

# Bellevue meets Management

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*Peter Kurer, Chairman of the Board of Directors*

# Caution regarding forward looking statements

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# Agenda

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- ◆ Economic and competitive environment
- ◆ UBS developments and actions
- ◆ Strategic repositioning & changes in corporate governance
- ◆ Change program
- ◆ No update on Q4/further developments in view of forthcoming earnings release on February 10, 2009

SECTION 1

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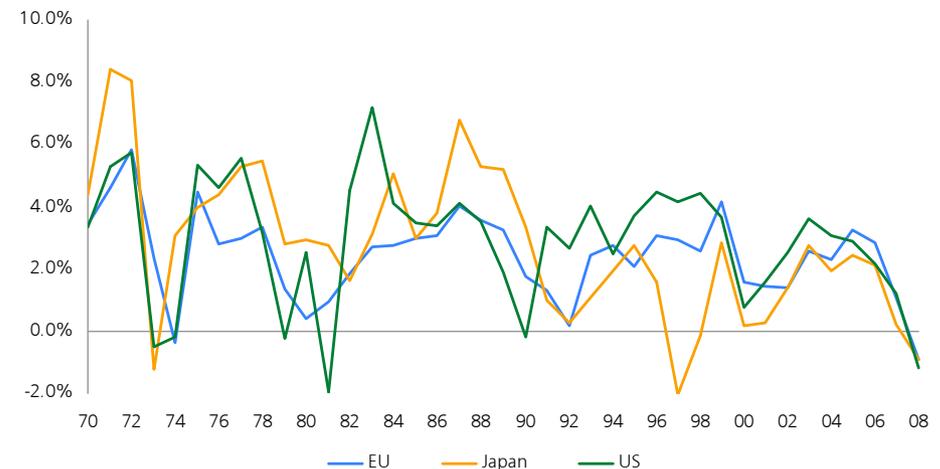
# Economic and competitive environment

# Economic environment

## The world is facing a severe global recession

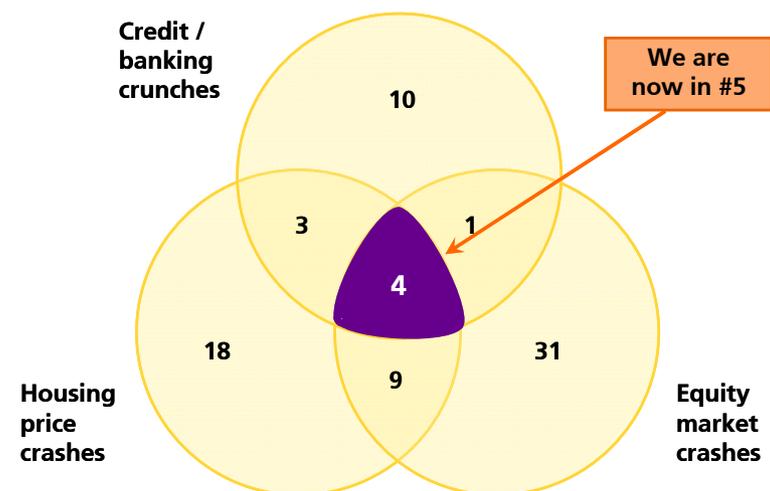
- ◆ Not a normal recession. Private sector demand contracting as consumers try to reduce debts in face of falling asset prices: credit supply contracting after severe damage to the capital base of the world banking system
- ◆ US, EU, Japan all in recession at the same time
- ◆ Some developing countries (e.g. South Korea) that relied on foreign capital inflows have suddenly been forced into recession and suffered collapsing currencies
- ◆ Recessions characterised by simultaneous falls in asset prices, increase in consumer saving, and restrictions on bank lending caused by a shortage of bank capital are very rare and always severe
- ◆ Only been four prior instances: The 1907 “Bankers’ Panic”, the “Great Depression” (1929-39), Sweden (1992) and Japan (1990-2000)
- ◆ The threat of deflation is clear. Monetary and fiscal policy has changed radically. Government borrowing and spending (through “stimulus packages”, transfer payments, plus loans, guarantees, and purchases of bank capital) is rocketing
- ◆ Central bank balance sheets are rapidly expanding, including through purchase of unconventional claims (for example, mortgage backed securities)

