

# Finance

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*Group Chief Financial Officer*

November 16, 2010



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Annualized figures for the first nine months of 2010 contained in this presentation do not constitute estimates of the actual 2010 full-year results.

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# Key messages

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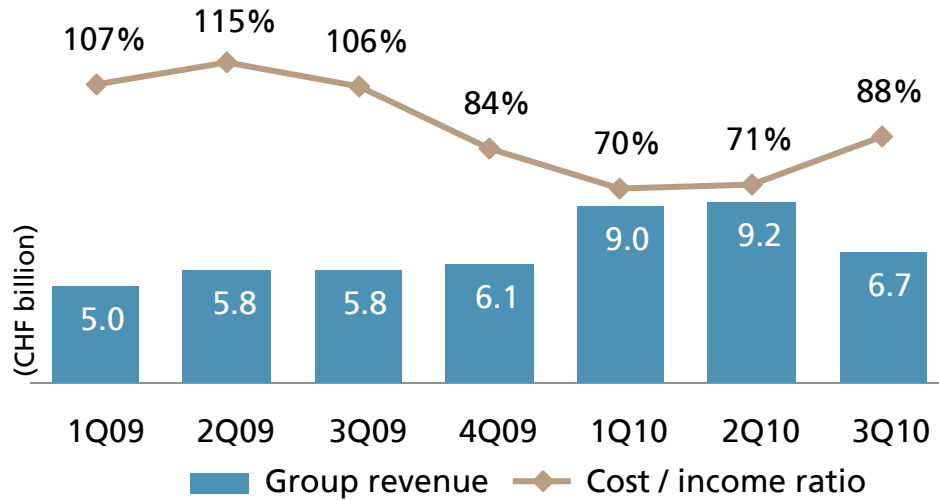
We are scaled for growth and reconfirm our CHF 15 billion Group pre-tax profit target in the medium-term

We believe we can achieve required levels of capital through retained earnings

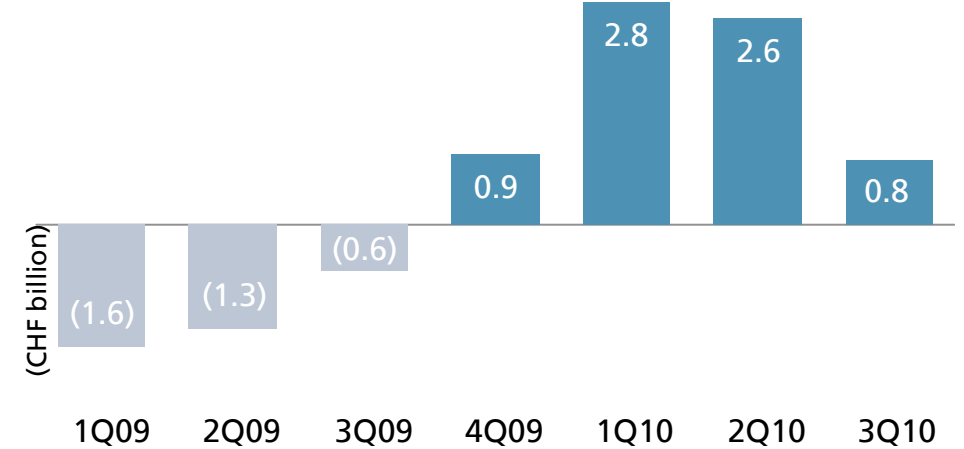
Improved profitability may give rise to further deferred tax asset recognition

