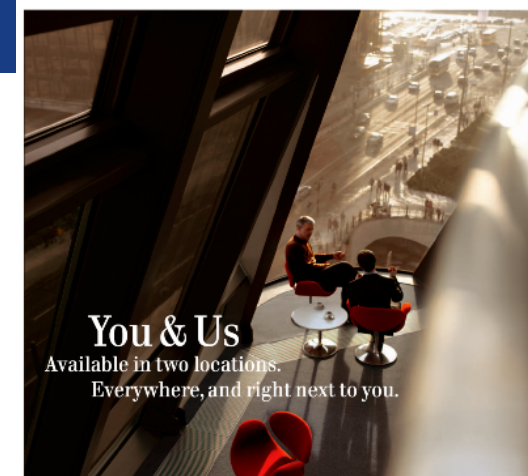


# UBS Product Day – Zurich UBS China

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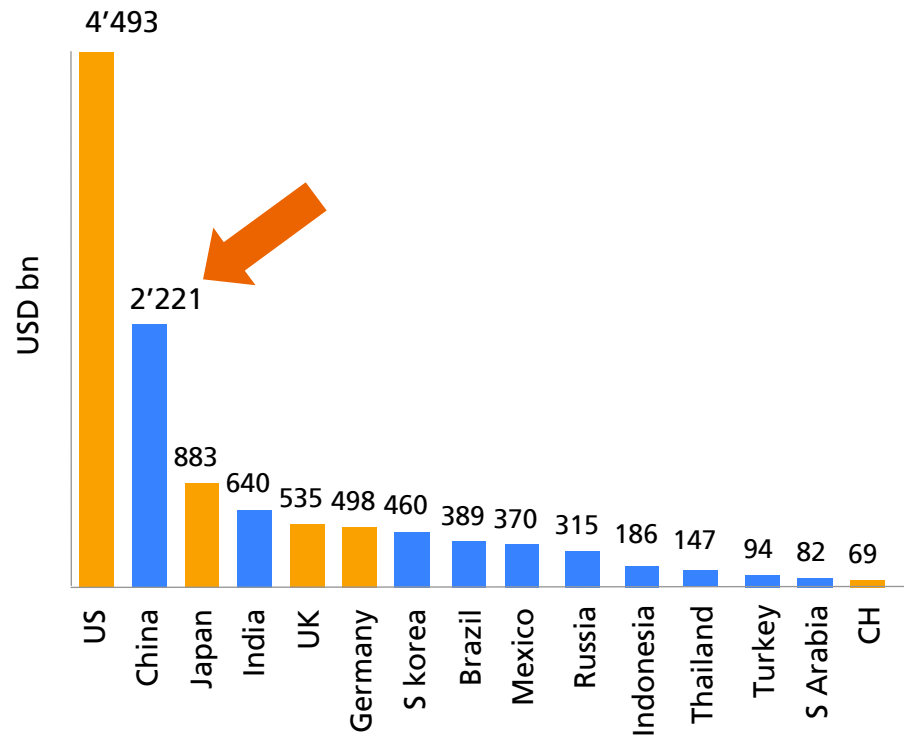
Rory Tapner, Chairman and CEO Asia Pacific



# Rapid economic growth

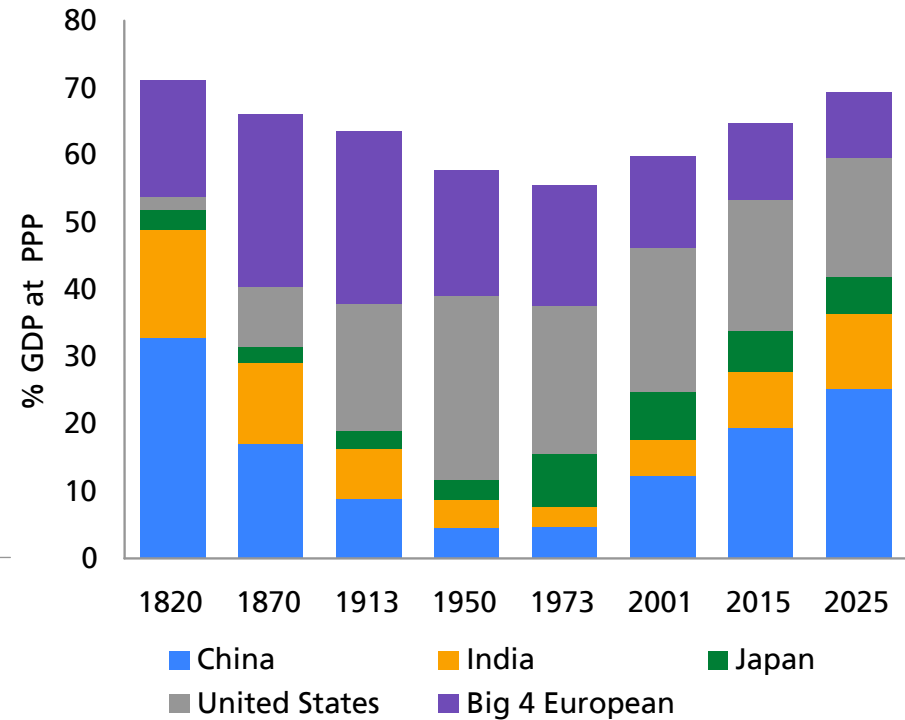
## China's influence in the global economy will continue to grow

