

# Investment Bank

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November 17, 2011



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# Key messages

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The Investment Bank will be focused and simpler

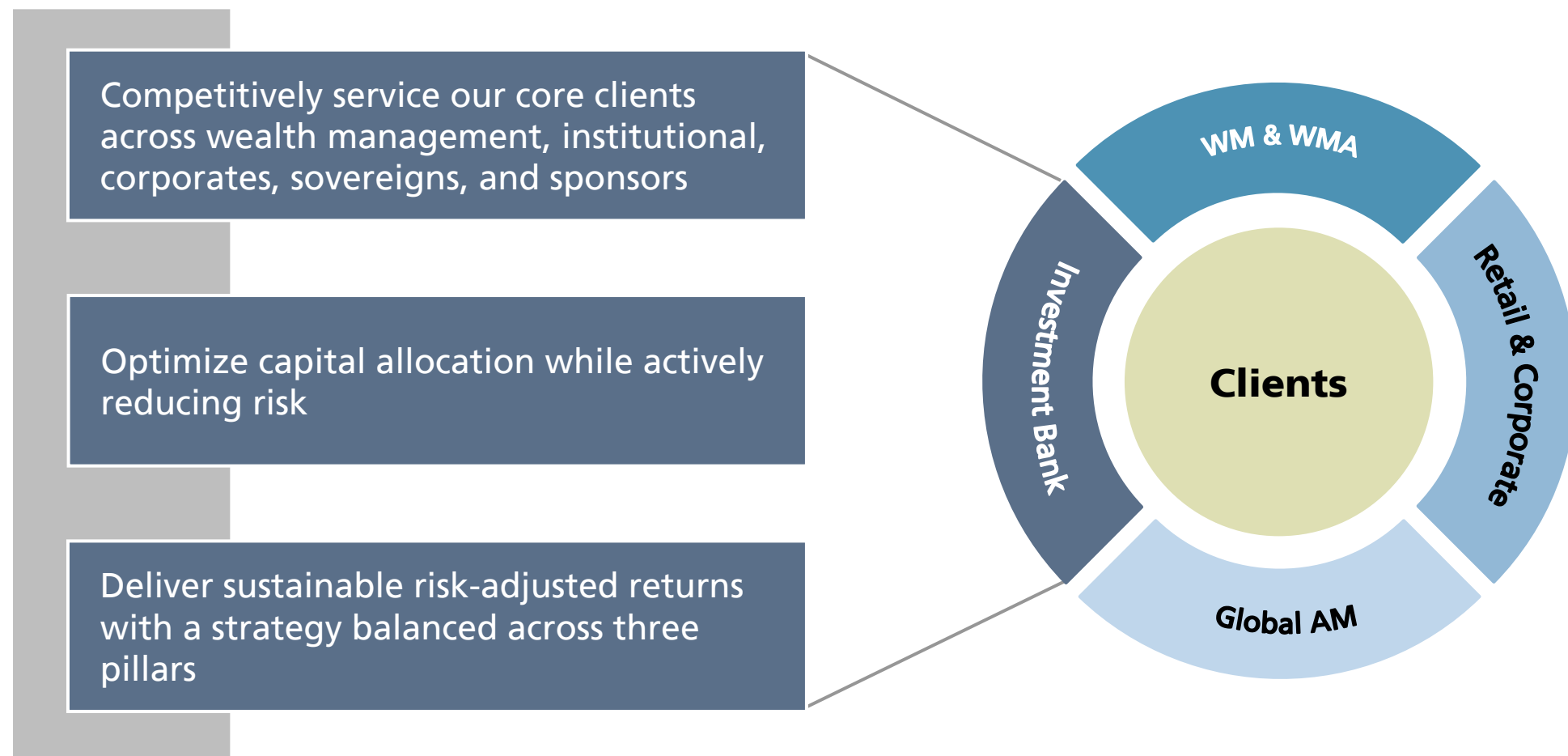
Our business mix is driven by core client needs and capital efficiency

Our execution will be disciplined and effective

Successful execution of our strategy will lead to attractive and sustainable risk-adjusted returns

# An Investment Bank critical to the Group strategy

The Investment Bank will be more client-centric, capital efficient and better aligned with our wealth management businesses



# Build on our fundamental strengths

## Leadership position in core businesses ...

- Consistently top-ranked research house<sup>1</sup> (covering 85% of global market cap)
- Top 3 Global Equities house<sup>2</sup>
- Top 3 overall FX market share consistently since 2005<sup>3</sup>; #1 FX House in 2011<sup>4</sup>
- #7 in Global M&A, #2 in Global ECM and #5 in DCM in 3Q11<sup>5</sup>
- #1 Dealer – Gold Spot and Options, Silver Spots and Forwards<sup>6</sup>
- Top 5 Equity Derivatives House<sup>7</sup>

## ... with strong home market positions in key developed and developing markets ...

- Best Asian Equity Derivatives House<sup>8</sup> and Best Asian Equity Structured Products House<sup>9</sup>
- Consistent top 3 in APAC IBD<sup>5</sup>
- Leading Australian franchise across all businesses
- #1 Pan-European brokerage firm for 12<sup>th</sup> consecutive year<sup>10</sup>

## ... and significant achievements

- Launch of UBS Neo: a new leading-edge client platform
- Top 3 in Structured Credit in 1H11, up from sub top 10 in 2009<sup>7</sup>
- Gained more share in US fixed income than any other dealer<sup>11</sup>

