



Risk and Finance

Philip Lofts, Group Chief Risk Officer

John Cryan, Group Chief Financial Officer

Cautionary statement regarding forward-looking statements

This presentation contains statements that constitute “forward-looking statements”, including but not limited to management’s outlook for UBS’s financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS’s business and future development. While these forward-looking statements represent UBS’s judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS’s expectations. These factors include, but are not limited to: (1) future developments in the markets in which UBS operates or to which it is exposed, including movements in securities markets, credit spreads, currency exchange rates and interest rates; (2) the effect of the current economic environment or other developments on the financial position or creditworthiness of UBS’s customers and counterparties; (3) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings; (4) the outcome and possible consequences of pending or future actions or inquiries concerning UBS’s cross-border banking business by tax or regulatory authorities in various jurisdictions; (5) the degree to which UBS is successful in effecting organizational changes and implementing strategic plans, and whether those changes and plans will have the effects intended; (6) UBS’s ability to retain and attract the employees that are necessary to generate revenues and to manage, support and control its businesses; (7) political, governmental and regulatory developments, including the effect of more stringent capital requirements and the possible imposition of additional legal or regulatory constraints on UBS’s activities; (8) changes in accounting standards or policies, and accounting determinations affecting the recognition of gain or loss, the valuation of goodwill and other matters; (9) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (10) changes in the size, capabilities and effectiveness of UBS’s competitors; (11) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures, either within UBS or within a counterparty; and (12) technological developments. In addition, actual results could depend on other factors that we have previously indicated could adversely affect our business and financial performance which are contained in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS’s restated Annual Report on Form 20-F / A for the year ended 31 December 2008. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

SECTION 1

Risk management and control

Key messages

1. Clear improvements made in how we represent, measure and manage risk

2. Reduction in the risk profile

3. UBS risk management and control – a new paradigm

Key risk improvements

With a significantly reorganized risk control function in place from June 2008...

VaR

- ◆ VaR enhancements delivered
- ◆ Reduction in backtesting exceptions
- ◆ Adopted 1 day 95% VaR

Firm-wide risk aggregation and stress framework

- ◆ Stress framework has three mutually reinforcing pillars:
 - Firm-wide scenario consistent stress testing
 - Portfolio specific stress testing which includes liquidity adjusted scenarios
 - Reverse stress tests
- ◆ Stress measures used to evaluate potential tail risks at both a firm-wide and divisional level
- ◆ Stress results are the cornerstone of the UBS Potential Stress Loss estimate provided to FINMA

...we have been able to make considerable enhancements to our risk processes

Risk management and control framework

Overhauled and clarified



Key messages

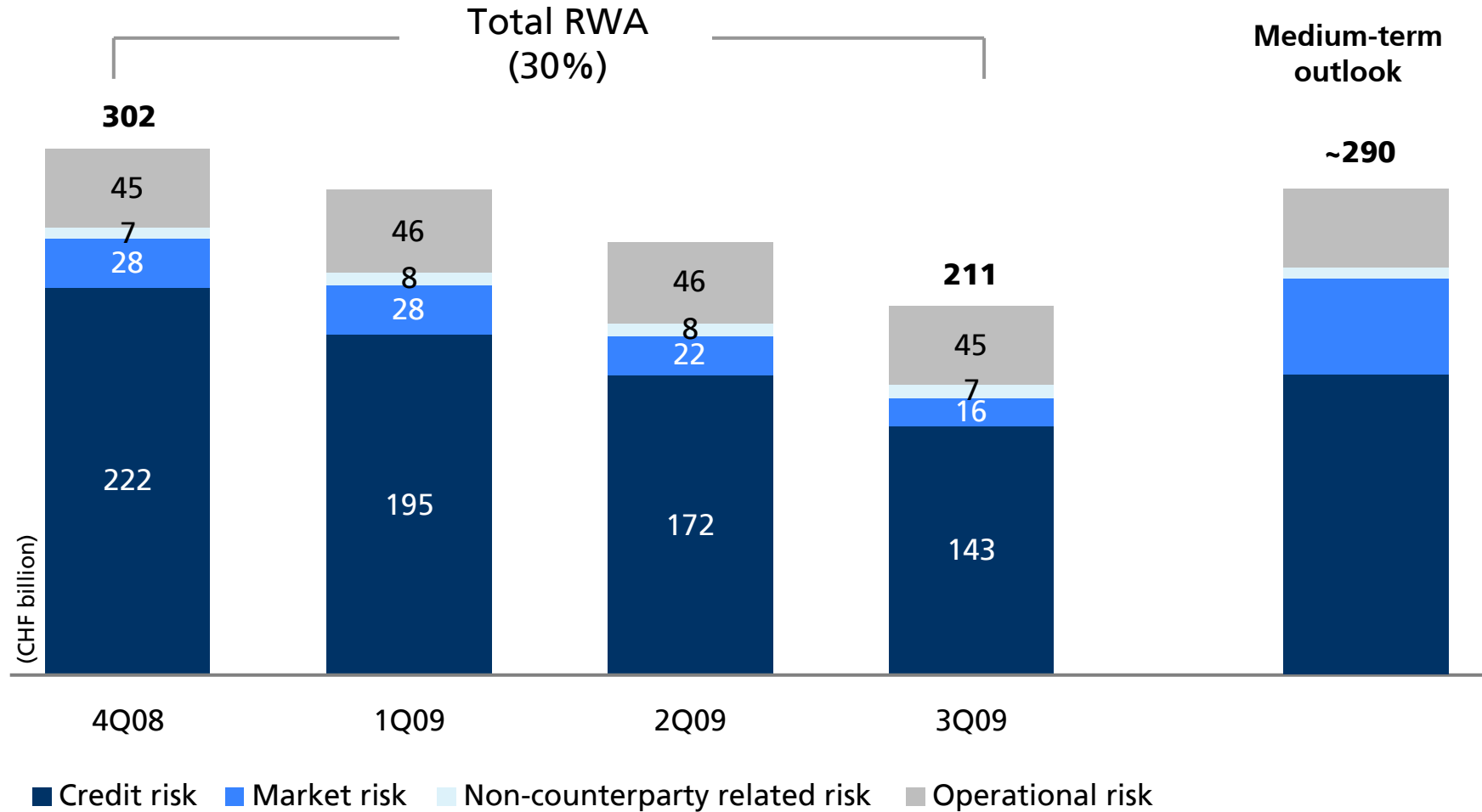
1. Clear improvements made in how we represent, measure and manage risk

