

Credit Risk Control

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Group Chief Credit Officer

Key messages

Strong risk management and control culture – enabling business growth

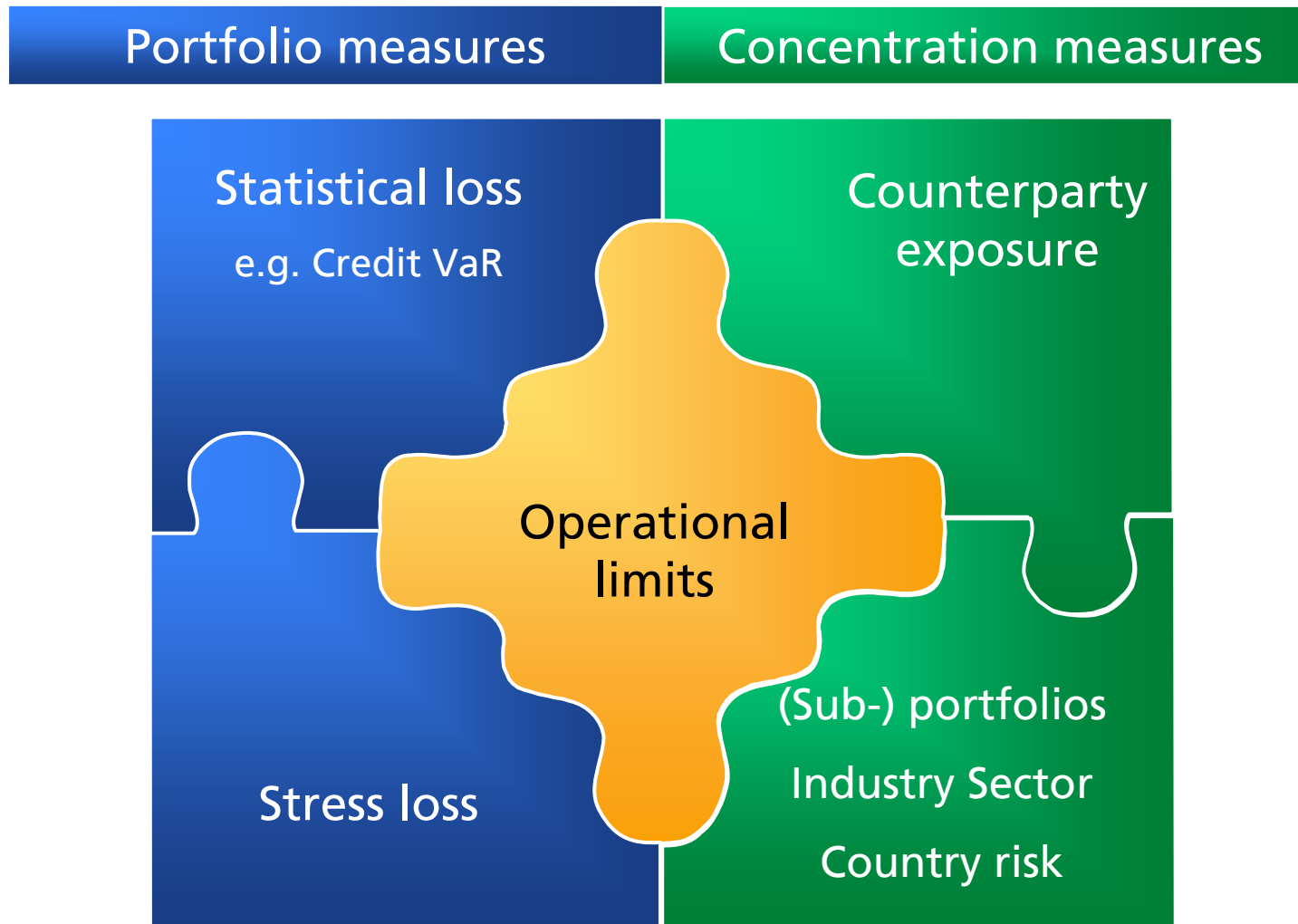
- ◆ Integrated set of credit risk controls with strong focus on managing concentration risk
- ◆ Strong credit risk management and control culture
- ◆ Risk Control is an enabler of the firm's growth agenda