1 Institutional Investor 2011

2 UBS estimates based on companies reporting of 30 09 11 YTD revenues

3 Euromoney FX Poll (2005 – 2011)

4 Risk Magazine, September 2011

5 Dealogic fees for M&A and IBD, volumes for DCM and ECM as of 11.11.11

6 Risk & Energy Risk - Commodity Rankings 2011

7 Coalition, November 2011

8 Structured Products Asia Awards 2011

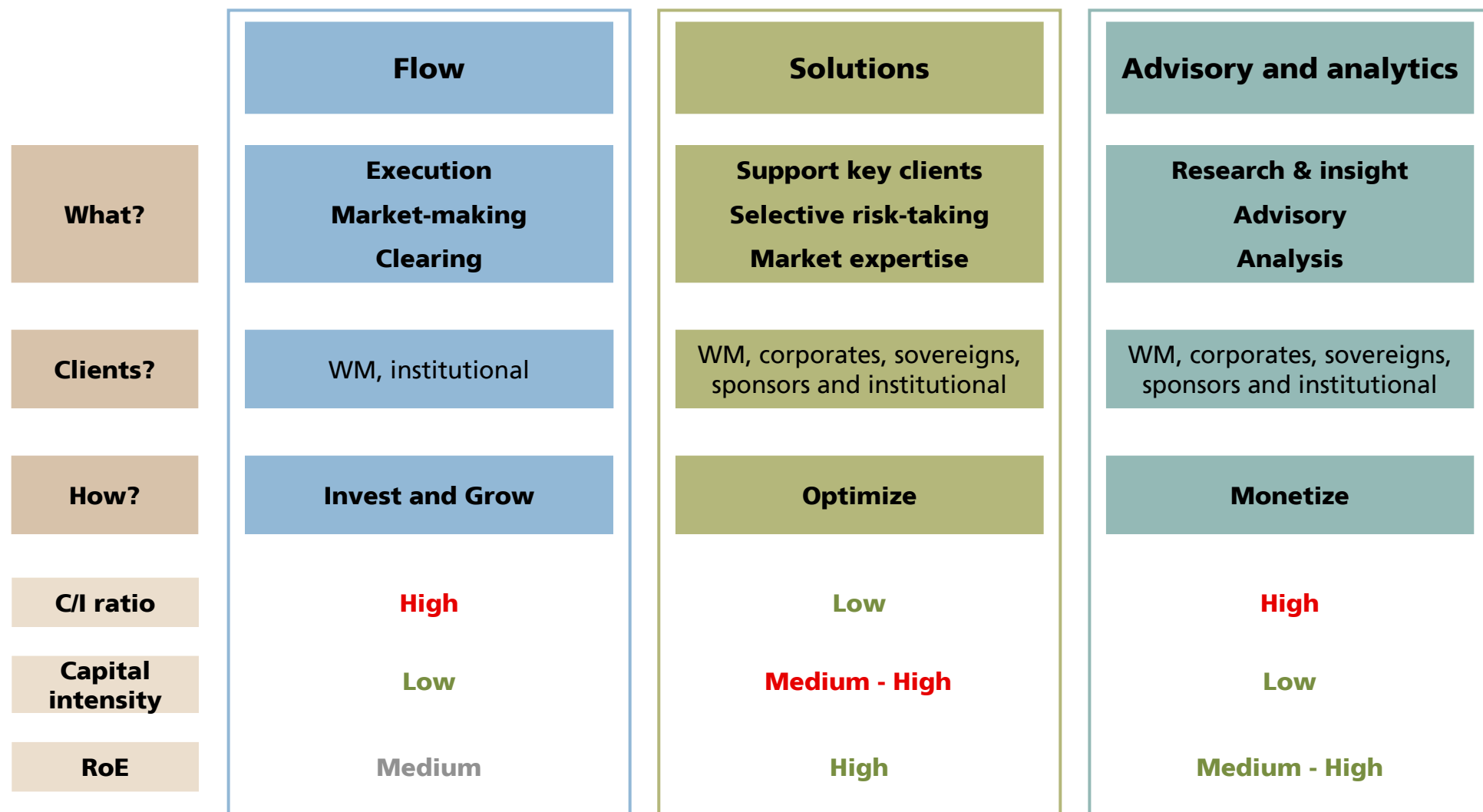
9 Finance Asia August 2011

10 Extel Survey 2011

11 Greenwich Associates 2011 Fixed-Income Investors Study for the timeframe March 2010-March 2011

# Strategy focused on client needs

Simpler business model based on three strategic pillars ...



# Optimizing risk-adjusted returns

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## Portfolio attractiveness based on:

### Return generation

RoE, RoRWAs, RoA

### Client relevance and synergy

Importance for core clients across wealth management, institutional, corporates, sovereigns and sponsors

