

# Risk & Capital Management at UBS

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Group Chief Risk Officer

# Outline

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## **Risk and capital management – key themes**

- ◆ UBS is a growth company
- ◆ Strong risk management and risk control culture
- ◆ Risk appetite changes over time, within our constant risk culture
- ◆ Highly integrated risk management and control process
- ◆ Focus on managing and controlling concentration and liquidity risk
- ◆ Well capitalized with a comprehensive capital planning process

SECTION 1

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# UBS - A Growth Company

# UBS is a growth company: Strategy

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Executing on our growth agenda, without jeopardizing our risk principles

Enhancing WM's global leadership position

Maintaining our focus on cost / income ratio

Delivering to shareholders

# UBS is a growth company: Financial highlights

|  | 1Q07            |
|--|-----------------|
| Net profit attributable to UBS shareholders <sup>1,2</sup>                   | CHF 3.18 bn     |
| RoE <sup>3</sup>   | 28.7%           |
| Cost / income ratio <sup>1</sup>   | 68.1%           |
| Net new money <sup>1</sup>   | CHF 52.8 bn     |
| Diluted EPS <sup>3</sup> ,<br>Diluted EPS <sup>3</sup> growth (year-on-year) | CHF 1.62<br>+9% |
| Invested assets growth <sup>1</sup> (year-on-year)                           | +13%            |

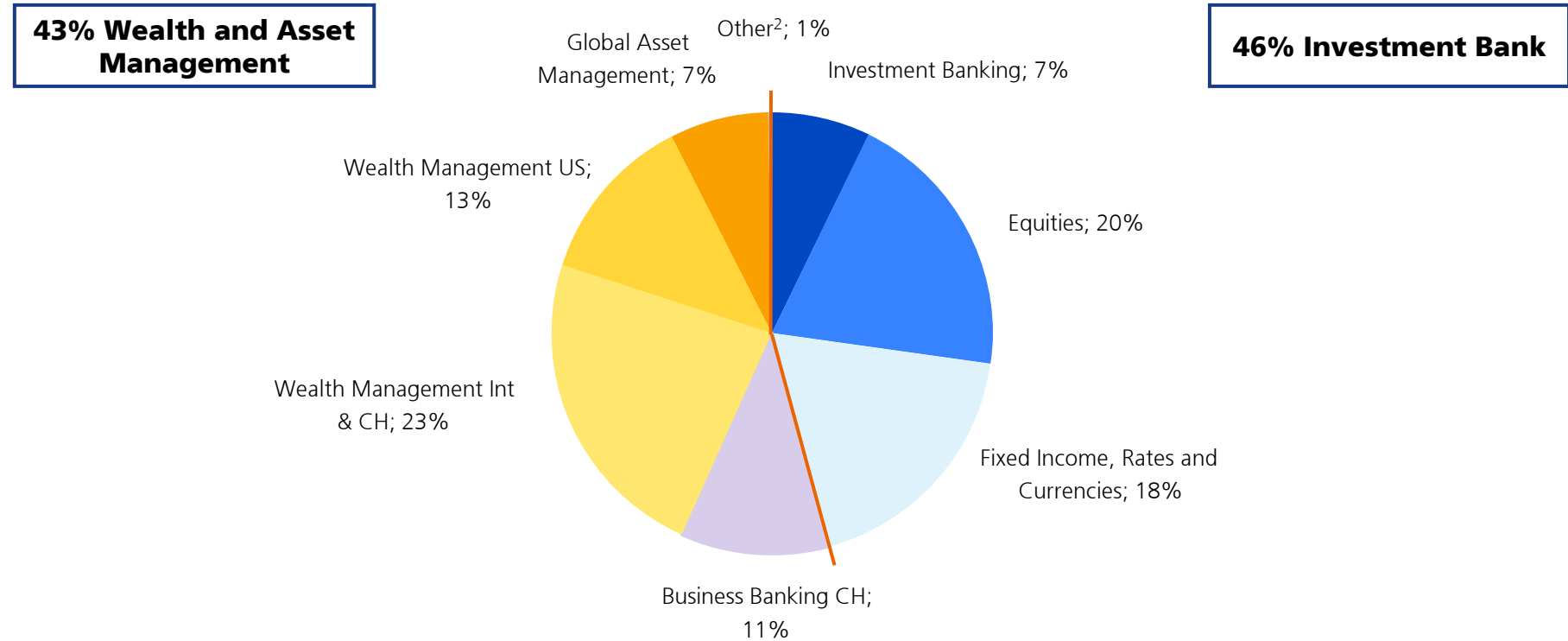
1 Based on Financial Businesses, from continuing operations