## European, Japanese and US Real GDP growth



Source: Datastream, UBS IB economic research forecast

## Former recessions



Source: Boston Consulting Group, October 2008

# What has happened to the financial industry?

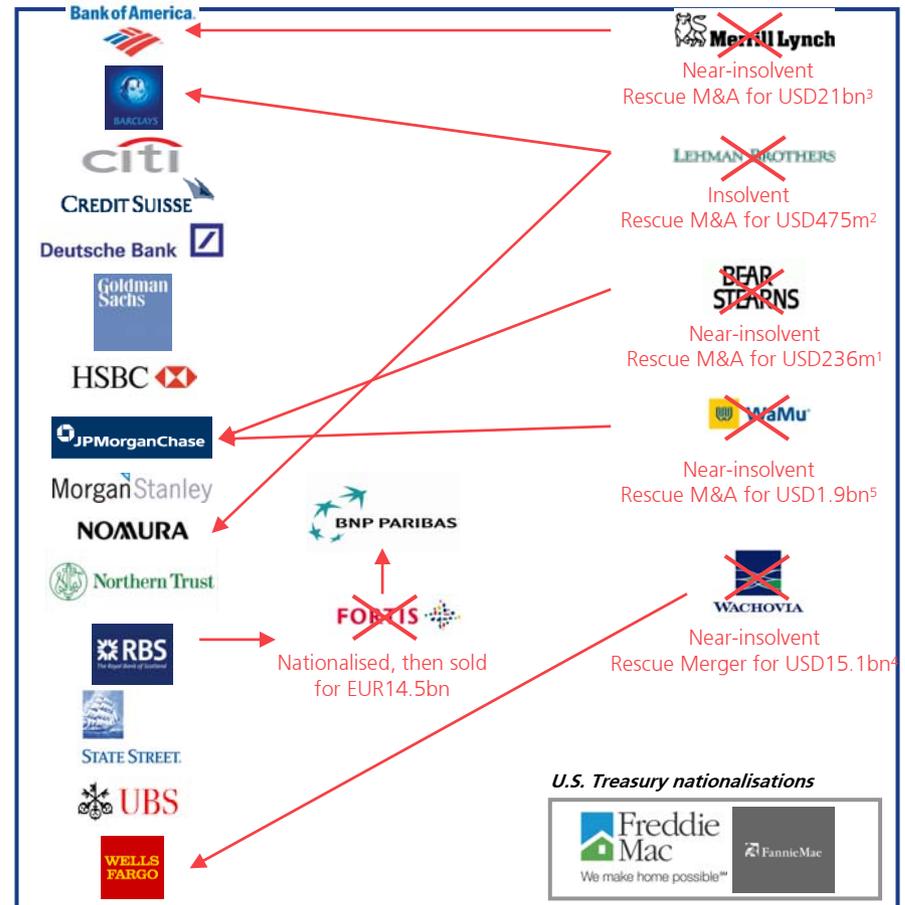
## Beginning of 2007

- ◆ Peak of cheap, virtually unlimited funding
- ◆ Investment Banks heavily reliant upon cheap funding
- ◆ Increasing leverage a key driver of revenue growth
- ◆ Financial sector profits reach all-time highs



## 2008 YTD

- ◆ Losses and writedowns on range of securitised credit instruments
- ◆ Extreme liquidity squeeze at major banks, particularly IBs
- ◆ Pressure on industry; insolvency, government intervention, rescue M&A and large 3rd party equity raisings: ~USD711bn losses



Notes:

- As at 17 March. Transaction included a USD30bn funding package from the Fed
- Acquisition by Barclays of North American IB and Capital Markets businesses for USD250m + acquisition by Nomura of Asia units for USD225m

# Changing business models and strategies

As a result of the financial crisis and tightening of the regulatory environment, many banks are in the process of redefining themselves

## 2006 strategic themes

### ◆ Three main business models

| Business Models                 | Characteristics   | Industry examples  |
|---------------------------------|---|--|
| <b>Global Universal Banks</b>   | Horizontally aligned business<br>High complexity, offering "all products & services to every client segment" in any geography | <b>Citigroup - HSBC</b>  |
| <b>Global Focused Banks</b>     | Focused model, offering selected products & services to selected client segments either globally or in selected markets       | <b>UBS - Credit Suisse - Merrill Lynch - Morgan Stanley - Goldman Sachs - Barclays - Deutsche Bank - JP Morgan Chase</b> |
| <b>Pure Play or Niche Banks</b> | Narrowly defined client segments, product opportunities and geographies   | <b>Lazard - Julius Bär Pictet - Rothschild</b>   |

- Global focused banks with large IB businesses showed strongest financial performance
- Retail banking considered mature and low-growth
- Capital not considered pressing constraint on strategy
- ◆ Focus on growth strategies, including expanding emerging economies (e.g. China, APAC, LatAM)
- ◆ "Western" banks dominate in terms of brand (e.g. US brokers, UBS, Citigroup) and global leadership

## 2009 strategic themes

- ◆ Global focused banks forced to reconsider business models and strategies, after writedowns, capital constraints and new regulatory requirements
  - Pure-play IB business model abandoned, US brokers either merged with global universal banks (e.g. BoA/MER), or gain banking licenses (e.g. GS, MS)
  - Global focused banks dispose of non-core assets
  - Retail franchise considered an advantage
  - Capital will be a constraint on future strategy
- ◆ **Many banks are focusing on "getting the house in order", with main focus on cost cutting and efficiency**
  - Market share will be gained by banks which have cleaned house
- ◆ **Tarnished brands**
- ◆ **APAC banks gaining global significance (e.g. Bank of China, Nomura, Mitsubishi UFJ/MS alliance)**



