

UBS: nowhere to go **but up?**

UBS seemed invincible in its very recent heyday. It was vast, powerful and confident. Risky investments on the back of an economic downfall, however, ripped the carpet from under its feet. What does the future hold: a return to its former glory or a new, more modest existence?

By Julia Hancock | Hardly a day seems to pass without the newspapers carrying grim announcements from or for UBS: job cuts, further write-downs or a slew of weak economic data projected to continue battering the beleaguered bank.

Will it ever end? When? And how will UBS emerge?

In May, the Swiss banking giant posted a 2 billion Swiss franc net loss for the first three months of the year, on top of yet more write-downs and client withdrawals.

UBS' first-quarter net loss contrasted sharply with the net profits reported over the same period by home turf rival Credit Suisse, and European rivals such as Germany's Deutsche Bank and the UK's Barclays.

The corner turned?

But analysts and specialised media are reporting UBS' stark restructuring and the cleaning of its toxic balance sheet will pay off in the long run.

"The UBS group should post a profit at the end of the year, and could resume a dominant position over the next three years," equity analyst Teresa Nielsen of Swiss bank Vontobel's research team told *Swiss News*.

"UBS was one of the first to feel the effects of America's subprime meltdown. That had some advantages," reported *The Economist*. "The Swiss bank started raising capital while private money was still available ... it installed a new leadership team relatively early. And it cut staff numbers hard, which will help during chilly times ahead."

The path to near-ruin

Hefty investments into risky U.S. assets brought UBS to its knees about two years ago, and forced the global banking giant to make massive write-downs, and slash its workforce.

UBS first shocked investors in May 2007 by announcing plans to close its Dillon Read hedge fund unit – which had been a serial outperformer – after posting lower-than-expected first-quarter earnings results. A few months later, in October, the bank and its confident Board Chairman Marcel Ospel warned that it would suffer a subprime hit. The seemingly unshakeable global powerhouse then posted its first quarterly loss in nine years.

The road has been downhill, ever since.

UBS shares have lost around three quarters of their value since the start of

the crisis, falling off highs of over SFr 70 in June 2007, to dip to a low of SFr 8.57 in March 2009, and hovering near SFr 17 at the time this article went to press.

A total of more than \$50 billion (54.5 billion Swiss francs) has been written off, and the workforce has been sliced by almost a fifth from a headcount peak of 83,800, with the latest cuts coming as recently as May.

The bank has been hitting the breaks hard, laying the groundwork for its future, and trying to secure its survival.

In addition to cleansing its balance sheet, UBS has been cleansing its board. Last April, heyday Chairman Ospel, closely identified with UBS' self-assured prime-time period, announced he wouldn't stand for re-election, and was essentially dumped. He was replaced by the bank's General Counsel Peter Kurer.

Kurer held the post for less than a year before announcing this March that he wouldn't seek re-election, either. Kaspar Villiger, former Swiss federal councillor and finance minister, took up the post in April.

The iconic Swiss bank also had to accept a state cash injection of 6 billion Swiss francs, and the Swiss National Bank agreed to put some \$60 billion of

UBS' toxic assets into a special fund – thus taking it off of the bank's balance sheets.

To further aggravate an already grave situation, UBS has also been embroiled in a battle with Washington, DC over tax fraud and evasion accusations, which has led to the effectual demise of Switzerland's banking secrecy laws for foreign account holders.

The United States' Internal Revenue Service (IRS) – keen to get the names of U.S. citizens suspected of tax fraud and evasion – threatened to cancel UBS' U.S. banking licence unless client account information was provided.

Swiss authorities, anxious not to harm the bank any further after they had stepped in to bail it out, decided to allow the Swiss banking regulatory body (Financial Market Supervisory Authority) to reveal the data.

So far, the financial impact of this decision, or how many investors will pull out of Swiss banks as a result of the abolishment of secrecy, is unclear. Secrecy had been one of the great attractions of Swiss banking.

Cautious road to recovery?

The feeling now, however, is that the future looks brighter for UBS.

“Now we can see out of the woods, which was not the case six months ago,” said Peter Thorne, an analyst at Swiss brokerage Helvea. “I think the worst is over – the problems are no longer life threatening.”

But UBS remained wary in its immediate outlook following the first-quarter net loss, as it braces for the recession's full impact.

“The markets continue to be unsettled, and we remain cautious on the immediate outlook for UBS,” the world's largest wealth manager said, upon release of first-quarter results in May.

Despite a strong share price rebound in stock markets in recent weeks, UBS

said the global economy has continued to deteriorate, and its home market Switzerland – where the economy is set to contract by up to three per cent this year – will not be spared.

Investors had been forewarned at the Annual General Meeting in April. “Our outlook remains cautious and we face many uncertainties,” new UBS CEO Oswald Grübel told shareholders at the AGM.

Grübel, the former head of Credit Suisse, was lured out of retirement at the start of the year to take over at UBS. He replaced Marcel Rohner, who had been CEO since July 2007. Known as a no-nonsense man, Grübel set his sights on extensive job cuts and ruthless restructuring to return the world's biggest wealth manager to profitability.

Furthermore, the bank said it still expects about SFr 650 million of restructuring and severance charges in the second quarter.

Back in the black

Regardless of the bank's caution, some analysts see UBS breaking back into profit by year-end.

“According to our opinion, the best-case scenario would be for UBS to return to profitability by the end of 2009, after two consecutive years of losses,” said Adil Bahar, senior equity research editor at Independent International Investment Research in London.

However, he warned this depends significantly on a global economic recovery kicking in by the end of 2009, led by effective implementation of recovery measures announced by a number of governments.

“The worst-case scenario would be for this recovery to be delayed or the slowdown to further extend into 2010. In such a case, the company will experience difficulty to achieve its optimistic projections of reporting a profit in 2009,” Bahar added.

