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### **UBS's Mortgage Woes Increase --- Swiss Bank Adds \$4 Billion to Losses Seen in '07, Takes Third Write-Down; The Optimism From October Is Gone**

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In an early sign that banks' mortgage woes are spreading to new types of investments, UBS AG warned that its 2007 losses will be \$4 billion more than it thought just a month ago.

The Swiss banking giant took its third write-down in four months, bringing its total to an estimated \$18.4 billion for 2007. The company didn't detail the reasons, but one analyst said the move was in part because of losses on securities other than those tied to subprime home mortgages. UBS also expects to report its first loss in the firm's 10-year history.

In October, when UBS reported a \$4.4 billion loss for subprime-related investments, its new chief executive, Marcel Rohner, said the goal was to "leave as much as we can of this substantially behind us." In December, UBS appeared to have put a cap on things when it projected a \$10 billion fourth-quarter writedown.

But now, the disclosures could hurt UBS Chairman Marcel Ospel just as the bank is preparing for a crucial shareholders meeting on Feb. 27 to approve an \$11.5 billion capital infusion from Asian and Middle Eastern investors. Since July, a parade of UBS executives have headed for the exits amid the subprime turmoil, including the former chief executive, the chief financial officer, the head of investment banking and the bank's fixed-income chief.

"I'm not sure there's enough trust in the chairman," said Dominique Biedermann, a director of Ethos, a Swiss activist investment fund that manages roughly 80 million Swiss francs (\$73.2 million) in UBS shares and is influential because it makes recommendations to Swiss public pension funds. "We would welcome the board presenting one or two candidates to succeed him."

UBS declined to comment on Mr. Ospel.

One candidate mentioned as a possible successor is Philipp Hildebrand, 44 years old, one of three governors of the Swiss central bank. A spokesman for the central bank declined to comment.

UBS is getting hurt because the traditionally conservative bank pushed further than rivals into the business of packaging and selling debt pools known as collateralized-debt obligations, or CDOs. Its \$18.4 billion in total write-downs put UBS on par with the two other global CDO leaders, Merrill Lynch & Co. and Citigroup Inc.

UBS, in its report yesterday, highlighted new pockets of concern as the credit crisis spreads beyond so-called subprime loans made to the riskiest U.S. homeowners.

Half of its fresh \$4 billion in write-downs is for a bucket of investments that the bank declined to specify. However, J.P. Morgan Chase & Co., in a report, said it believed the losses are because of commercial-mortgage securities, exposure to struggling bond insurers, and "alt-A" mortgages that rank a step above subprime loans in terms of risk and borrower default.

Analysts think there could be more pain to come. UBS, for example, isn't marking down some holdings as steeply as other investment banks, according to a Citigroup report. Yesterday, Oppenheimer & Co. said that if bond insurers weaken further and are downgraded by ratings companies, banks including UBS may have to write down assets totaling \$100 billion.

UBS declined to comment.

Separately, Standard & Poor's yesterday issued a negative outlook for European banks UBS, Barclays PLC, Deutsche Bank AG and Fortis NV due to concern about slowing capital-markets business and capital levels.

UBS, Switzerland's biggest bank by market value and one of the world's largest wealth managers, said it expects to post a fourth-quarter net loss of 12.5 billion francs and a 2007 net loss of 4.4 billion francs. In 2006, UBS reported profit of 11.25 billion francs.

UBS isn't likely to require additional funding to boost its capital, the amount of money it sets aside against potential losses. In early December, the bank took the extraordinary move of agreeing to sell a stake in itself for a 13-billion-franc capital injection from the Government of Singapore Investment Corp. and a Mideast investor. The move was aimed at calming clients of the bank's lucrative wealth-management business.

If approved by shareholders at a special meeting late next month, the investment will help increase UBS's so-called Tier 1 capital ratio to above 12%. The Tier 1 capital ratio is a measure of a bank's ability to absorb losses. UBS yesterday said that, after accounting for the latest write-downs, it expects to report a Tier 1 ratio of 8.8% at Dec. 31, 2007. A bank with a ratio of 6% or higher is considered well-capitalized.

Some shareholders have objected to the capital-raising plan because it dilutes their stakes and have proposed that UBS instead sell shares to existing shareholders as a way to raise funds.

A big problem for the banks is that the securities they own rarely trade. That means the banks are trying to price the assets based partly on an index, known as the ABX, that helps to calculate the value of securities backed by subprime home loans.

Since Mr. Rohner's October comments about leaving the problems behind, the ABX has weakened. Additional losses also have shown up on UBS's books, according to the J.P. Morgan report. Citigroup analyst Jeremy Sigee said UBS's debt-pool holdings, known as collateralized debt obligations, are marked down 47%. By comparison, Merrill Lynch has recorded markdowns of 74%.

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Edward Taylor contributed to this article.

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