

Rating Action: UBS AG

Moody's downgrades UBS (Senior to Aa3 from Aa2), Outlook negative

New York, November 18, 2009 -- Moody's Investors Service today downgraded the bank financial strength rating (BFSR) and the long-term debt and deposit ratings of UBS AG. The BFSR was lowered to C from B-, corresponding to a change in the bank's unsupported baseline credit assessment (BCA) to A3 from A1. The ratings for deposits and senior debt were lowered to Aa3 from Aa2, while the ratings for senior subordinated debt were lowered to A1 from Aa3. The bank's Prime-1 short-term ratings were affirmed.

Moody's also downgraded the ratings of UBS's non-cumulative trust preferred stock and Tier 1 capital securities to Baa3 from A1. This action incorporated both the BFSR downgrade and Moody's revised methodology for rating bank hybrid securities. The outlook for all of UBS's ratings is negative.

BFSR DOWNGRADE DUE TO SIGNIFICANT CHALLENGES

The two-notch downgrade of UBS AG's BFSR reflects Moody's view of the considerable challenges that UBS continues to face in both its Investment Banking and Wealth Management businesses. The bank has suffered a loss of customer confidence, as demonstrated by the ongoing net new money outflows in wealth management, and a loss of key employees, as demonstrated by the loss of revenues in investment banking, especially in fixed income. While both of these areas are beginning to show early signs of a turnaround, Moody's believes these challenges are unlikely to be short-lived.

Moody's views UBS's leading Wealth Management franchise as a critical underpinning of its overall financial strength. However, this business has suffered a serious erosion of customer confidence, suffering net new money outflows for seven consecutive quarters. The net outflows have further pressured profit levels that were already under pressure from lower asset values, subdued client activity, and declining net interest margins. "We believe that UBS's wealth management franchise is unlikely to return to previous levels of profitability until the bank can fully restore customer confidence," said David Fanger, Moody's Senior Vice President. "But we expect that restoring customer confidence will take some time, in light of customer sensitivity both to the bank's own difficulties and lack of profitability and to potential further challenges to Swiss bank secrecy," Mr. Fanger added. The rating agency expects that such challenges are likely to be a continuing part of the private banking landscape for a while, as deficit-burdened countries strengthen their tax collection efforts.

The ratings downgrade incorporates Moody's assumption that net new money flows in Wealth Management will turn positive by the middle of 2010, but that margins are unlikely to expand significantly given the need to improve customer confidence. Nonetheless, the rating agency also assumes that pre-tax margins in Wealth Management & Swiss Bank will remain above 25%, and that the overall revenue yield (gross margin) will remain above 100bps.

In Investment Banking, although UBS has sold a considerable portion (\$39 billion) of its legacy exposures to the Swiss National Bank (SNB), it remains exposed to potential additional losses on its remaining legacy exposures, most notably in its exposures to the monoline financial guarantors. In addition, in Moody's opinion the bank appears to have benefited less than many of its peers from the recent improvement in trading margins and volumes among more liquid capital markets instruments. "The bank has also experienced a significant turnover of senior managers over the past two years, which gives us some concerns about the continuity and effectiveness of management," Mr. Fanger added.

In response to this, the bank embarked on a significant hiring (and re-hiring) effort in its fixed income division this summer, and in the third quarter demonstrated some improvement in revenues in that area. However, Moody's notes that during the quarter the bank also had higher accruals for performance-based compensation and salary increases. "We believe the increase in accruals reflects the pressures UBS is under to pay personnel at rates that are competitive with peers, even though its year-to-date capital markets revenue performance has lagged its peers," Mr. Fanger noted.

The rating agency added that it believes the pressure on compensation in Investment Banking poses additional challenges for UBS, and could lead to additional risk taking. The bank has made several changes to its risk management governance, including the creation of a dedicated risk committee at board level, as well as to staffing and processes. "However, in our opinion the success of this initiative cannot be taken for granted," said Mr. Fanger. In particular, the initiative requires a change in risk culture and a support from the top of the organization, including in terms of resources deployed to the risk function.

Moody's noted that UBS is not alone in facing risk management challenges. The financial crisis revealed that very few investment banking firms have a true culture of risk management that will not be compromised when competition heats up, regulatory pressure abates, or management changes. "The challenges to successfully implementing such a culture are not to be underestimated," Mr. Fanger noted. "In this perspective UBS's recently announced increase in risk taking at the Investment Bank is of some concern."

The negative outlook on the BFSR reflects the risk to creditors if the bank is unable to restore customer confidence and improve net new money flows in Wealth Management, or is unable to restore profitability in its Investment Bank business without increasing its risk profile. While the bank's strong capital position and still leading market share in certain key franchises provides substantial support to its current ratings, over the near term Moody's still sees more downside risks than upside.

