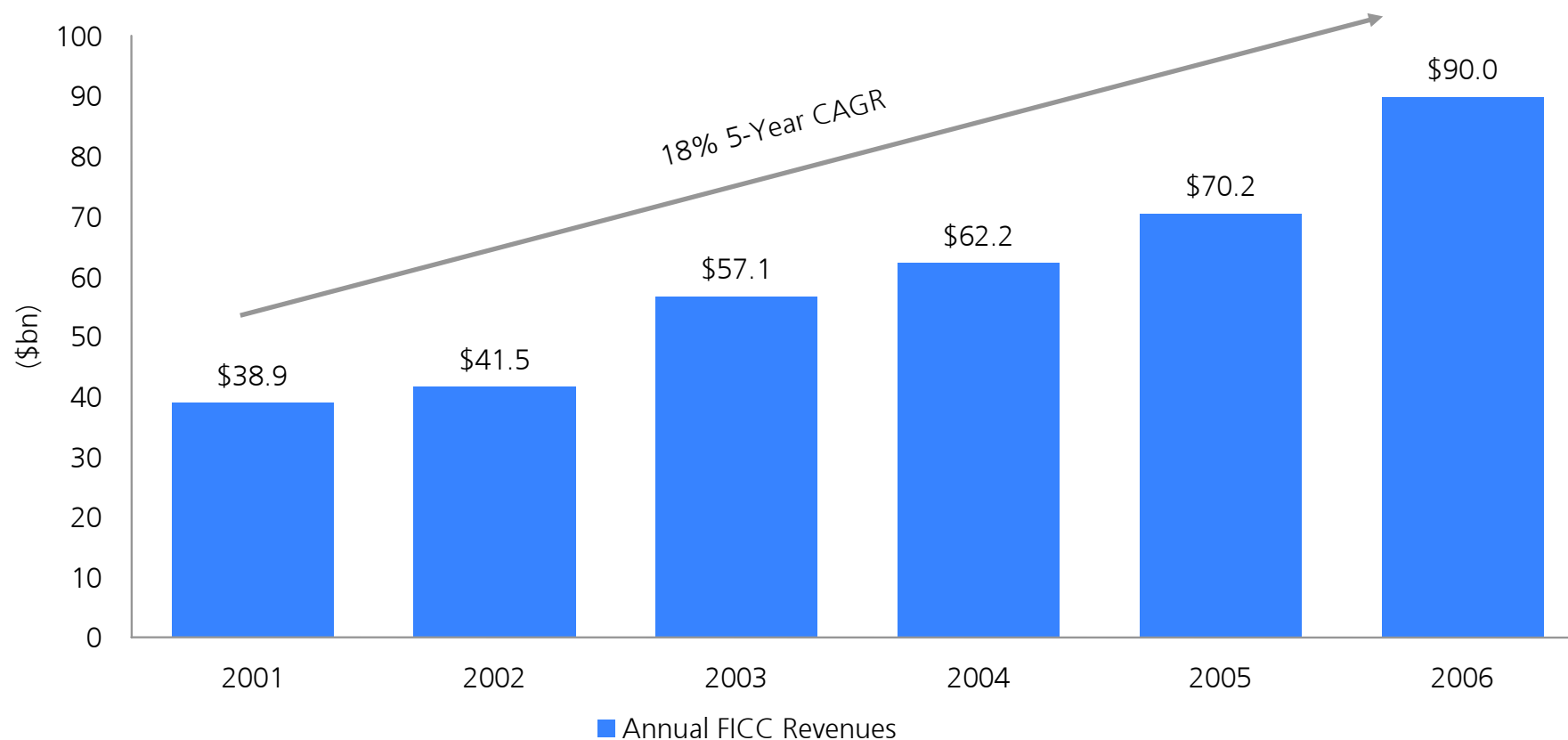


UBS Fixed Income Investor Day Will The Structural Growth Drivers Continue To Boost FICC Revenues?