### Absolute real GDP growth to 2015



Source: IMF, UBS Public Policy

### The world's dominant economies



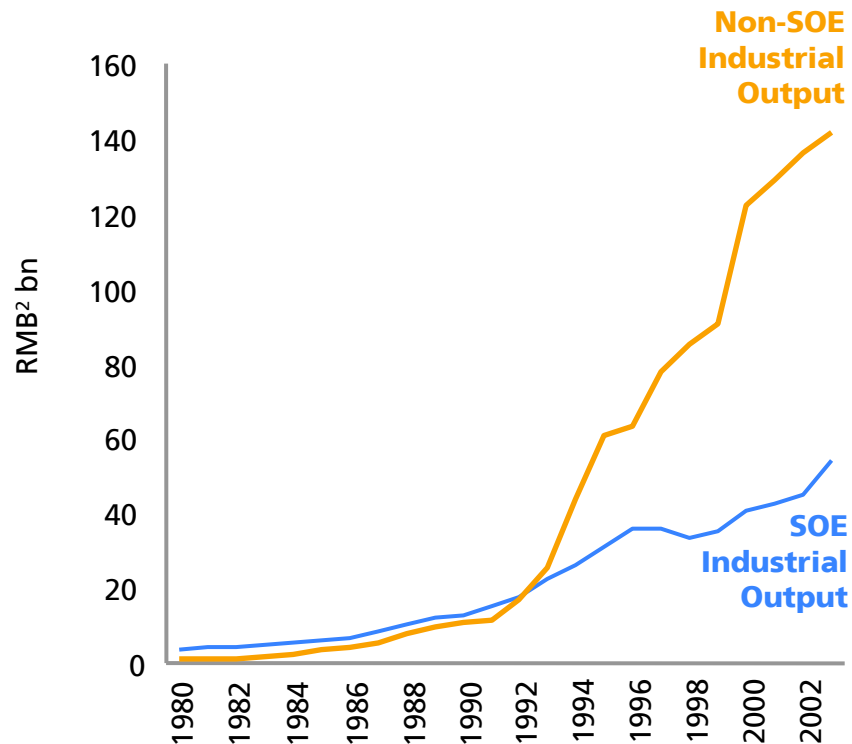
Source: Virmani, Martin Wolf

**Averaged annual GDP growth rate at 9.5%  
for the past 20+ years**

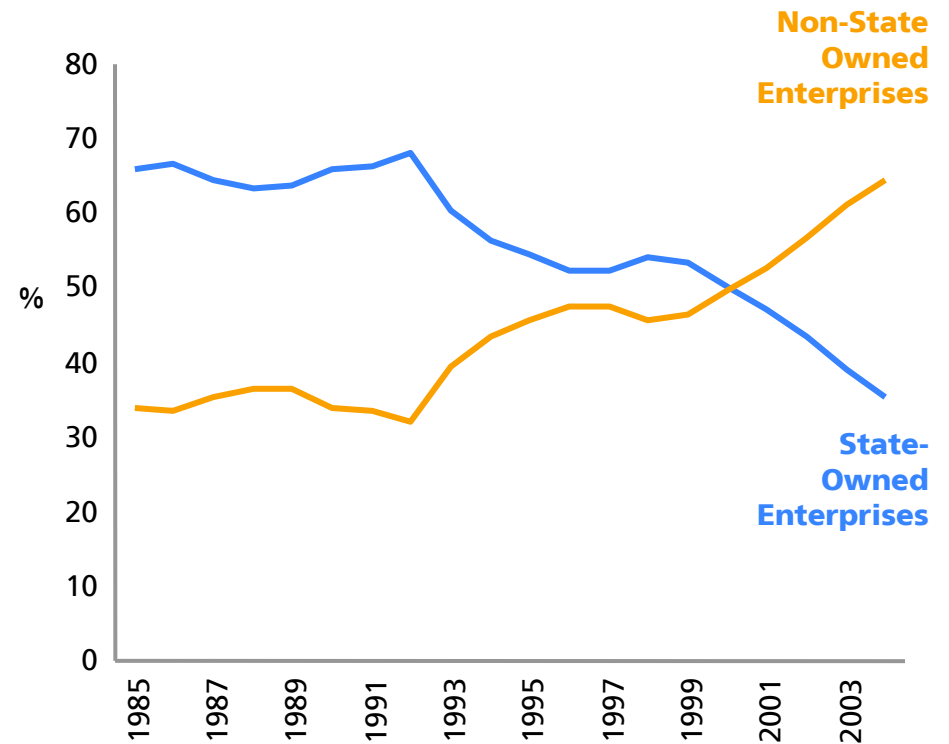
# Changing economic structure

China's economic structure is changing from being dominated by the state sector...

**Industrial GDP: SOEs vs. Non-SOEs<sup>1</sup>**



**Fixed asset investment by ownership**



Source: China Statistical Yearbook, 2005

Notes:

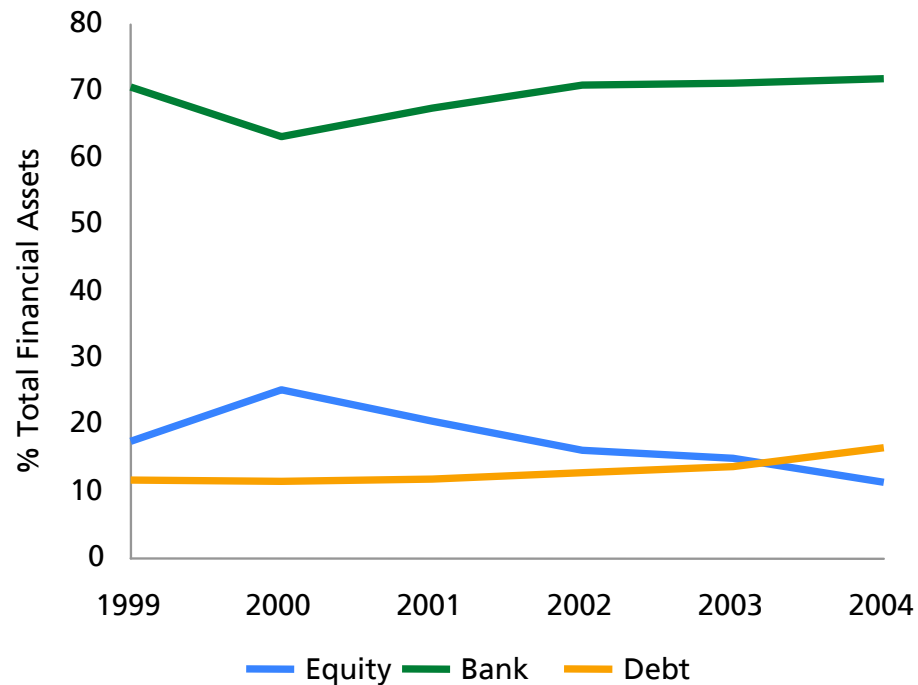
- 1 SOE = State-owned enterprises
- 2 1 RMB= 0.125USD