2. Reduction in the risk profile

3. UBS risk management and control – a new paradigm

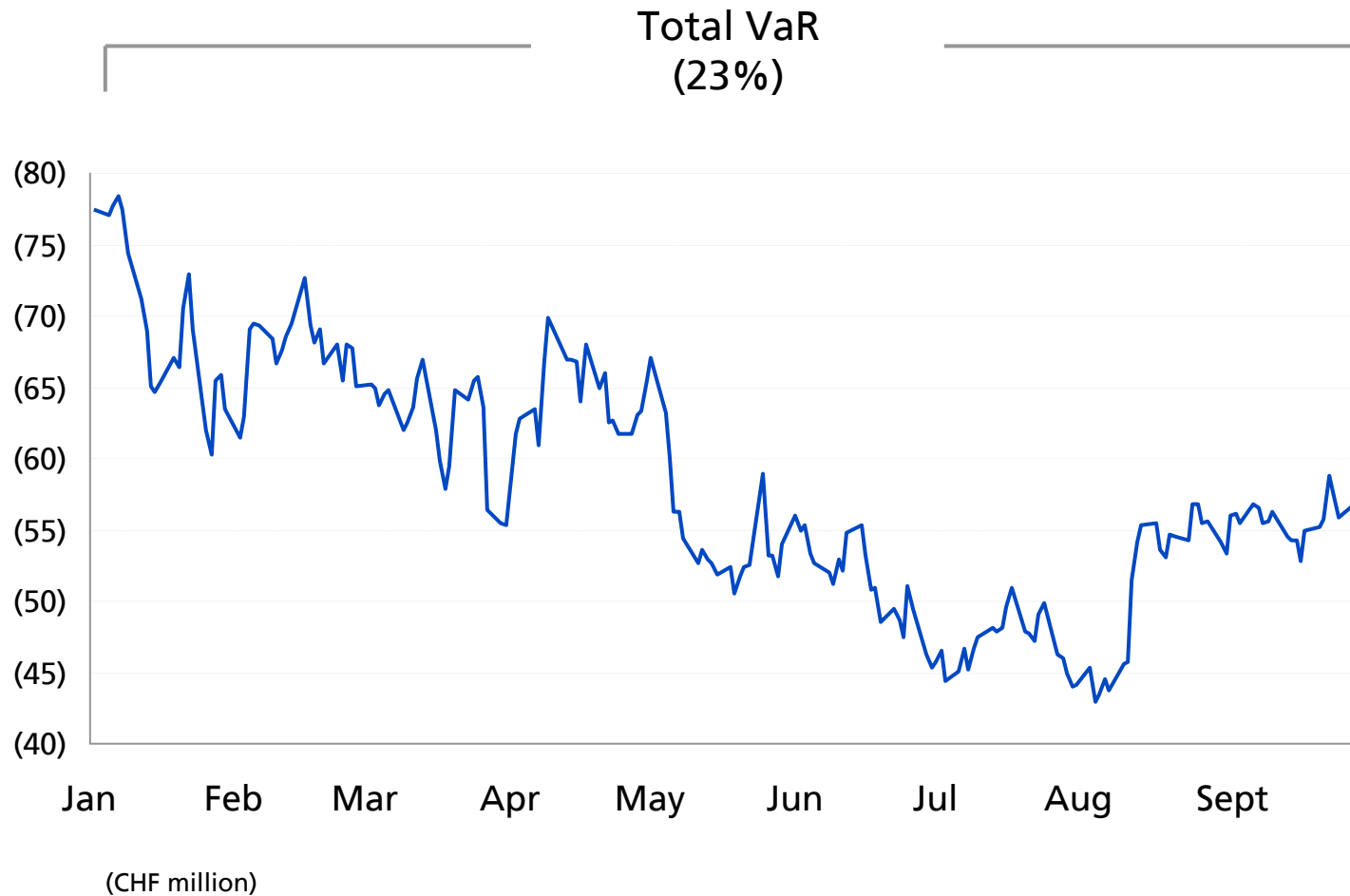
Firm-wide risk profile: RWA reduction

Significant reduction in RWAs in 2009, but RWAs expected to increase mainly due to regulatory changes