### Growth prospects

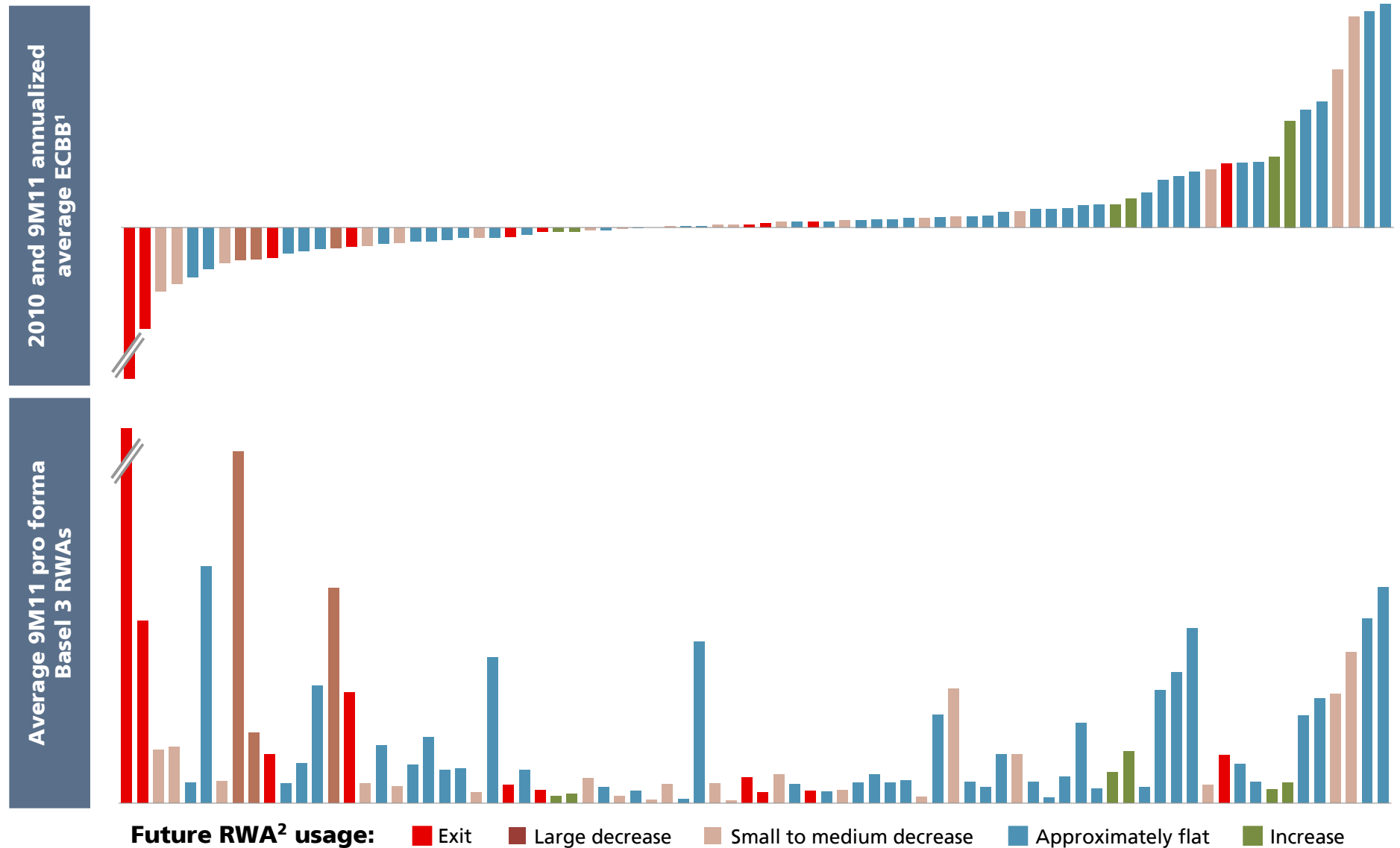
Pre-tax profit contribution and growth

### Market standing

Target market share and scale

# Business mix

We have analyzed performance and capital allocation at a granular level



1 ECBB is an internal measure of business performance based on economic contribution before tax and variable compensation, and does not necessarily correlate to IFRS results on an absolute or relative basis

2 Basel 3 future RWAs expectations compared to the 9M11 average on a pro forma basis



# Optimizing the portfolio for capital and client needs

## Portfolio attractiveness of selected businesses

(Return generation, client relevance and synergy, growth prospects, market standing)