SECTION 1

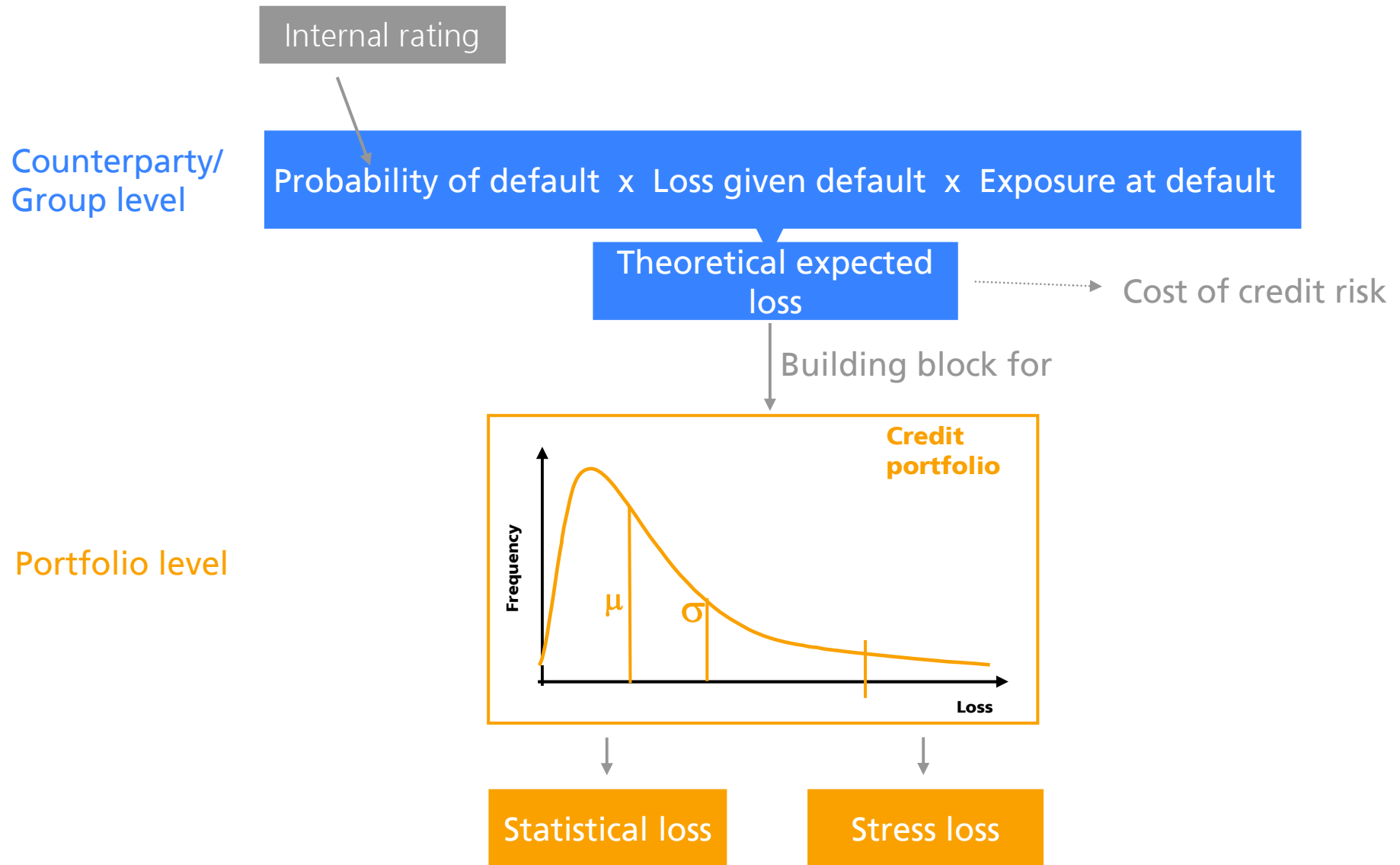
Our Credit Risk Management and Control Framework

Overview

Integrated set of credit risk controls; strong focus on managing concentration risk