# Our financial performance has improved

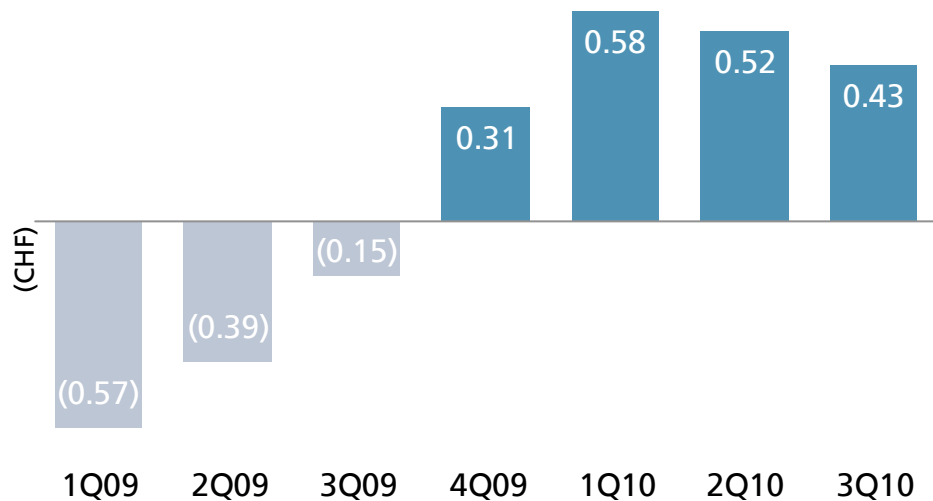
## Group revenues



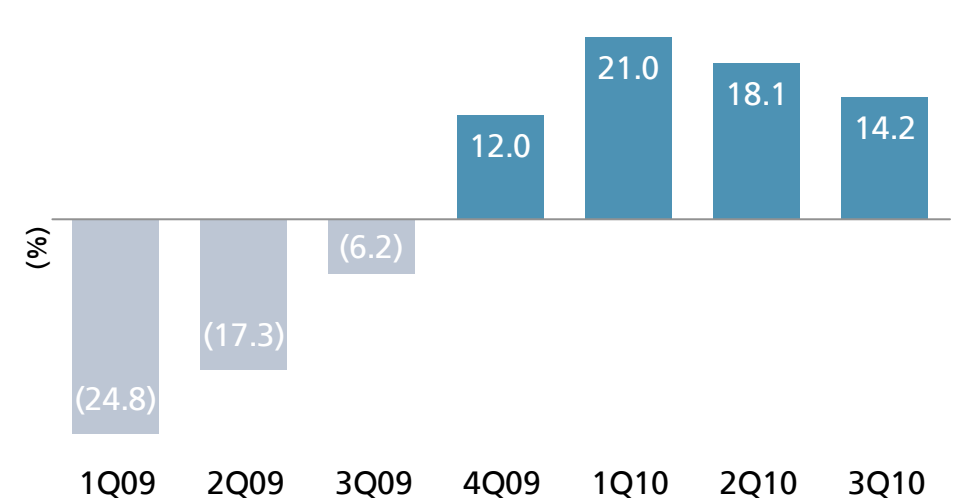
## Group pre-tax profit



## Diluted earnings per share

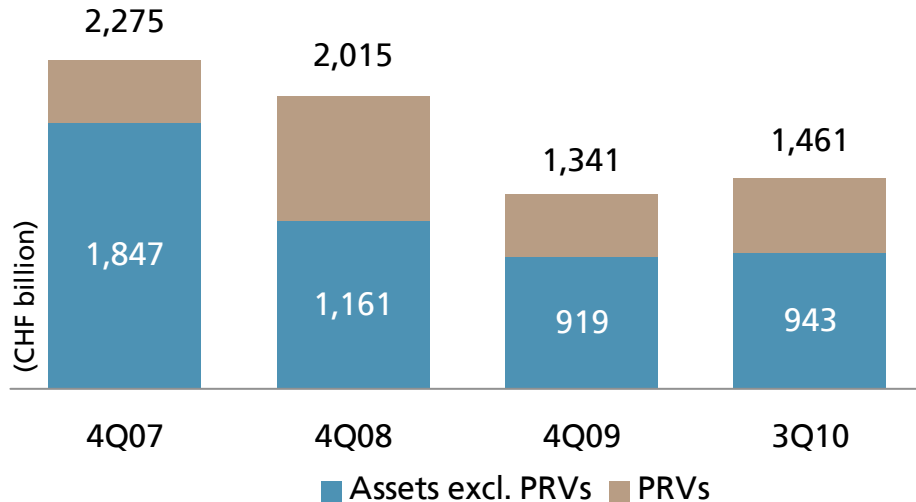


## Return on equity<sup>1</sup>

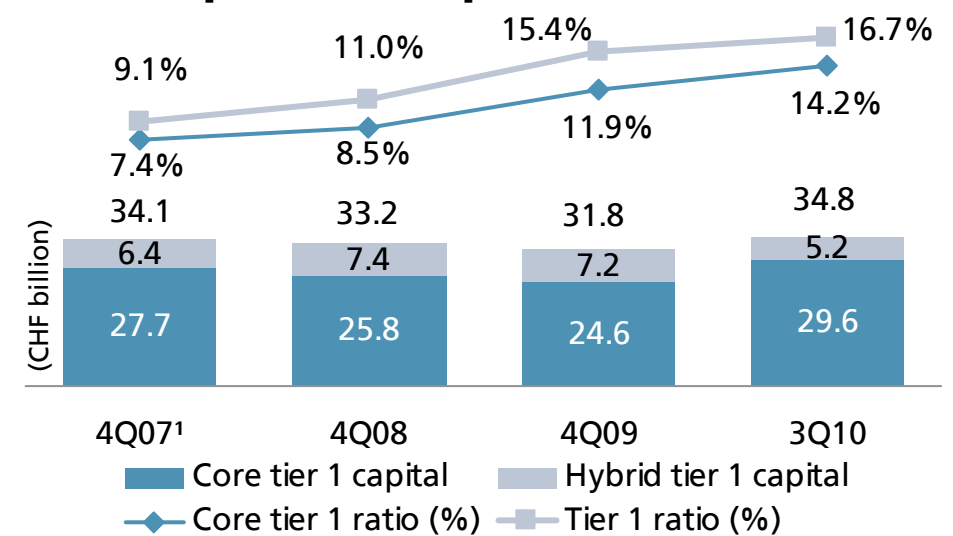


# Our financial condition is strong

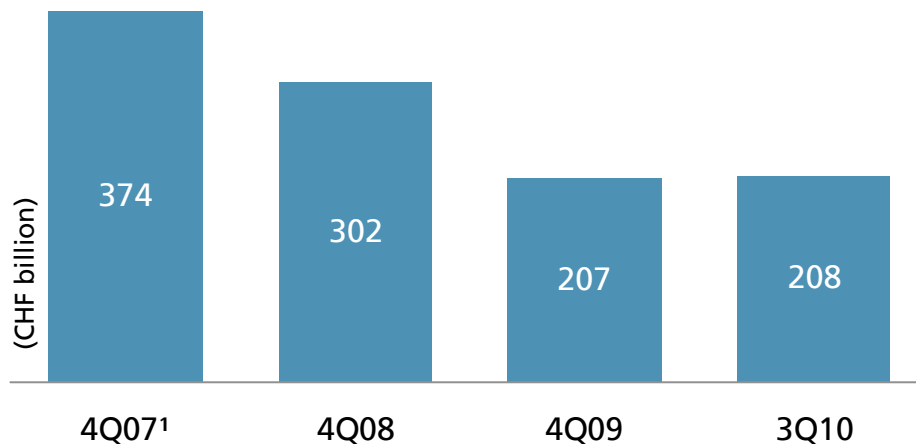
## Balance sheet



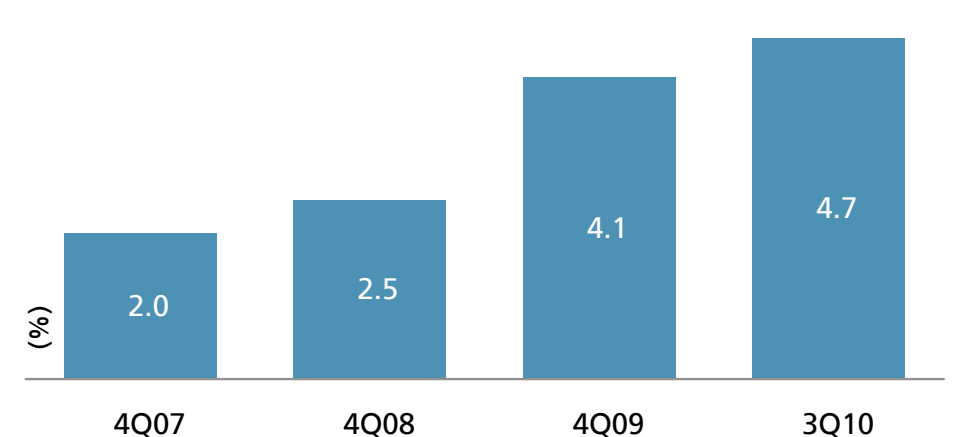