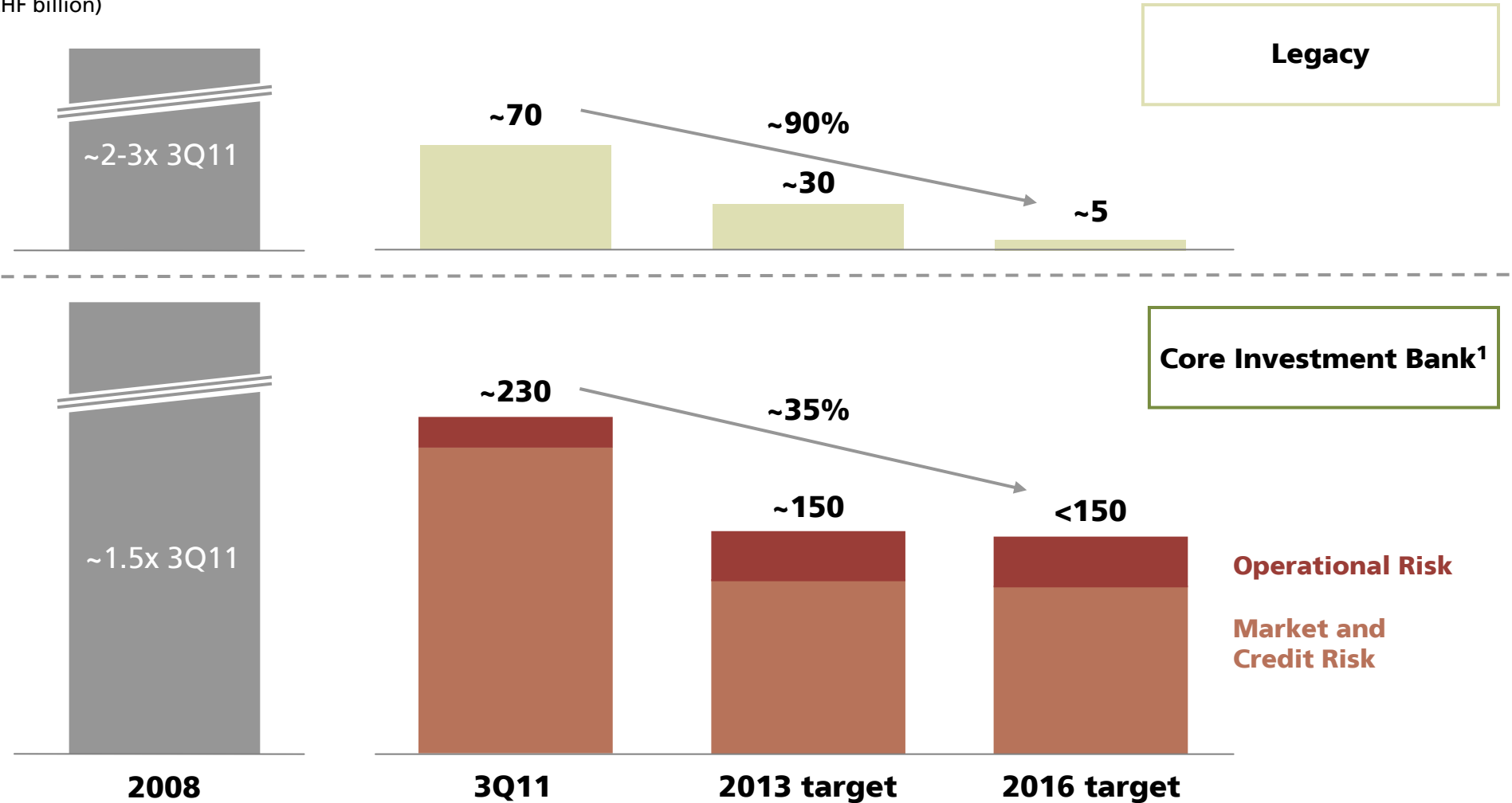
		Not attractive	Attractive	Very attractive	
Capital intensity (Basel 2.5 / 3)	Low	FICC Macro Directional Trading	FICC Emerging Markets	FICC Special Situations Group	
		Equity Prop Trading	FICC Credit Flow APAC	FICC Commodities	
		FICC Credit Flow EMEA	FICC Leveraged Finance & Primary		
		FICC Commercial Real Estate Finance / MBS	Capital Markets & Corporate Lending		
			IBD M&A and Advisory		
			Cash Equities		
	Moderate			Equity Prime Services	FICC FX
				FICC Structured Rates	FICC Credit Solutions
				FICC Credit Flow US	Equity Derivatives
			Synthetic Equity		
High	FICC Asset Securitization	Equity Linked	FICC Short-End Flow Rates		
	FICC Complex Structured Products	FICC Long-End Flow Rates			
		FICC Global Correlation			

**Future RWA<sup>1</sup> usage:** ■ Exit ■ Large decrease ■ Small to medium decrease ■ Approximately flat ■ Increase

# Generating capital efficiency

Targeting a ~50% reduction in total RWAs by 2016 ...

## Basel 3 pro forma RWAs (CHF billion)



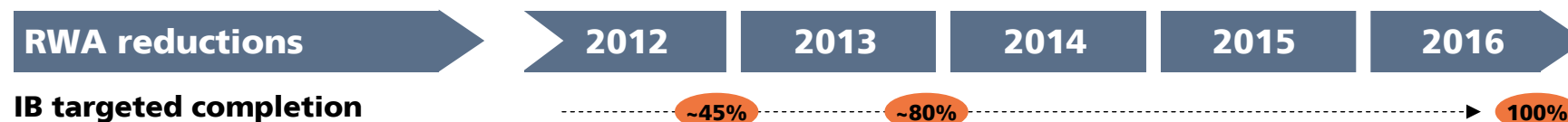
... with ~35% reduction in core businesses and ~90% in Legacy RWAs



UBS

<sup>1</sup> 3Q11 pro forma RWAs include CHF 12.5 billion of market risk and exclude CHF 17 billion of stressed VaR related to unauthorized trading incident. 2013 and 2016 targets include CHF 12.5 billion related to unauthorized trading incident in Operational Risk; targets assume constant FX rates

# Basel 3 risk-weighted assets<sup>1</sup> – reduction targets



(CHF billion)

<b>Core Investment Bank</b>	~35	<b>Business realignment</b>
	~30	<b>CVA<sup>2</sup> mitigation / optimization</b>
	~5	<b>Securitization</b>
	~0-10	<b>OTC to CCP<sup>3</sup></b>
	~0-10	<b>Other hedging</b>
<b>Legacy</b>	~18	<b>SL ARS<sup>4</sup> inventory</b>
	~45	<b>Mitigation: sales and restructuring</b>
<b>Total</b>	<b>~145</b>	

- 1 Basel 3 RWAs on a pro forma basis
- 2 Credit valuation adjustment
- 3 Over-the-counter to central counterparty
- 4 Student loan auction rate securities

