



# *Third* Quarter 2012 Results & Strategy Update

October 30, 2012



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## 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. Additional information about those factors is set forth in documents furnished or filed by UBS with the US Securities and Exchange Commission, including UBS’s financial report for third quarter 2012 and UBS’s Annual Report on Form 20-F for the year ended 31 December 2011. 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.

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## Important information related to numbers shown in this presentation

### Use of adjusted numbers

Throughout this presentation, unless otherwise indicated, “adjusted” figures exclude each of the following items, to the extent applicable, on a Group and business division level:

- Own credit loss on financial liabilities designated at fair value for the Group CHF 863 million in 3Q12 (CHF 239 million gain in 2Q12, CHF 1,765 million gain 3Q11)
- Net restructuring provision release CHF 22 million for the Group in 3Q12 (net charge of CHF 9 million in 2Q12, net charge of CHF 387 million in 3Q11)
- CHF 3,064 million charge related to impairment testing of goodwill and other assets in 3Q12 in the Investment Bank
- Credit to personnel expenses related to changes to a US retiree medical and life insurance benefit plan (CHF 84 million for the Group in 2Q12)
- Gain on the sale of strategic investment portfolio (SIPF) of CHF 433 million in Wealth Management and CHF 289 million in Retail & Corporate in 3Q11
- Unauthorized trading incident loss of CHF 1,849 million in equities in the Investment Bank in 3Q11

### Pro-forma Basel III RWAs, Basel III capital ratios and Basel III liquidity ratios

The calculation of our pro-forma Basel III risk-weighted assets combines existing Basel 2.5 risk-weighted assets, a revised treatment for low-rated securitization exposures which are no longer deducted from capital but are risk-weighted at 1250%, and new model-based capital charges. Some of these new models still require regulatory approval and therefore our pro-forma calculations include estimates of the effect of these new capital charges which will be refined as models and the associated systems are enhanced. Our pro-forma Basel III liquidity ratios include estimates of the impact of the rules and interpretation and will be refined as regulatory interpretations evolve and as new models and the associated systems are enhanced.

### Currency translation

Monthly income statement items of foreign operations with a functional currency other than Swiss francs are translated with month-end rates into Swiss francs. Refer to “Note 20 Currency translation rates” in UBS’s 3Q12 report for more information.

# Agenda

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<b>Topic</b>	<b>Speaker</b>
Introduction	C. Stewart
Overview of strategy update announced today	S. Ermotti
3Q12 – Key messages	S. Ermotti
3Q12 – Results	T. Naratil
Strategy update	S. Ermotti
Strategy update – financial implications	T. Naratil
Q&A	S. Ermotti / T. Naratil

# Key messages

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Our franchise is unrivaled with compelling industry growth prospects; we are prepared for the future and are committed to deliver highly attractive returns

We have built the foundation for our long-term success – industry leading capital ratios, strong funding and liquidity, lower costs and reduced RWAs

We are accelerating our transformation from a position of strength

- Our Investment Bank will focus on its traditional strengths and will operate with Basel III RWAs of less than CHF 70 billion
- Targeting a ~30% reduction in our funded balance sheet by 2015
- Further extensive measures to improve our long-term efficiency, annual cost savings target increased by ~CHF 3.4 billion to ~CHF 5.4 billion in 2015

We are firmly committed to delivering attractive and sustainable capital returns to shareholders targeting:

- Basel III fully applied CET1 ratio of 13% in 2014
- Return on equity of at least 15% from 2015
- A total payout ratio of more than 50% after we reach our capital targets

**3Q12 results**

# 3Q12 – Key messages

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CHF 1.4 billion adjusted pre-tax profit; net loss attributable to shareholders of CHF 2.2 billion; diluted earnings per share of CHF (0.58)

→ CHF 0.9 billion own credit loss

Industry leading capital position: Basel III fully applied CET1 ratio of 9.3% with Basel III RWAs of CHF 301 billion at 30.9.12, down by CHF 4 billion QoQ

We are accelerating our transformation from a position of strength

→ CHF 3.1 billion goodwill & other asset impairments as we accelerate the transformation of the IB

Best quarterly adjusted pre-tax profit in 2012 for Wealth Management, Wealth Management Americas and Retail & Corporate

→ Wealth Management adjusted pre-tax profit up 18% QoQ to CHF 596 million

→ Third consecutive record adjusted pre-tax profit for Wealth Management Americas at USD 231 million

→ Retail & Corporate adjusted pre-tax profits increased 4% QoQ to 409 million

→ Adjusted pre-tax profit of CHF 178 million in the Investment Bank

CHF 14 billion NNM inflows in our asset gathering businesses; very strong net new business volume growth including CHF 7 billion increase in client deposits in Retail & Corporate

→ Highest third quarter NNM in our wealth management businesses in 5 years

→ 7.2% annualized net new business volume growth in Retail & Corporate

# 3Q12 results

(CHF million)	WM	WMA	IB	Global AM	R&C	CC	Group
Income	1,789	1,559	2,273	468	946	244	<b>7,280</b>
Credit loss (expense) / recovery	0	2	3	0	(13)	(122)	<b>(129)</b>
Own credit gain / (loss)						(863)	<b>(863)</b>
<b>Total operating income</b>	<b>1,789</b>	<b>1,561</b>	<b>2,277</b>	<b>468</b>	<b>932</b>	<b>(740)</b>	<b>6,287</b>
Personnel expenses	799	1,093	1,251	236	342	67	<b>3,789</b>
<i>of which restructuring charges / (provision releases)</i>	(2)	0	(14)	0	0	(2)	(18)
Non-personnel expenses	390	248	3,896	108	181	190	<b>5,013</b>
<i>of which restructuring charges / (provision releases)</i>	(2)	1	(2)	0	0	(1)	(4)
<i>of which effect related to impairment testing of goodwill and other assets</i>			3,064				3,064
<b>Total operating expenses</b>	<b>1,189</b>	<b>1,342</b>	<b>5,147</b>	<b>344</b>	<b>523</b>	<b>258</b>	<b>8,803</b>
<b>Adjusted pre-tax profit / (loss)</b> <i>(Excluding own credit, restructuring charges and effect related to impairment testing of goodwill and other assets)</i>	<b>596</b>	<b>220</b>	<b>178</b>	<b>124</b>	<b>409</b>	<b>(138)</b>	<b>1,389</b>
<b>% of Group adjusted pre-tax profit</b>	<b>43%</b>	<b>16%</b>	<b>13%</b>	<b>9%</b>	<b>29%</b>	<b>(10%)</b>	<b>100%</b>
Pre-tax profit / (loss) as reported	600	219	(2,870)	124	409	(998)	(2,516)
Tax (expense) / benefit							<b>345</b>
Net profit attributable to non-controlling interests							<b>(1)</b>
<b>Net profit attributable to UBS shareholders</b>							<b>(2,172)</b>
Diluted EPS (CHF)							<b>(0.58)</b>

## 3Q12 goodwill impairment testing results

**Goodwill and other asset impairments resulted from analysis of newly approved Investment Bank business plan**

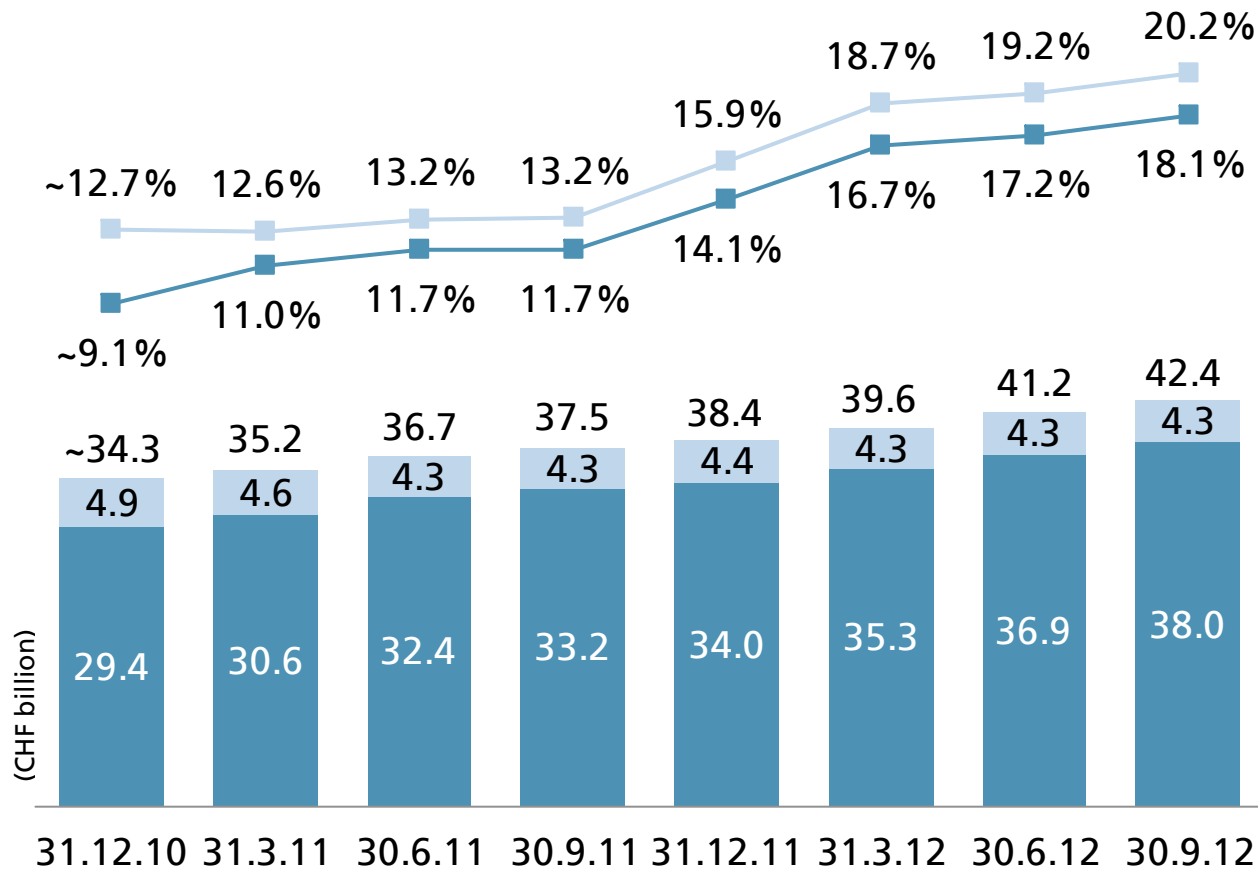
CHF million	<b>Pre-impairment</b> 30.9.12 balance sheet	<b>Impairment</b> 3Q12 income statement	<b>Post impairment</b> 30.9.12 balance sheet
Goodwill	9,119	3,030	6,088
Intangible assets	559	15	544
<b>Total goodwill and intangible assets<sup>1</sup></b>	<b>9,678</b>	<b>3,045</b>	<b>6,632</b>
<b>Property and equipment</b>	<b>5,928</b>	<b>19</b>	<b>5,909</b>
<b>Total</b>		<b>3,064</b>	