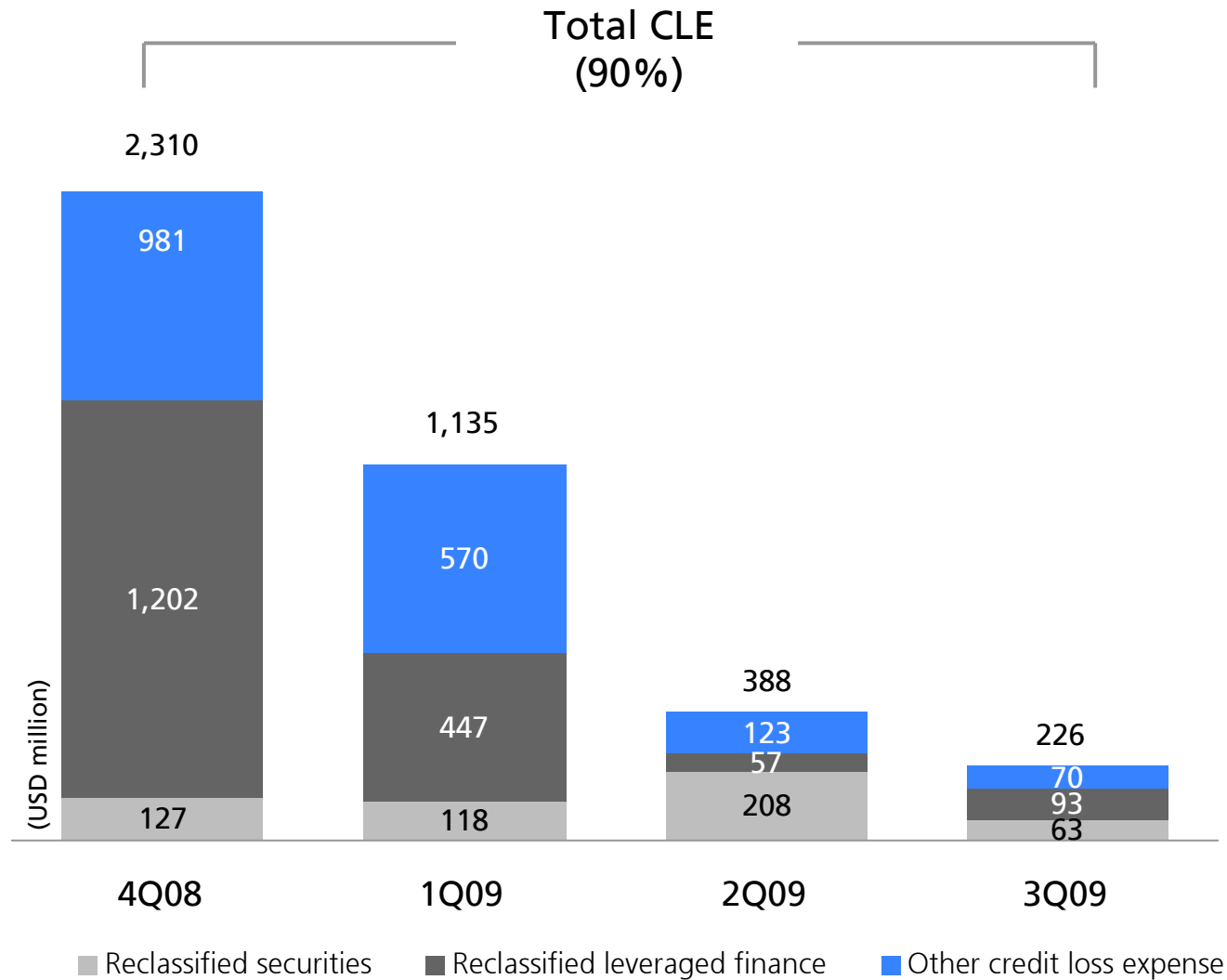
Trading profile: IB VaR reduction

Significant reduction in IB 1 day 95% management VaR in 2009



Lending profile: credit loss expense reduction

Significant reduction in UBS Group CLE in 2009

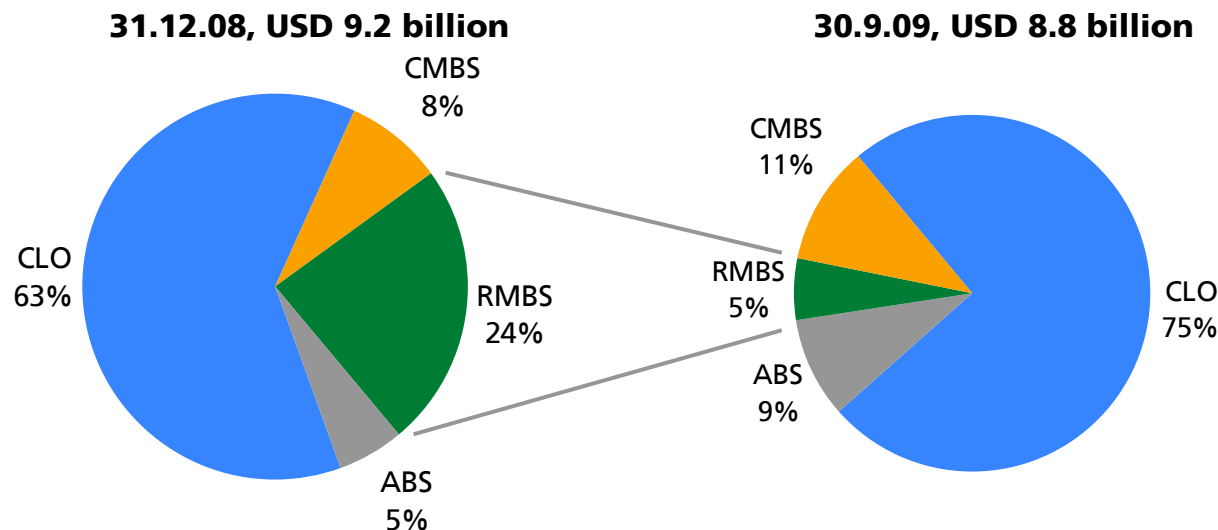


Risk concentrations: continued reduction

Monolines

	31.12.08	30.9.09
Fair value of underlying assets (USD billion)	9.2	8.8
Average CVA as percentage of RV of CDS (%)	54	53
Fair value of CDS after CVA (USD billion)	5.3	2.6

Fair value of underlying monoline NBT assets



- ◆ Significant improvement in the composition of the underlying portfolio
 - Proportion of CLO increased from 63 to 75%
 - RMBS reduced from 24 to 5%

Risk concentrations: continued risk reduction

Student loan Auction Rate Securities (ARS)

USD billion	31.12.08	30.9.09
Student loan ARS – inventory (carrying value)	8.4	10.6
Student loan ARS – buyback commitment (par)	11.8	8.1

- ◆ UBS continues to work with issuers to restructure SL ARS programs. UBS's inventory of SL ARS and its repurchase commitment **reduced by USD 1.5 billion in aggregate** in 2009
- ◆ On a combined basis almost 80% of the SL ARS are backed by FFELP guaranteed collateral (insured by the US Department of Education for no less than 97% of principal and interest)
- ◆ Minimal impairments taken to date (less than USD 2 million)

Key messages

1. Clear improvements made in how we represent, measure and manage risk

2. Reduction in the risk profile

3. UBS risk management and control – a new paradigm

Risk framework of UBS – a new paradigm

GOVERNANCE

- ◆ BoD Risk Committee
- ◆ Tone from the top
- ◆ Business strategy & planning
- ◆ Clear accountability

INTEGRATED CONTROL

- ◆ Enterprise-wide risk aggregation across risk types
- ◆ Rigorous scenario-driven stress models
- ◆ Liquidity models reflect stressed environment
- ◆ Risk / Finance alignment
- ◆ Robust front office supervision of trade capture and valuations
- ◆ Re-designed new business process