## Tier 1 capital and capital ratios



## Risk-weighted assets



## Leverage / common equity ratio<sup>2</sup>



**...and we will continue to carefully manage our resources to deliver our medium-term targets**

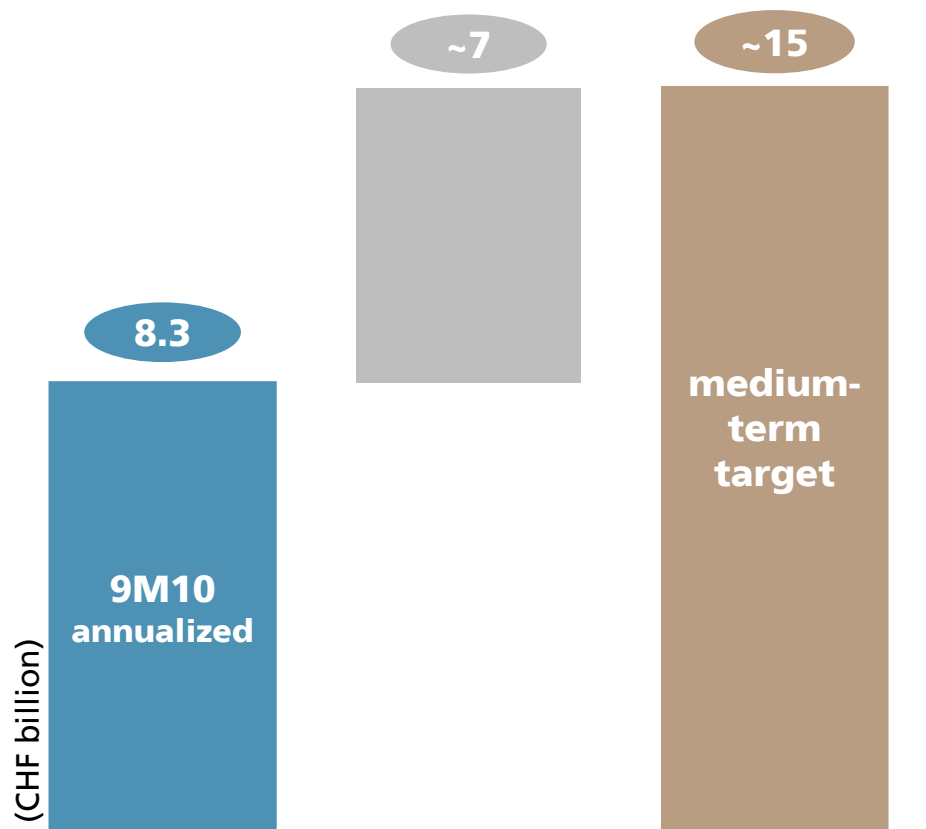


<sup>1</sup> Capital information in 4Q07 under Basel 1

<sup>2</sup> Equity attributable to UBS shareholders / total assets adjusted for PRVs based on capital adequacy netting