**Our Basel 2.5 and Basel III CET1 ratios are not affected by the impairment of goodwill and intangible assets**



# Basel 2.5 – Capital ratios

Further increased industry-leading Basel 2.5 tier 1 capital ratio to 20.2%



- **Basel 2.5 risk-weighted assets** decreased CHF 4 billion to CHF 210 billion

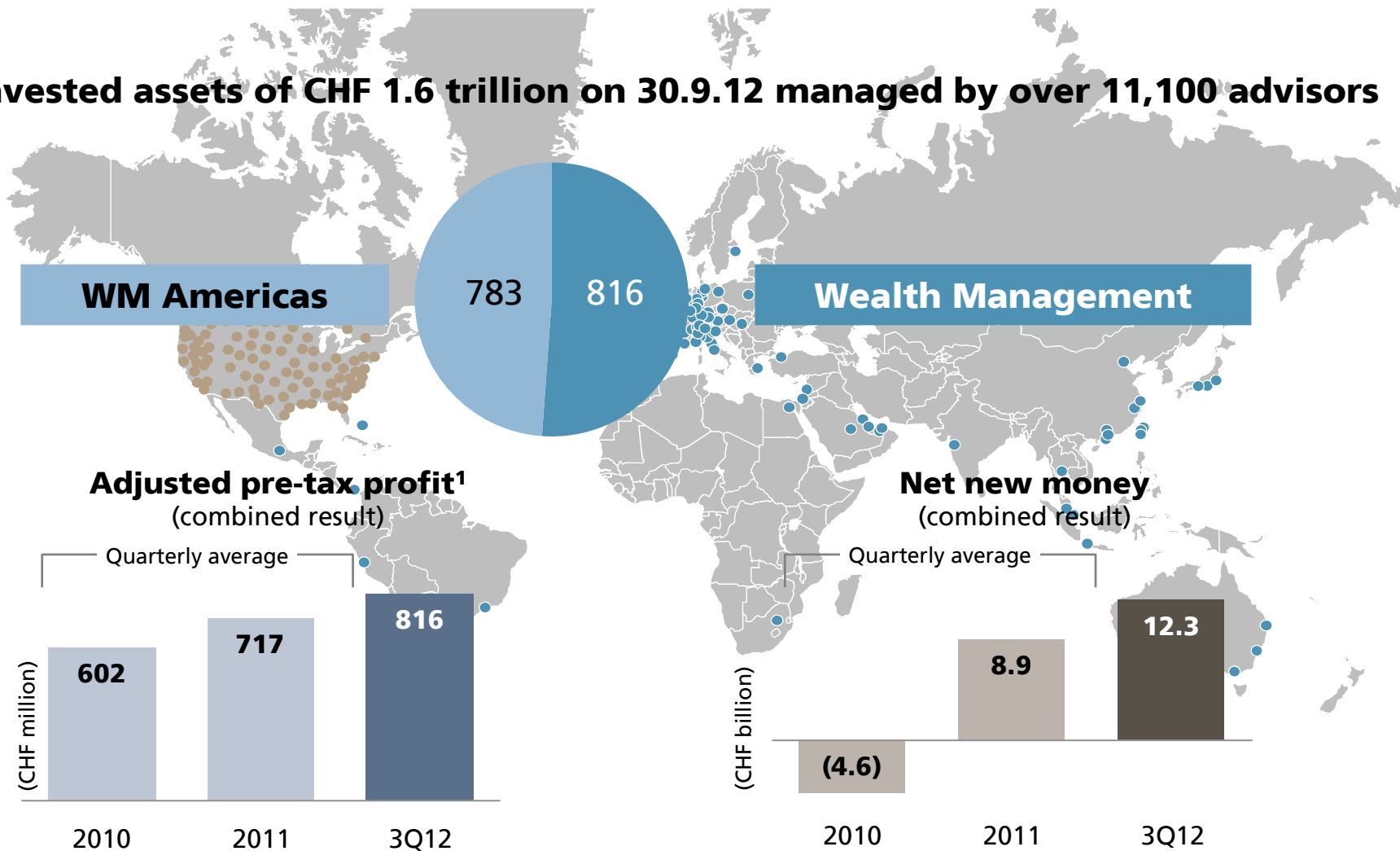
- **Basel 2.5 tier 1 capital** increased by CHF 1.2 billion to CHF 42.4 billion

■ Hybrid tier 1 capital    ■ Tier 1 ratio (%)  
■ Core tier 1 capital    ■ Core tier 1 ratio (%)

# Our wealth management businesses are unrivaled

We are well positioned for growth in the most attractive markets

Invested assets of CHF 1.6 trillion on 30.9.12 managed by over 11,100 advisors

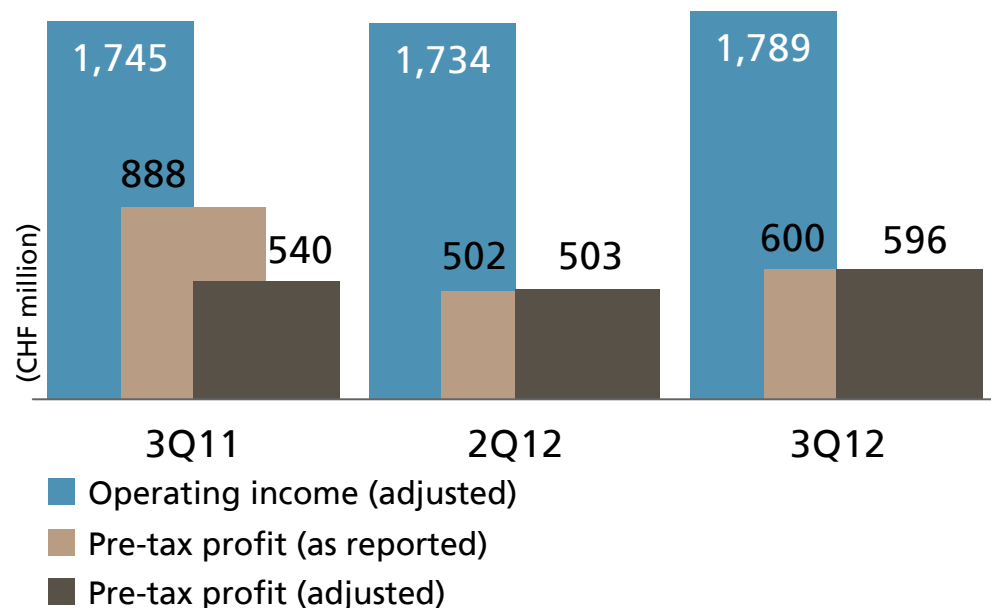


<sup>1</sup> Excluding restructuring charges and provision releases, reduction in personnel expenses related to changes to UBS's Swiss pension plan in 2012 (WM), gains from the sale of the strategic investment portfolio in 2011 (WM) and a provision related to an arbitration matter in 2010 (WMA)

# Wealth Management

## Adjusted pre-tax profit up 18%; highest third quarter NNM in 5 years

### Operating income and pre-tax profit

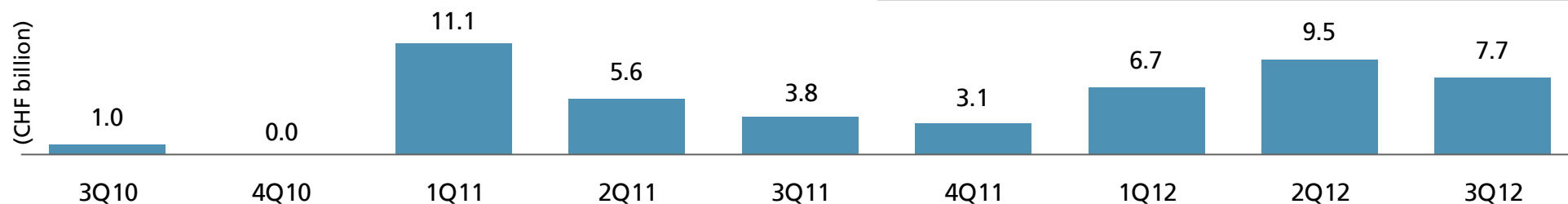


- **Higher activity levels and increased invested assets** led to 3% increase in operating income

- **Adjusted cost / income ratio** at 67%, within target range
  - Operating expenses down 3% on lower provisions

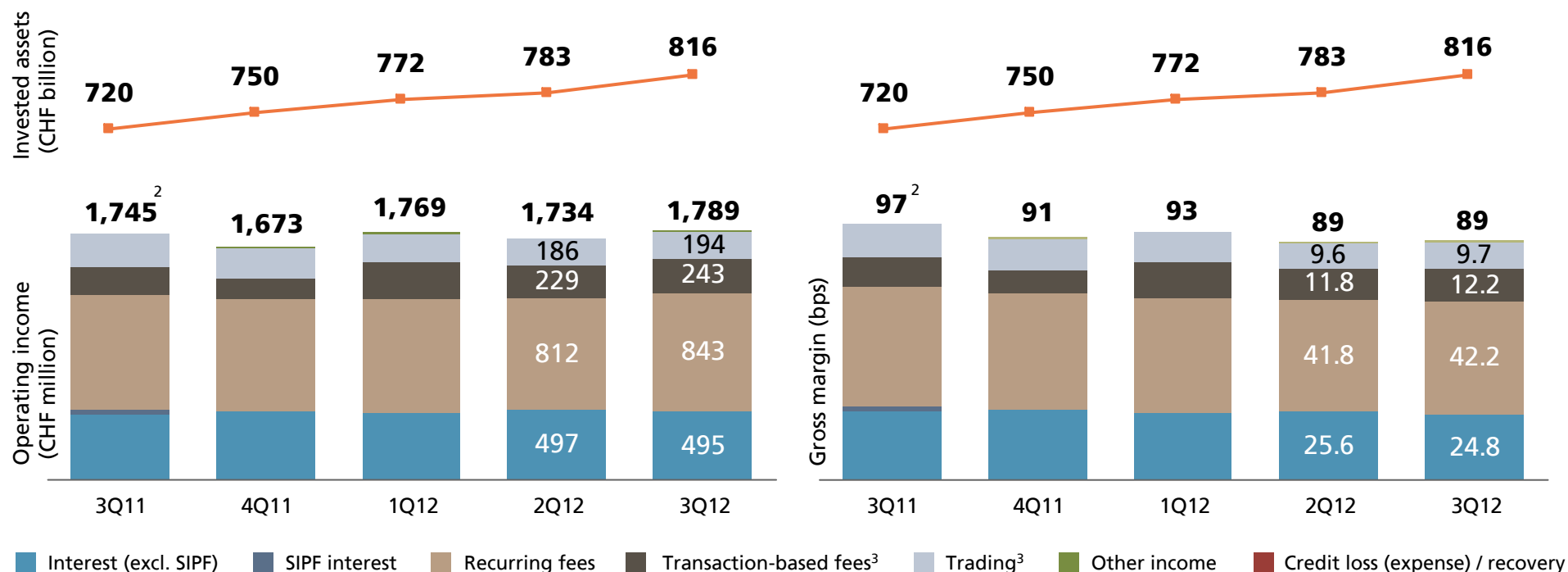
- **3.9% net new money growth**, within target range
  - Positive net new money in all regions
  - Strong contribution from APAC, EM and UHNW
- **Continued strong growth** in mortgages and Lombard lending