2 UBS Group reported CHF 3,275m net profit attributable to UBS shareholders

3 Based on UBS Group, from continuing operations

# Balanced business mix<sup>1</sup>

## % of last 12 months financial businesses revenues



## % of last 12 months financial businesses profit before tax

| Global WM & BB |       |       | Global Asset Management | Investment Bank | Corporate Center |
|----------------|-------|-------|-------------------------|-----------------|------------------|
| WM Int & CH    | WM US | BB CH |                         |                 |                  |
| 37%            | 4%    | 16%   | 10%                     | 41%             | -8%              |

<sup>1</sup> Q1 2007 LTM Financial Businesses only, from continuing operations

<sup>2</sup> "Other" = Corporate Center

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# Our Risk Management and Control Culture

# UBS Risk Management and Risk Control principles

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Business management  
accountability

Independent Risk Control

Earnings protection

Risk disclosure

Reputation protection



# Partnership - Business management and Risk Control

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**Business owns and manages the risk; Risk Control oversees it**

**Example:**



Early involvement of Risk Control

Thorough analysis of risks

Analysis of exposures; recommendation of new limits and control structures

Controllers as trusted advisors

Partnership in risk decision making

Partnership between business and Risk Control in the strategic planning process

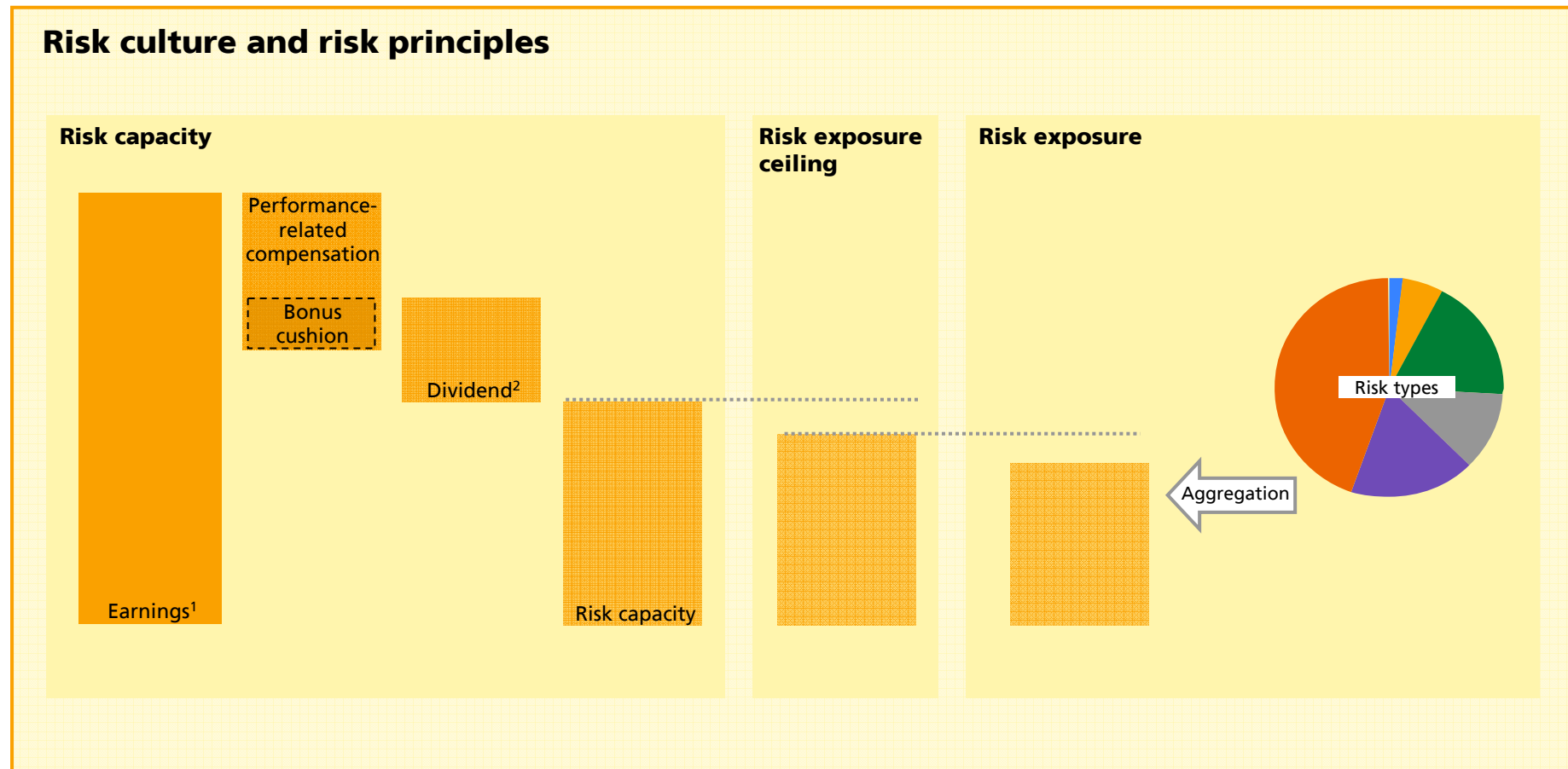
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# Risk Appetite

