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Another UBS holder assails proposal on capital increase

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ZURICH -- Pressure is mounting on **UBS** AG to defend its decision to exclude current shareholders from a planned capital increase, after a big Swiss pension fund asked the bank to issue the shares in a form that allows existing holders to buy them.

UBS, probably the hardest-hit among European banks by the U.S. subprime-mortgage crisis, said last month that it planned to sell a 9% stake to the Government of Singapore Investment Corp. as part of a move to strengthen capital. The Singapore entity, known as GIC, committed to investing 11 billion Swiss francs, or about \$10 billion, while an undisclosed investor in the Middle East pledged to contribute two billion francs.

The Swiss bank currently plans to issue mandatory convertible notes for these investments. The notes would pay a coupon of 9%. The move is subject to approval from shareholders at an extraordinary general meeting Feb. 27.

In a letter sent to **UBS** Tuesday, the Swiss pension fund, Profond, requested that the bank offer shareholders a rights issue. This way of raising capital would allow existing shareholders to subscribe to new **UBS** shares and thus avoid the dilution of their current holdings that would happen if the sale to the two new investors went ahead.

The request from Profond is probably too late to be included in the meeting's agenda, which will be published at the end of this month -- but it shows the mounting objection of current shareholders to **UBS's** plans.

Commenting on the request, **UBS** referred to a recent letter to shareholders, in which the bank said it had considered a rights issue but rejected the idea because of the cost, complications and time. The benefit of the planned sale is that the new investors committed to injecting the fresh capital, which removed uncertainties about the bank's capital strength, **UBS** said.

"As shareholders, we believe in **UBS**, and so far have always borne the risk that comes with this investment," Herbert Brandli, Profond's president, said in an interview. "That's why we want to continue to fully participate in **UBS** -- which we consider to have excellent prospects in the future -- without dilution of our holding in favor of new shareholders."

The sale of shares to new investors is a "cloak-and-dagger operation, which comes at the expense of existing shareholders, who didn't get information in time and would now be excluded from a possible capital increase," Mr. Brandli said.

Profond, which has 2.5 billion francs in assets under management, holds about one million **UBS** shares, valued at about 47 million francs at market prices. **UBS** has a total market capitalization of about 97.38 billion francs.

Ethos Fund, an influential Swiss investment lobby that holds about 80 million francs of **UBS** shares, has also publicly objected to **UBS's** plan to offer selected shareholders the opportunity to increase their stakes while excluding current shareholders from the deal. Ethos also called on **UBS** to clarify how it had ended up with more than \$14 billion in write-downs on securities linked to the U.S. residential mortgage market. **UBS** has said it plans to address Ethos's questions no later than the Feb. 27 meeting.

UBS shares yesterday fell 3% to end at 46.74 Swiss francs.

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