### Net new money



# Wealth Management—Operating income and gross margin

**Gross margin<sup>1</sup> stable at 89 bps; modest increase in client activity levels largely offset by an increase in the invested asset base**



- **Invested assets up 4% QoQ**, mainly due to positive market performance and strong net new money
- **Trading and transaction-based fee margin contribution up 0.5 bps** as revenues increased on slightly higher client activity especially towards the end of the quarter
- **Recurring fees gross margin contribution up by 0.4 bps** as recurring revenues increased on higher average invested assets
- **Net interest income broadly flat**



<sup>1</sup> Operating income before credit loss (expense) or recovery (annualized) / average invested assets; gross margin excludes a realized gain due to a partial repayment of fund shares of CHF 2 million in 3Q12 and CHF 5 million in 4Q11, as well as a negative valuation adjustments on a property fund of CHF 27 million in 3Q11

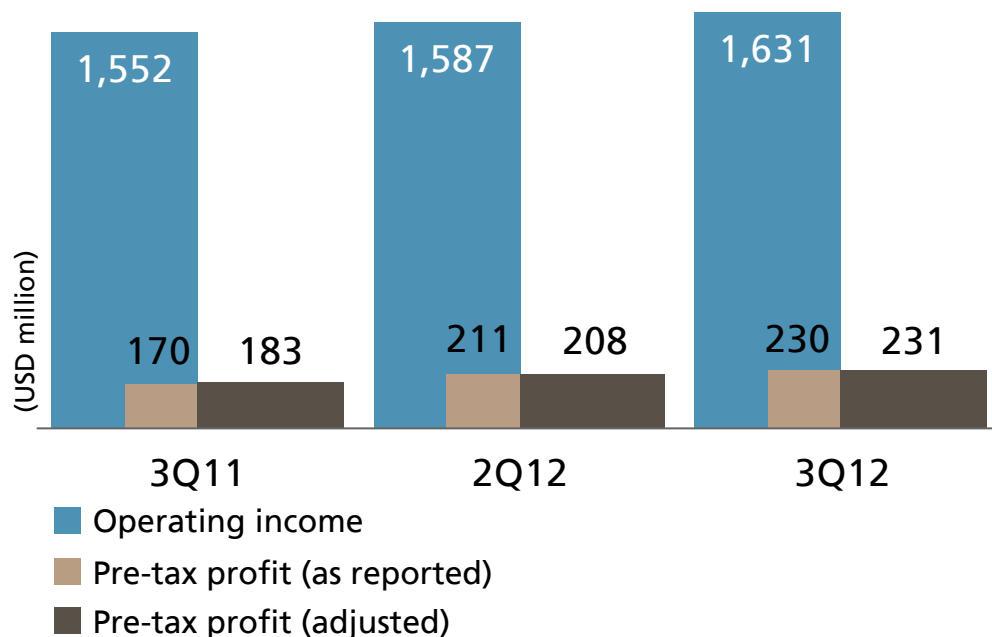
<sup>2</sup> Excludes gain of CHF 433 million on the sale of strategic investment portfolio (SIFP); including this gain gross margin was 120 bps

<sup>3</sup> Net fee and commission and net trading income in 3Q11 adjusted for revenue shifts related to Investment Products & Services unit

# Wealth Management Americas (USD)

**Our YTD pre-tax profit already represents a record for full year profits**

## Operating income and pre-tax profit



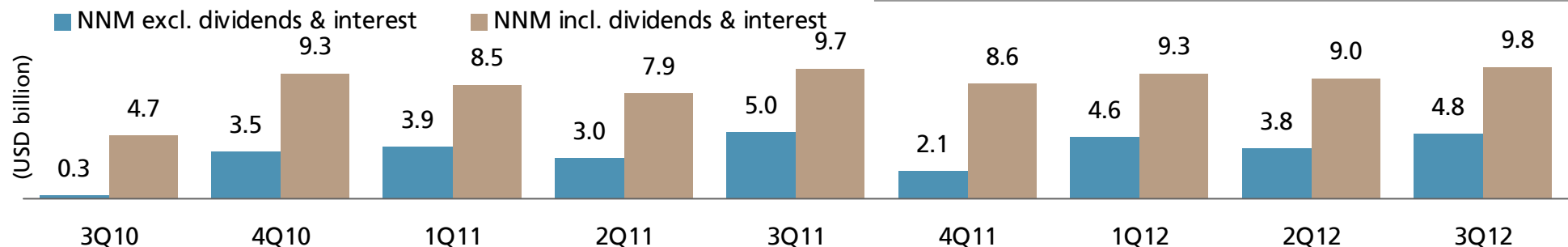
- **Record USD revenues for WMA;** increased 3% on stronger transaction-based revenues; gains on AFS sales stable

- **Adjusted cost / income ratio** at 86%, within target range

- **Financial advisor headcount broadly stable;** attrition rates remain low
  - Record revenue / FA and invested assets / FA

- **USD 4.8 billion net new money** with strong same store<sup>1</sup> NNM
  - Annualized NNM growth of 2.4%, within target range
  - USD 9.8 billion NNM including dividends and interest

## Net new money

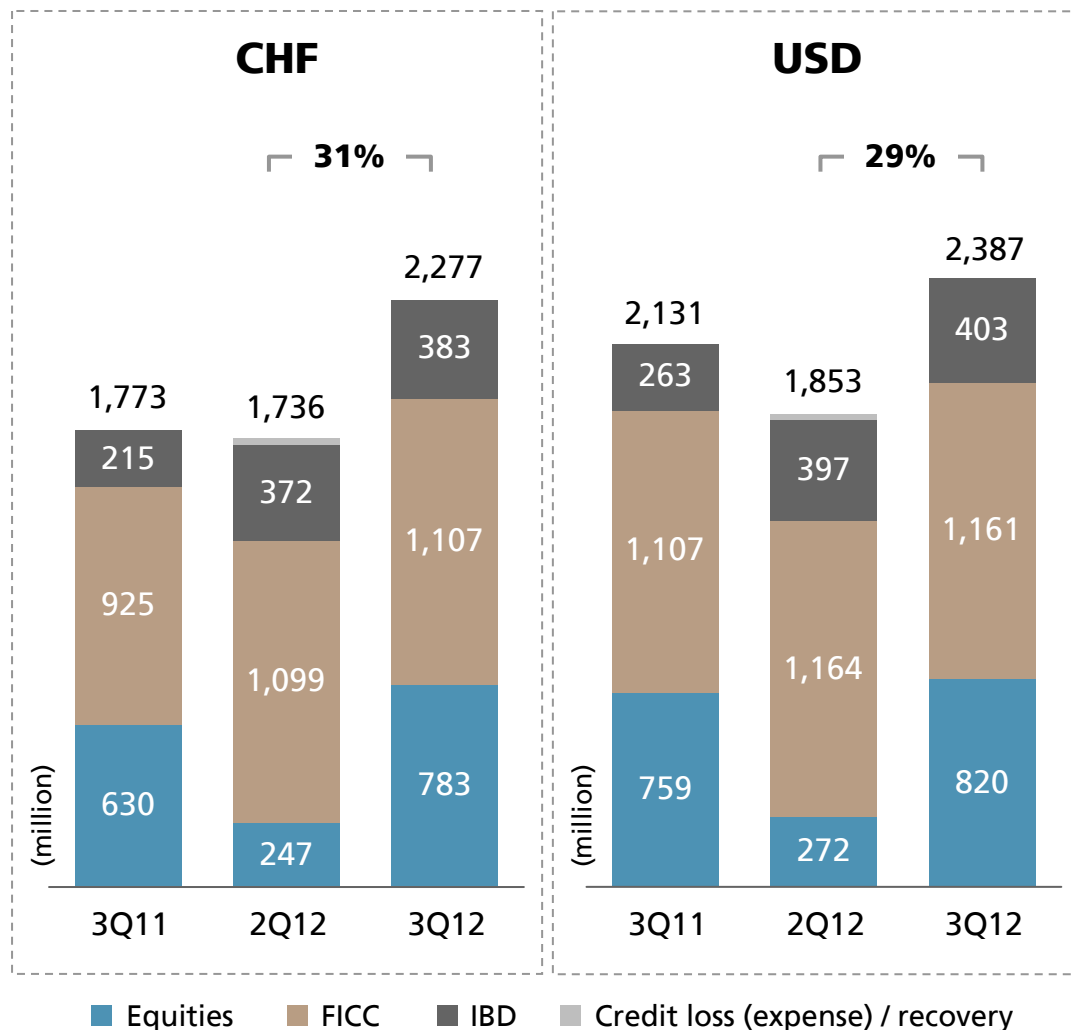


Refer to slide 1 for details about adjusted numbers, Basel III pro-forma estimates and FX rates in this presentation  
 1 Financial advisors with UBS for more than 12 months

# Investment Bank

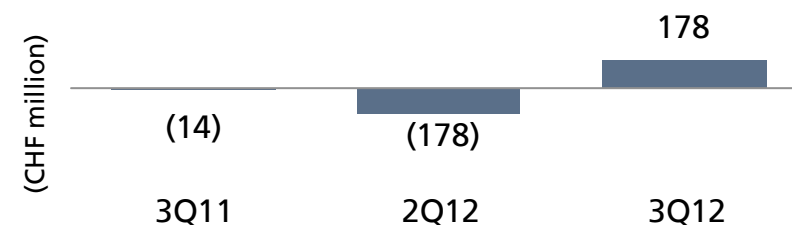
## Improved revenues and continued disciplined approach to RWA reduction

### Operating income



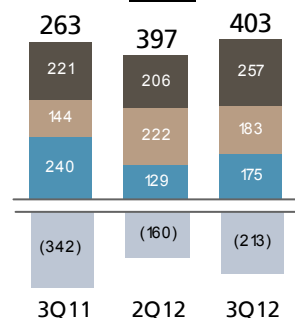
- **Revenues increased** in all business areas
- **Adjusted cost / income ratio fell** to 92%
- **Basel III RWAs reduced** by CHF 8 billion to CHF 162 billion
- **Average VaR at historical low;** reduced to CHF 26 million

### Adjusted pre-tax profit



# Investment Bank highlights<sup>1</sup>

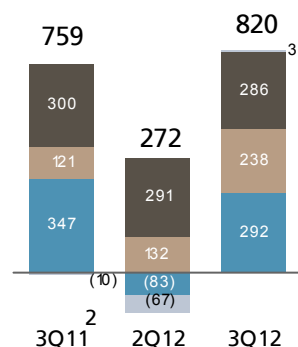
## IBD



## Significant market share improvement in Advisory and Debt Capital Markets

- **Advisory** improved market share and rank; participated in 2 of the top 6 deals
- **ECM** participated in 6 of top 8 ECM deals; 2Q12 included revenue from a number of private structured transactions
- **Fixed income capital markets** increased market share; participated in 10 of the top 20 deals
- **Other** increased mark-to-market losses on loan portfolio hedges and lower fees