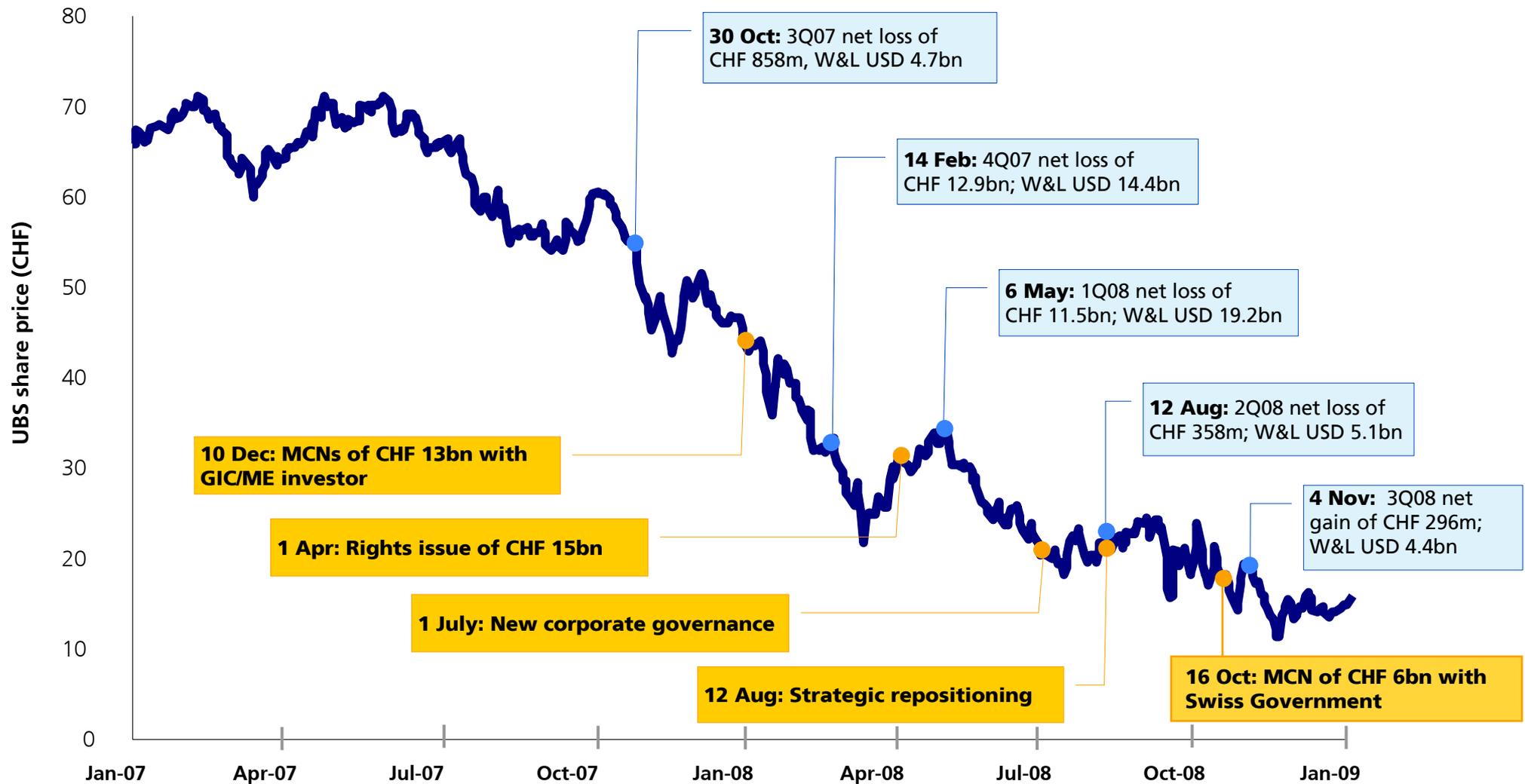
SECTION 2

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## UBS developments and actions

# Past 18 months have been difficult for UBS...

... but we reacted quickly



Notes: W&L Writedowns and losses on risk positions in FICC

# Actions taken over the past 12 months

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## UBS has strengthened its capital, liquidity and funding positions

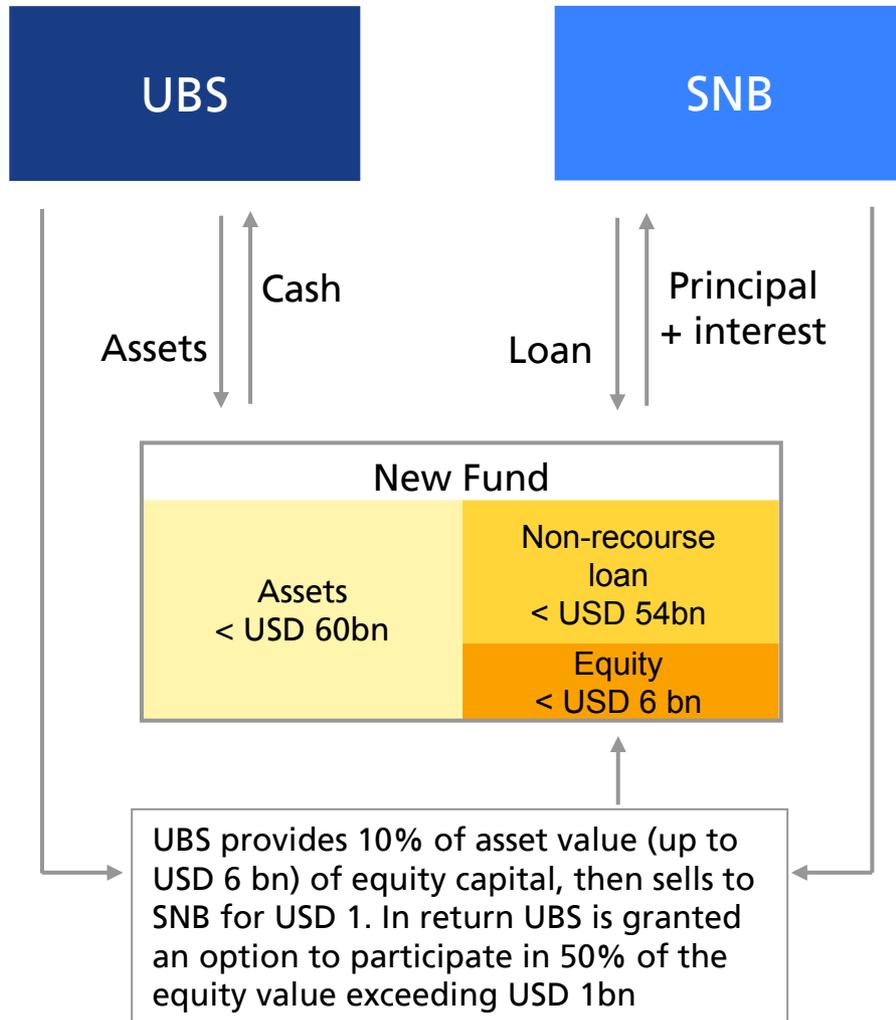
Significantly reduced risk positions and balance sheet