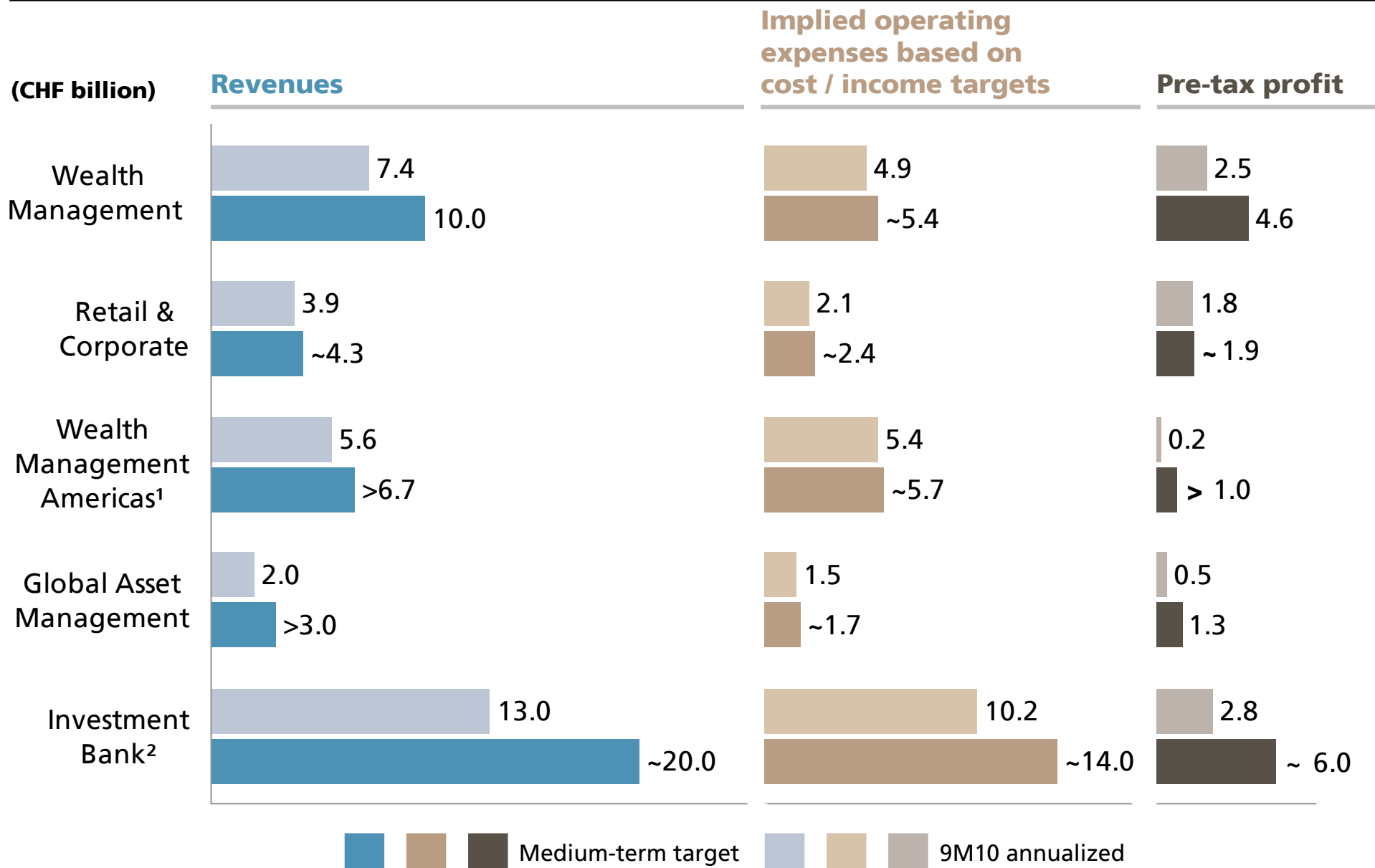
# We are reconfirming our medium-term targets

## Pre-tax profit



|  | 9M10 | Medium-term target |
|--|------|--------------------|
| <b>Balance sheet excl. PRVs (CHF trillion)</b>       | 0.9  | 1.0                |
| <b>Core tier 1 capital<sup>1</sup> (CHF billion)</b> | 30   | 45-50              |
| <b>Cost / income ratio</b>                           | ~75% | 65-70%             |
| <b>Return on equity</b>                              | 18%  | 15-20%             |

# Medium-term targets by business division



# Key messages

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We are scaled for growth and reconfirm our CHF 15 billion Group pre-tax profit target in the medium-term