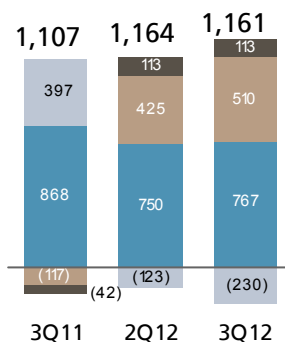
## EQUITIES



## Equities performed well

- **Cash** strong performance on improved client trading against a global decline in turnover (lowest market turnover since 2005)
- **Derivatives** improved on gains from tightening funding spreads, offsetting weaker revenues in EMEA; APAC and the Americas held up in challenging markets; 2Q12 impacted by changes in own credit methodology and corrections related to prior periods
- **Prime services** steady performance as improved funding revenues offset lower revenues in securities lending

## FICC



## Solid result with improved revenues in Credit and Macro up 9% QoQ

- **Macro** strong revenue growth in FX e-trading on increased customer volumes, more than offset by impact of subdued FX markets; improved results in long-end and non-linear interest rates
- **Credit** strong improvement in flow trading across all regions; solid performance in structured credit
- **Emerging Markets** improved performance in Latin America while EMEA continued to lag



Refer to slide 1 for details about adjusted numbers, Basel III pro-forma estimates and FX rates in this presentation

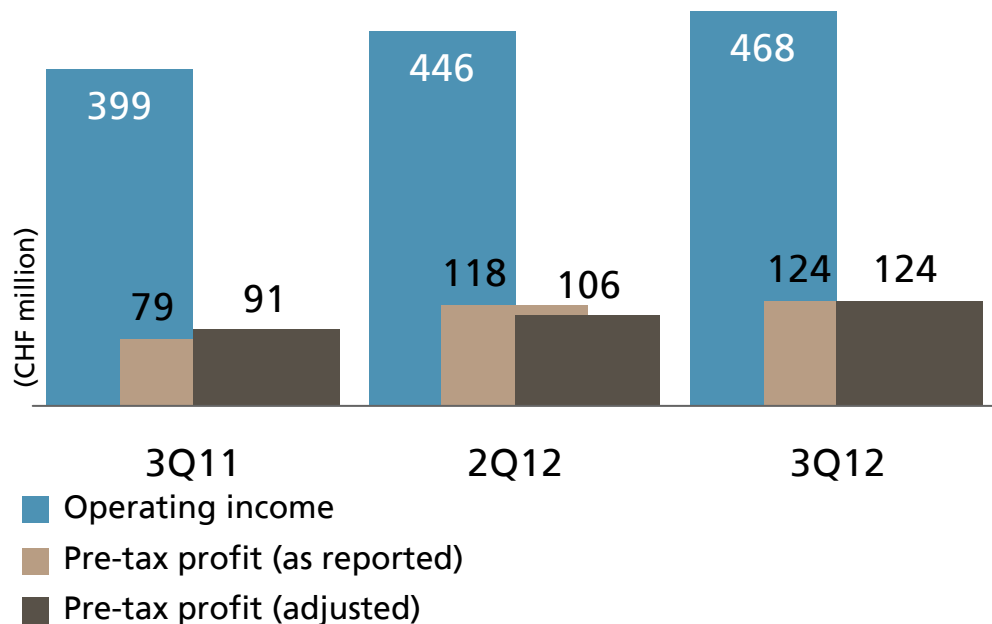
<sup>1</sup> All figures are revenues in USD million and comparisons are quarter on quarter in USD terms; for operating income in CHF see Appendix

<sup>2</sup> Unauthorized trading incident loss of CHF 1,849 million in equities in the Investment Bank in 3Q11

# Global Asset Management

## Adjusted pre-tax profit up 17% QoQ as performance fees more than doubled

### Operating income and pre-tax profit



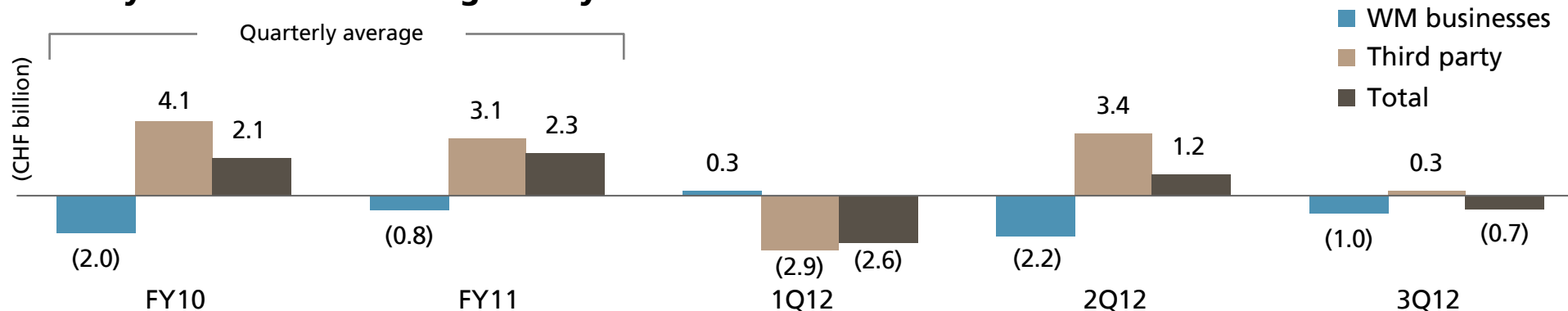
- **Operating income increased 5%**
  - Performance fees more than doubled, driven by A&Q
  - Net management fees broadly stable

- Operating expenses **broadly flat**

- **Gross margin** of 32 bps, within target range

- **Strong investment performance** for A&Q and most traditional strategies

### NNM by channel — excluding money market

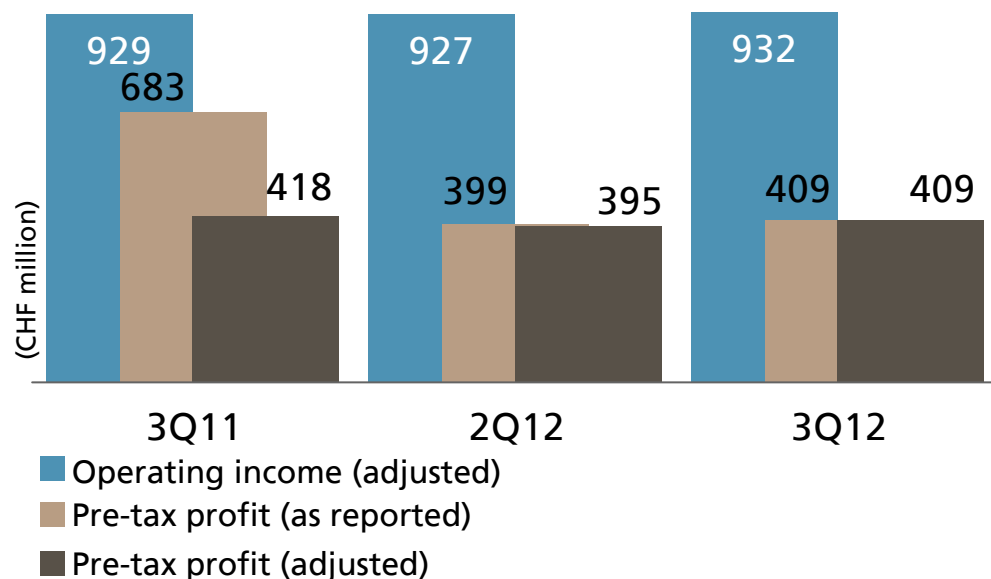




# Retail & Corporate

## Adjusted pre-tax profit up 4% QoQ with strong NNBV growth

### Operating income and pre-tax profit



- **Operating income increased** mostly on increased trading income

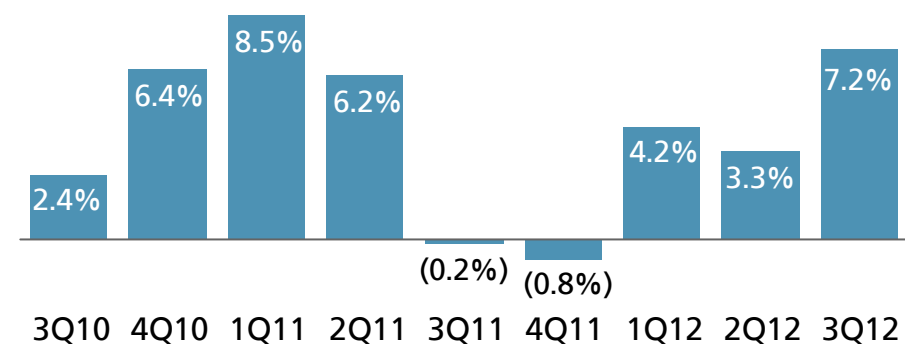
- Modest reduction in interest income despite the historically low interest environment

- **Adjusted cost / income ratio 55%**, within target range

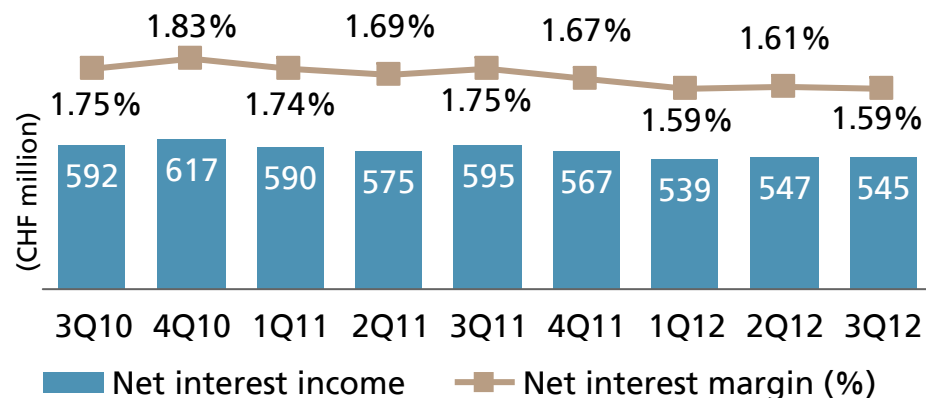
- **Net new business volume growth above target range** with sizable contribution from corporates