Risk management and control framework

SCARCE RESOURCES

- ◆ Top-down allocation of scarce resources (capital, funding, risk capacity)
- ◆ New performance measures to reflect the true cost of scarce resources
- ◆ Active balance sheet management
- ◆ Risk limits aligned to risk appetite

RISK CULTURE

- ◆ Risk focus from executive
- ◆ Quarterly business reviews
- ◆ Incentives framework incorporates economic profit & risk

An effective risk culture encourages behavior that leads to sustainable success and profitability

Risk framework of UBS – a new paradigm

Our key components



Executing the renewal plan means we now have an enterprise-wide and fit-for-purpose risk framework

Risk profile of UBS – a new paradigm

Disciplined risk-taking

IB trading risk and limit framework reflective of a flow business

IB lending risk: originate, distribute and avoid concentrated take and hold

Swiss domestic lending: focus on residential, commercial and corporate

Lombard lending: collateralized by marketable securities

SECTION 2

Finance

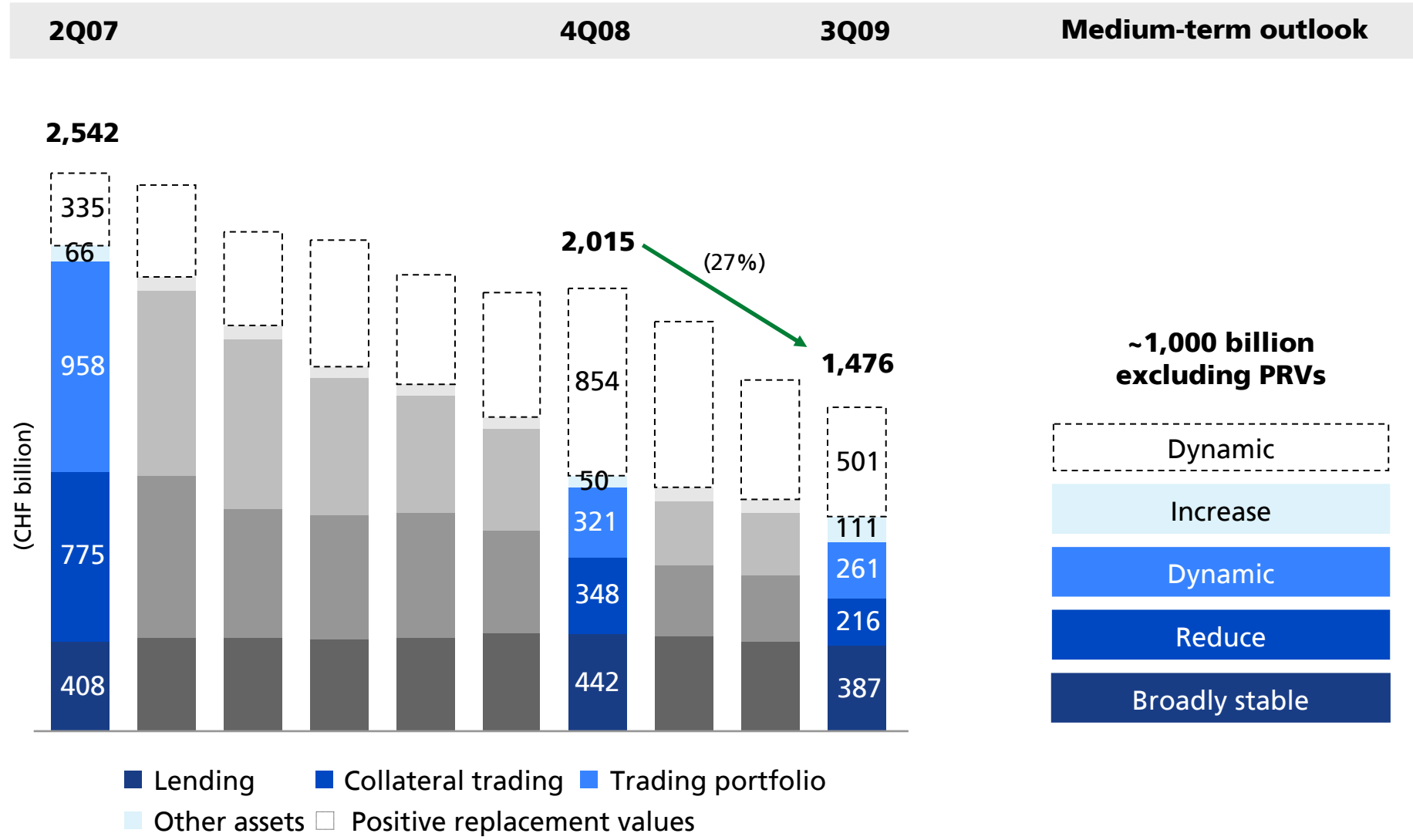
Key messages

1. Stable financial condition

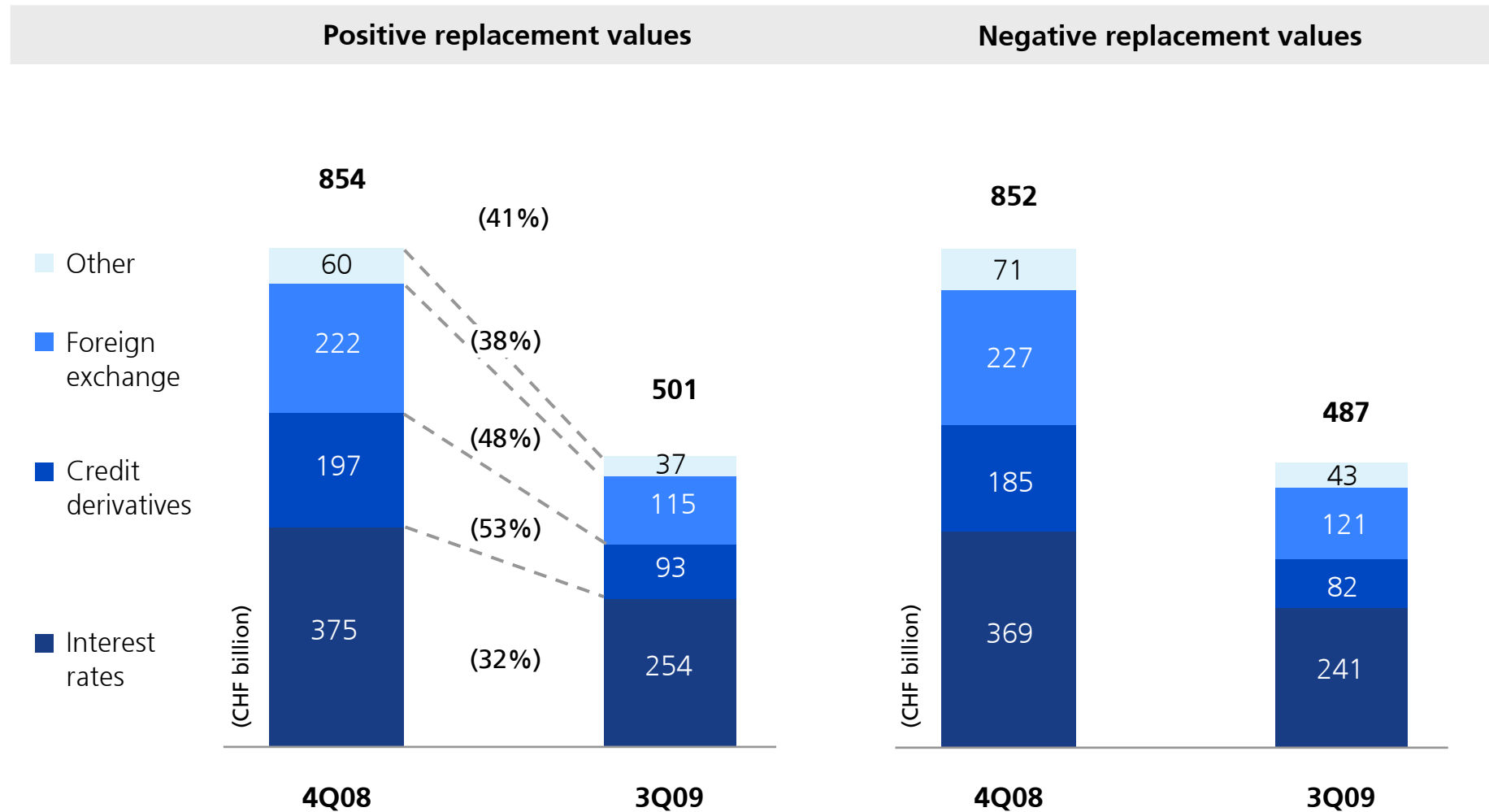
2. Higher capital level driven by regulatory changes