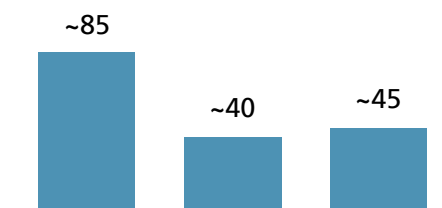
# FICC business impact from RWA reduction<sup>1</sup>

## RWA reduction driving rationale

### Macro

- Reduce capital-inefficient trades in Long-End Rates
- Continued focus on increasing client flow and electronic execution
- Optimize Short-End Rates platform
- Estimated revenue impact of ~ CHF 300 million<sup>3</sup>

**Basel 3 pro forma RWA development**  
(CHF billion)

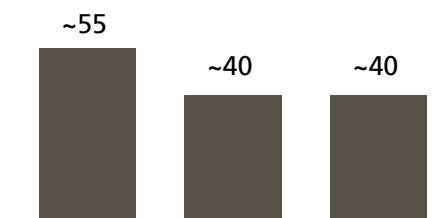


**9M11 annualized revenues<sup>2</sup>**  
(CHF billion)

2.4

### Credit

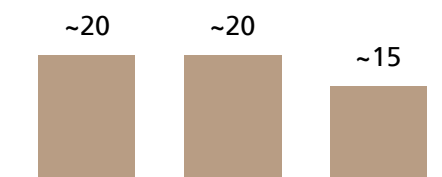
- Refocus of Credit flow – more client flows, less risk-taking and RWA optimization
- Rescale Structured Credit – leverage Solutions expertise and reduce capital intensive correlation books
- Estimated revenue impact of ~ CHF 200 million<sup>3</sup>



1.6

### Emerging Markets

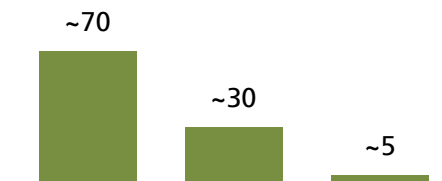
- No material de-risking
- Augmentation of global EM hubs with selective light-touch local presence
- Optimization of RWA profile



0.4

### Legacy

- Planned full exit after 2016 – no client franchise impact
- Roll-off some assets
- Sale and wind down other assets as opportunities arise



0.1



<sup>1</sup> Slide excludes "FICC Other", which is part of the core Investment Bank

<sup>2</sup> Segment revenues adjusted for Legacy assets

<sup>3</sup> Estimates reflect assessments of potential annual revenue impact relative to outcomes without RWA reductions, and not impacts relative to 2011 revenue levels

# FICC – reduced capital usage with a focus on serving clients

## Flow

- Advanced algorithmic trading capabilities
- Next-generation automation of market-making and agency client platforms
- OTC to CCP and PIN-FI<sup>1</sup>
- Increase velocity
- UBS Neo to increase market share

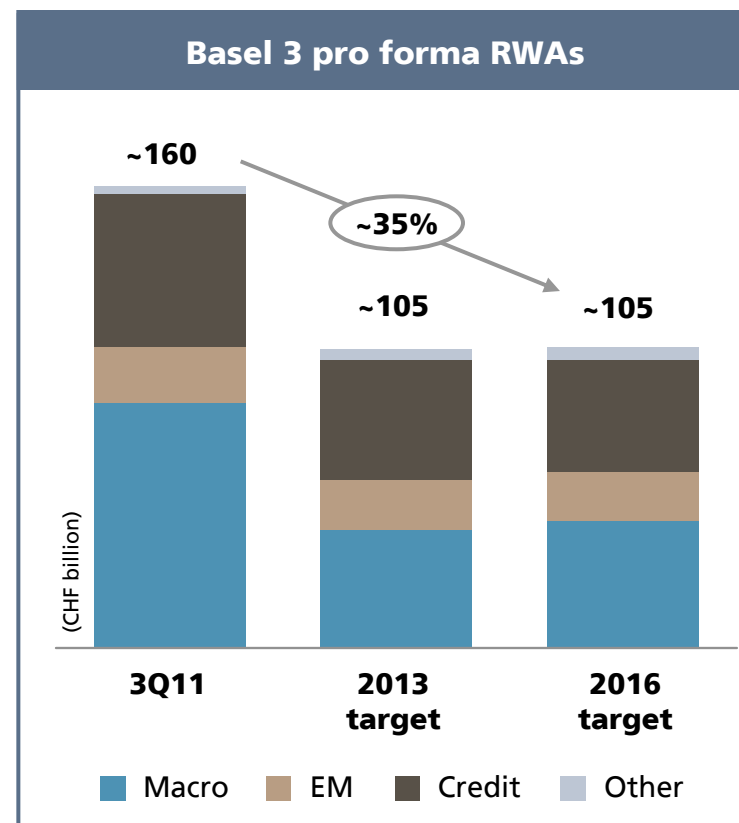


## Advisory and analytics

- Increase UBS Delta market penetration and monetization
- Monetize strong strategy research

## Solutions

- Curtail capital intensive businesses with selective principal risk-taking
- Sales-driven risk mitigation
- Invest in Brazil and US
- Target leveraged finance, high yield and commercial real estate jointly with IBD
- Improve speed of response to clients
- Lightly structured offering for wealth management



<sup>1</sup> Over-the-counter to central counterparty and PIN-FI. UBS Price Improvement Network (PIN-FI) is a FICC multi-asset execution platform offering clients direct access to a broad and deep pool of client, dealer and UBS liquidity in a single hub