# Varying risk appetite within a consistent risk culture

**Our risk culture has not changed...**

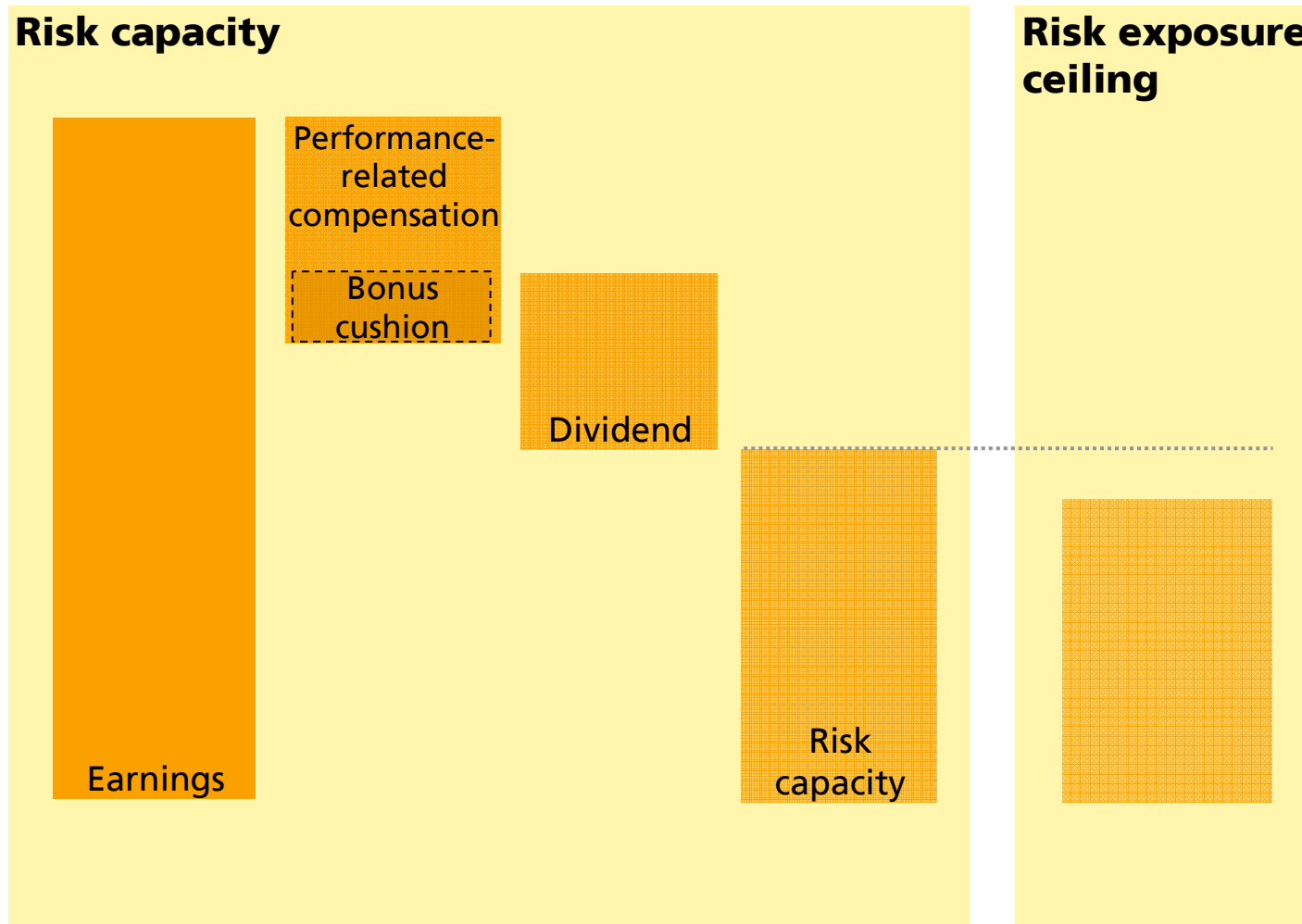


**...but our risk capacity and risk exposure do change**

- 1 From forecast and historical revenues and costs before tax and performance-related compensation
- 2 Including tax on earnings necessary for payment of dividend