3. Focus on capital generation through retained earnings

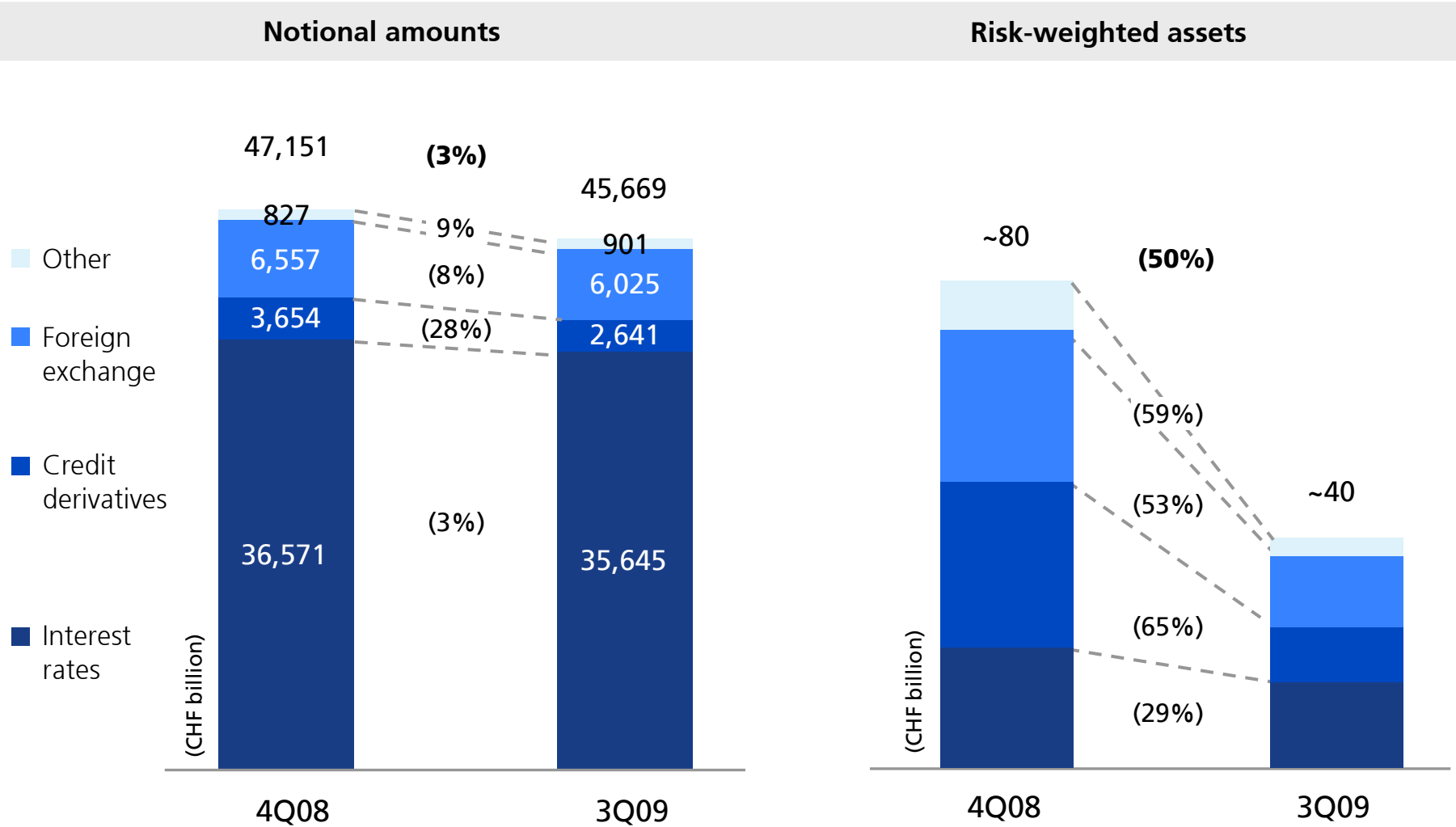
Total assets development



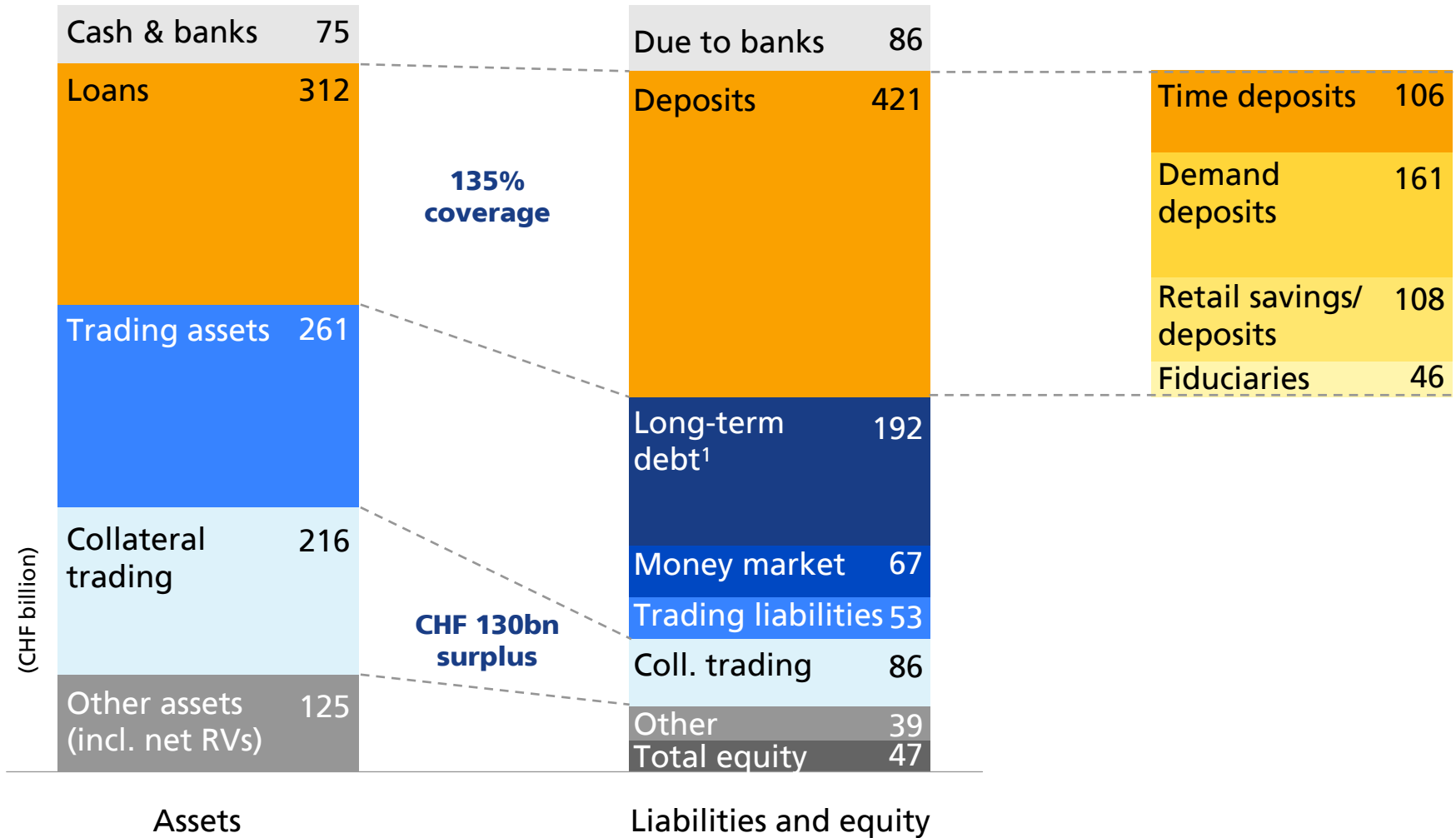
Derivative instruments



Derivative instruments



UBS asset funding – 30 Sept 2009