# Equities – grow with targeted investment in technology

## Flow

- Electronic execution, client platforms (UBS Neo) and algorithmic capabilities
- EM footprint in cash and access products
- High frequency trading through technology offerings
- Processing scale

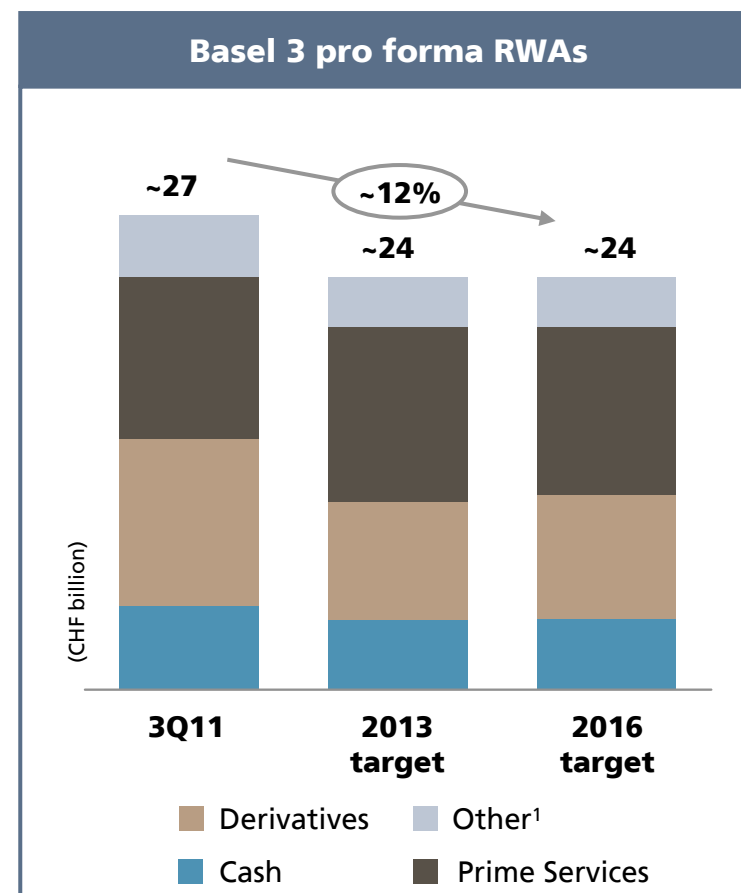


## Advisory and analytics

- Deliver greater monetization of leading research

## Solutions

- Derivatives offerings for self-guided investors and global corporates
- Value-added structured products distribution to wealth management clients
- Leverage Prime Services capabilities across asset classes
- Partner with select hedge funds
- Institution-like coverage to UHNW



# IBD – increase market share and leverage global footprint

## Geographic focus

- Strengthen US IBD
- Restore EMEA IBD market share
- Extend leading market position in APAC



## Advisory and analytics

- Allocate country, sector and product resources more efficiently
- Expand corporate coverage for UHNW
- Extend market share gains in M&A

## Solutions

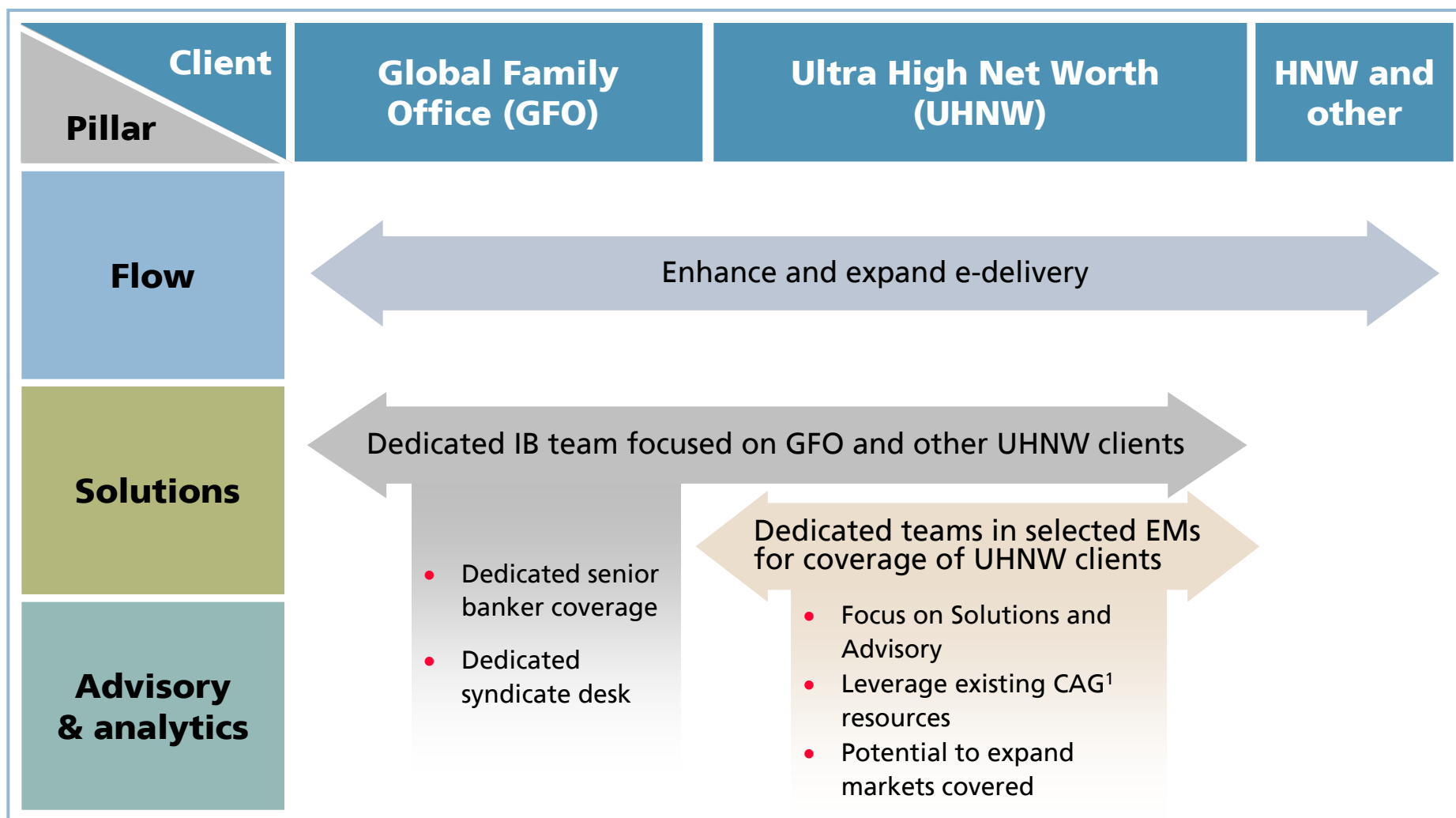
- Derivatives and principal solutions in a capital-efficient manner
- Monetization of lending book
- Emphasize sponsors, leveraged finance, and capital markets
- Drive ECM share through leading Equities franchise