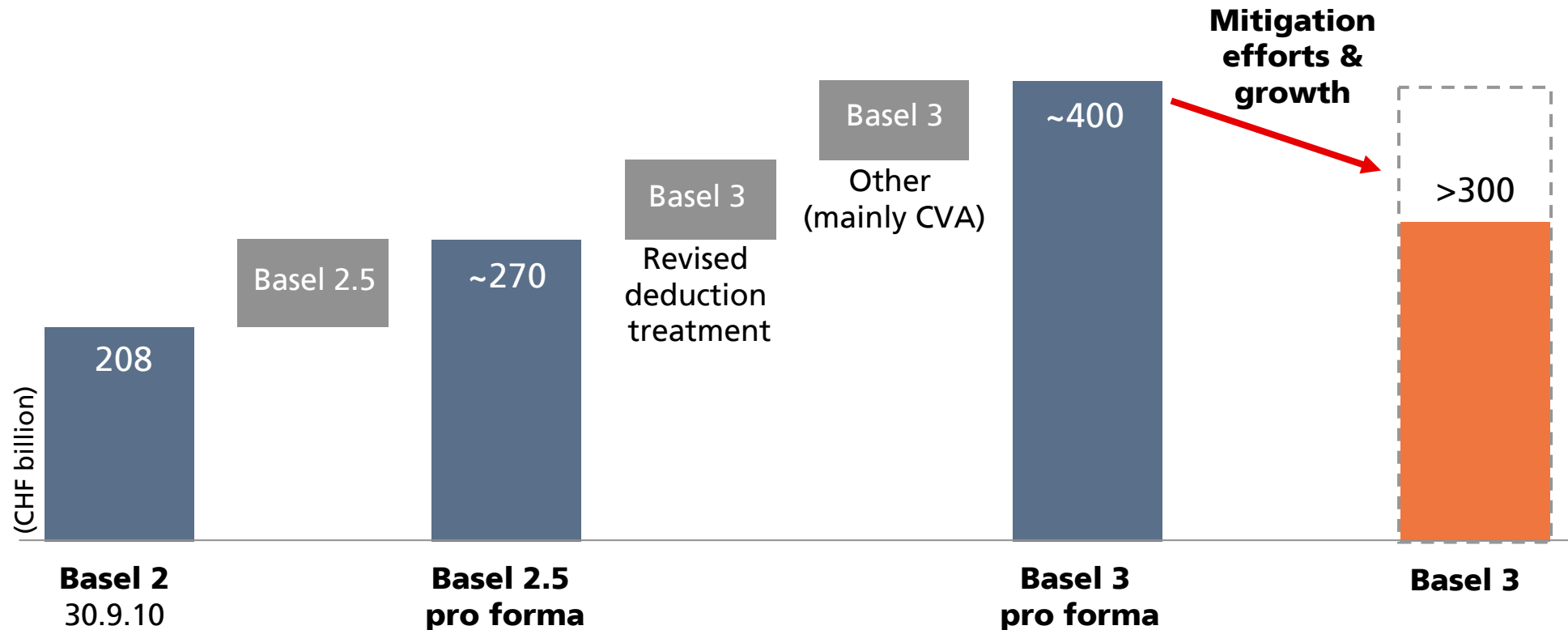
We believe we can achieve required levels of capital through retained earnings