Glenn Schorr, CFA—UBS Investment Research

FICC Revenue Growth Has Been Strong

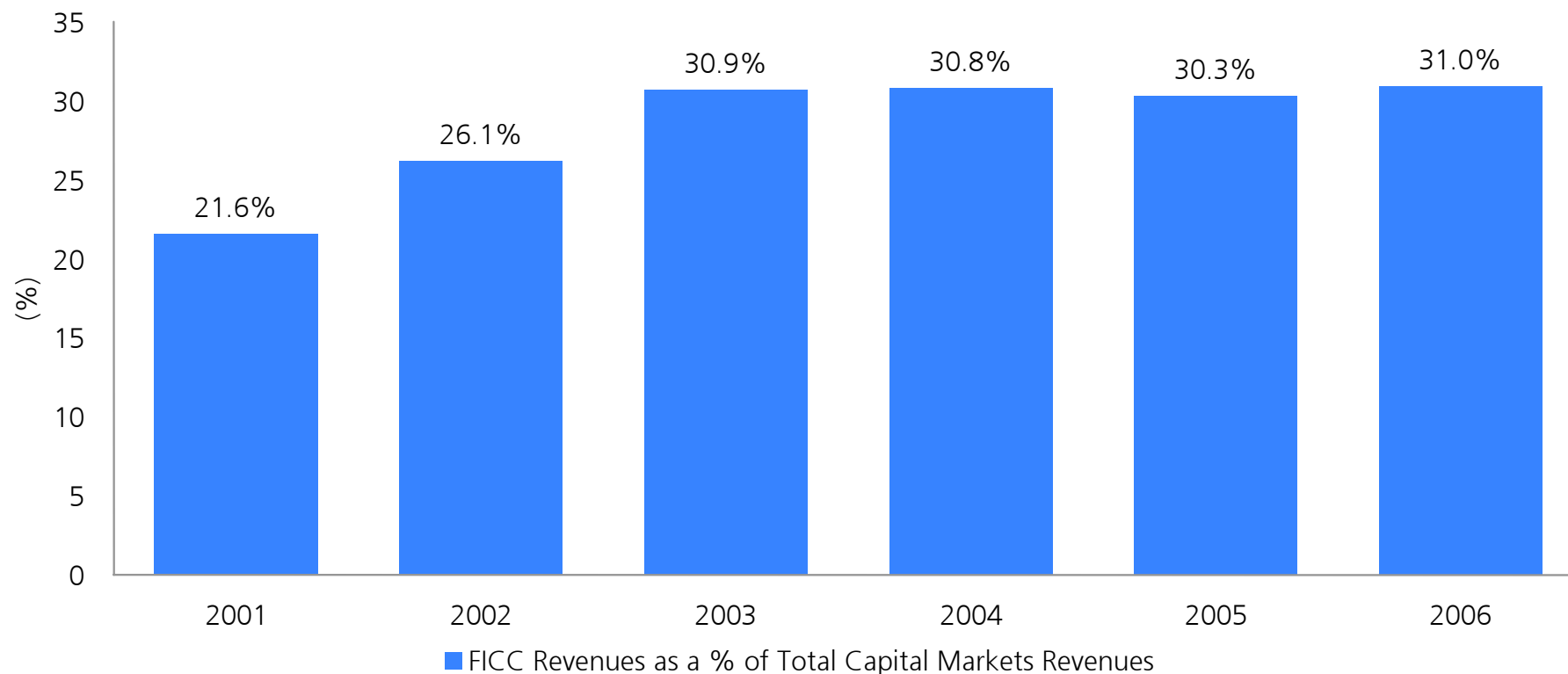
Annual FICC Trading Revenues For 10 Top Investment Banks



Notes: Peer group includes BSC, GS, LEH, MER, MS, C, JPM, CS, DB, and UBS.
 C includes Fixed Income Markets revenues. DB includes Sales & Trading (debt & other products) revenues. GS includes FICC revenues. LEH includes Fixed Income Trading Revenues. JPM includes Fixed Income Markets revenues. MS includes Fixed Income revenues. UBS includes Fixed Income, Rates & Currencies revenues. MER includes Debt Markets revenues. CS includes Fixed Income revenues. BSC includes Fixed Income revenues. Revenues for non-US firms have been converted to US dollars using the average exchange rate for each year.
 Source for all charts: Company financials and UBS estimates