Raised fresh capital

Improved risk and financial controls

Initiated efficiency measures

# Transaction with SNB reduced risk positions

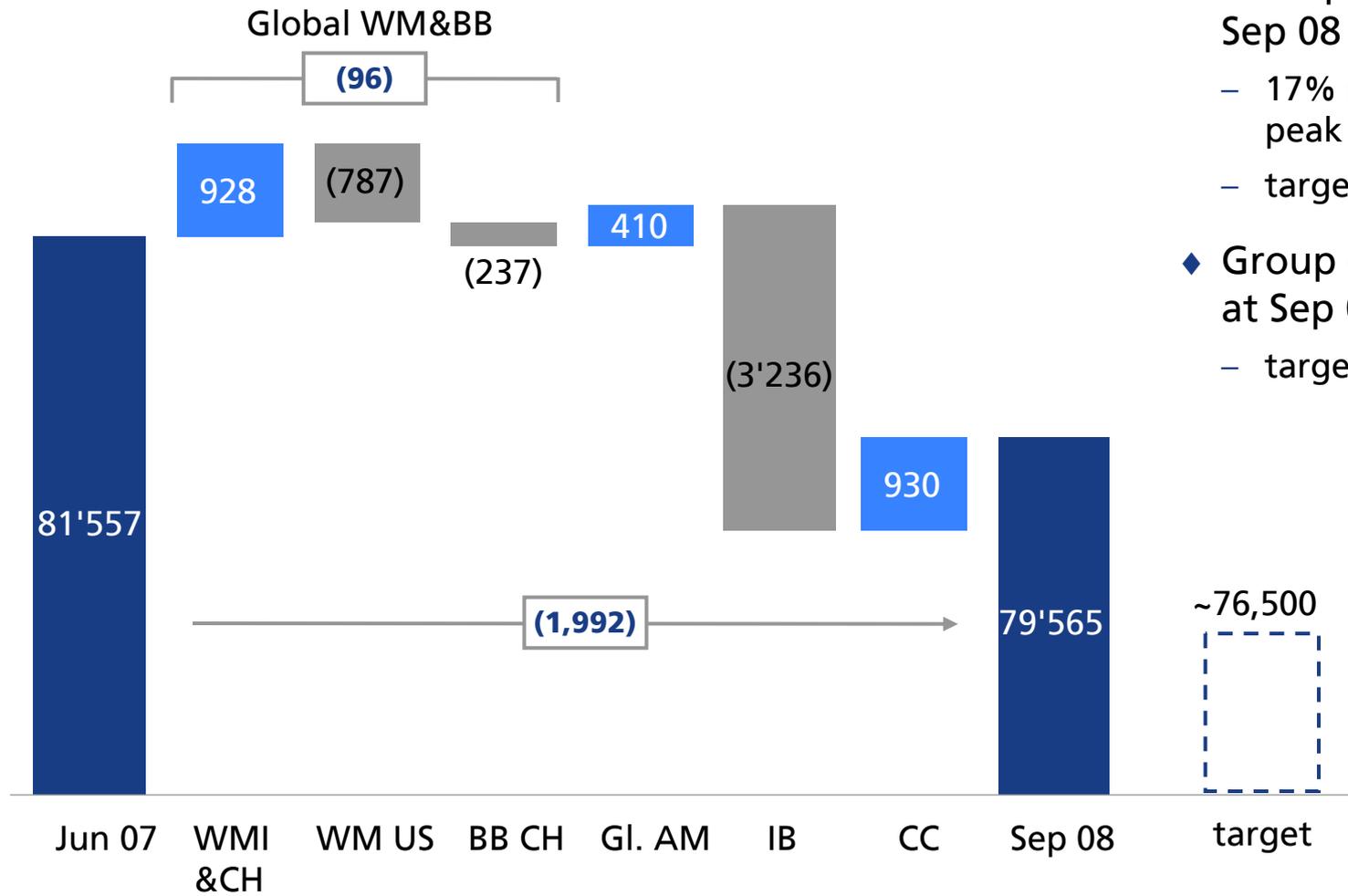


- ◆ Caps UBS's future potential loss at up to USD 6 billion on transferred assets of up to USD 60 billion
- ◆ Removes assets from UBS's balance sheet, reduces RWA and balance sheet
- ◆ Secures long-term funding through SNB loan

# Personnel reduction by division since June 2007

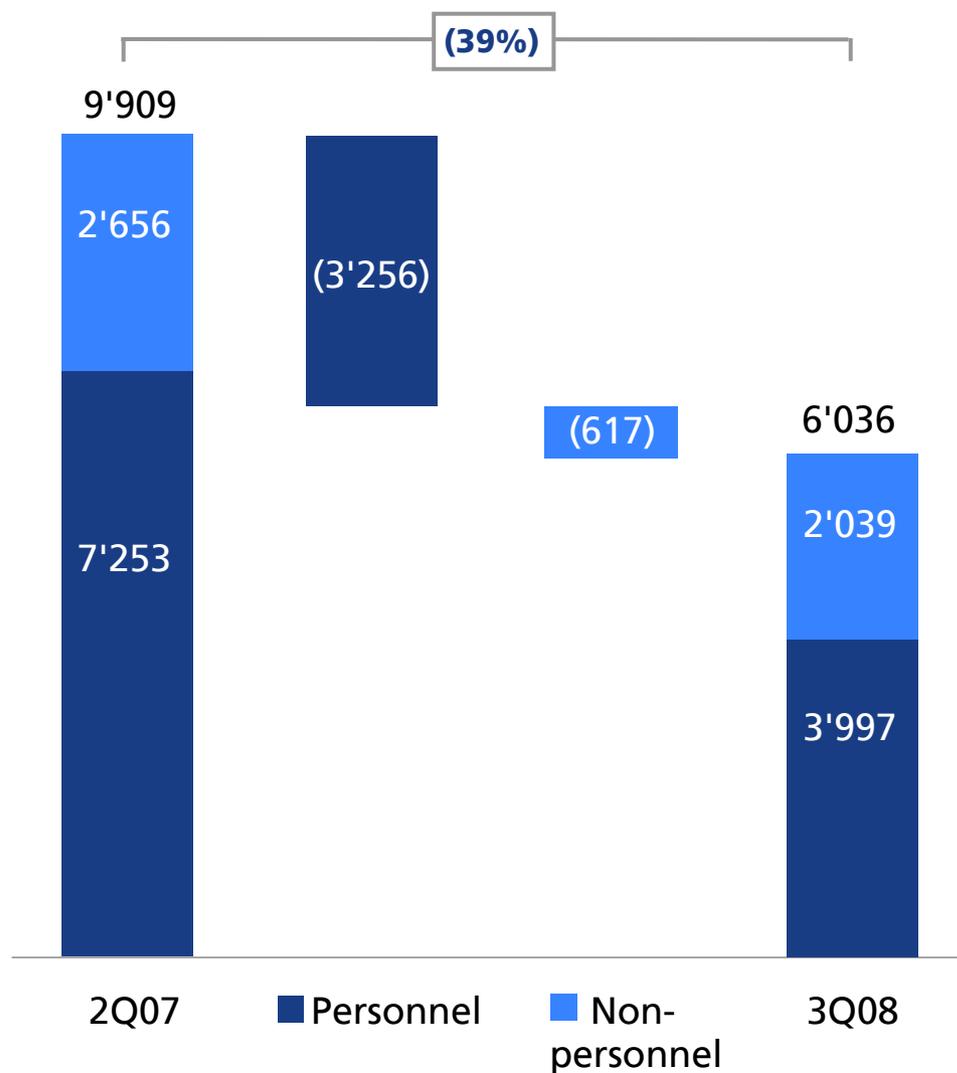
(FTE)