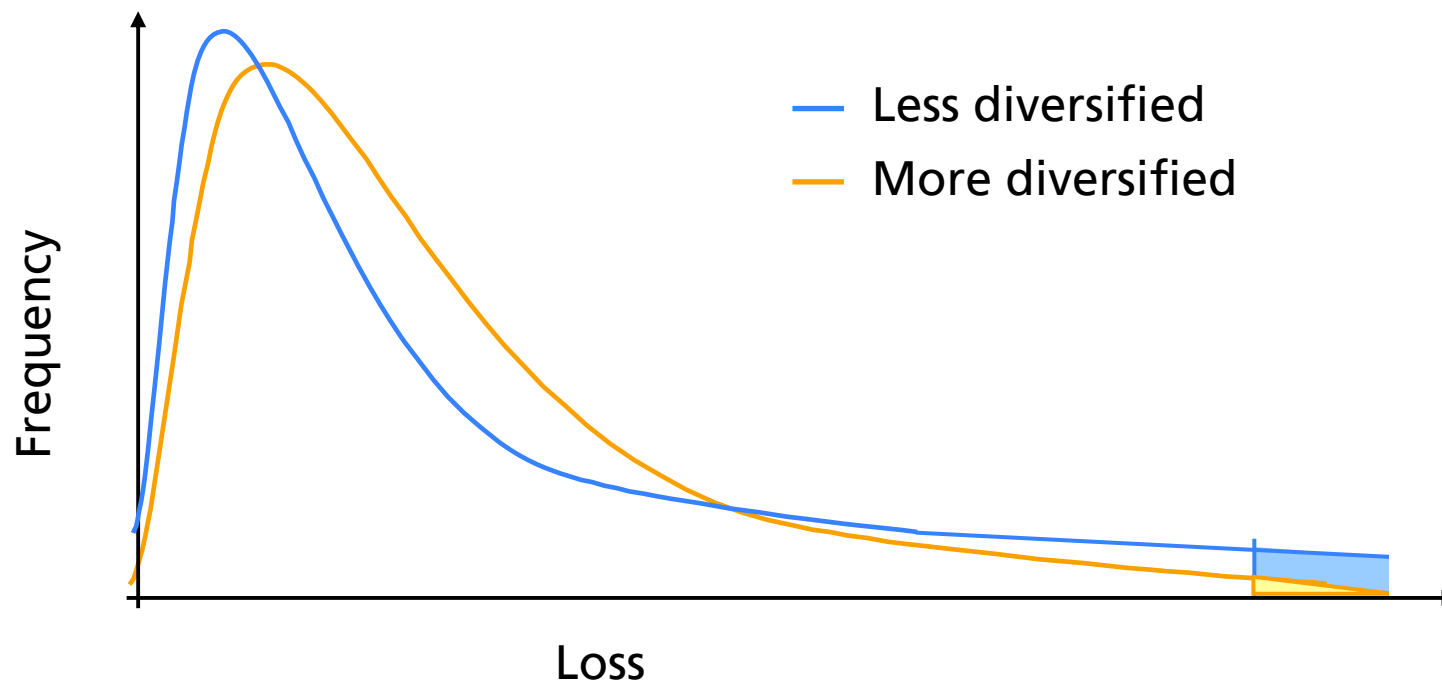
Single name and portfolio measures



Concentration risk

Why concentration risk is so important

- ◆ Comparing credit portfolios
- ◆ More concentration leads to greater tail risk



Source: dataset for illustration only

Tools to manage counterparty concentration risk

Strong focus on managing concentration risk

- ◆ We set counterparty concentration guidelines by counterparty rating
- ◆ We apply counterparty limits to individual exposure types (OTC derivatives, repos, banking products)
- ◆ Framework helps to control risk concentrations at counterparty level and to enforce dynamic credit risk management based on internal ratings

Managing portfolio concentration risk

Temporary exposures (IB)

- ◆ Intention of syndicating, selling or hedging within a short period
- ◆ Assessment based on potential for distribution
- ◆ Higher concentrations
- ◆ Comprehensive limits including stress loss limits to encourage rapid distribution

Take and Hold exposures (Global WM&BB & IB)

- ◆ Assessment based on quality of credit over term of engagement
- ◆ Ongoing assessment of how credit risk is evolving over time
- ◆ Comprehensive limits including stress and statistical measures to encourage risk diversification
- ◆ Actively manage residual risk with a variety of instruments

Country Risk

- ◆ Cuts across market and credit risk
- ◆ Includes transfer and indigenous country risks.
- ◆ Comprehensive limits including stress and statistical measures to encourage risk diversification
- ◆ Concentrated exposures actively risk managed

Credit Risk framework

We are highly focussed on managing concentration risk

- ◆ Credit Risk framework - a set of methods and tools focusing on the consistent measurement of 'tail risks' arising from
 - Individual transactions
 - Counterparty exposures
 - Sector concentration
 - Geographic concentration
- ◆ Four pillars of the Credit Risk framework:

Expected loss

Portfolio stress loss

Statistical portfolio
risk

Counterparty
concentration
guidelines

SECTION 2

Our Credit Portfolio

Credit exposure by Business Group

The portfolio of credit risks is diversified ...