FICC Revenue Contribution Has Increased

Annual FICC Trading Revenues as a % of Total Capital Markets Revenues



Notes: Peer group includes BSC, GS, LEH, MER, MS, C, JPM, CS, DB, and UBS.
 C includes GCIB, GWM, and Alternative Investments. DB includes total firm revenues. GS includes total firm revenues. LEH includes total firm revenues. JPM includes Investment Bank, Asset & Wealth Management, and Private Equity revenues. MS includes Institutional Securities, Global Wealth management, and Asset Management revenues. UBS includes Investment Bank, Global Wealth Management, and Global Asset Management revenues. MER includes total firm revenues. CS includes Investment Bank, Wealth Management and Private Wealth Management revenues. BSC includes total firm revenues. Revenues for non-US firms have been converted to US dollars using the average exchange rate for each year.
 Source for all charts: Company financials and UBS estimates

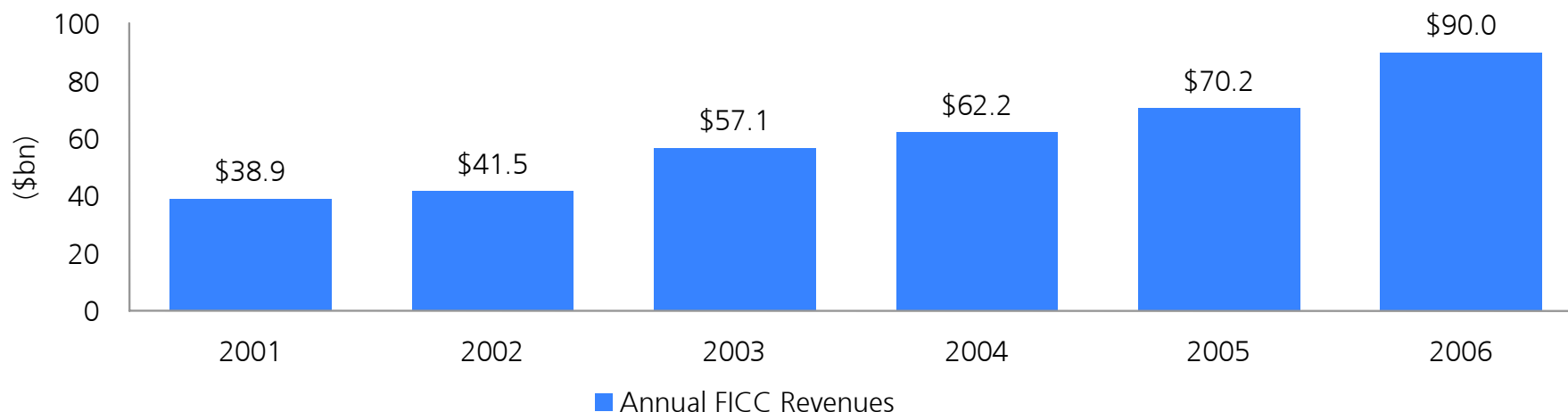
FICC Has Become Much More Diversified

(by Business & Geography)

Rates	Credit	Mortgages	Currency	Commodities
Derivatives Swaps Government Bonds Global Markets Repo	High Grade High Yield Distressed Credit Derivatives CDOs Municipals Emerging Markets	Residential CMBS ABS ARMs Distressed Subprime Alt-A Prime Real Estate	Options Futures Swaps Emerging Currencies Exotics	Oil Natural Gas Alternatives Power/Energy Metals Agriculture

Diversification Has Helped Smooth Cycles

Rates	Falling	Rising	Stable
Credit	Widening	Tightening	
Mortgages	Refinancing Activity Rising	Refinancing Activity Falling	
Currency	Variable	\$ Weakening	Variable
Commodity	Oil Price Stable	Oil Price Volatile & Rising	Falling



Notes: Peer group includes BSC, GS, LEH, MER, MS, C, JPM, CS, DB, and UBS.
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 Source for all charts: Company financials and UBS estimates

FICC Is Less Correlated Than Perceived

Lehman's Detrended Correlation of Major Fixed Income Business Revenues: 2002–2006