- ◆ Reduction plan on track
- ◆ IB employees, 18'900 at Sep 08
  - 17% reduction from the peak already
  - target ~17,000
- ◆ Group employees, 79'565 at Sep 08
  - target ~76,500



# Focus on further reducing costs

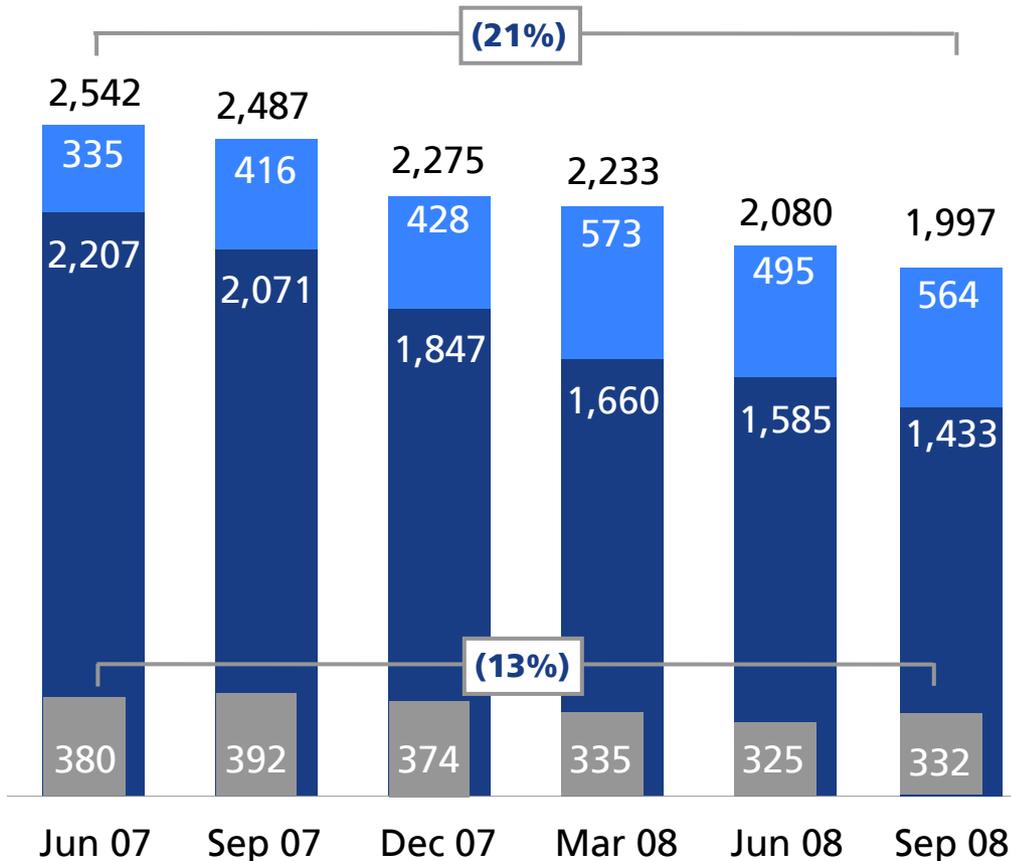
## Operating expenses (CHF bn)



- ◆ 3Q08 operating expenses were 39% lower than the peak in 2Q07
- ◆ Personnel expenses down 45% from the peak due to lower staff levels and lower bonus accruals
- ◆ Full effect of personnel reductions yet to come

# Continuous balance sheet reduction

## Group assets and RWA (CHF bn)



- Positive replacement values
- All other assets
- RWA (From Mar 08 under Basel II)

- ◆ Since June 2007:
  - Assets excl. PRVs down CHF 774 bn (35%)
  - Good underlying progress on RWA
- ◆ Changes during 3Q08:
  - Assets excl. PRVs and FX down CHF 217 bn (14%)
  - RWA up CHF 7 bn
- ◆ Further asset reduction to continue, mainly in IB

SECTION 3

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Strategic repositioning & changes in  
corporate governance

# BoD actions

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New system of corporate governance

Repositioning of UBS

Changes to the membership of the board

New compensation model

# New business model

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Global  
WM&BB

Investment  
Bank

Global  
Asset  
Management

- ◆ **Three business divisions**
- ◆ **One brand**
- ◆ **Maximize results of each division**
- ◆ **Collaborate where valuable to clients and shareholders**
- ◆ **Smaller corporate centre**

# Strategy - new business model addresses past weaknesses

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## Clear benefits derived from autonomous business divisions

- ◆ Clear governance based on accountability
- ◆ Full transparency on the contributions of the various business
- ◆ Strict standards on availability and usage of capital and funding
- ◆ Increased flexibility to capture shareholder value in the future

### Global WM&BB

- ◆ Continue to develop platform and reach
- ◆ Expand presence in international growth markets
- ◆ Maintain leading position in Switzerland as cornerstone of strategy and of sustainable profit growth

### Investment Bank

- ◆ Continue to re-position towards client-driven growth
- ◆ Continue to emphasize global coverage and distribution capabilities
- ◆ Reduce further balance sheet and risk positions