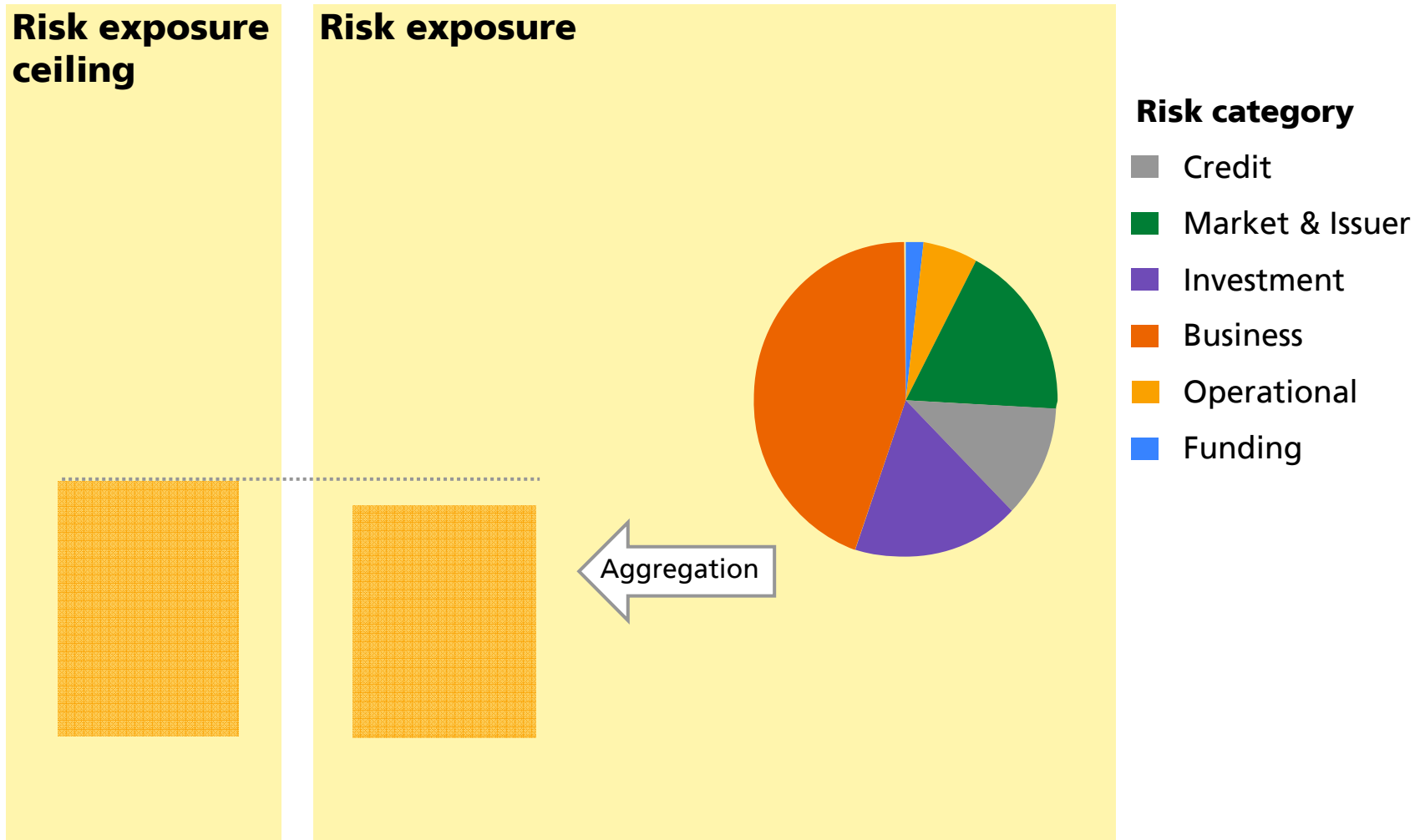
# Risk capacity – Earnings@Risk

Board of Directors sets risk exposure ceiling...



