

UBS AG *maximum ratio* of variable remuneration to fixed remuneration under CRD IV

1 April 2014

Recommendation to shareholders

On 16 April 2013, the European Parliament approved the text of the directive on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms. This legislation, the Capital Requirements Directive, or "CRD IV," imposes new remuneration requirements.

Under the variable pay cap introduced by CRD IV, variable pay awards are restricted to 100% of fixed pay for those who take or control material risks on behalf of the firm. The directive foresaw the need to potentially raise this for legitimate business purposes and thus provided that the limit can be increased to 200% of fixed pay with shareholder approval.

For non-EEA headquartered competitors of UBS AG who operate via a subsidiary in the UK, a resolution of the immediate non-EEA parent company (as the shareholder of the subsidiary) is required to approve the increased limit. However, as the UBS AG's UK business of UBS AG ("UBS") operates through a London branch, the Prudential Regulation Authority in the UK (the "PRA") requires a vote by the shareholders of the non-EEA firm branching in. Approval of the shareholders of UBS (via an advisory vote at the AGM) is therefore required if UBS is to be able to implement an increased cap for relevant staff.

UBS recommends that shareholders vote to increase the cap to 200% of fixed pay for staff within scope as described below.

We include details below of: reasons for the approval sought; scope of the approval sought; number of staff affected; functions of staff affected; and expected impact on the requirement to maintain a sound capital base.

Reasons for approval sought

Without the ability to implement the increased cap, as provided for in the directive, the need to ensure competitive compensation for our UK Code staff would require that alternatively we consider substantially increasing base salaries for code staff. The requested increase in the cap would give UBS the ability to minimise inordinate increases to fixed remuneration costs, and thus maintaining greater flexibility on the delivery of total pay. It will also enable UBS to retain variable pay more "at risk" and thus subject to forfeiture and/or malus than might otherwise be the case if UBS were not to take advantage of this provision.

UBS believes that it is important to maintain the link of variable pay to the achievement of its business strategy, while at the same time ensuring that the total compensation package for affected staff remains competitive. Further, most of our key competitors will be looking for this flexibility (and in many cases will be able to obtain it via a resolution of the immediate non-EEA parent company), and our inability to have the same flexibility would hinder our ability to operate as effectively in a global market place as we would like.

Scope of approval sought

Approval is sought in relation to all staff identified as Code Staff of UBS AG (for the purposes of the UK regulator's rules) for this year or any subsequent performance year. Code Staff currently means categories of staff including:

- senior management,
- those who take material risks,
- those engaged in controlling material risks and
- any employee receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers, whose professional activities have a material impact on the firm's risk profile.

UBS will apply the UK regulator's rules and regulatory technical standards from the European Banking Authority when deciding who is Code Staff due to their remuneration levels and/or job function or otherwise.

Number of staff impacted

The number of staff which UBS believes will be impacted for the performance year 2014 is (approximately) 200–450.

Numbers of staff affected for subsequent performance years will depend on developments in staff numbers and any further modifications/guidance in relation to the definition of Code Staff or the application of the rules generally.

Functions of staff affected

The Business Divisions currently affected are as follows:

- Investment Bank: 135–345
- Corporate Center: 55–90
- Wealth Management and Retail & Corporate: 10–15

Due to the size and scope of the Global Asset Management business, its Code Staff are not subject (in that capacity) to the variable pay cap, by virtue of the PRA's proportionality rules.

Expected impact on the requirement to maintain a sound capital base

UBS's ability to maintain a sound capital base is not expected to be affected. If approval is granted, it is expected that UBS's ability to maintain a sound capital base will be improved in comparison with its ability to do so if approval is not granted. The greater the proportion of total remuneration which is variable, the greater will be UBS's ability to vary remuneration in any period of financial difficulty in order to maintain a sound capital base.