### Global Asset Management

- ◆ Move towards independent management and investment decision-making
- ◆ Improve investment performance

# Governance - changes to BoD and executive structure

## Board of Directors

- ◆ New members: **Sally Bott, Rainer-Marc Frey, Bruno Gehrig and William Parrett**

## Group Executive Board

- ◆ New appointments: **Markus Diethelm**, Group General Counsel, and **John Cryan**, Group CFO
- ◆ Focused on group-wide interests, in particular, managing shared services and group leadership development, growing cross-divisional revenues, overseeing regional governance and reviewing proposed changes to the business portfolio

### Executive Committee

- ◆ New GEB committee comprising Group CEO, Group CFO, Group CRO, and General Counsel
- ◆ Focused on allocating Group financial resources to the business division i.e. capital, terms and availability of funding, risk capacity and parameters
- ◆ Set and monitor performance targets for business divisions

### Business division CEOs

- ◆ Accountable for dedicated capital resources, people and infrastructure

### Regional CEOs

- ◆ Cross-divisional collaboration, group-wide regulatory responsibility and representation to broader public in region

# Key elements of the new incentive model

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## Simplification

- ◆ Compensation system for senior management with only three components: Fixed pay, variable cash compensation (Cash Balance Model) and variable equity pay (PEP)

## Long-term view

- ◆ Large portion of cash bonus payments pooled and vested for multiple year period. Only fraction of pool paid out each year

## Malus

- ◆ Introduction of a "compensation@risk" concept that adds positive or negative annual award to an existing bonus pool, causing reduction of the existing pool in case of negative performance

## Economic profit

- ◆ Economic profit as risk-adjusted measure now used to evaluate performance, discouraging top management and risk takers from taking less attractive risk/reward decision

## Increased linkage to divisional result (economic profit)

- ◆ Divisional results for bonus determination and funding increasing accountability and alignment of top management with result they can influence
- ◆ Discretion of divisional senior management to allocate individual bonus based on qualitative and quantitative measures