- **Net interest margin** within target range

### Net new business volume growth rate (annualized)



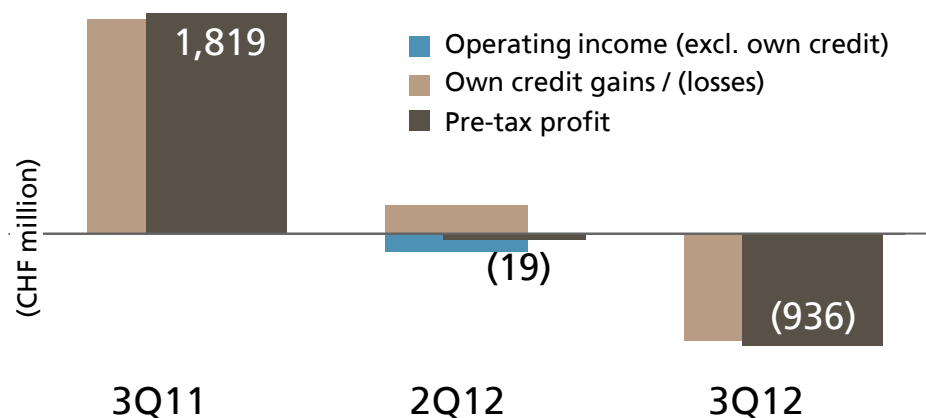
### Net interest margin



# Corporate Center

**CHF 998 million pre-tax loss including own credit losses of CHF 863 million**

## Corporate Center – Core Functions

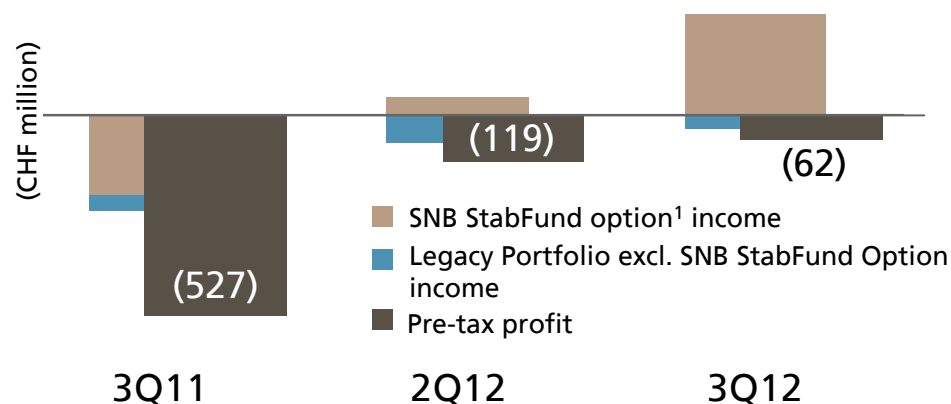


- Corporate Center – Core Functions:**

CHF 936 million pre-tax loss

- Own credit losses of CHF 863 million
- Adjusted operating income of CHF 12 million included a CHF 106 million hedge ineffectiveness gain partially offset by liquidity portfolio costs
- Operating expenses decreased CHF 34 million mainly on personnel-related accrual releases

## Legacy Portfolio



- Legacy Portfolio:**

CHF 62 million pre-tax loss

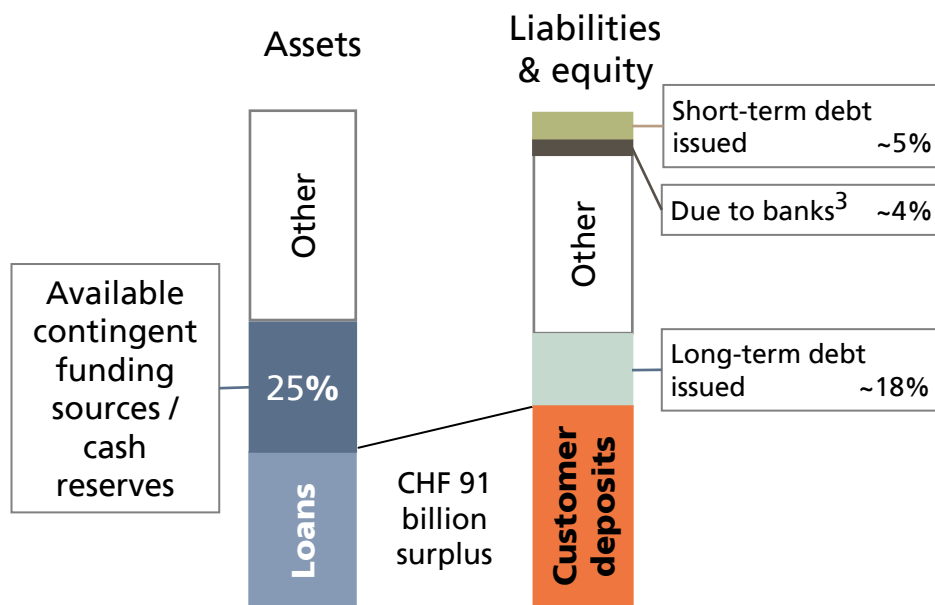
- CHF 263 million gain on the revaluation of our option to acquire the equity of the SNB StabFund<sup>1</sup>
- Negative operating income from legacy positions of CHF 34 million
- Net credit loss expenses of CHF 122 million, mainly due to student loan ARS sold or to be sold in 4Q12
- Operating expenses rose on higher provisions and legal fees

# Strong liquidity and stable funding profile

## UBS's Basel III Liquidity Coverage Ratio and Net Stable Funding Ratio in excess of 100%<sup>1</sup>

→ 25% of our funded balance sheet assets are in the form of available liquidity<sup>2</sup>

### Funded balance sheet (30.9.12)



### Liquidity Coverage Ratio (LCR)

(CHF billion)	30.9.12
Cash outflows	282
Cash inflows	136
under 30-day stress scenario <sup>4</sup>	
Net cash outflows	147
Liquidity asset buffer <sup>5</sup>	165
<b>Regulatory LCR ( = 165 / 147 )</b>	<b>113%</b>
Additional contingent funding sources <sup>6</sup>	69
<b>Management LCR ( = (165 + 69) / 147 )</b>	<b>160%</b>

### Net Stable Funding Ratio (NSFR)

(CHF billion)	30.9.12
Available stable funding <sup>7</sup>	366
Required stable funding <sup>8</sup>	342
<b>NSFR ( = 366 / 342 )</b>	<b>107%</b>

Refer to slide 1 for details about adjusted numbers, Basel III pro-forma estimates and FX rates in this presentation

1 Pro-forma: Based on current regulatory guidance; 100% = future requirement under the Basel III Liquidity Framework

2 Dedicated liquidity reserves including excess cash at major central banks and unutilized collateralized borrowing capacity

3 Interbank liabilities only. Interbank liabilities net of interbank assets are ~0.1% of funded balance sheet as of 30.9.12

4 Out- and in-flows up to 30 days under severe general market and firm-specific stress

5 Assets eligible in Basel III LCR framework including dedicated group liquidity reserve, excess cash at major central banks, unencumbered collateral pledged to central banks

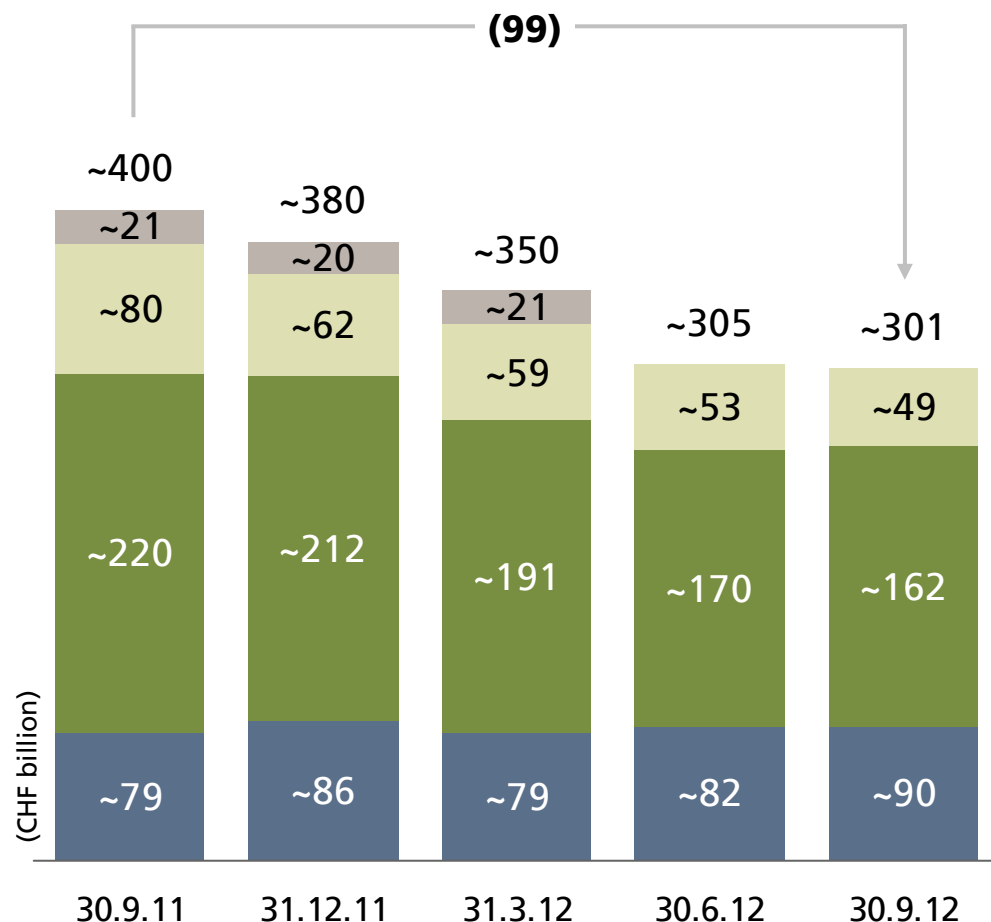
6 Additional contingent funding sources including dedicated local liquidity reserves and additional unutilized borrowing capacity

7 Consists mainly of client deposits from our wealth management businesses, long term debt issued and capital

8 Residential mortgages and other loans are the main consumers of stable funding

# Basel III – Risk-weighted assets

## Continued reduction in the Investment Bank and the Legacy Portfolio



- **Sales and reduced exposures contributed ~85% of RWA reduction** in the Investment Bank and the Legacy Portfolio since 30.9.11

### Quarter on quarter changes:

- **Legacy Portfolio:** ~CHF 4 billion decrease
  - ~CHF 2 billion on sales and reduced exposure
  - ~CHF 2 billion on model changes
- **Investment Bank:** ~CHF 8 billion decrease
  - ~CHF 2 billion on reduced exposure
  - ~CHF 6 billion on model changes
- **Other businesses:** ~CHF 8 billion increase, mainly on model changes
  - ~CHF 5 billion in Retail & Corporate
  - ~CHF 2 billion in Wealth Management