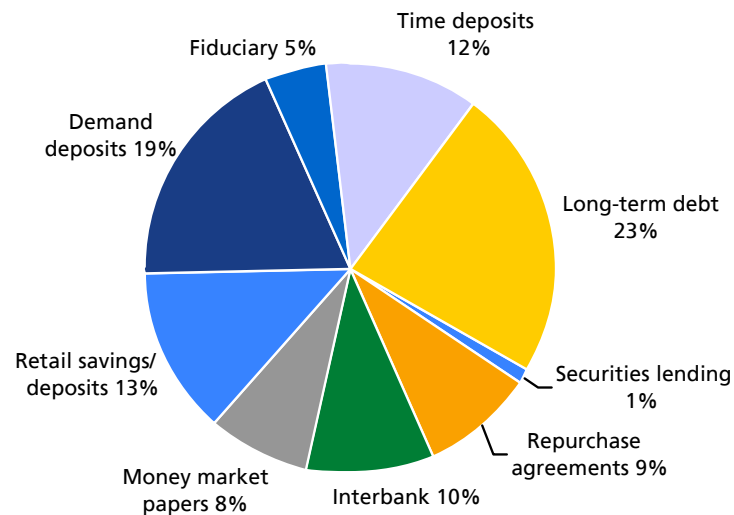


¹ Including financial liabilities designated at fair value

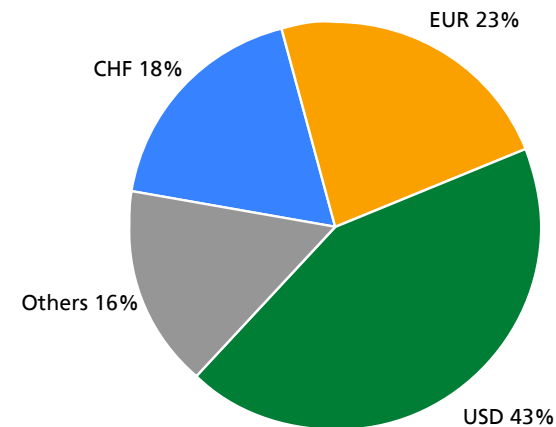
Diversified funding sources

UBS continues to maintain a portfolio of liabilities that is broadly diversified by market, product and currency