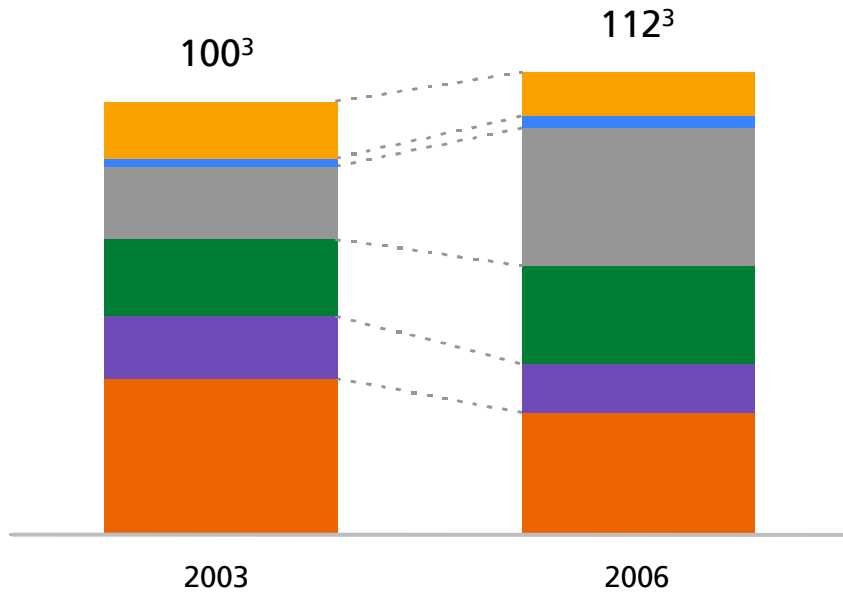
# Risk exposure – Earnings@Risk

...a maximum for the aggregate of risk across all categories



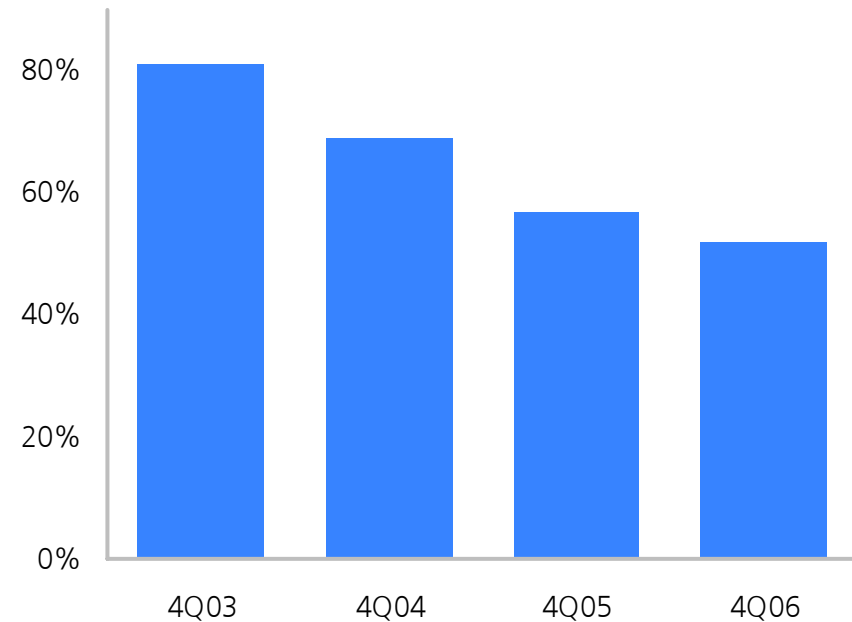
# Risk exposure evolution - Increase well within capacity

## Risk exposure<sup>1</sup>



■ Business risk    ■ Market & Issuer risk    ■ Credit risk  
■ Investment risk    ■ Funding risk    ■ Operational risk

## Risk utilization<sup>2</sup>



■ Group risk in % of Group risk capacity

Note: Risk Exposure and utilization numbers include changes in methodology

1 Year end figures. The size of the individual slices does not reflect the diversification across risk categories

2 Source: UBS internal estimates. Figures for end of quarter

3 Indexed to 100

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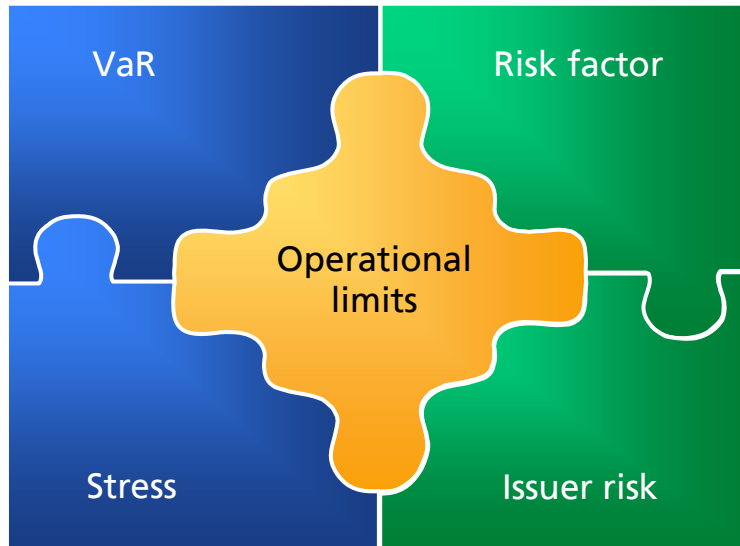
# Risk Management & Control Processes