DEPOSITS AND SENIOR DEBT BENEFIT FROM SYSTEMIC SUPPORT

While UBS's standalone BFSR was lowered by two notches, Moody's downgraded the bank's ratings for deposits and senior debt by only one notch, to Aa3 from Aa2. "Given UBS's importance to the Swiss economy and financial system, we continue to see a very high probability that UBS would receive further systemic support if it should be required," said Mr. Fanger. This results in three notches of uplift from the bank's BCA of A3 to the Aa3 rating for long-term deposit and senior debt.

The negative outlook on the deposit and senior debt ratings reflects Moody's view that if additional systemic support were required, it could potentially result in a transforming event such as a breakup or sale which could threaten the bank's franchise value. "While we think the need for any additional support to be unlikely, we believe that were UBS to require additional support, the Swiss authorities might consider taking action to further shrink the bank so as to reduce the government's contingent liability," Mr. Fanger said. "Therefore, because we have a negative outlook on the bank financial strength rating, we have decided to also place a negative outlook on the deposit and senior debt ratings." Were the bank financial strength rating to decline further, Moody's expects that the deposit and senior debt ratings could also decline.

LOWER BFSR, REVISED METHODOLOGY DRIVE HYBRID RATINGS

Moody's downgrade of the ratings on UBS's non-cumulative trust preferred stock and Tier 1 capital securities incorporate today's downgrade of the company's BFSR as well as the rating agency's revised methodology for rating bank hybrid capital securities. (See "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt," November 2009, for more details.)

Under the revised methodology, Moody's is removing any ratings benefit due to systemic support for such instruments. The combined effect of removing this support, together with the two-notch downgrade of the bank's BFSR (resulting in an A3 baseline credit assessment) led the rating agency to downgrade those securities to Baa3.

PREVIOUS RATING ACTION AND RATING METHODOLOGY

Moody's previous rating action on UBS AG was on 15 June 2009 when Moody's placed the bank's long-term ratings on review for possible downgrade.

The principal methodologies used in rating this issuer were "Bank Financial Strength Ratings: Global Methodology" published in February 2007, and "Incorporation of Joint-Default Analysis into Moody's Bank Ratings: A Refined Methodology" published in March 2007 and available on www.moody.com in the Ratings Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Ratings Methodologies sub-directory on Moody's website.

UBS AG is headquartered in Zurich, Switzerland. At the end of September 2009, UBS reported total consolidated assets of CHF 1,476 billion. For the first nine months of 2009, UBS reported a net after-tax loss attributable to shareholders of CHF -3,941 million.

Downgrades:

..Issuer: Edelweiss Master Trust

....Senior Unsecured Regular Bond/Debenture, Downgraded to Aa3 from Aa2

..Issuer: Swiss Bank Corporation

....Subordinate Regular Bond/Debenture, Downgraded to A1 from Aa3

..Issuer: Swiss Bank Corporation, New York Branch

....Subordinate Regular Bond/Debenture, Downgraded to A1 from Aa3

..Issuer: UBS AG

....Bank Financial Strength Rating, Downgraded to C from B-

....Issuer Rating, Downgraded to Aa3 from Aa2

....Multiple Seniority Deposit Program, Downgraded to Aa3, A1 from Aa2, Aa3

....Multiple Seniority Medium-Term Note Program, Downgraded to Aa3, A1 from Aa2, Aa3

....Subordinate Regular Bond/Debenture, Downgraded to A1 from Aa3

....Senior Unsecured Medium-Term Note Program, Downgraded to Aa3 from Aa2

....Senior Unsecured Regular Bond/Debenture, Downgraded to a range of (P)Aa3 to Aa3 from a range of (P)Aa2 to Aa2

....Senior Unsecured Deposit Rating, Downgraded to Aa3 from Aa2

....Senior Unsecured Shelf, Downgraded to (P)Aa3 from (P)Aa2

..Issuer: UBS AG, Australian Branch

....Multiple Seniority Medium-Term Note Program, Downgraded to Aa3, A1 from Aa2, Aa3

..Issuer: UBS AG, Jersey Branch

....Multiple Seniority Medium-Term Note Program, Downgraded to Aa3, A1 from Aa2, Aa3

....Subordinate Regular Bond/Debenture, Downgraded to A1 from Aa3

....Senior Unsecured Conv./Exch. Bond/Debenture, Downgraded to Aa3 from Aa2

....Senior Unsecured Medium-Term Note Program, Downgraded to Aa3 from Aa2

....Senior Unsecured Regular Bond/Debenture, Downgraded to a range of (P)Aa3 to Aa3 from a range of (P)Aa2 to Aa2

....Senior Unsecured Shelf, Downgraded to (P)Aa3 from (P)Aa2

..Issuer: UBS AG, London Branch

....Multiple Seniority Medium-Term Note Program, Downgraded to Aa3, A1 from Aa2, Aa3