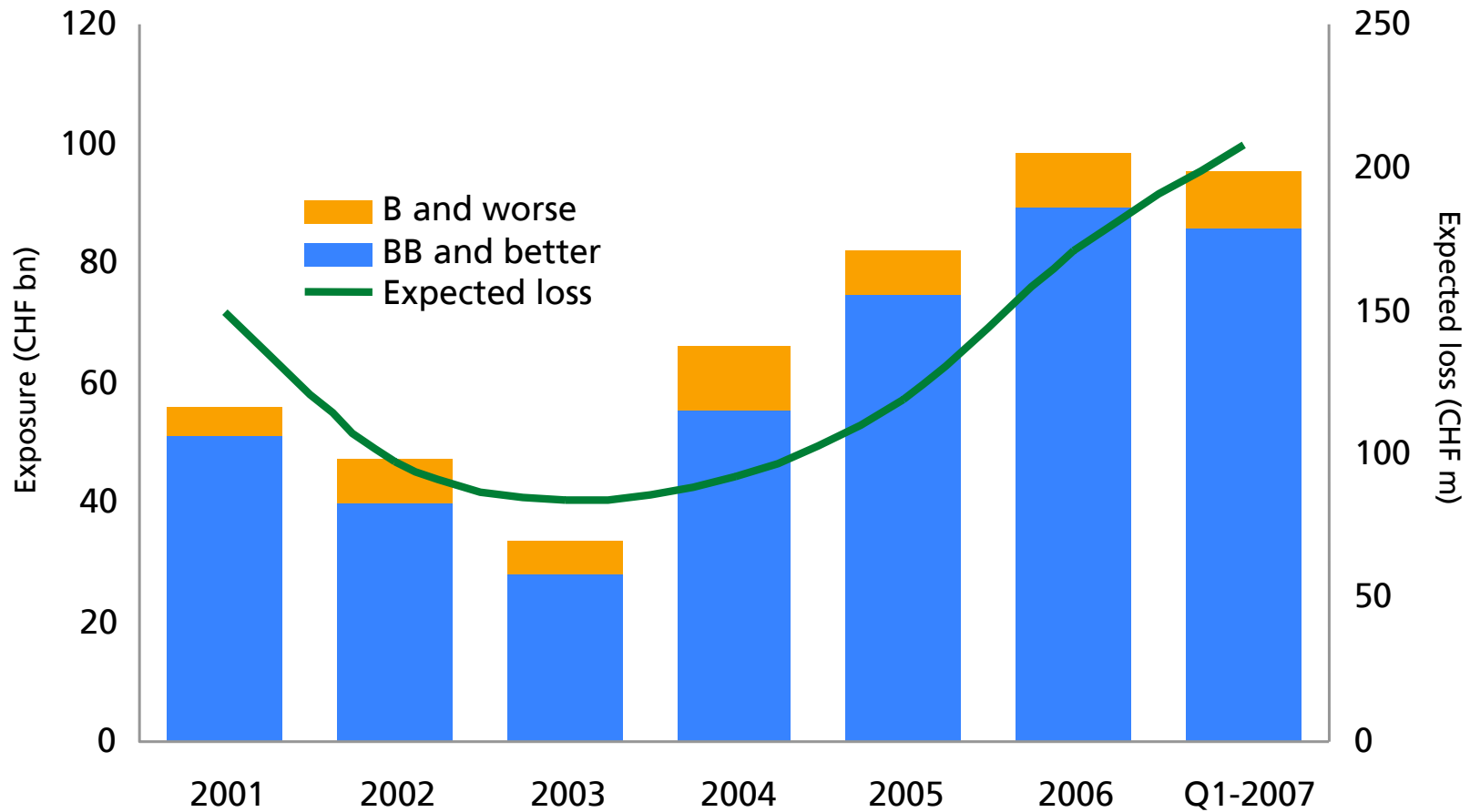
Exposure as of 31.12.2006 All amounts in CHF million	Global WM&BB	Investment Bank	Other	TOTAL UBS
Banking products	244,222	126,798 ¹⁾	610	371,630
Unsecured OTC products	1,264	51,992	0	53,256
Other derivatives	7,516	27,586	0	35,102
Securities lending & borrowing	7,284	32,975	0	40,259
Repo	201	18,780	0	18,981
Total credit exposure	260,487	258,131	610	519,228