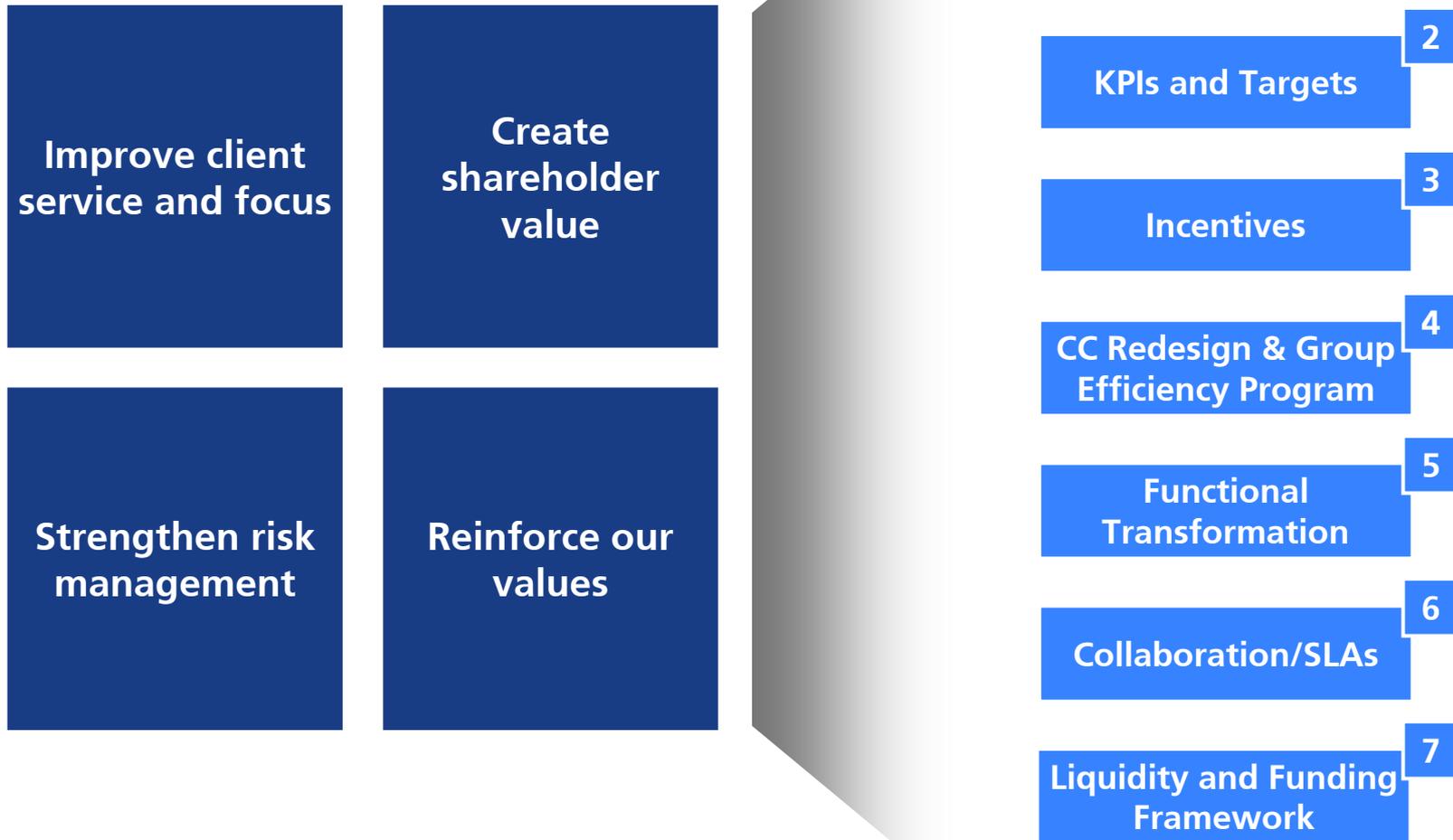
SECTION 4

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# Change program

# The case for change

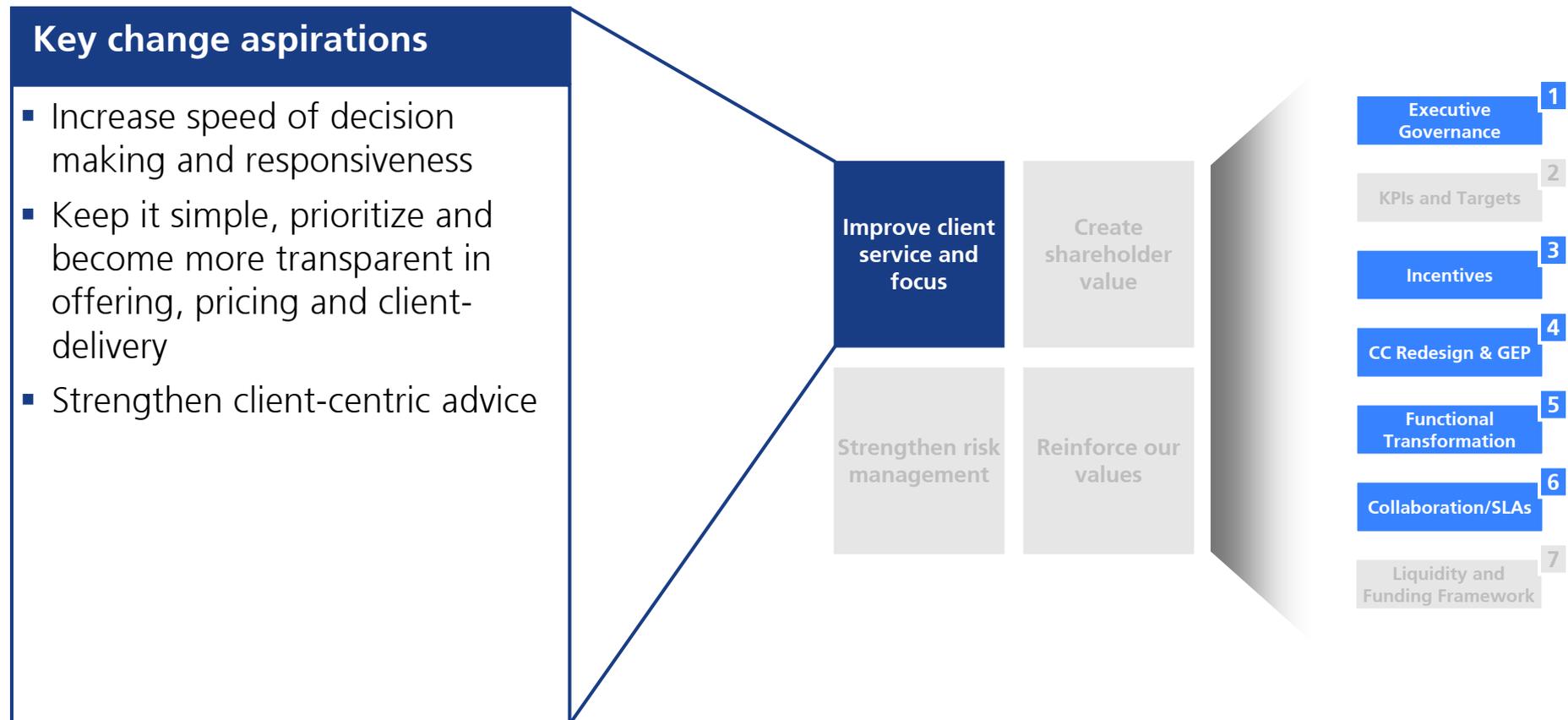
Four key elements are at the heart of our change program