# Market Risk

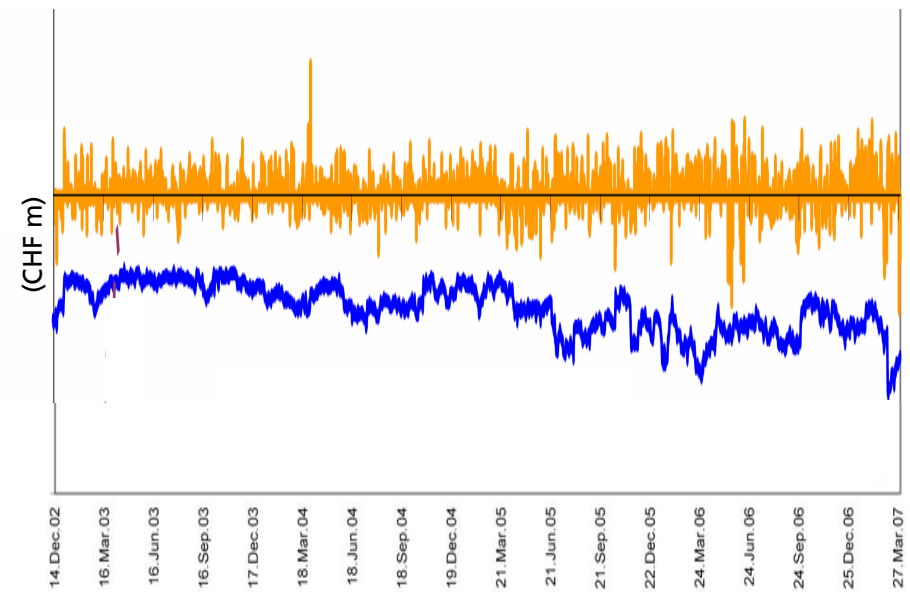
## Risk measures

Portfolio measures

Concentration measures



## VaR and backtesting, 2002-2007

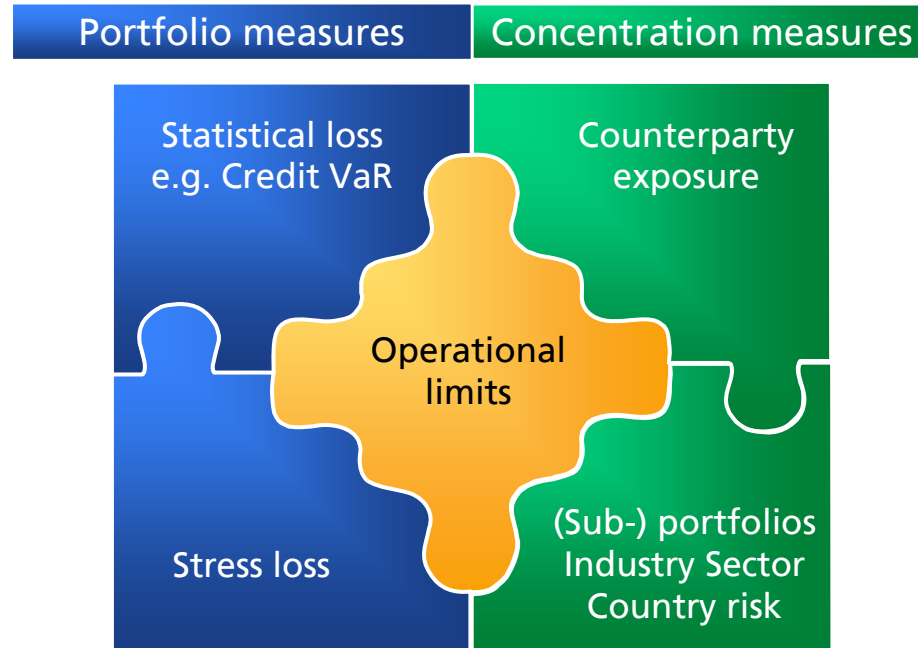


Backtesting Revenue 1-day 99% confidence VaR

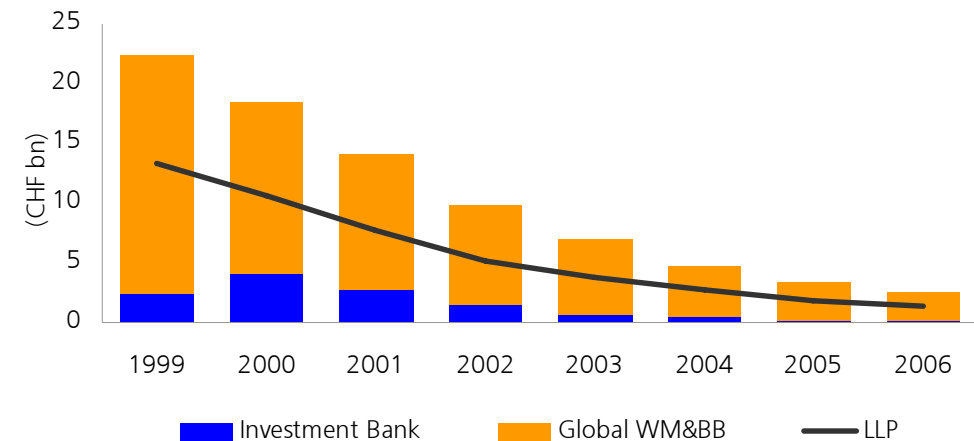


# Credit Risk

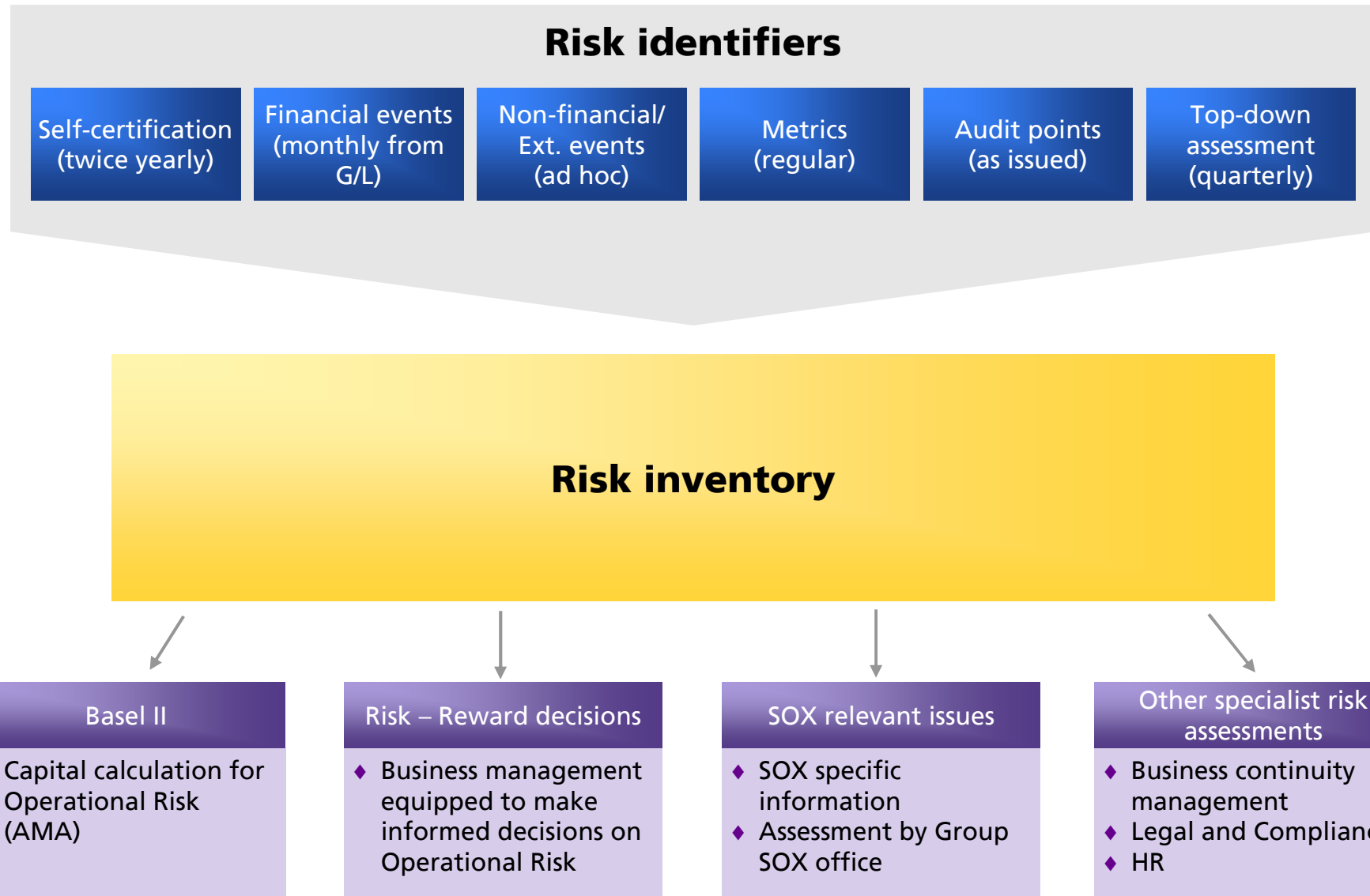
## Risk measures



## Impaired loans and loan loss provisions

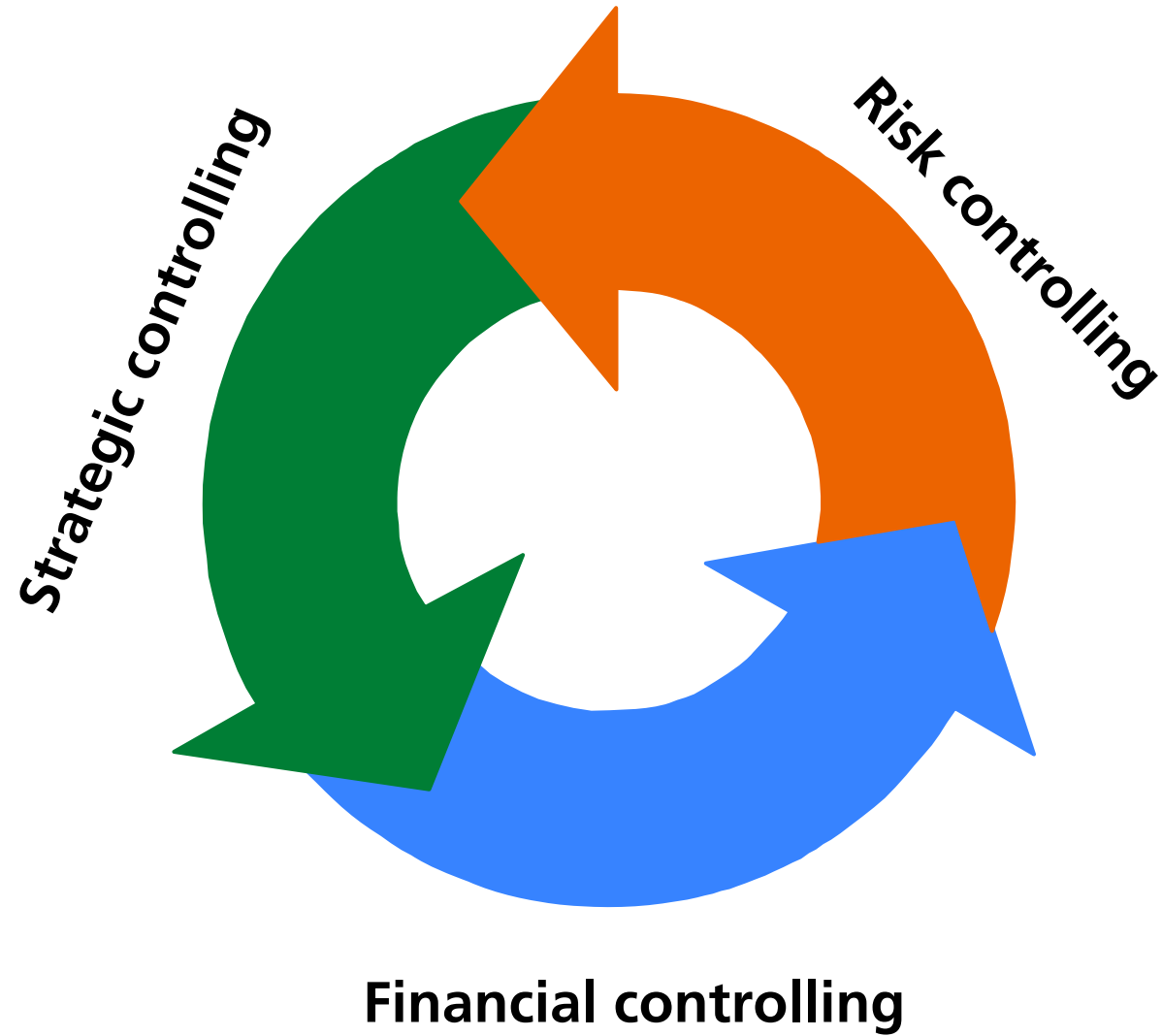


# Operational Risk



# Integrated Risk Management and Control model

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# Capital Management and Planning

# Disciplined divestment of non-core activities

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CHF 120bn non-core loan reduction

25% Swiss Life stake

CHF 2.3bn real estate divestment

Private equity repositioning

Sale of Hirslanden Group

Divestment of Correspondent Services Corporation