Funding by product type^{1,2}



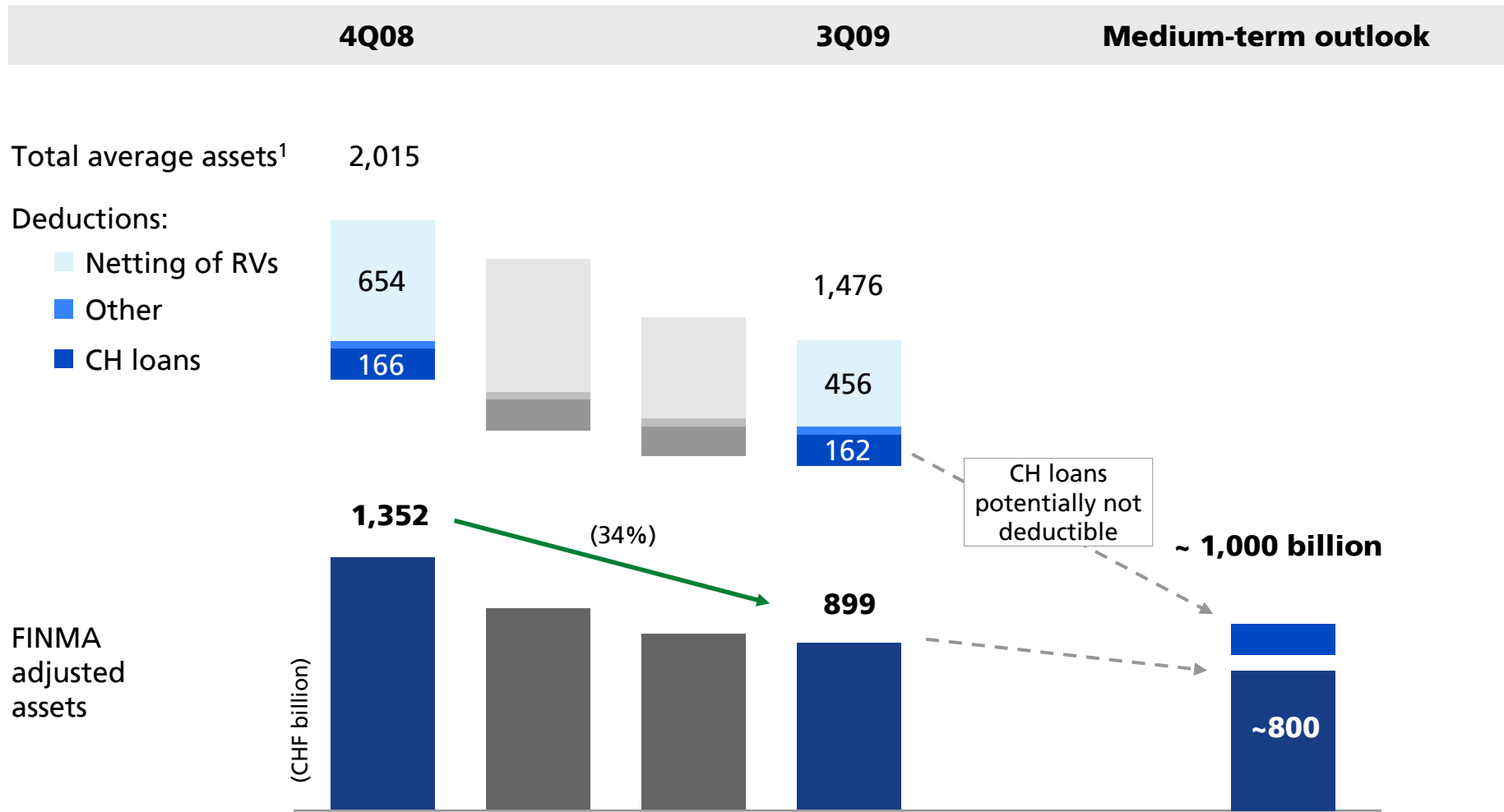
Funding by currency¹



¹ Percentages based on total funding defined as balance sheet liabilities excl. negative RVs, trading shorts, equity, other liabilities: amounting to CHF 905 billion of funding as of end 3Q09