On a more local level, European finance ministers said the European Union's economy was at its low point, although they expect it will only return to year-on-year growth in the third quarter of 2010.

Vice-chairman of the Swiss National Bank, Philipp Hildebrand, also said economic data suggested the downturn was slowing, telling German newspaper *Han-delsblatt* in May the situation was approaching a turning point.

Building on strengths

Despite its problems, analysts say UBS continues to retain some core strengths that cannot be ignored, and will pave the way to its recovery.

“In the past four years UBS management has failed to capitalise on these strengths. Hopefully the new management will succeed,” said Helvea's Peter Thorne, listing its infrastructure, private banking, asset management, near 70,000-member staff and client relations as the bank's key assets.

Furthermore, with its first-quarter results in May, UBS reported a higher-than-expected Tier 1 ratio (considered the core measure of a bank's financial strength from a regulator's point of view) of 10.5 per cent, which means the Swiss bank will not need to find new cash to boost its balance sheet, for now.

Chief Financial Officer John Cryan also said client withdrawals were slowing. Outflows of net new money from the Wealth Management and Swiss bank slowed sequentially to 23.4 billion Swiss francs in the first quarter this year, from 60.4 billion Swiss francs in the fourth quarter of 2008.

It will be the rebuilding of this customer confidence that will, in the end, be at the heart of the global powerhouse's recovery.

But the question remains: will UBS ever regain its former impeccable reputation?



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UBS locations in the United States

The troubling timeline

May 3, 2007: UBS surprises investors by closing its Dillon Read hedge fund unit.

October 30, 2007: UBS reports a third-quarter pre-tax loss of 726 million Swiss francs, its first quarterly loss in nine years.

February 14, 2008: UBS posts a 2007 full-year loss of 4.38 billion Swiss francs. At the February 27 Extraordinary General Meeting, shareholders back an \$11.9 billion capital injection from the Singapore Investment Corporation and an unnamed Middle East investor.

April 1, 2008: UBS announces approximately \$19 billion in write-downs (doubling the \$18 billion already written down in 2007), effectively dumps Board Chairman Marcel Ospel in favour of UBS' General Counsel Peter Kurer, and seeks additional emergency capital.

May 6, 2008: UBS slashes 5,500 jobs and sells billions of dollars of ailing assets.

October 16, 2008: UBS announces it will receive 6 billion Swiss francs from the Swiss government in exchange for a 9.3 per cent stake; it also announces it will, acting with the Swiss National Bank, unload \$60 billion in toxic U.S. assets to a newly created fund.

November 12, 2008: Raoul Weil, chairman and CEO of UBS' global wealth management and business banking, is indicted by a U.S. federal grand jury on charges of conspiring to help wealthy Americans hide \$20 billion in assets from U.S. tax authorities in Swiss bank accounts.

February 10, 2009: UBS posts a 19.7 billion Swiss franc full-year loss, the biggest-ever for a Swiss company.

February 18, 2009: UBS agrees to pay \$780 million to the United States, and identify certain U.S. clients following criminal fraud charges that it assisted rich Americans in tax evasion.

February 26, 2009: UBS appoints Oswald Grübel, former head of rival Crédit Suisse, as new chief executive officer, replacing Marcel Rohner who had served as CEO since July 2007.

March 1, 2009: CEO Grübel says it could take two to three years before UBS gets back to making a sustainable profit.

March 4, 2009: Board Chair Peter Kurer announces he will not stand for re-election. Former Swiss Federal Councillor and Minister of Finance Kaspar Villiger is named successor.

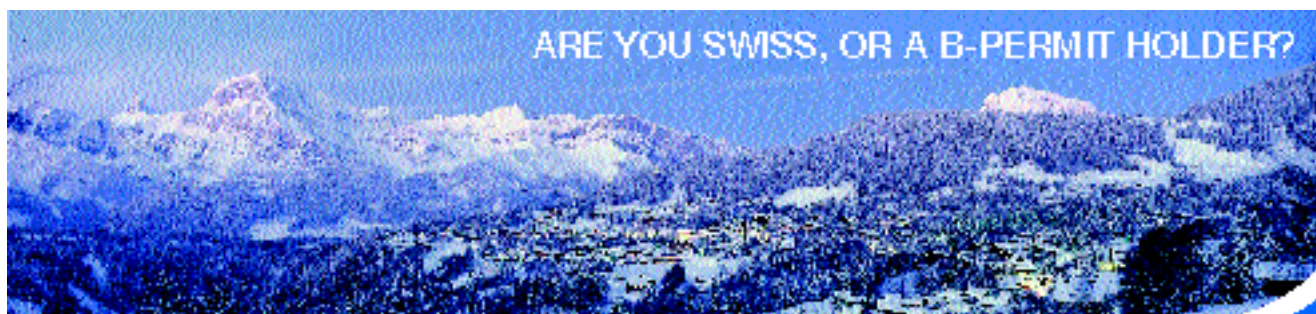
March 11, 2009: UBS publishes its full-year report, with revised 2008 figures to reflect an additional net loss of more than 1 billion Swiss francs, for a total 2008 full-year net loss of 20.9 billion Swiss francs, and predicts tough times ahead.

April 15, 2009: CEO Grübel announces further job reductions bringing the total for 2009 to 10,300 jobs lost and the grand total to over 16,000 since the end of 2007.

May 5, 2009: The bank posts a 2 billion Swiss franc loss for the first quarter of 2009.

May 20, 2009: UBS restates its 2008 annual report, and increases its full-year net loss by a further 405 million Swiss francs, for a total 2008 net loss of 21.3 billion Swiss francs.

(As of June 11, USD 1 = SFr 1.08)



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