Interest Rate Products	1.00												
CDOs	(0.20)	1.00											
High Grade	0.67	0.01	1.00										
Structured Finance	(0.10)	0.65	0.06	1.00									
Real Estate	(0.07)	0.15	(0.16)	(0.19)	1.00								
Mortgages	0.26	(0.26)	(0.19)	0.02	(0.13)	1.00							
High Yield	0.25	(0.51)	0.22	(0.07)	(0.56)	0.25	1.00						
Municipal Bonds	0.52	0.10	0.38	0.38	(0.29)	0.13	0.49	1.00					
F/X	0.18	0.11	0.42	0.17	0.48	(0.10)	(0.26)	0.10	1.00				
FID Prime Services	0.04	0.15	0.05	0.30	0.32	(0.09)	0.07	(0.01)	0.37	1.00			
Proprietary	(0.19)	(0.27)	0.01	(0.23)	(0.45)	(0.15)	0.39	0.12	(0.26)	(0.34)	1.00		
Other	(0.41)	(0.06)	(0.21)	0.01	(0.17)	(0.47)	(0.01)	(0.28)	(0.22)	0.12	(0.05)	1.00	
	Interest Rate Products	CDOs	High Grade	Structured Finance	Real Estate	Mortgages	High Yield	Municipal Bonds	F/X	FID Prime Services	Proprietary	Other	

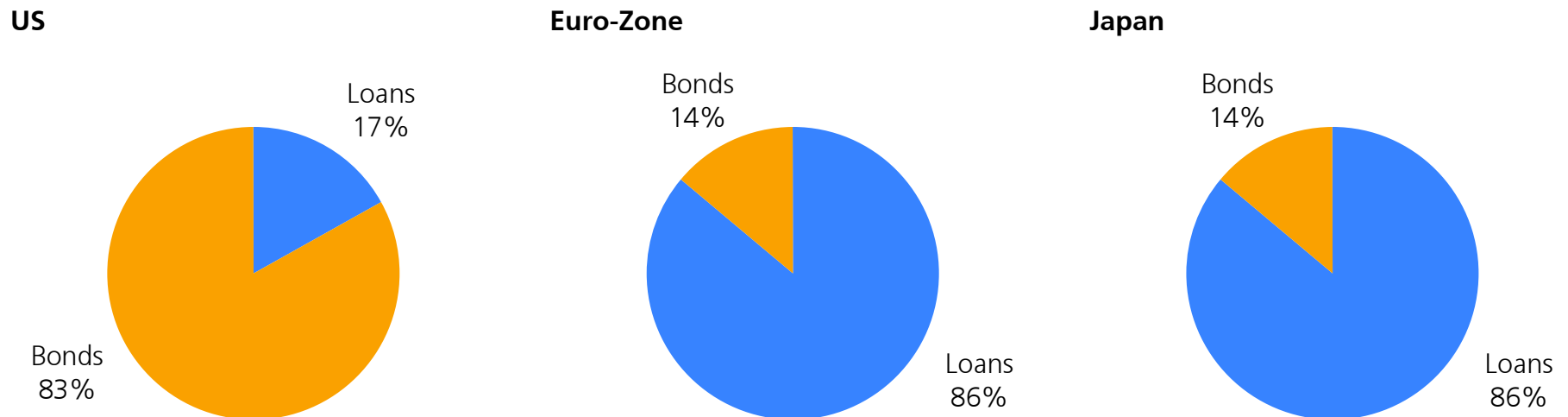
Source: Lehman Brothers, UBS

Note: Other includes FID Corporate and Other Allocation

We Think FICC Growth Should Continue

- ◆ FICC continues to benefit from the structural growth in global markets
- ◆ Low rates & the demand for yield should continue to fuel growth
- ◆ Private equity will continue to drive leveraged finance
- ◆ The outlook for structural growth in commodities is favorable
- ◆ Wider spreads / more volatility typically leads to more activity
- ◆ High yield / distressed activity should pick up further
- ◆ FX should benefit from active central banks
- ◆ Regulatory changes such as Basel II should accelerate disintermediation