... which are reflected in seven project streams

# Improve client service and focus - Key change aspirations

**We need to make faster decisions, become more transparent and focus on activities relevant to our clients**



# Create shareholder value - Key change aspirations

**Our business has to become flexible, transparent and focused on long-term value creation**

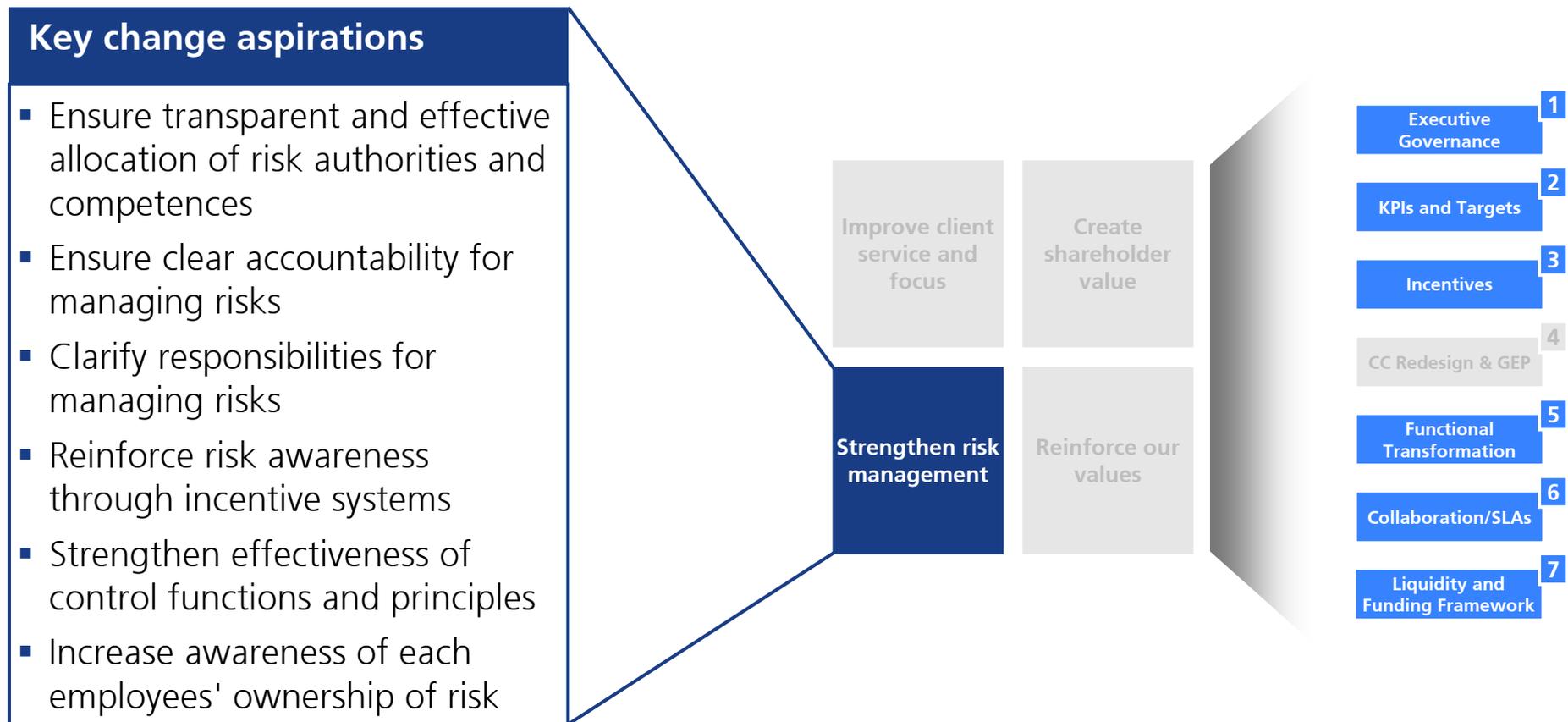
## Key change aspirations

- Allocate and measure resources more effectively according to risk-return of each business
- Create strategic value through flexible and transparent business model
- Measure performance through KPIs that better reflect shareholder value creation
- Encourage long-term sustainable value creation
- Reduce complexity and build a lean and frugal organization



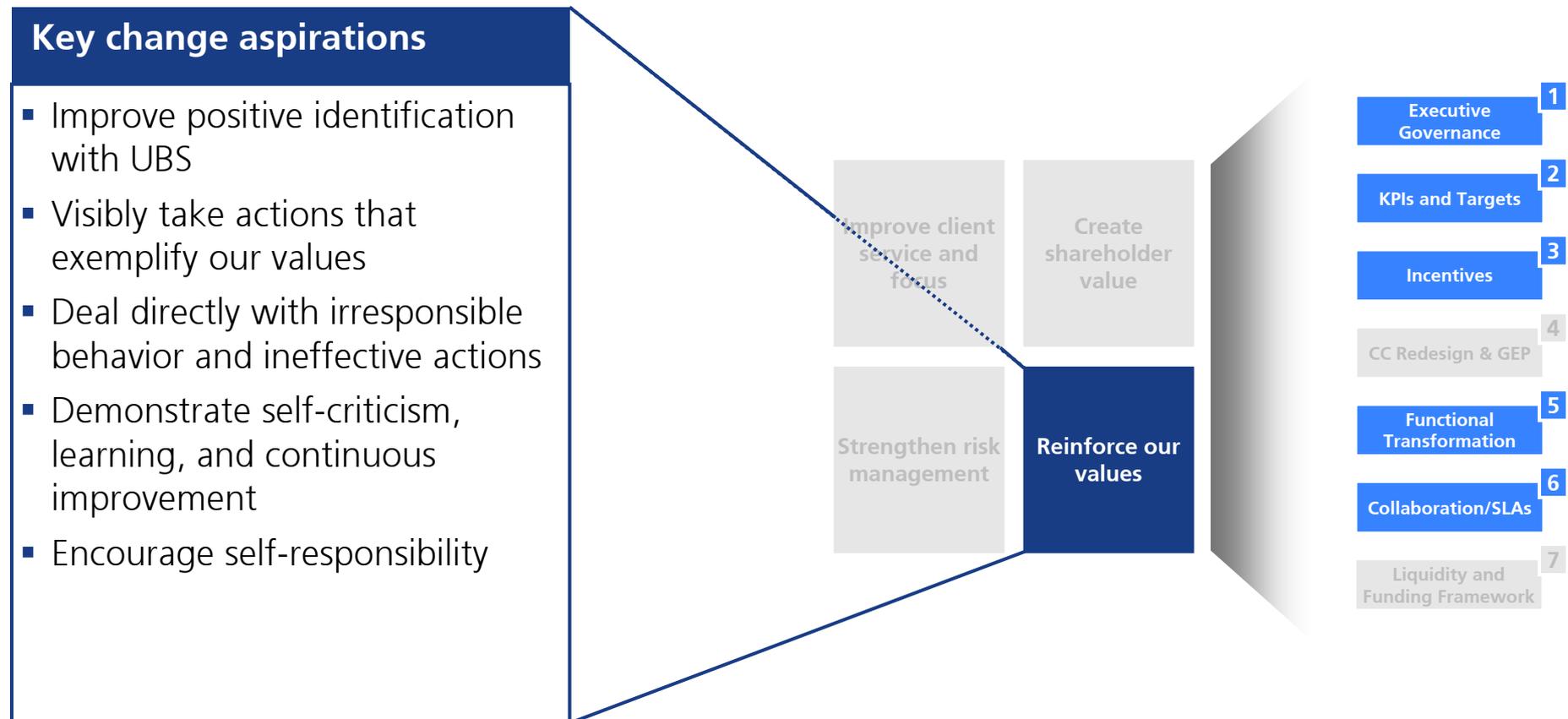
# Strengthen risk management - Key change aspirations

**Clear responsibilities and transparency are at the heart of any decision – especially in risk areas**



# Reinforce our values - Key change aspirations

Our culture needs to be commercial and collaborative



# Priorities for 2009

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- ◆ Return to profitability
- ◆ Maintain strong capital base, adequate liquidity, solid balance sheet
- ◆ Further reduction of balance sheet and cost in line with industry
- ◆ DOJ settlement
- ◆ Implementation of change program
- ◆ Recovery of UBS's reputation