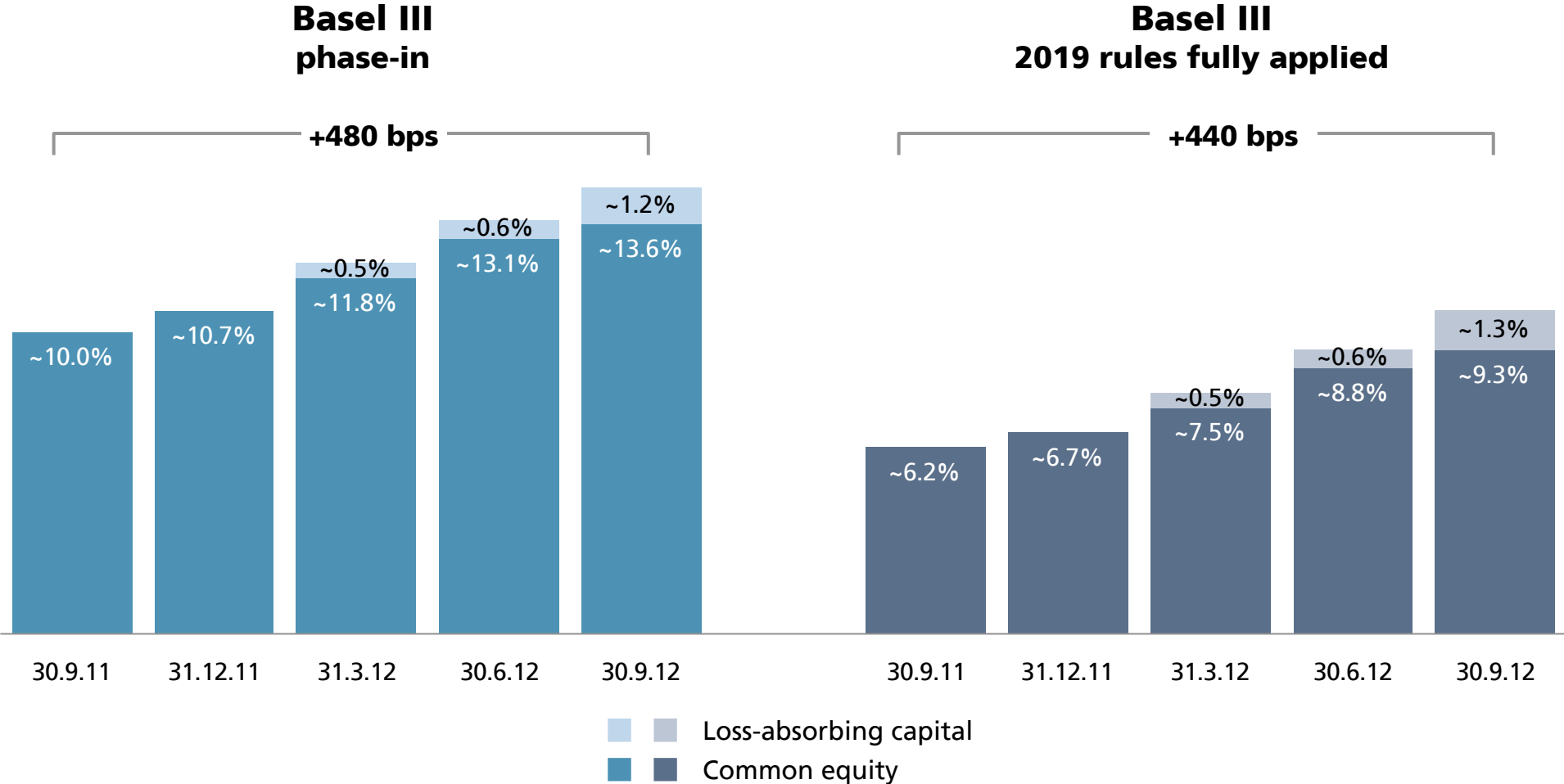
■ Wealth Management / Wealth Management Americas / Retail & Corporate / Global Asset Management / CC-Core Functions  
 ■ Investment Bank ■ Legacy Portfolio ■ SNB StabFund<sup>1</sup>



Refer to slide 1 for details about adjusted numbers, pro-forma Basel III estimates and FX rates in this presentation  
 1 RWAs associated with UBS's option to purchase the SNB StabFund's equity. Treated as a participation with full deduction to CET1 capital from 2Q12

# Industry-leading Basel III capital ratios

~9.3% CET1 ratio on a fully applied basis



**We expect a limited incremental impact from IAS 19R (~40 bps decrease to fully applied CET1 ratio)**



Refer to slide 1 for details about adjusted numbers, pro-forma Basel III estimates and FX rates in this presentation

Strategy update

# Key messages

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Our franchise is unrivaled with compelling industry growth prospects; we are prepared for the future and are committed to deliver highly attractive returns

We have built the foundation for our long-term success – industry leading capital ratios, strong funding and liquidity, lower costs and reduced RWAs

We are accelerating our transformation from a position of strength

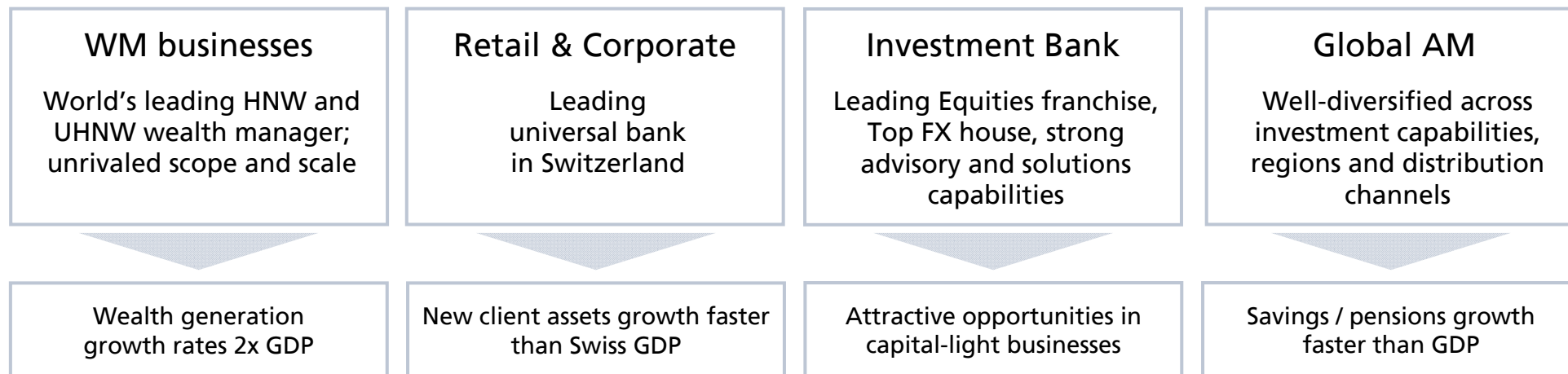
- Our Investment Bank will focus on its traditional strengths and will operate with Basel III RWAs of less than CHF 70 billion
- Targeting a ~30% reduction in our funded balance sheet by 2015
- Further extensive measures to improve our long-term efficiency, annual cost savings target increased by ~CHF 3.4 billion to ~CHF 5.4 billion in 2015

We are firmly committed to delivering attractive and sustainable capital returns to shareholders targeting:

- Basel III fully applied CET1 ratio of 13% in 2014
- Return on equity of at least 15% from 2015
- A total payout ratio of more than 50% after we reach our capital targets

# UBS – The bank of the future

## An unrivaled franchise with compelling growth prospects



## Prepared for the future

Clear strategy

Solid financial foundation

Long term efficiency measures

Track record of execution

## Committed to deliver highly attractive returns

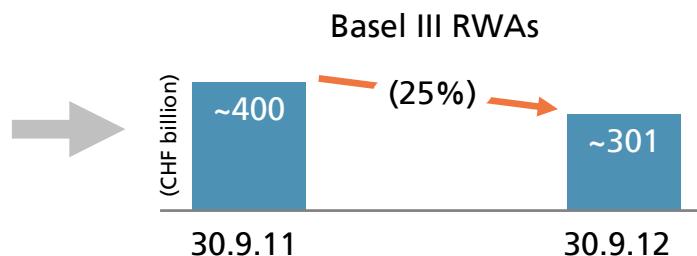
Return on equity of at least 15% from 2015

Attractive capital return policy



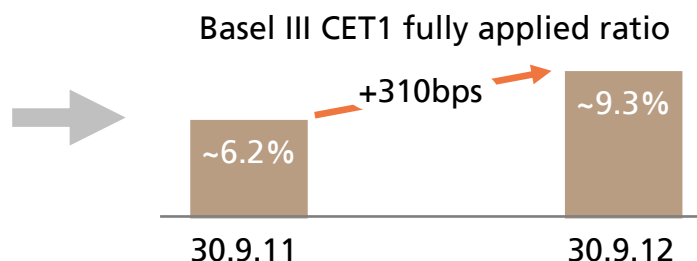
# Successful execution of our key strategic priorities over the last 12 months

## Reduce RWAs



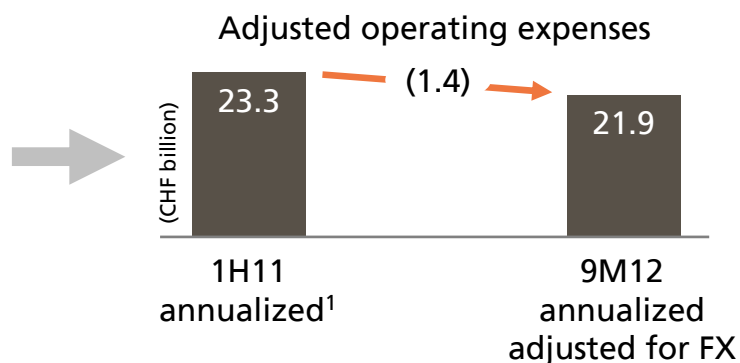
- Focused and disciplined execution of Basel III RWA reduction
- 2012 RWA targets achieved ahead of schedule

## Build capital strength



- Consistent execution against our non-dilutive capital objectives
- Basel III fully applied CET1 ratio 9.3% up 310 bps since 30.9.11; phase-in Basel III CET1 ratio 13.6%