¹⁾ Net, after application of credit hedges

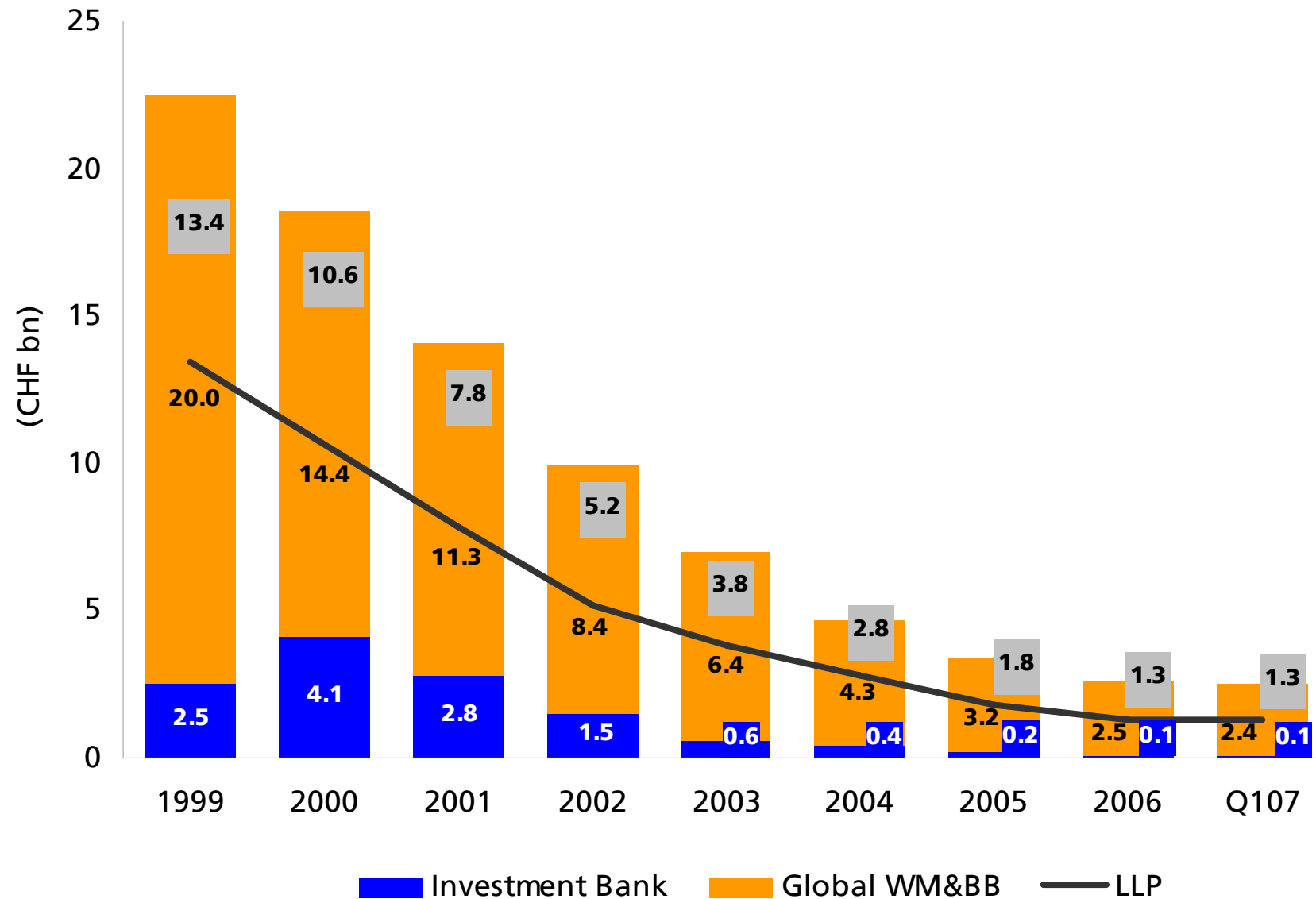
... across business groups and products

IB Take and Hold banking products

Growth seen in 2004 and onwards in line with strategy communicated at the end of 2003



Development of impaired loans & loan loss provisions



Credit loss (expense) / recovery

All amounts in CHF million

	Q107	2006	2005	2004	2003	2002
Global WM&BB	21	109	223	94	(70)	(253)
Investment Bank	(20)	47	152	147	(32)	126
Corporate Center	-	-	-	-	-	15
Total	1	156	375	241	(102)	(112)