...to being led by the private sector

# Financial sector challenges

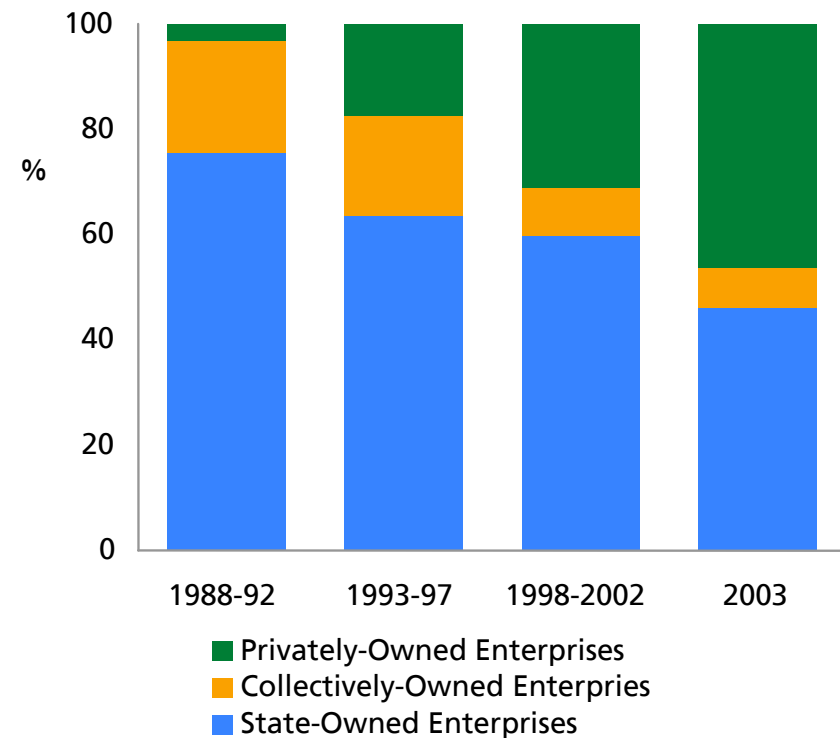
## Misallocation of financial resources in the corporate sector...

### Structure of financial assets



Source: Riedel, Jin and Gao, 2006, forthcoming; and China Statistical Yearbook, 2005