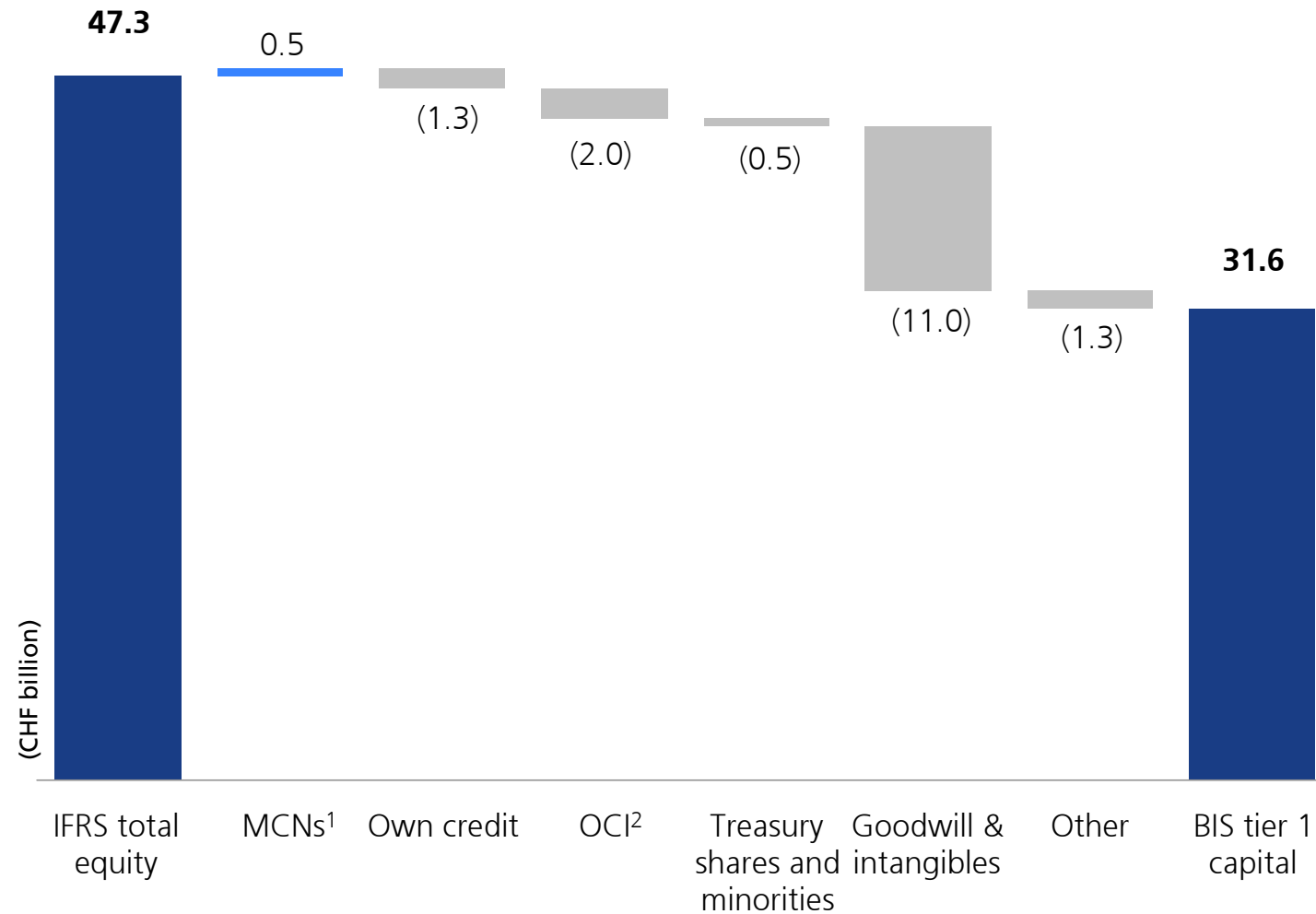
² Long-term debt includes financial liabilities designated at fair value

FINMA adjusted assets development



¹ Average of the month-end values for the three months in the calculation period

IFRS equity to tier 1 capital reconciliation – 30 Sept 2009



1 Represents different treatment of interest expense
 2 Includes cash flow hedges (1.6 billion) and AFS (0.4 billion)

Key messages

1. Stable financial condition

2. Higher capital level driven by regulatory changes

3. Focus on capital generation through retained earnings

Regulatory headwinds

New regulation	Timing	Expected implications
Increased excess capital requirements to 100% of the minimum	From 1.1.2013	Doubling of current minimum requirements (8% for Tier 1)
FINMA leverage ratio – minima set at 3%, but expected to be well above it in normal times	From 1.1.2013	Already meeting the minimum, but increase further to expected level
Revisions to the Basel II market risk framework	No later than end 2010	~ 3x higher market risk RWAs
New standards for banking regulation and supervision to improve the quality, consistency and transparency of Tier 1 capital	Not yet defined	Part of Tier 1 capital will need to be replaced with retained earnings
Continuation of Basel I floor beyond 2009	ongoing	May lead to some additional capital required
Compensation regulations	ongoing	Not expected to affect competitiveness
A deposit insurance fund to be created	Not yet defined	Annual costs
FINMA liquidity regulations for the two large banks; quantitative minimum requirements and qualitative aspects	2010	Increase of net liquidity requirements and associated cost
Some foreign regulators have issued new liquidity regulations impacting the required level of local liquidity maintenance	ongoing	Restricted accessibility and transferability of funding

Key messages

1. Stable financial condition

2. Higher capital level driven by regulatory changes

3. Focus on capital generation through retained earnings

Tier 1 capital – outlook

We expect the regulators to require a higher level and better quality of capital, but it is not yet known which proposals will be adopted and what the terms will be

Improving "hard" core capital is likely to be a focus. Core tier 1 capital accounted for CHF 24.2 billion of our total tier 1 capital of CHF 31.6 billion at 30 September 2009

We expect to satisfy additional capital requirements through retained earnings. Our dividend policy over the next few years will depend not only upon our level of earnings but also upon what additional capital requirements are adopted

Principles of equity attribution

Equity is attributed to business divisions on a formulaic basis

- ◆ Step 1: capitalize goodwill and intangible assets with equity on 1-for-1 basis
- ◆ Step 2: allocate additional equity based on three drivers on weighted-average basis
 1. Risk-Based Capital – capitalize with equity on 1-for-1 basis
 2. RWA – capitalize with a notional 14.5% BIS Tier 1 ratio for all businesses (recalibrated to a book equity equivalent)
 3. Assets – capitalize using a leverage ratio of 5% for all businesses (also recalibrated to a book equity equivalent)

Equity attribution framework – 3Q09 calculation

(CHF billion)		WM&SB	WM A	Gl. AM	IB	CC	Group
A (weight 25%)	Adjusted assets	2.9	1.1	0.6	22.7	0.6	27.8
B (weight 50%)	RWA	6.2	2.7	0.7	18.6	0.8	29.0
C (weight 25%)	Risk-based capital	2.3	1.2	0.7	20.3	0.2	24.7
D = A,B,C weighted	Tangible equity total	4.4	1.9	0.7	20.0	0.6	27.6
E	Goodwill & intangibles	1.8	4.5	1.8	3.9	-	12.0
D + E	Total (formulaic)	6.2	6.4	2.5	23.9	0.6	39.6
Management adjustments							
Total avg. attributed equity to business divisions and CC		9.0	9.0	2.5	24.0	1.0	45.5

Disclaimer

This presentation and the information contained herein is provided solely for information purposes, and is not to be construed as a solicitation of an offer to buy or sell any securities or other financial instruments in Switzerland, the United States or any other jurisdiction. No investment decision relating to securities of or relating to UBS AG or its affiliates should be made on the basis of this document. No representation or warranty is made or implied concerning, and UBS assumes no responsibility for, the accuracy, completeness, reliability or comparability of the information contained herein relating to third parties, which is based solely on public available information. UBS undertakes no obligation to update the information contained herein.