Improved profitability may give rise to further deferred tax asset recognition



# Risk-weighted assets under Basel 3

## RWAs will be more volatile in the new regulatory environment

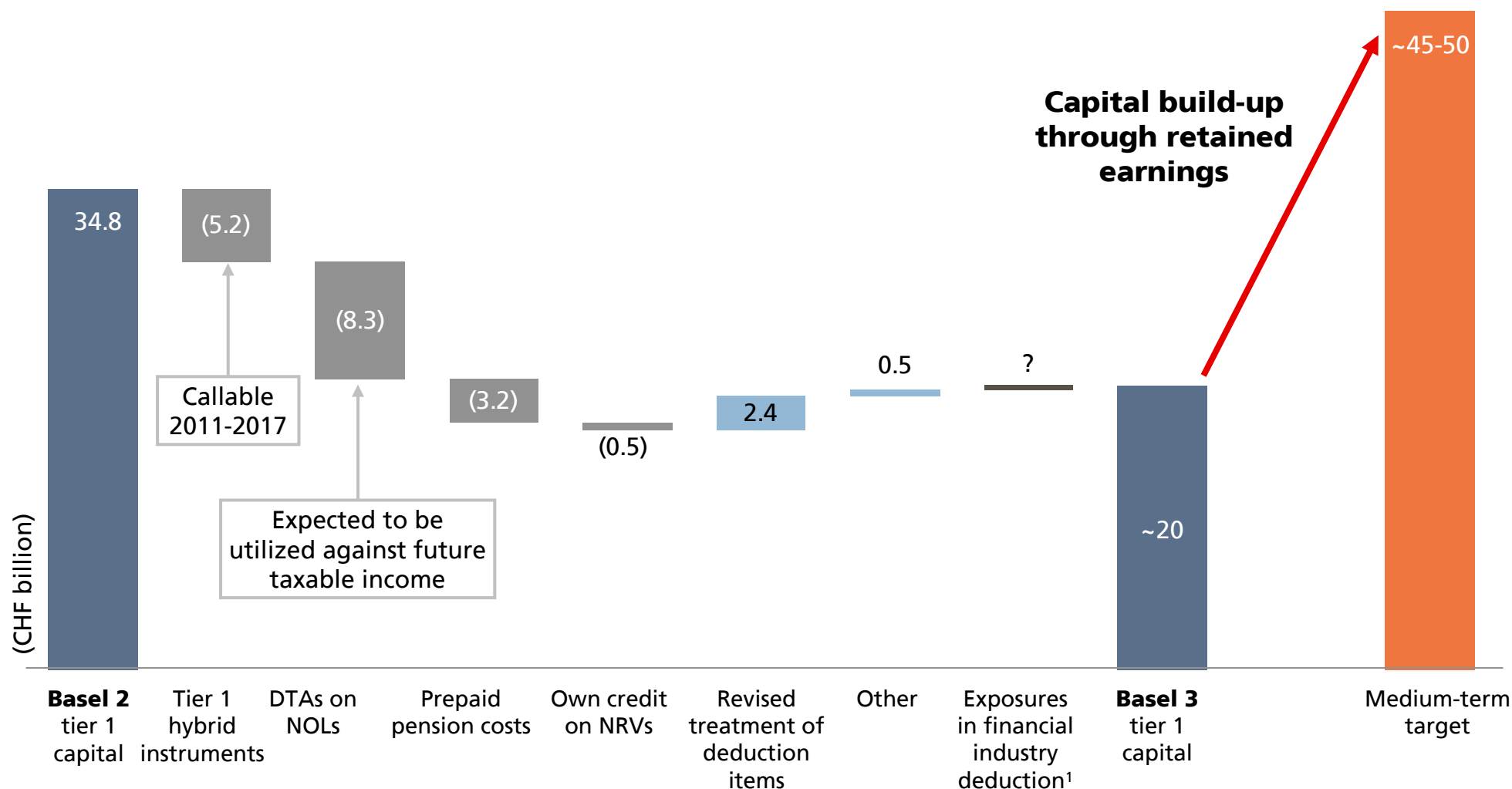


- The impact of Basel 3 can be mitigated by:
  - Reducing securitization exposure esp. residual risk positions (e.g. student loan ARS inventory)
  - Changes to the hedging of counterparty risk