### Distribution of bank lending by ownership

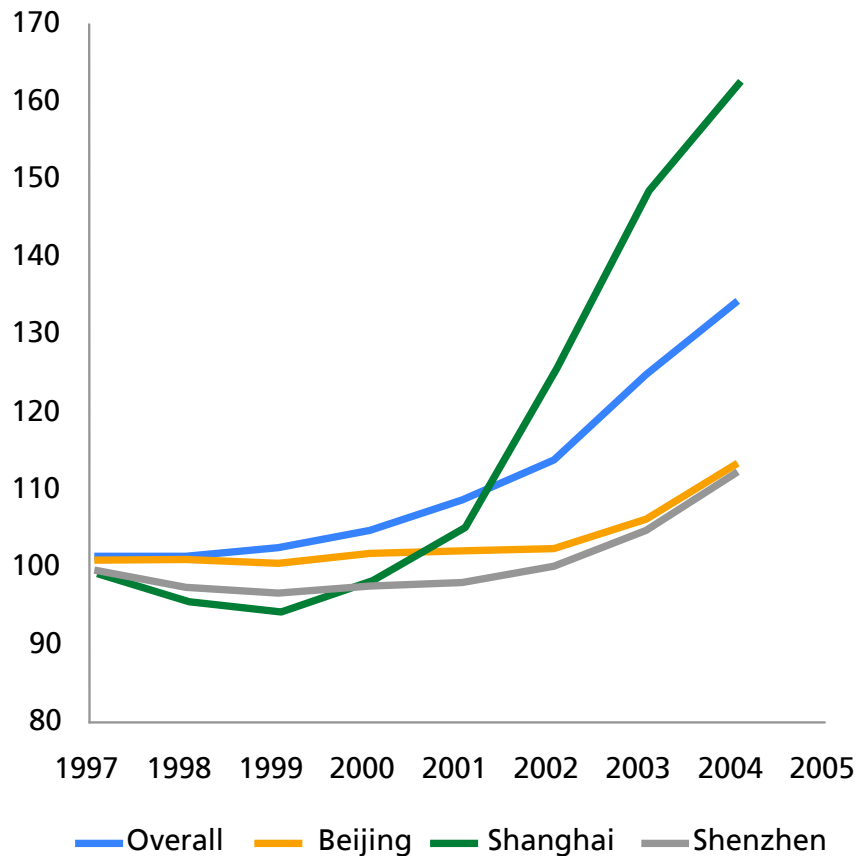


...but the situation is improving

# Financial sector challenges

## Lack of investment tools

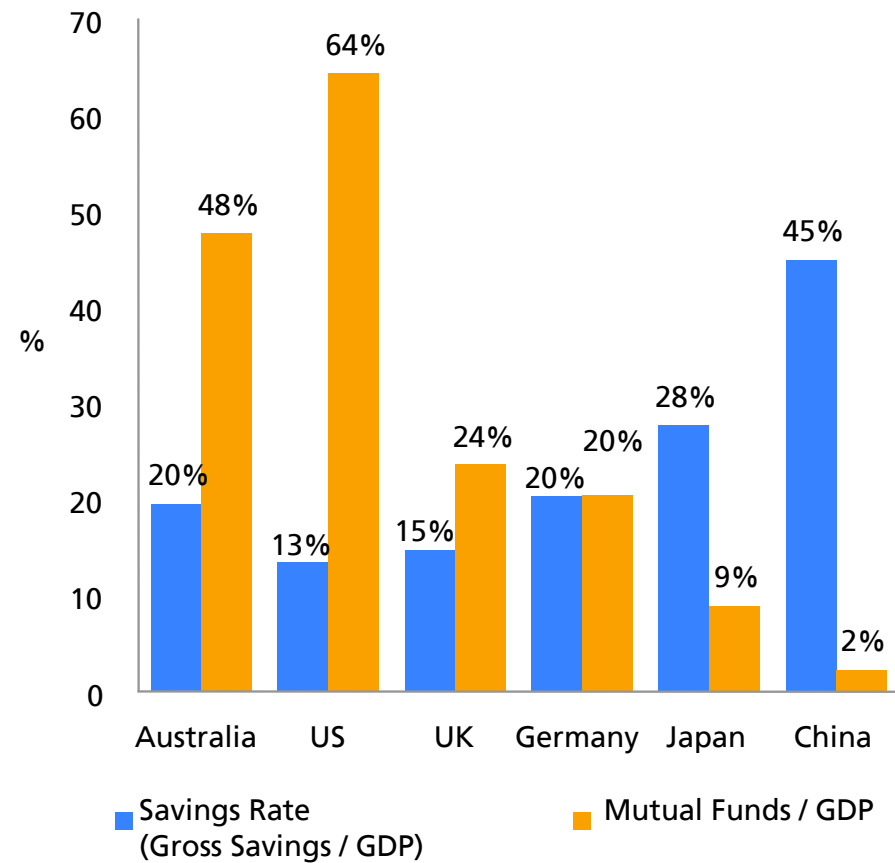
### Property Market Index<sup>1</sup>



Source: CEIC

1. Year 1997 = 100

### Mutual Fund and Savings Rate as % of GDP (2004)<sup>2</sup>



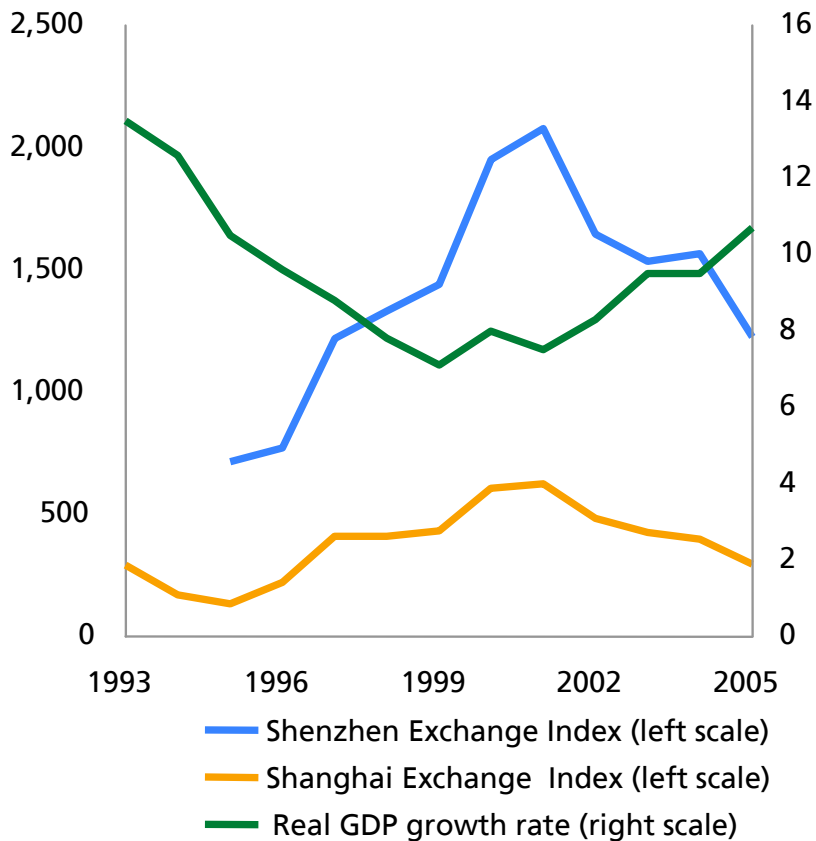
Source: IMF Statistics, Cerulli Associates

2. In local currencies as of end of 2004, GDP and Gross Savings seasonally adjusted

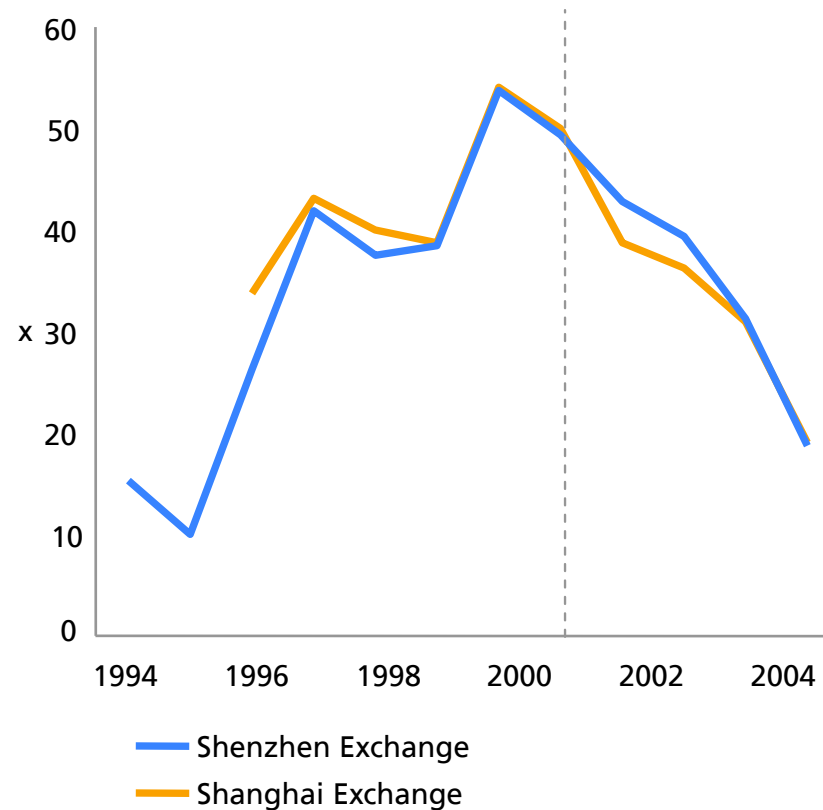
# Development of the equity market

In its short 15 year history, China's stock market has experienced a full boom/bust cycle

**Real GDP Growth vs SHSE and SZSE Price Index**



**P/E Ratios on SHSE and SZSE**



Source: Riedel, Jin, Gao, 2006 forthcoming

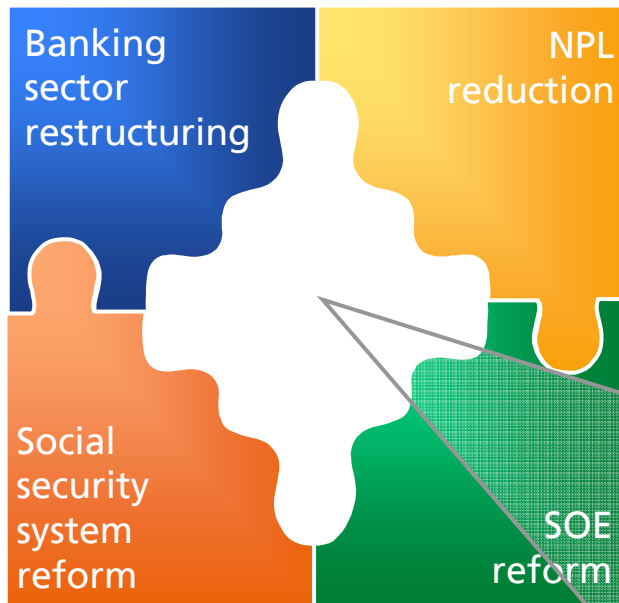
Note: Shanghai Exchange Index (SHSE) encompasses 824 A-listed securities. Shenzhen Exchange Index (SZSE) encompasses 530 A-listed securities.