Outstanding Corporate Bonds and Bank Loans of Non-Financial Corporations



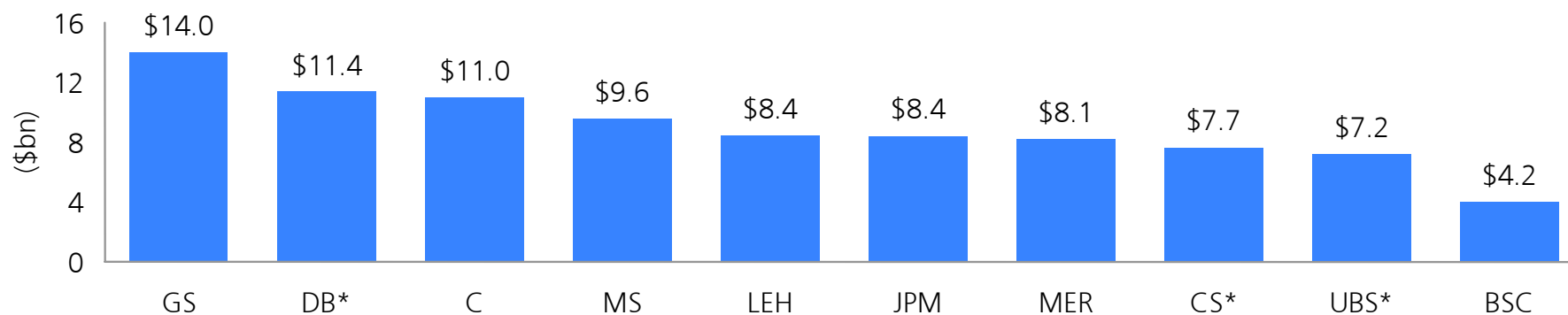
Source: Lehman Brothers and UBS

But There Are Some Potential Headwinds

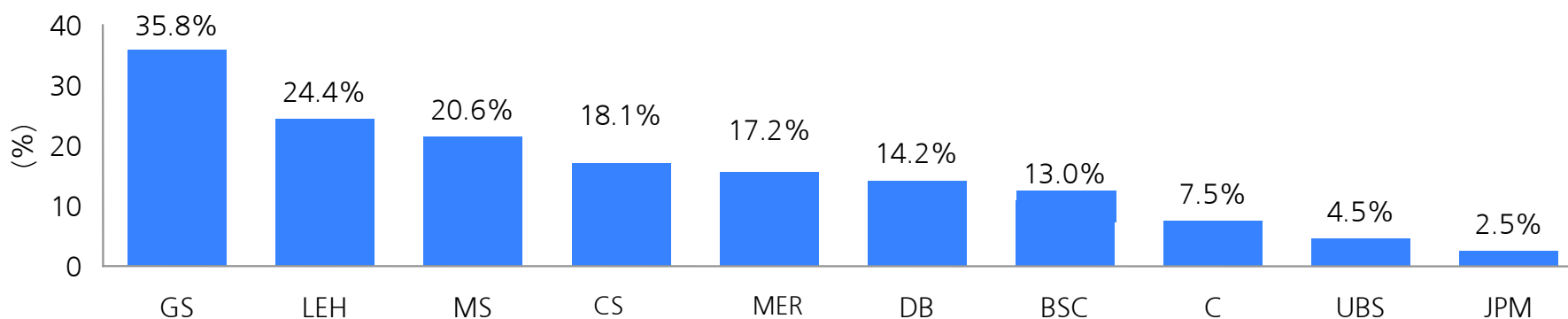
- ◆ Mortgage originations / securitizations will likely decline
- ◆ CDO issuance will likely slow in the near term
- ◆ Residual interests / warehouse lines could cause headaches
- ◆ More importantly, repricing of risk could stunt revenue growth—non-investment grade issuance has outpaced investment grade
- ◆ Rate hikes/cuts speculation could move to a more neutral stance
- ◆ Amount of leverage in private equity led debt could go overboard
- ◆ Low rates & tight credit spreads won't last forever

2006 FICC Revenues & 3-Year CAGR

2006 FICC Trading Revenues



3-Year CAGR in FICC Trading Revenues



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 Source for all charts: Company financials and UBS estimates

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