....Senior Unsecured Conv./Exch. Bond/Debenture, Downgraded to Aa3 from Aa2

....Senior Unsecured Medium-Term Note Program, Downgraded to Aa3 from Aa2

....Senior Unsecured Regular Bond/Debenture, Downgraded to Aa3 from Aa2

..Issuer: UBS AG, New York Branch

....Multiple Seniority Deposit Program, Downgraded to Aa3, A1 from Aa2, Aa3

....Multiple Seniority Medium-Term Note Program, Downgraded to Aa3, A1 from Aa2, Aa3

..Issuer: UBS AG, Stamford Branch

....Multiple Seniority Deposit Program, Downgraded to Aa3, A1 from Aa2, Aa3

....Multiple Seniority Medium-Term Note Program, Downgraded to Aa3, A1 from Aa2, Aa3

....Subordinate Regular Bond/Debenture, Downgraded to A1 from Aa3

....Senior Unsecured Deposit Note/Takedown, Downgraded to Aa3 from Aa2

....Senior Unsecured Regular Bond/Debenture, Downgraded to Aa3 from Aa2

..Issuer: UBS Americas, Inc.

....Issuer Rating, Downgraded to Aa3 from Aa2

....Multiple Seniority Medium-Term Note Program, Downgraded to a range of A1 to Aa3 from a range of Aa3 to Aa2

....Multiple Seniority Shelf, Downgraded to (P)Aa3, (P)A1 from (P)Aa2, (P)Aa3

....Multiple Seniority Shelf, Downgraded to (P)Aa3, (P)A1, (P)Baa1 from (P)Aa2, (P)Aa3, (P)Aa3

....Multiple Seniority Shelf, Downgraded to (P)Aa3, (P)A1, (P)Baa1 from (P)Aa2, (P)Aa3, (P)Aa3

....Subordinate Medium-Term Note Program, Downgraded to A1 from Aa3

....Senior Unsecured Medium-Term Note Program, Downgraded to Aa3 from Aa2

....Senior Unsecured Regular Bond/Debenture, Downgraded to Aa3 from Aa2

....Senior Unsecured Shelf, Downgraded to (P)Aa3 from (P)Aa2

..Issuer: UBS Capital Securities (Jersey) LTD

....Preferred Stock Preferred Stock, Downgraded to Baa3 from A1

..Issuer: UBS Finance (Curacao) N.V.

....Senior Unsecured Regular Bond/Debenture, Downgraded to Aa3 from Aa2

..Issuer: UBS Finance (Delaware), LLC.

....Senior Unsecured Medium-Term Note Program, Downgraded to Aa3 from Aa2

....Senior Unsecured Regular Bond/Debenture, Downgraded to Aa3 from Aa2

..Issuer: UBS Limited

....Issuer Rating, Downgraded to Aa3 from Aa2

..Issuer: UBS Loan Finance LLC

....Issuer Rating, Downgraded to A3 from A1

..Issuer: UBS Preferred Funding (Jersey) Ltd.

....Preferred Stock Preferred Stock, Downgraded to Baa3 from A1

..Issuer: UBS Preferred Funding Co. LLC VII

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Company LLC I

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Company LLC II

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Company LLC IV

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Company LLC IX

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Company LLC V

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Company LLC VI

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Company LLC VIII

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Trust I

....Preferred Stock Preferred Stock, Downgraded to Baa3 from A1

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Trust II

....Preferred Stock Preferred Stock, Downgraded to Baa3 from A1

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Trust IV

....Preferred Stock Preferred Stock, Downgraded to Baa3 from A1

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Trust IX

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Trust V

....Preferred Stock Preferred Stock, Downgraded to Baa3 from A1

..Issuer: UBS Preferred Funding Trust VI

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Trust VII

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: UBS Preferred Funding Trust VIII

....Preferred Stock Shelf, Downgraded to (P)Baa3 from (P)A1

..Issuer: Union Bank of Switzerland

....Subordinate Regular Bond/Debenture, Downgraded to A1 from Aa3

Outlook Actions:

..Issuer: Edelweiss Master Trust

....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS AG

....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS AG, Australian Branch

....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS AG, Jersey Branch

....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS AG, London Branch

....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS AG, New York Branch

....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS AG, Stamford Branch

....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS Americas, Inc.

....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS Capital Securities (Jersey) LTD

....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS Finance (Curacao) N.V.

....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS Finance (Delaware), LLC.

....Outlook, Changed To Negative From Rating Under Review

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....Outlook, Changed To Negative From Rating Under Review

..Issuer: UBS Loan Finance LLC

....Outlook, Changed To Negative From Rating Under Review

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..Issuer: UBS Preferred Funding Trust VIII

....Outlook, Changed To Negative From Rating Under Review

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