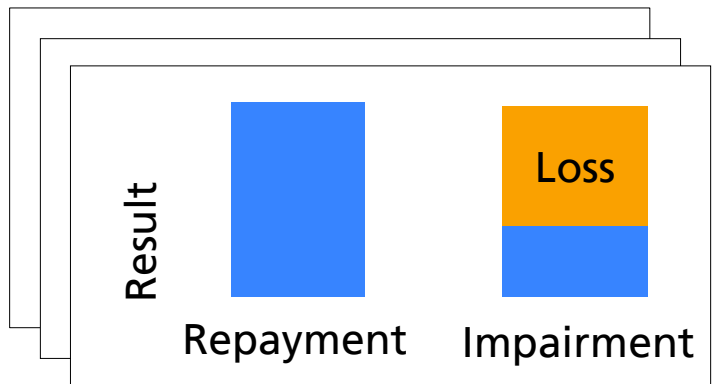
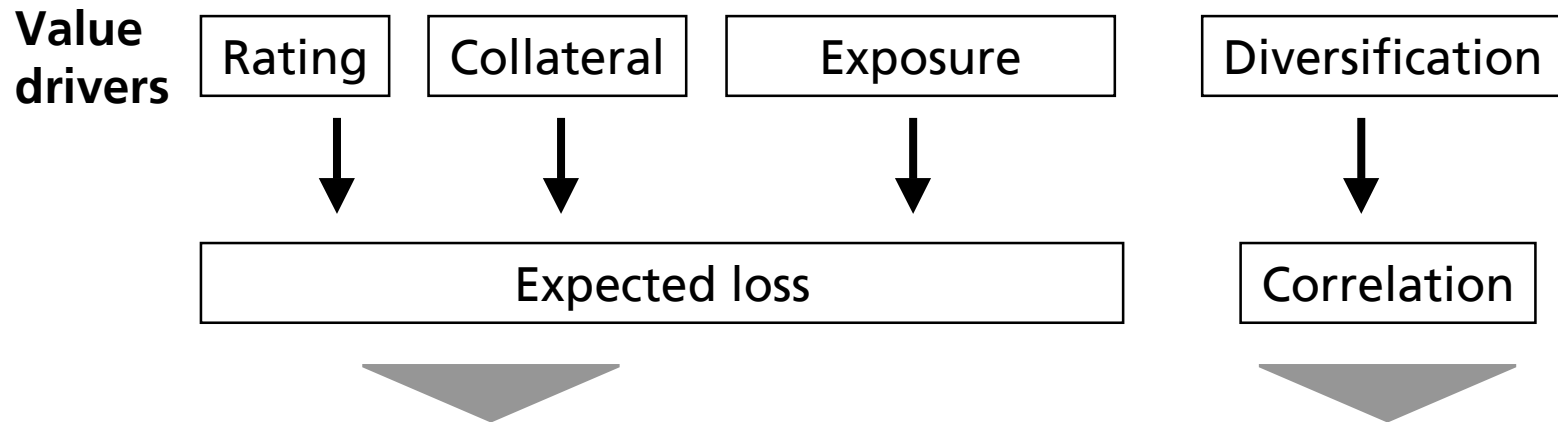
# Paradigm shift in credit risk management

UBS has come a long way over the last decade ...

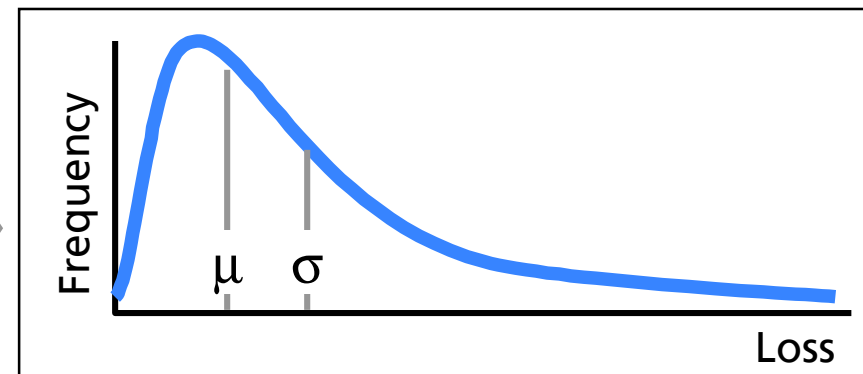


# Credit risk quantification

## Four key variables determine the outcome

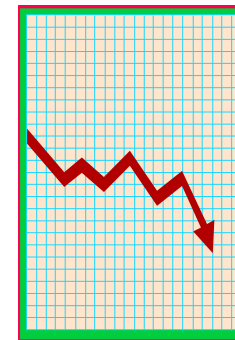
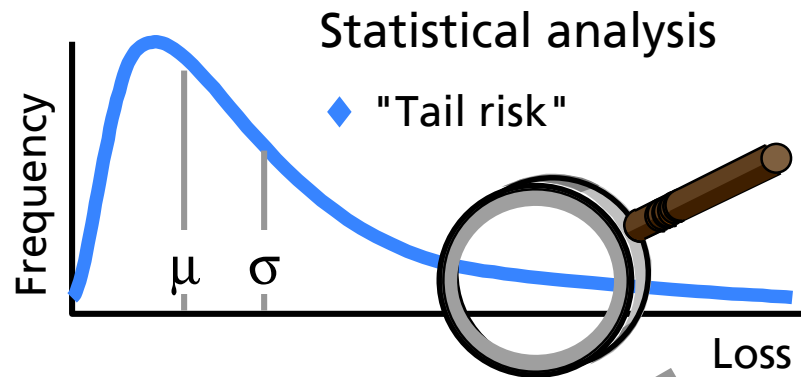