# The next step—developing China’s financial markets

## Capital market development is a critical determinant...

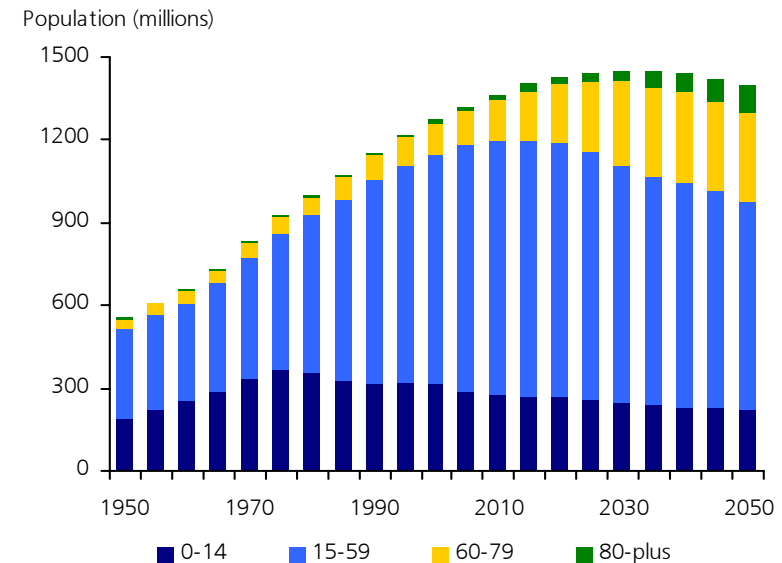
### Capital Market Reform

- the critical piece of the jigsaw...



- ◆ Clean up of SOE sector will improve sustainability of banking sector restructuring but will require the development of a social security system.
- ◆ Social security system requires development of capital market

### China’s Population Age Structure



Source: Jonathan Anderson, UBS, 2005

...of China’s ability to meet pension obligations and fully reform the banking sector

# Domestic market competitive landscape




## Landscape for domestic banks

	Banking	Securities	Fund Management
Products & Activities	<ul style="list-style-type: none"><li>◆ Restricted from participating in the securities market by Glass Steagall</li><li>◆ Low level of product sophistication but strong distribution and client footprint.</li><li>◆ Stated interest in WM. A number of retail banks are keen to target mass affluent sector</li></ul>	<ul style="list-style-type: none"><li>◆ Domestic securities firms are permitted to offer full range of securities services, including:<ul style="list-style-type: none"><li>◆ A-share, government &amp; corporate bonds underwriting</li><li>◆ full secondary market services</li><li>◆ Asset Management</li><li>◆ Research</li></ul></li><li>◆ Innovation license available to select few</li></ul>	<ul style="list-style-type: none"><li>◆ Product offering limited by asset class (listed securities) and vehicles (unit trusts)</li><li>◆ Other asset classes only available to securities companies</li></ul>
Industry Trends	<ul style="list-style-type: none"><li>◆ Trend towards seeking partnerships with foreign banks</li></ul>	<ul style="list-style-type: none"><li>◆ Major restructuring of industry underway</li></ul>	<ul style="list-style-type: none"><li>◆ Industry small by global standards but expanding rapidly</li></ul>