Sign convention: a negative amount is an expense, a positive amount is a recovery

Credit portfolio

Strong Credit Risk management and Control culture

- ◆ Well diversified portfolio of risks
- ◆ Credit portfolio has grown in line with business development
- ◆ Impaired loans and loan-loss provisions continue to fall
- ◆ Asset quality is high and continues to improve
- ◆ Strong culture of risk distribution and hedging in Investment Bank

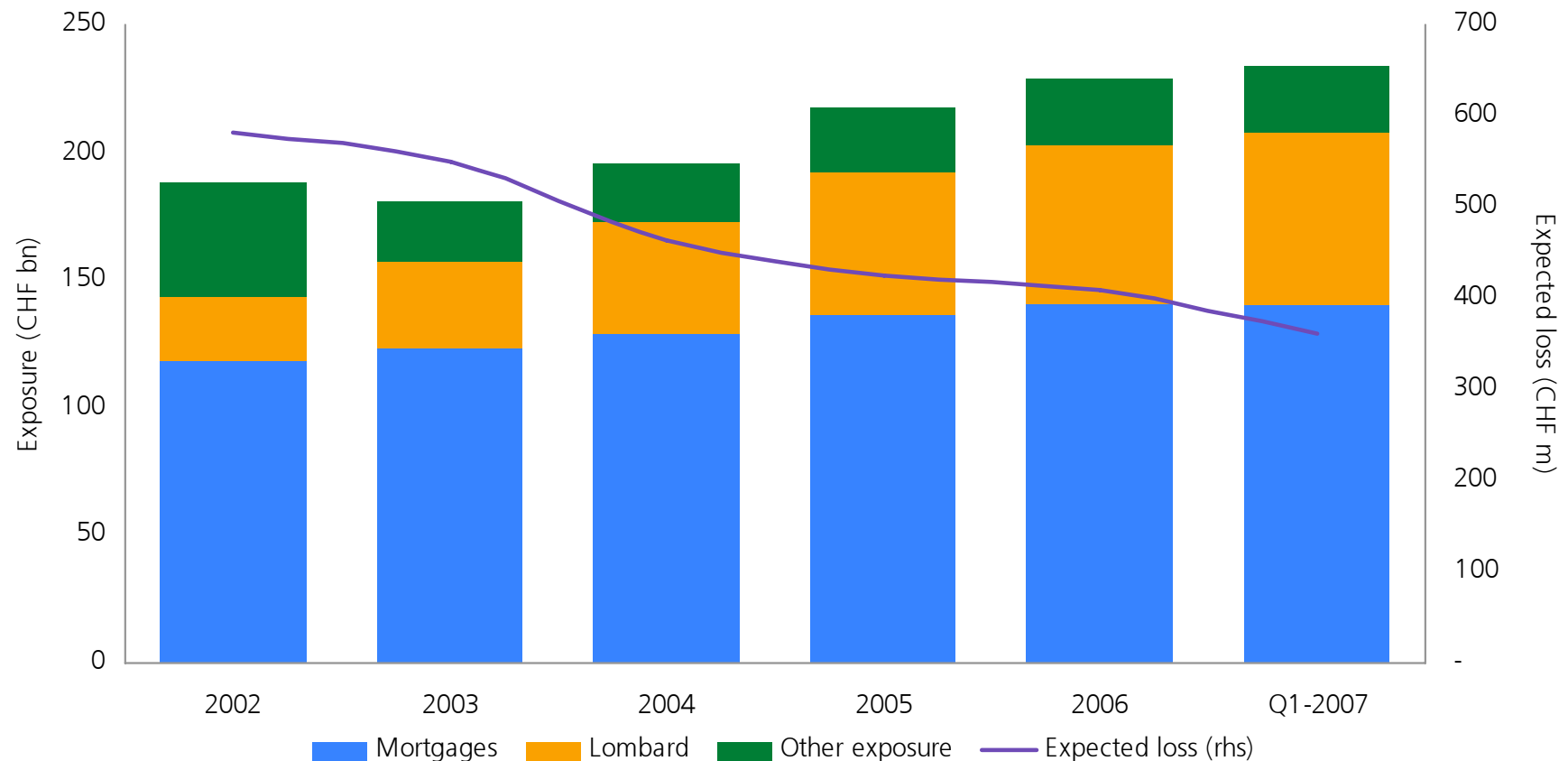
SECTION 3

Enabling Growth Initiatives - Examples

Growth of collateralised lending in support of WM build-out

Increased notional Global WM&BB loan book through originating better quality assets (mortgages, Lombard loans) - as reflected by reduced expected loss.