Sale of 3 private banks and GAM (CHF 5.6bn)

56% Motor Columbus stake divestment

**Overall capital  
re-deployment**

CHF 20bn  
since 1998

# Capital management update – Q1 2007

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## Tier 1

- ◆ 11.7%, down 20bps from 4Q06
- ◆ Risk weighted assets CHF 354.6 bn, +CHF 12.7 bn from 4Q06
- ◆ Tier 1 Capital CHF 41.5 bn, +2.5%

## Buyback - 1st line

- ◆ Other treasury shares decreased by 16.3 m reflecting 37.6 m share deliveries to employees partly offset by 21.3 m shares purchased

## Buyback - 2nd line

- ◆ 10,420,000 shares or CHF 800 m bought back under 2006/2007
- ◆ 7,210,000 shares or CHF 500 m bought back under 2007/2010 buyback program which started March 8, 2007

# Evolution of our Earnings@Risk methodology

## Earnings@Risk

- ◆ Risk capacity vs. risk exposure paradigm
- ◆ Annual dividend-paying criterion: earnings capacity



## Capital@Risk – Solvency

- ◆ Annual solvency criterion: earnings + total capital capacity
- ◆ Risk exposure measured as extreme earnings deviation (including business risk) that erodes capital



## Capital@Risk – Buffer

- ◆ Quarterly & annual business continuity criteria: capacity defined by capital buffer above minimum regulatory level
- ◆ Risk exposure assumed to flow directly to capital – no earnings / no business risk

## Risk adjusted performance

- ◆ Risk-adjusted performance measure
- ◆ Capital optimisation

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# Challenges



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Avoid risk concentrations in consolidating markets

Align our growth ambitions with our tolerance for risk

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# Summary

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