  - The roll-off of replacement values
  - Moving trades from OTC to central counterparty settlement and clearing

**We will actively manage risk positions to mitigate the impact of regulatory changes**

# Tier 1 capital: Basel 2 to Basel 3

We can achieve required levels of capital through retained earnings



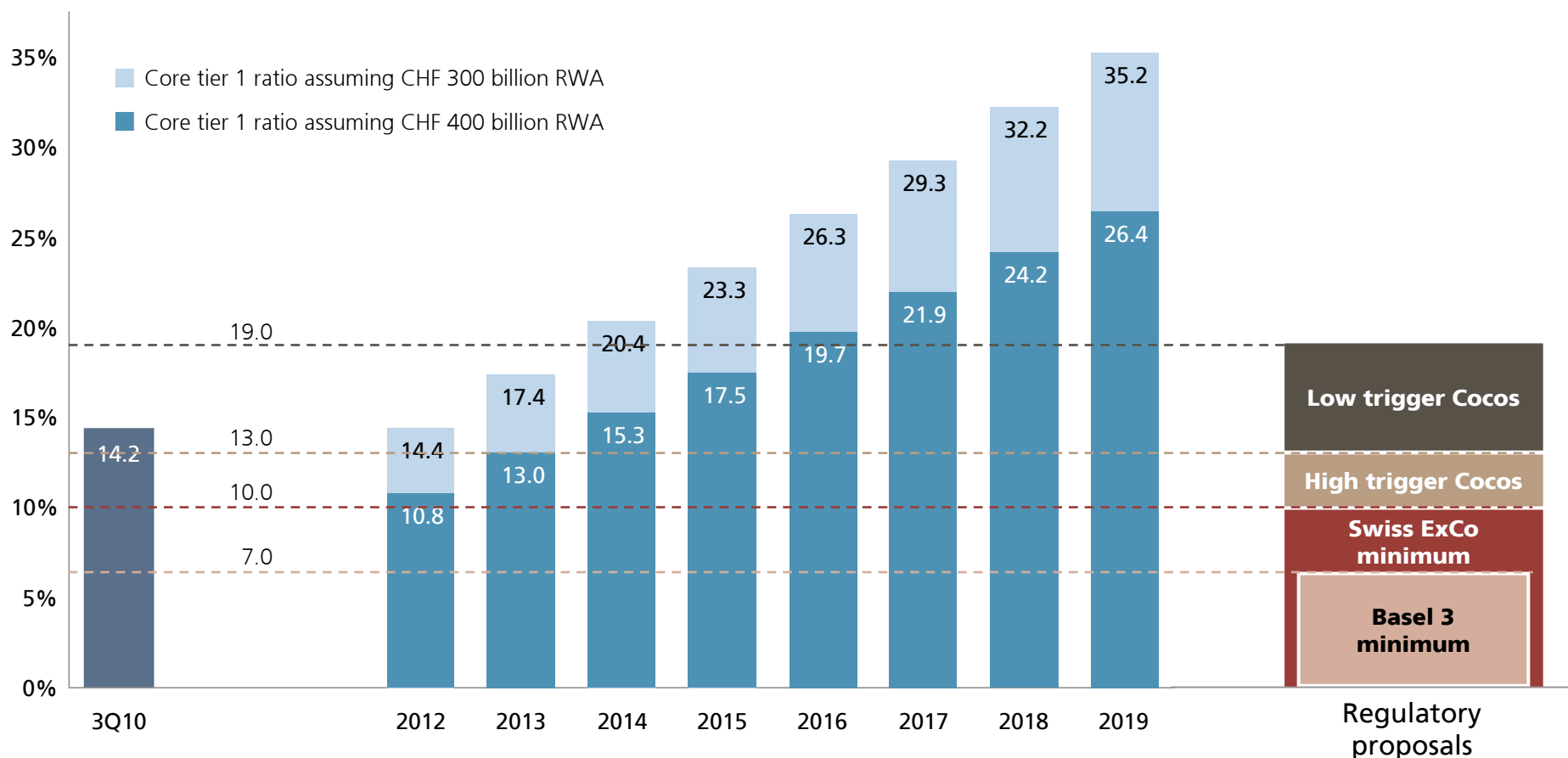
**We do not expect to pay dividends for some time to come**