Global WM&BB Loan Book and Expected Loss



IB - Leveraged Finance

Loan underwriting framework

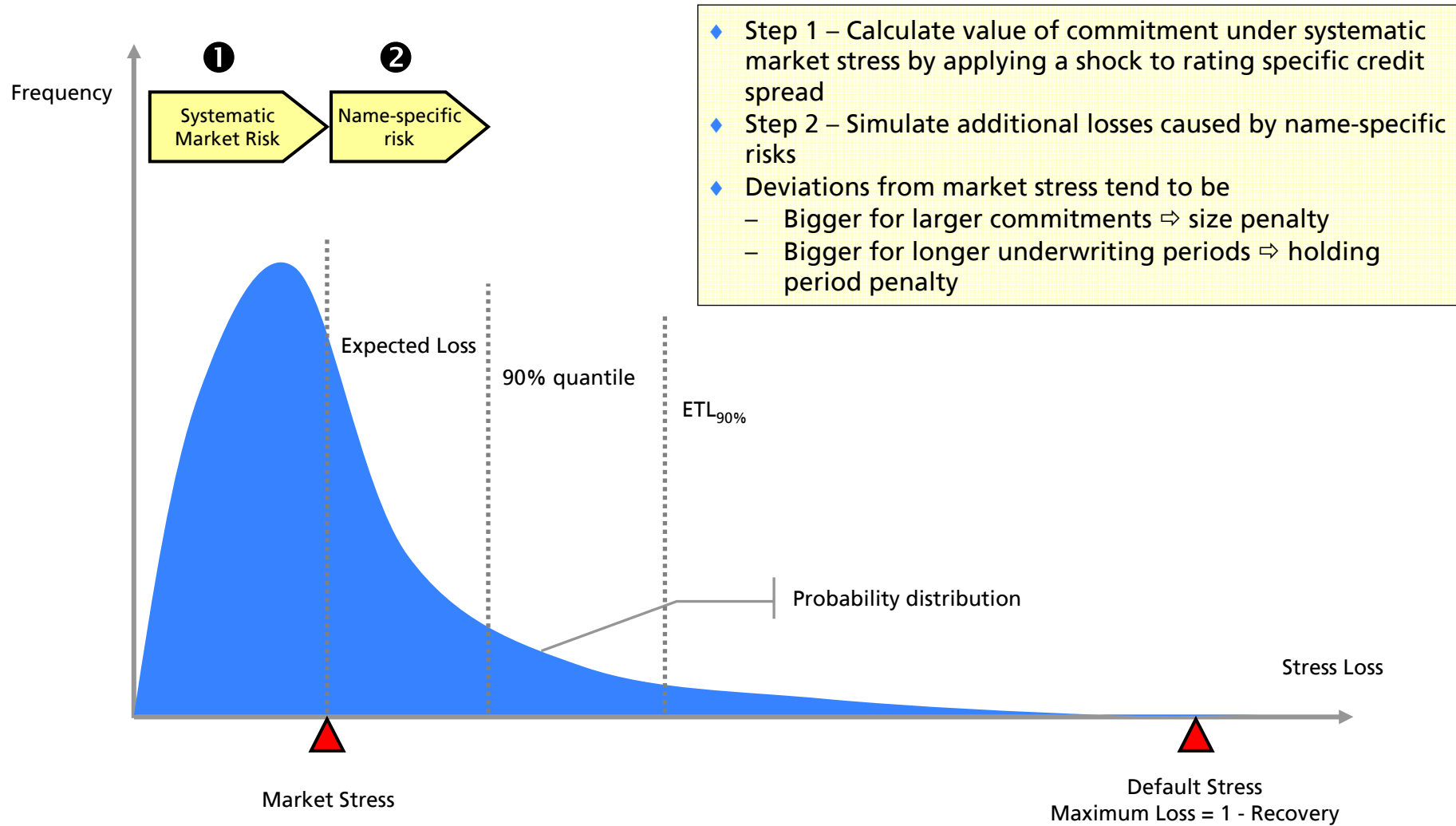
Comprises:

- ◆ Stress limits at single name, sector and portfolio level
- ◆ Nominal limits and guidelines