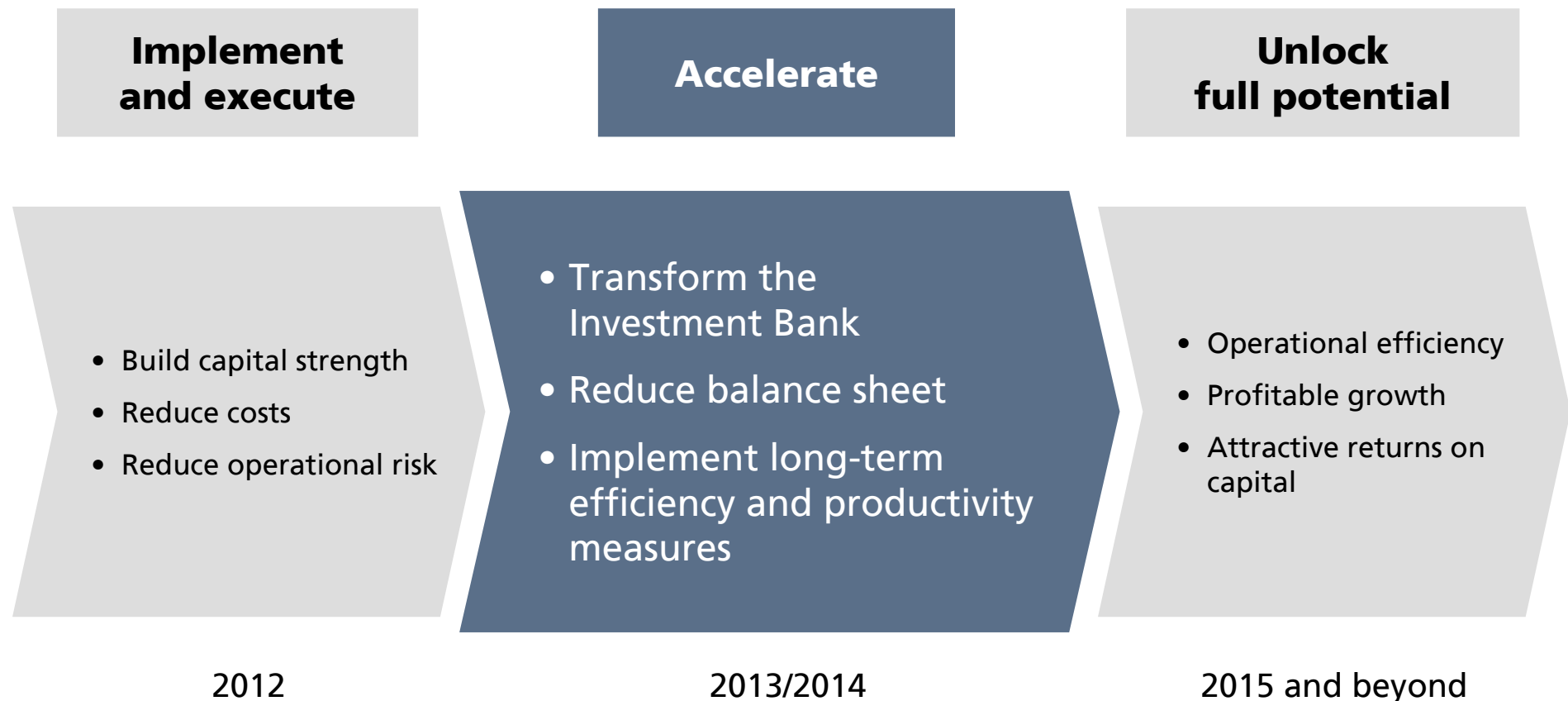
## Reduce costs



- Execution of CHF 2 billion cost elimination program on track
- Adjusted annualized cost reduction of CHF 1.4 billion compared to 1H11 excluding adverse currency movements of ~CHF 0.6 billion

# Our journey – The transformation of UBS

We are taking action from a position of strength...



**...to maximize value for our clients, employees and shareholders**

# Accelerating the transformation of the Investment Bank

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## Considerations

- Needs of wealth management and core external clients
- Expected returns
- Competitive position
- Revenue / earnings volatility
- Operational complexity
- Interdependencies
- Expected market developments
- Regulatory developments

**Capitalizing  
on our  
traditional  
strengths...**

**...while exiting  
balance sheet and  
capital intensive  
businesses**

## Benefits

- Ability to concentrate resources to maintain and grow core businesses
- Invest in quality content, industry-leading talent and best-in-class execution
- Substantial cost reduction potential
- Significant capital returns over time
- Reduced size and complexity
- Reduced operational risk

# Investment Bank

## Our Investment Bank is a source of competitive advantage for UBS

### Capitalizing on our traditional strengths

#### Strong advisory and solutions capabilities

- Global footprint with presence in all major financial markets
- Consistently leading in APAC

#### Leading Equities franchise

- Consistently highly ranked in Global Equities
- Top-ranked research

#### Top FX and Precious metals house

- Highly ranked across FX products
- #1 Dealer – Gold Spot and Options, Silver Spot and Forwards

- **Our clients** will continue to benefit from best-in-class expertise, solutions-led advisory, intellectual capital and global execution capabilities
- Ideal partnership with other business divisions - the skills and strengths of these businesses enable us to meet the needs of **our clients in wealth management businesses, Retail & Corporate and Global AM**
- Highly capital-efficient businesses, with attractive returns for **our shareholders**
- A unique and attractive proposition to **our employees**:
  - A rewarding, intellectually rich environment and a career with a best-in-class global bank
  - The ability to build deep relationships and facilitate the best outcomes for clients
  - To be part of an expert advisory and solutions team with a unique position in the market
  - Clear accountability for results

# Creating a profitable and competitive Investment Bank

	Corporate Client Solutions	Investor Client Services
Our businesses	Advisory and solutions, origination and structuring, IBD, Leveraged Finance, Special Solutions Group	Distribution, sales and trading Equities, FX, Precious Metals, Flow rates
Our clients	Corporate, FIG, sponsor clients	WM and Prime brokerage clients, market counterparties
Our relationships	<ul style="list-style-type: none"> <li>• Professionals with extensive experience in advisory/capital markets providing unbiased advice</li> <li>• Patient cultivation of long-term advisory relationships and high quality client coverage</li> <li>• Thought leadership with deep insights into markets and governments</li> </ul>	
Our platform	<ul style="list-style-type: none"> <li>• High speed trade execution and robust clearing platform</li> <li>• Provider of liquidity and financing</li> <li>• Leading low latency execution platforms for equities and FX</li> <li>• Leading portfolio management and risk assessment tools</li> </ul>	
Our culture	<ul style="list-style-type: none"> <li>• Client-centric and solutions oriented</li> <li>• Talent rich, team-based, diverse people</li> <li>• Clear accountability for results</li> </ul>	
Financials	Expected: ~1/3 of total revenues ~15% of Basel III RWAs	Expected: ~2/3 of total revenues ~85% of Basel III RWAs
	Targeting a pre-tax return on attributed equity of more than 15%, cost / income ratio of 65-85% and overall Basel III RWAs of less than CHF 70 billion	

# Businesses and positions to be exited and transferred to Corporate Center

## Our strong capital position allows us to effectively balance speed of execution and exit costs

- Exiting some businesses that are not expected to deliver adequate risk-adjusted returns given the regulatory and economic outlook
- Substantial cost savings potential by elimination of front-to-back costs
- Significant reduction in operational risk and complexity
- Rigorous control and governance procedures in line with existing Legacy Portfolio
- We have appointed an experienced team dedicated to manage the portfolio
- We will exit these businesses over an extended period to minimize impact on results

### Positions to be exited:

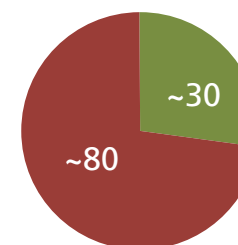
- Total Basel III RWA ~CHF 90 billion
  - ~CHF 80 billion FICC / FICC-related
  - ~CHF 10 billion operational risk
- Total funded assets ~CHF 260 billion

### Significant reduction in FICC / FICC-related businesses:

- RWA from ~CHF 110 to ~CHF 30 billion
- Funded assets from ~CHF 330 billion to ~CHF 70 billion

### FICC / FICC-related Basel III RWAs

~CHF 110 billion on 30.9.12



- RWA reductions from positions to be exited
- Target RWA for businesses we are maintaining

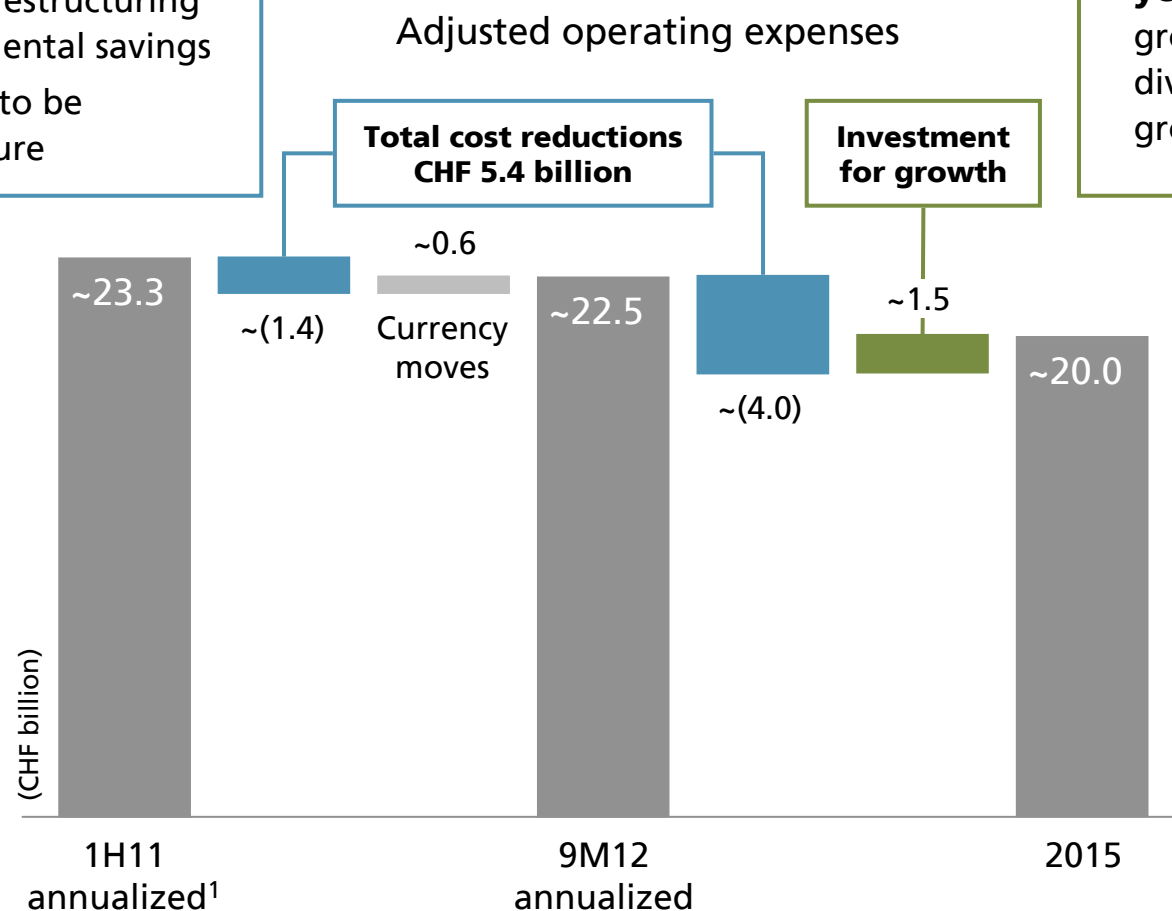
**We will manage businesses and positions to be exited  
in the most value accretive way**