# Domestic market competitive landscape

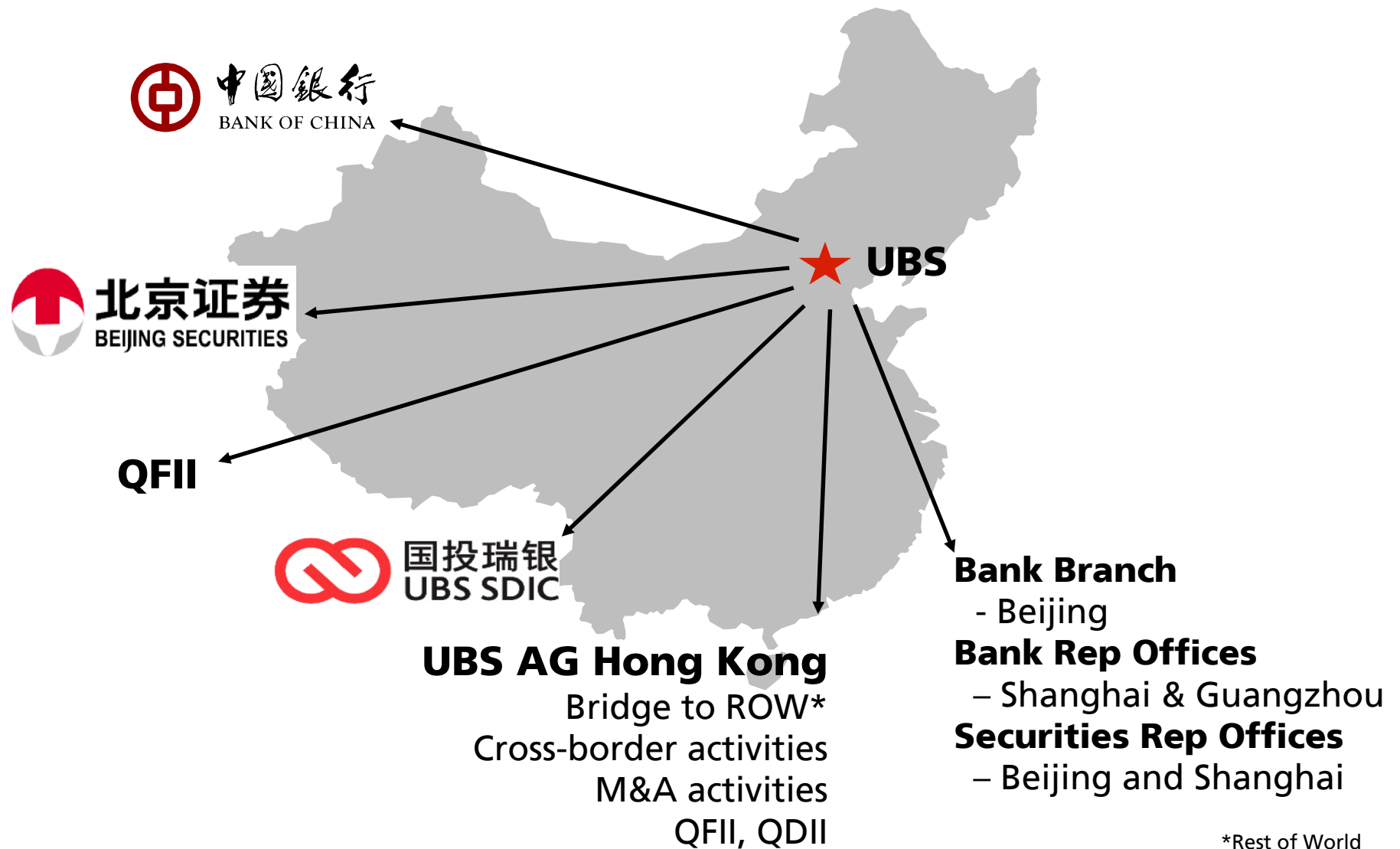
## Landscape for foreign banks

	Banking	Securities	Fund Management
	 <p>Foreign ownership limited to 20/25%</p>	 <p>Foreign ownership capped at 33% of JV</p>	 <p>Foreign ownership capped at 49% of JV</p>
Products & Activities	<ul style="list-style-type: none"> <li>Restrictions on offering foreign currency products lifted under WTO</li> <li>Permitted to offer full range of RMB products by end of '06 under WTO</li> <li>Can offer banking-type WM products</li> </ul>	<ul style="list-style-type: none"> <li>Permitted activities limited to underwriting and secondary bond trading.</li> <li>A-share trading is out of scope</li> <li>Regulations governing Asset Management and Research remain unclear</li> </ul>	<ul style="list-style-type: none"> <li>Foreign fund managers can only access domestic market through JVs</li> <li>Increasing foreign participation – large number of JVs</li> <li>Limited by asset class (listed securities) and vehicle (unit trust)</li> </ul>
Industry Trends	<ul style="list-style-type: none"> <li>A large number of foreign banks have taken minority stakes in domestic banks</li> </ul>	<ul style="list-style-type: none"> <li>No explicit WTO commitments to further opening of market</li> </ul>	<ul style="list-style-type: none"> <li>No explicit WTO commitments to further opening of market</li> </ul>

**...China is on track to meet WTO commitments, but operating environment remains complex**

# UBS in China

**UBS is uniquely positioned to capture China's tremendous potential**



\*Rest of World

# Multi-entity approach

## Multi-entity approach reflects regulatory restrictions & risks

	Beijing Securities	UBS SDIC (China Dragon)	UBS HK and ROW	UBS Beijing branch	Bank of China
Structure	<ul style="list-style-type: none"> <li>◆ UBS 20%, IFC 5%</li> <li>◆ Domestic Consortium 42%</li> <li>◆ Beijing City-related 33%</li> <li>◆ Management control</li> </ul>	<ul style="list-style-type: none"> <li>◆ UBS 49%</li> <li>◆ SDIC 51%</li> </ul>	<ul style="list-style-type: none"> <li>◆ UBS 100% (QFII – USD 800m, NPL – USD 45m)</li> </ul>	<ul style="list-style-type: none"> <li>◆ UBS 100%</li> </ul>	<ul style="list-style-type: none"> <li>◆ UBS 1.6% (USD 500m)</li> <li>◆ Commercial co-operation</li> </ul>
Business activities	<ul style="list-style-type: none"> <li>◆ Fully licensed domestic securities co.</li> <li>◆ Full range of domestic services for IB, WM, AM</li> </ul>	<ul style="list-style-type: none"> <li>◆ Focus on FM product origination and real estate</li> </ul>	<ul style="list-style-type: none"> <li>◆ International cross-border activity across all UBS businesses</li> <li>◆ QFII</li> <li>◆ QDII</li> </ul>	<ul style="list-style-type: none"> <li>◆ Mainly fixed income / FXCCT and WM business</li> </ul>	<ul style="list-style-type: none"> <li>◆ Commercial co-operation in IB&amp;S and AM on case by case basis</li> </ul>

**Co-ordination is key to deriving maximum long-term benefits**

# Keys to success

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## UBS has the resources...

Strong commitment from Group management

Top quality human resources

Strong PRC cultural know-how and sensitivity

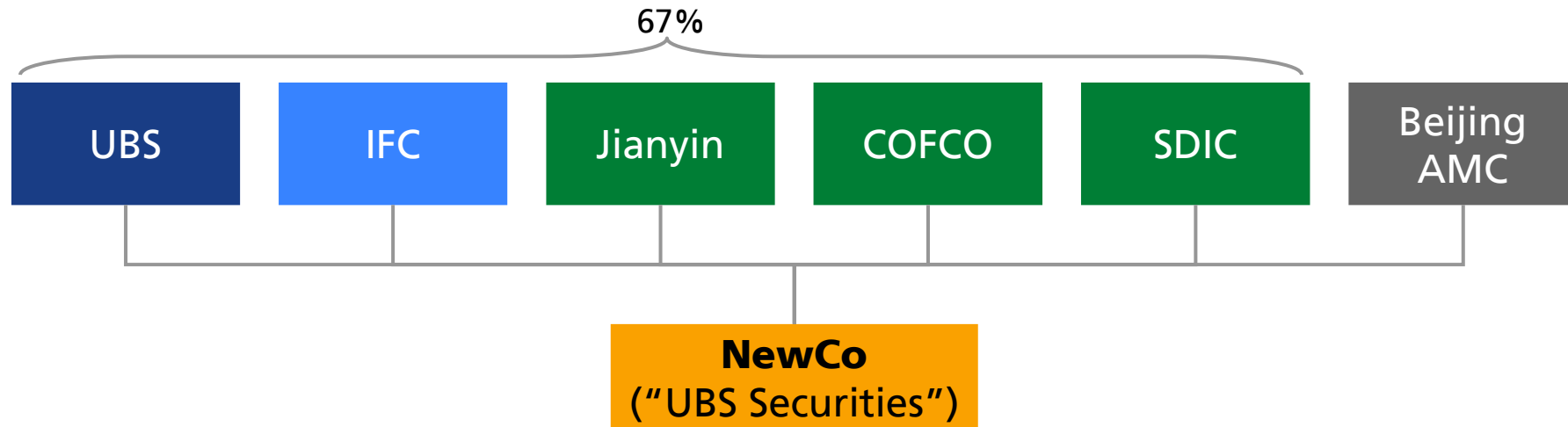
Rigorous implementation of global best practice