- ◆ Use portfolio stress approach that
 - focuses on market stress component inherent in all underwritings
 - penalizes single name concentrations arising from large commitments and/or long underwriting periods

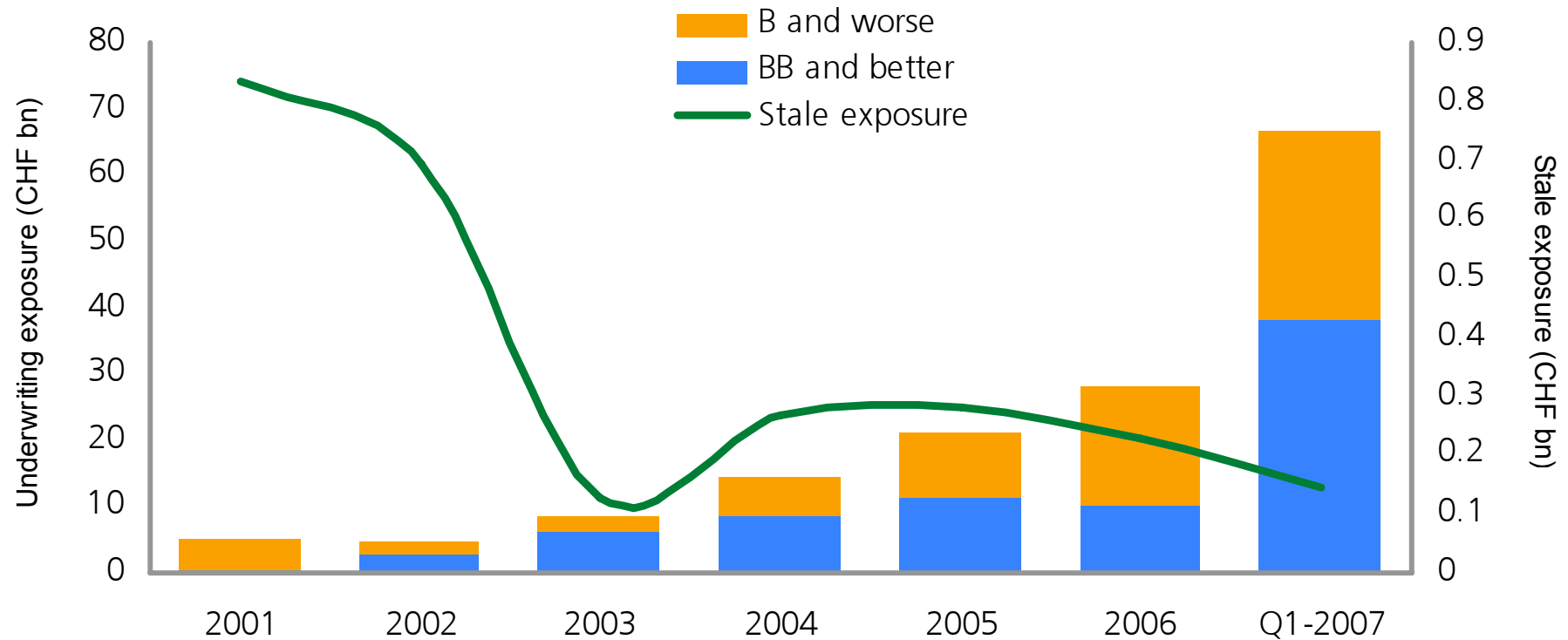
IB - Leveraged Finance

Basic idea



IB - Loan Underwriting

Successful build-up of our loan underwriting and distribution business



Residual positions at single B level and worse from loan underwriting activities amounted to CHF 4 billion at the end of March

Credit Risk Control framework for Hedge Funds

Enabling growth of a key client segment

Risk Control

Daily margin process

Constant review of margins for concentration positions

Monthly review of fund's performance, NAV & leverage

Routine review of fund's performance vs peers

Risk Measurement

Close-out risk limits

Stress exposure limits

Collateral concentration analysis

Volume limits

Risk Reporting

Standard suite including:

- Close-out risk
- Collateral concentration

Consolidated report to senior management

SECTION 4

Looking Ahead

Looking ahead

- ◆ General credit environment
- ◆ Leveraged market
- ◆ Hedge Funds

Summary

Strong risk management and control culture – enabling business growth

- ◆ Integrated set of credit risk controls with strong focus on managing concentration risk
- ◆ Strong credit risk management and control culture
- ◆ Risk Control is an enabler of the firm's growth agenda

Questions...