## Recent highlights

- Lender, bookrunner and/or advisor on 6 of the largest 12 LBO transactions in 9M11
- Strong progress on hiring: 28 MD hires in 9M11
- #2 in Asia ex Japan and #1 in Australasia in 9M11 across products<sup>1</sup>
- Cross-business cooperation in the largest LatAm into LatAm transaction in history (Suramericana acquisition of ING LatAm Pension and WM businesses)
- Joint Lead Manager on the largest ever single tranche Asia-Pacific bond offering for the Agricultural Bank of China

# Specific initiatives underway to strengthen IB / WM partnership

Guiding principle is to align service delivery and execution of each pillar based on client needs and economics





# We remain vigilant on costs

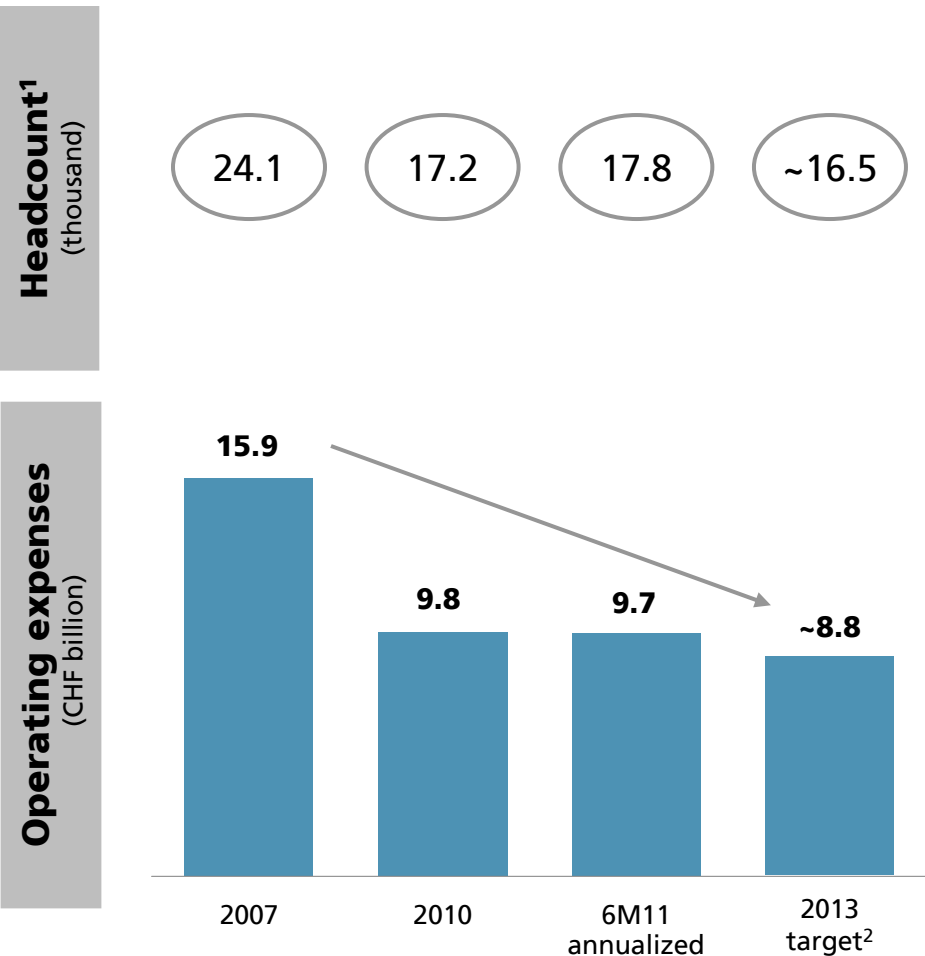
**Actions taken in 2011 will eliminate ~CHF 1 billion from our cost base**