Well considered risk management systems

**...and the vision needed to succeed in China**

# Beijing Securities restructuring

## Ground-breaking transaction with Beijing Securities...



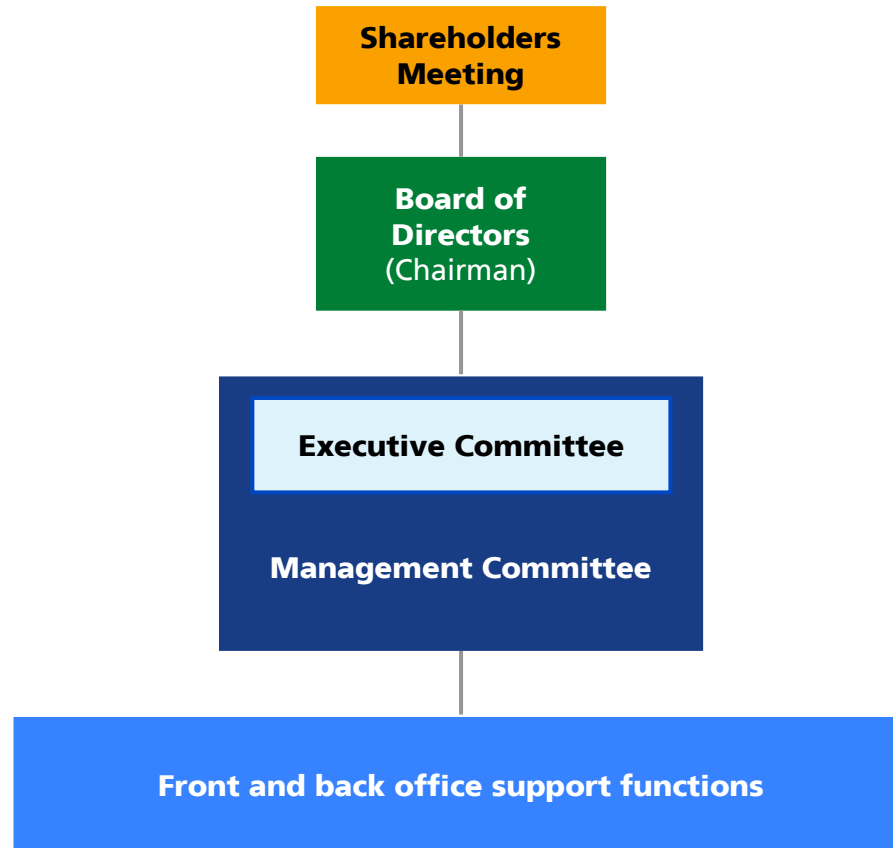
- ◆ State Council approval—first of its kind/test case in securities market reform process
- ◆ First time a foreign firm has been permitted to directly invest in, and exercise management control over, a fully licensed domestic securities firm
- ◆ Provides UBS with access to licenses to act in the domestic market for corporates, institutions and WM clients
  - Head-start over competitors in building an integrated domestic business platform managed to global standards
  - Expanded presence in China enhances UBS' position in existing cross border business lines
  - Unique position for UBS to capitalize on liberalization of the RMB
- ◆ Asset deal insulates legacy risk from Beijing Securities
- ◆ UBS to inject c.40 staff into key management, business and operational positions
- ◆ 6 branches and c.190 core staff from Beijing Securities will also transfer into the new operation
- ◆ UBS consideration RMB1.7bn (USD210m)
- ◆ UBS right to increase as and when law or regulations permit

**...forms a core part of UBS' overall China strategy** <sup>12</sup>

# Newco operating structure

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## UBS' management control ensures implementation of the highest international standards



### Formal structure

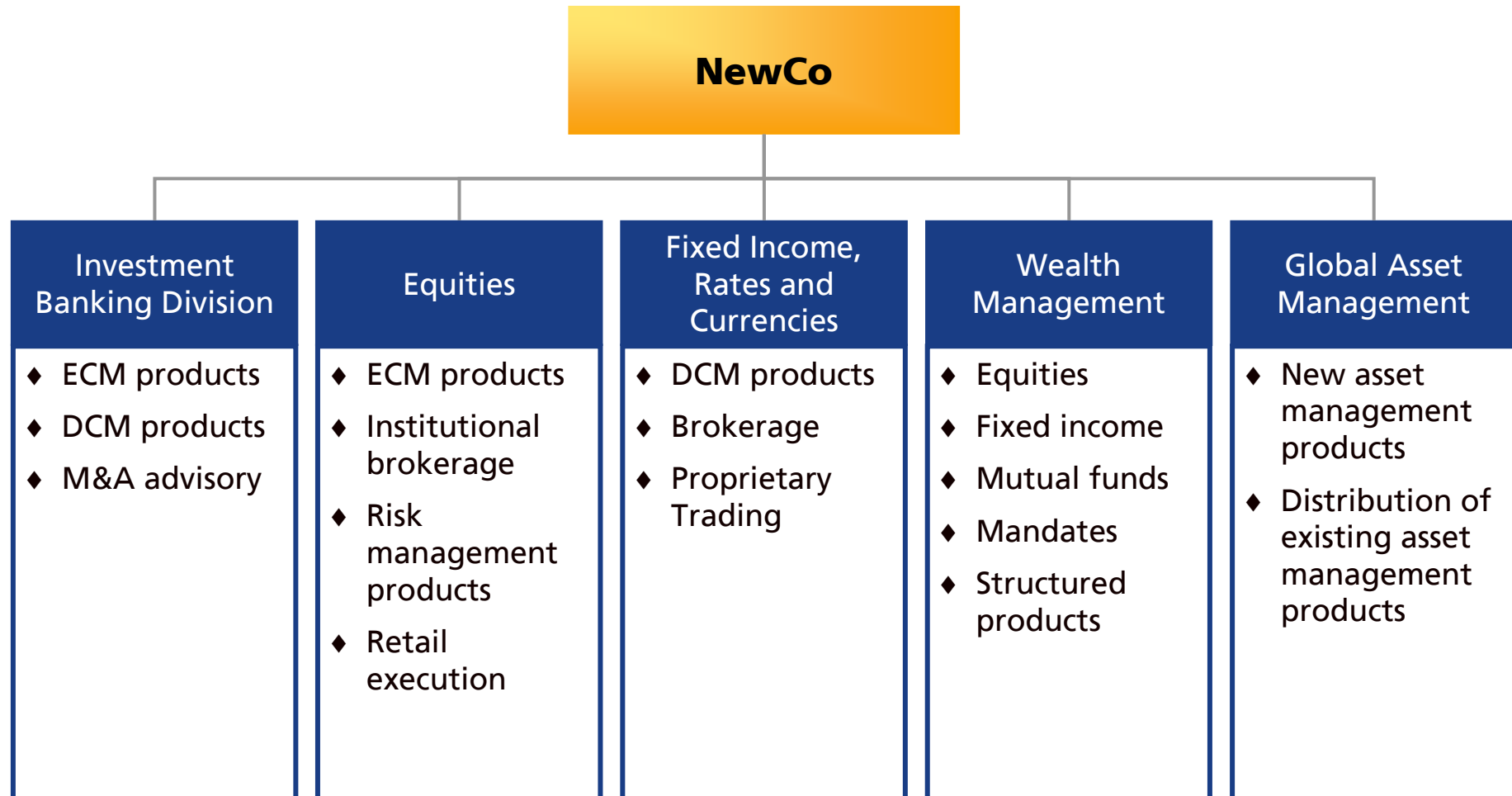
- Required given existence of other shareholders
- Shareholders meeting approves overall strategic direction of the business
- BoD develops strategic vision for the business, reviews management performance and sets targets
- Ex Com manages business development and runs day to day operations
- UBS representation on BoD and Ex Com are key