Single transaction level



Portfolio level - Credit VaR,  
"economic capital"

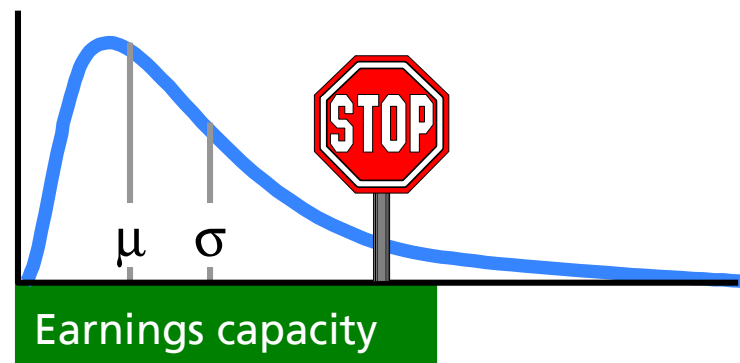
# Credit risk limitation



## Scenario analysis

"What, if" portfolio assessment, e.g.

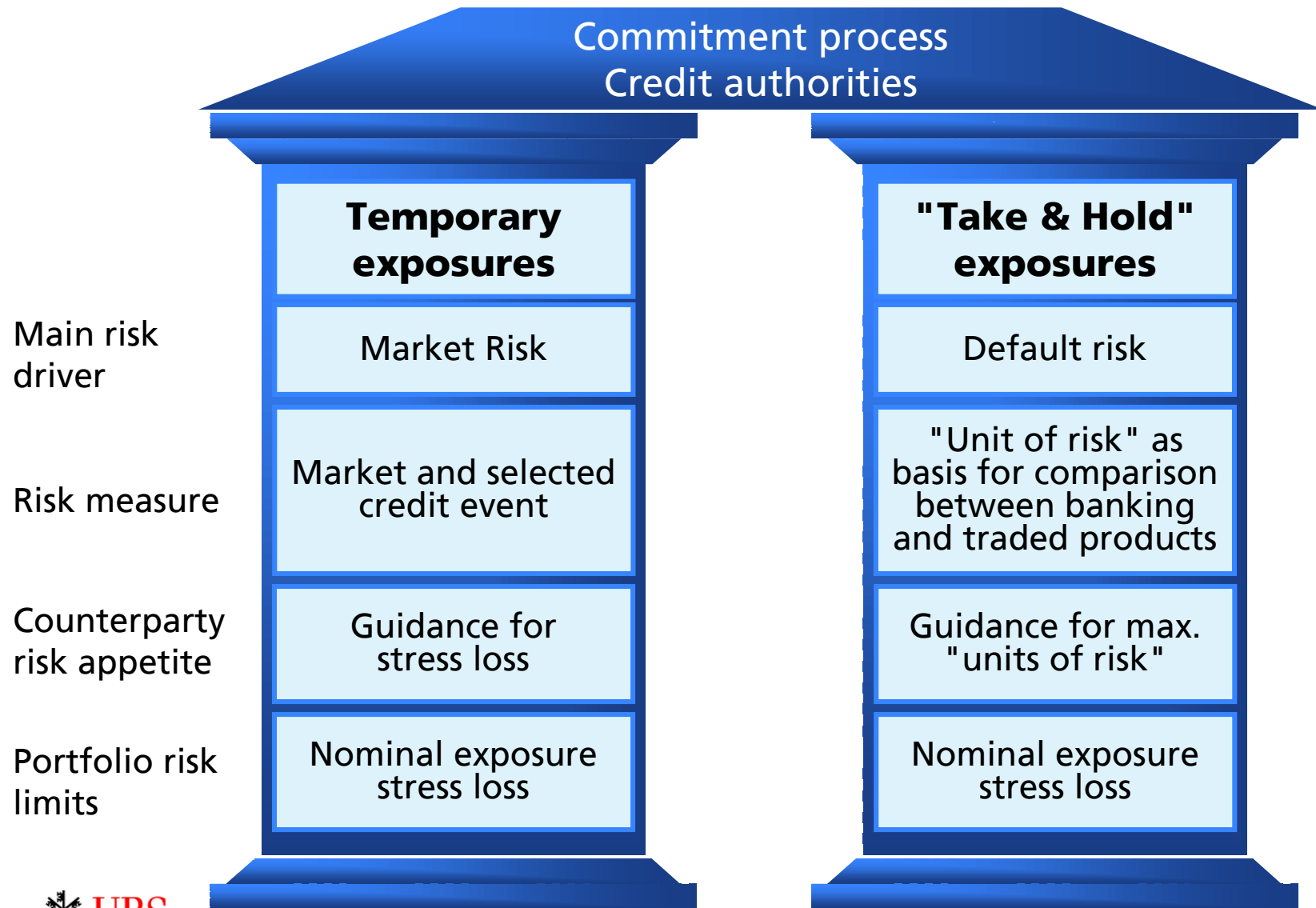
- ◆ Bankruptcy rates
- ◆ Asset values
- ◆ Market crises



Limit setting  
to avoid undue risk  
concentrations:

- ◆ Counterparty
  - ◆ Sector
  - ◆ Country
- and to protect earnings

# Investment Bank: credit risk control framework



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## Credit Risk

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