~1,300 gross front office headcount exits initiated in 9M11, with full impact reflected in 2012

Discretionary spending focused on client revenue generating activities

Operating model and process improvements to increase efficiency

Increased management focus and transparency on spending and value



**Balanced business mix to support lower and less volatile cost / income ratios**



1 End of year headcount for 2007, 2010, 2013 and June month-end headcount for 2011. 2007 and 2010 figures are adjusted for organizational changes over time and best represent comparables to the current state  
 2 Target assumes constant FX rates

# Effective and disciplined execution

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## Client focus

- Systematic interface with WM / WMA
- Clearer client coverage model
- Centralized measurement of client profitability, scarce resource use

## Capital efficiency

- Systematic tracking of progress against risk / return metrics
- Central allocation / management of scarce resources (RWA, funding, etc.)

## Effective execution

## Talent

- Focused on staff development
- Incentive compensation that incorporates resource use

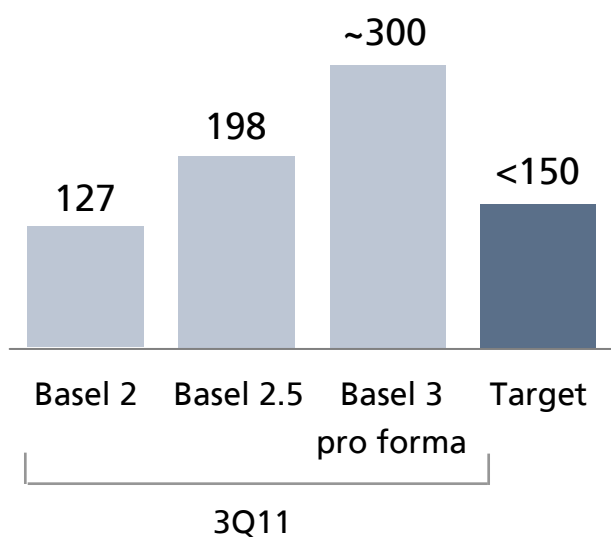
## Operational

- Differentiated execution of pillars
- Tightly controlled product universe
- Emphasized front-to-back process integrity

# Our targets for the future<sup>1</sup>

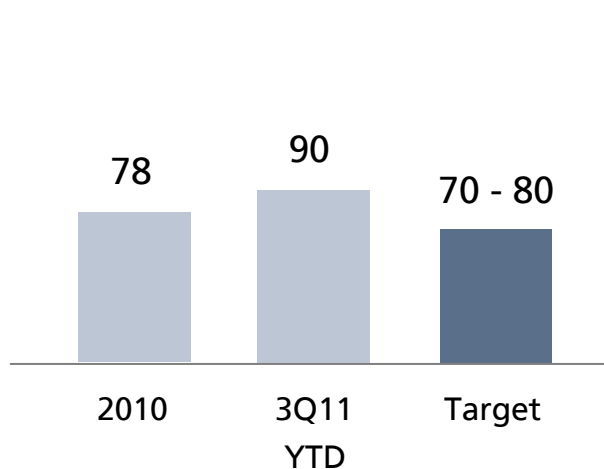
## RWA<sup>2</sup>

(CHF billion)



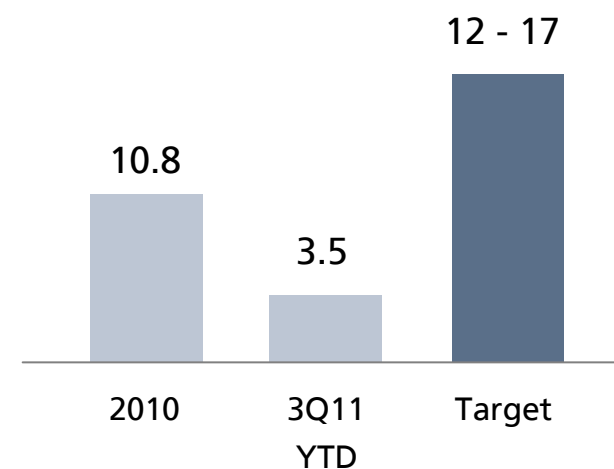
## Cost / income ratio<sup>3</sup>

(%)



## Pre-tax RoaE<sup>4</sup>

(%)



Total IB (including Legacy)
  Core Investment Bank

<sup>1</sup> Annual performance ranges for 2012 through 2016; excluding own credit and future significant non-recurring items, if any

<sup>2</sup> 3Q11 RWAs related to unauthorized trading incident as shown: CHF 11.4 billion (Basel 2), CHF 28.5 billion (Basel 2.5) and CHF 12.5 billion (Basel 3 pro forma; CHF 17 billion of stressed VaR is excluded due to the roll-off); Target assumes constant FX rates

<sup>3</sup> Excluding own credit and unauthorized trading incident

<sup>4</sup> The return on attributed equity target for the Investment Bank applies from the beginning of 2013. 2012 is a transition year as the Investment Bank is targeting a substantial reduction in RWAs; the equity attributed to the Investment Bank is expected to be reduced as it is targeting a substantial reduction in RWAs. Legacy businesses and positions will be transferred to the Corporate Center

# Key messages

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The Investment Bank will be focused and simpler

Our business mix is driven by core client needs and capital efficiency

Our execution will be disciplined and effective

Successful execution of our strategy will lead to attractive and sustainable risk-adjusted returns