### Management Committee

- Core management body
- 11 member committee
  - 5 members from Ex Com
  - 5 divisional business heads (IBD, EQ, FIRC, WM and AM)
  - 1 CFO/head of financial control
- Responsible for overseeing the business activities of NewCo and making recommendations to Executive Committee and Board

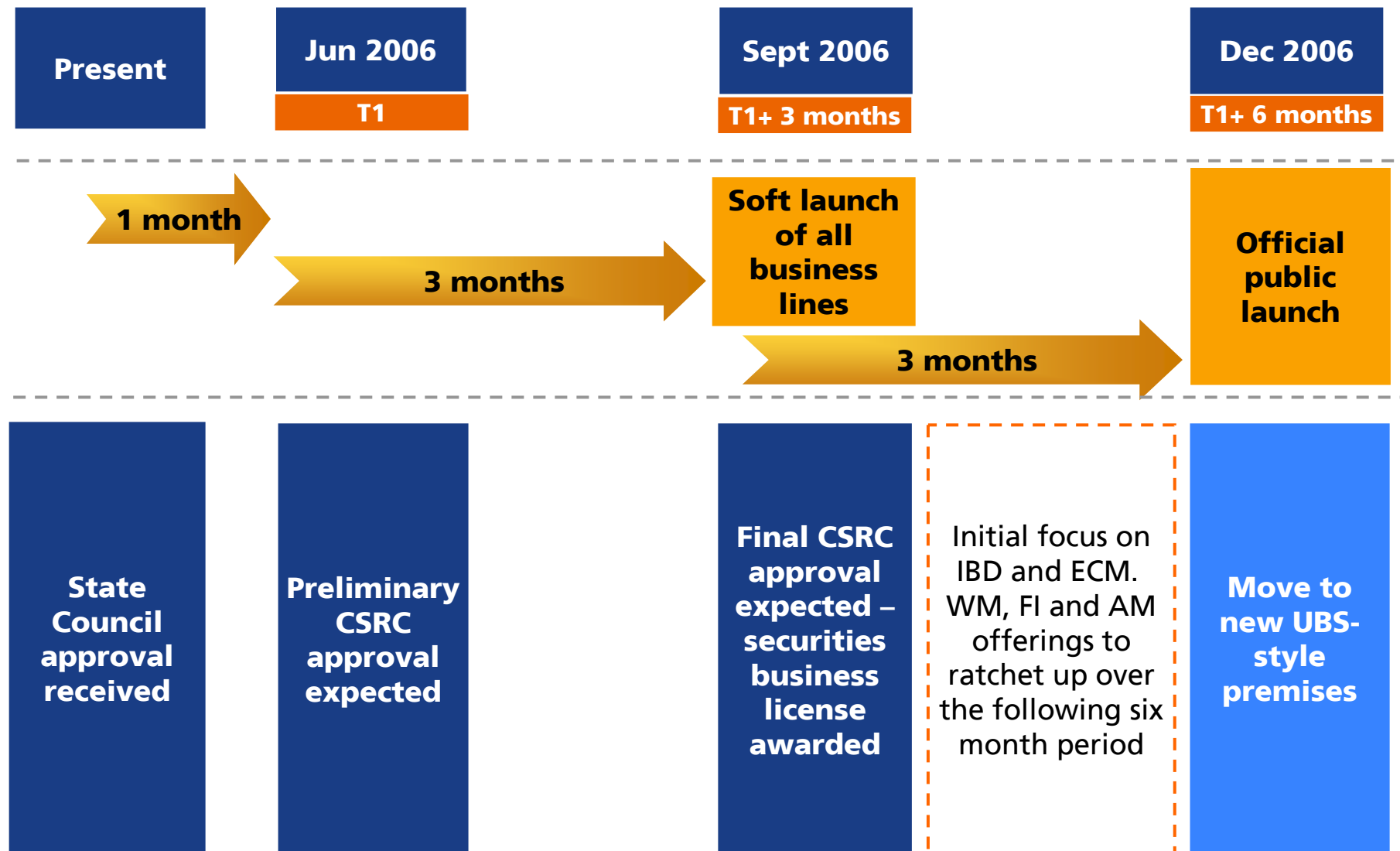
# NewCo business overview

## Integrated business approach to capture cross-selling potential



# Transaction process going forward

**Timetable currently under review due to regulatory approval process**





# Summary

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## UBS in China

- 
- China remains a complex operating environment for foreign financial institutions.
  - UBS' long term commitment to China and our approach to execution planning has enabled us to build a strong understanding with business partners and regulators.
  - We are confident that our multi-entity portfolio in China represents the best operating structure available to any foreign player. It seems unlikely that other foreign firms will be permitted to enter the domestic securities market on our terms in the near future.
  - UBS is well positioned to take full advantage of the continued evolution of China's financial markets.

# Questions...

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