# Basel 3 and Swiss regulatory proposals – illustrative example

## We expect to meet regulatory proposals within the implementation timeframe

- Assumptions:

- Additions to tier 1 capital of CHF 2.4 billion from 2012 due to the revised deduction treatment for securitizations
- Deductions to tier 1 capital of CHF 7 billion from end of 2012 (Basel 3: start 2014 with 5-year phase-in period thereafter)
- Approximately half of the current deferred tax assets on NOLs utilized by 2013 (CHF 8.3 billion at 30.9.10)
- All future earnings retained: based on analysts' estimates<sup>1</sup> between now and 2012, thereafter flat



<sup>1</sup> Based on consensus estimates collected on 14.10.10 from 28 sell-side analysts, not UBS targets. Earnings shown are not endorsed or verified by UBS, but are used for illustrative purposes only

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# Deferred tax assets on net operating losses

## We have recognized deferred tax assets on a limited portion of our tax losses

Unrecognized  
tax loss carry  
forwards  
tax-effected  
CHF 21.0 billion

Recognized  
DTAs on net  
operating losses  
(NOLs)  
CHF 8.3 billion<sup>2</sup>

- Unrecognized tax loss carry-forwards of CHF 21.0 billion tax-effected
  - Represents tax losses available to be offset against potential tax adjustments or future taxable income (CHF 54.3 billion x tax rate of ~39%<sup>1</sup>)
- Profitability assumptions over a 5-year horizon form the basis for the recognition of deferred tax assets (DTAs)
  - Longer term changes in earnings will have an impact
  - The haircuts currently applied to Investment Bank (50%) and WMA (25%) profit forecasts for DTA recognition purposes may be reduced based on the development of a profitability track record
- 5-year profitability assumptions are reviewed quarterly
  - Significant DTA revaluations are dependent on the availability of new profit forecasts and / or changes in assumptions based on past performance or changes in business activities
  - All other things equal, the level of US DTAs will remain constant for some time as additional unrecognized tax losses will be recognized and offset the use of DTAs against profit in a given year
- Largest proportion of unrecognized tax losses in the US and UK
  - US federal tax losses can be carried forward for 20 years, indefinitely in the UK

**Improved profitability may give rise to further recognition of DTAs**



UBS

<sup>1</sup> Most available tax losses were incurred in the US. These gave rise to US tax losses and also Swiss tax losses from the write-down of US subsidiaries in UBS AG  
<sup>2</sup> Total DTAs CHF 8,852 million on 30.9.10, of which CHF 8,345 million DTAs on NOLS and CHF 507 million other DTAs relating to compensation and benefits, trading assets and other

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