# Investing in businesses with more attractive returns

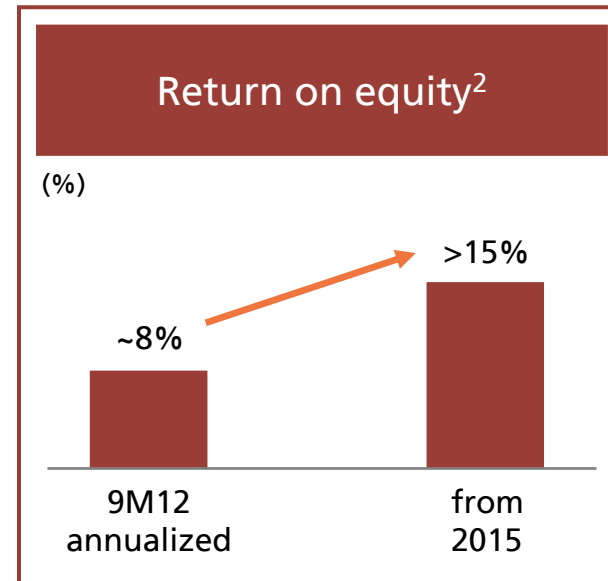
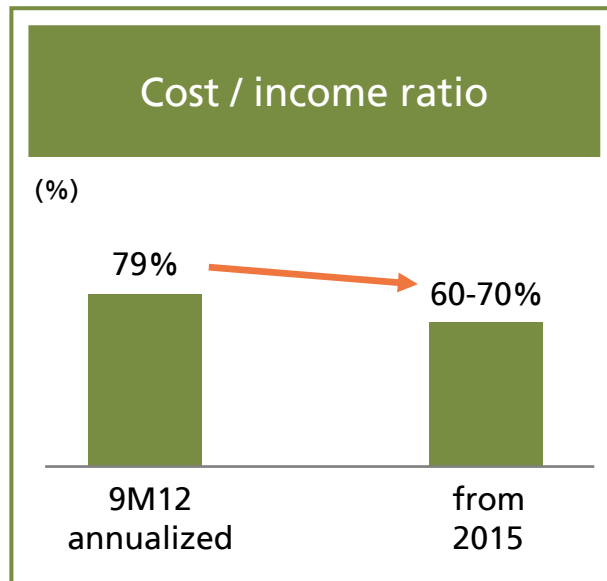
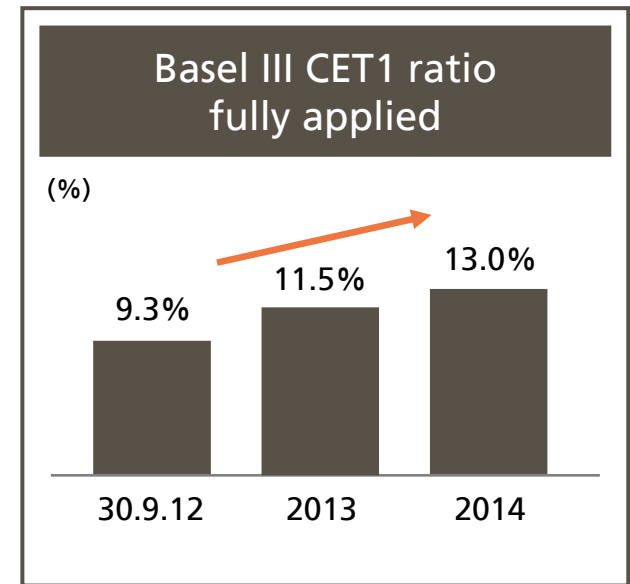
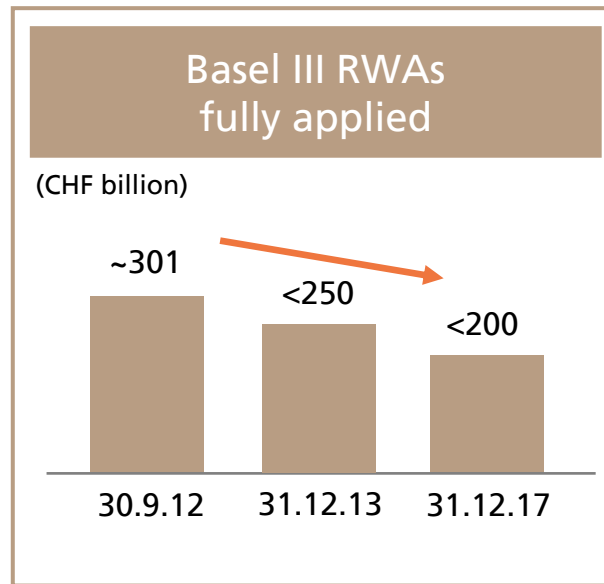
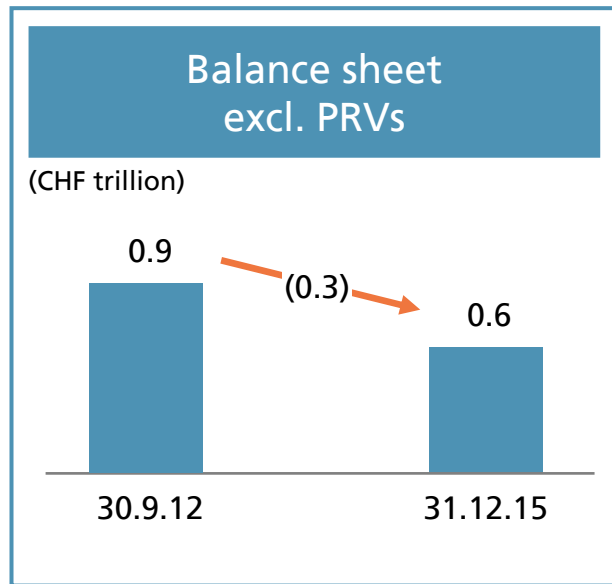
**Our operational efficiency plans will free up more resources to support growth in areas with the most attractive returns**

- **Total gross cost reductions of CHF 5.4 billion p.a. by 2015**
- CHF 3.3 billion of restructuring charges for incremental savings
- Group headcount to be ~54,000 in the future

- **Investments of CHF 1.5 billion over the next 3 years** to support organic growth across all business divisions and strategic growth initiatives



# Group targets<sup>1</sup>

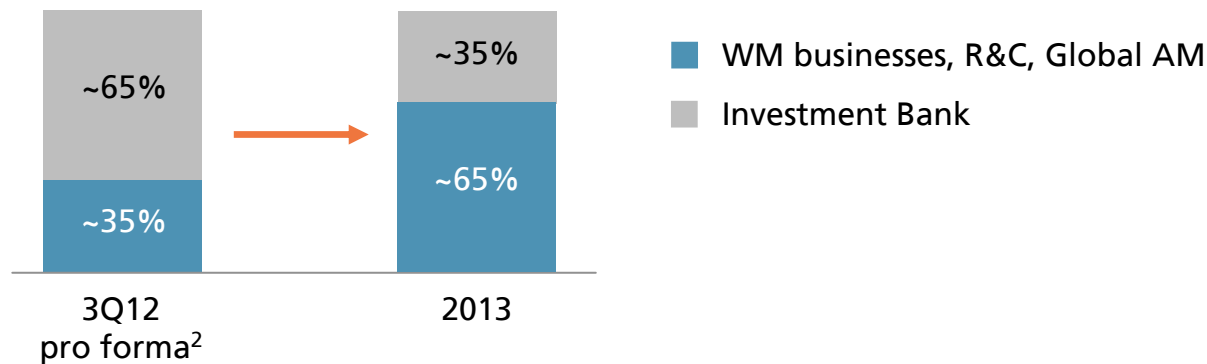




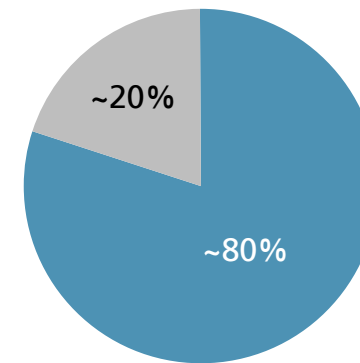
# Reducing capital needs, while strengthening the business mix

We will improve the quality and consistency of our earnings

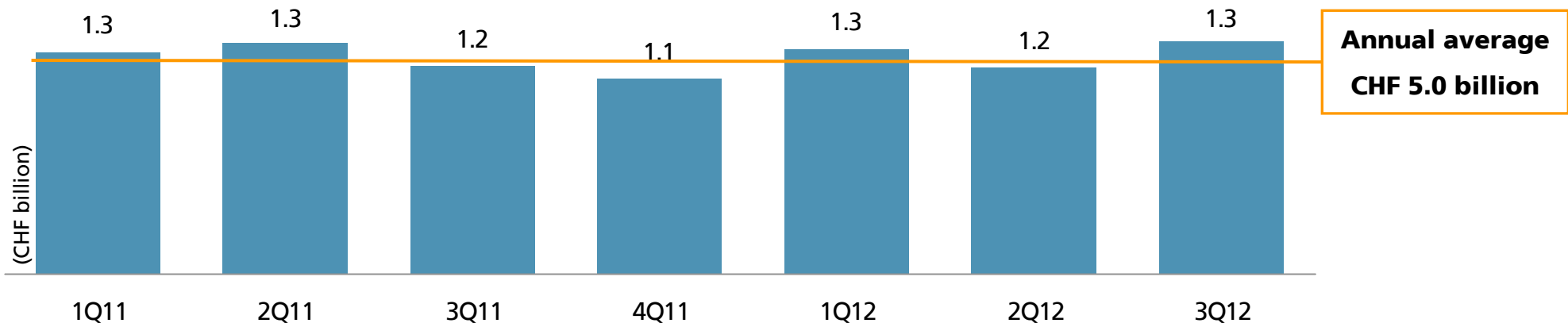
**Attributed equity to business divisions<sup>1</sup>**



**Expected pre-tax profit contribution<sup>1</sup>**



**Adjusted pre-tax profit WM businesses, R&C, Global AM**



Refer to slide 1 for details about adjusted numbers, Basel III pro-forma estimates and FX rates in this presentation

<sup>1</sup> Excluding Corporate Center

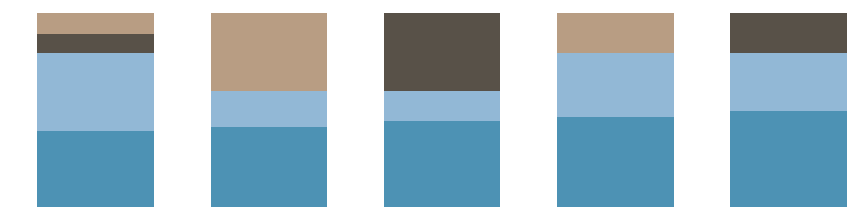
<sup>2</sup> Pro-forma for shift of attributed equity related to Paine Webber goodwill and intangible assets to the Corporate Center

# We are firmly committed to return capital to shareholders

## Our business mix supports an attractive capital returns program

→ Progressive capital returns as we work towards our capital targets; thereafter attractive capital returns

Future dividend policy – illustrative example (% of profits)



■ **Baseline dividend:**

sustainable payment that is affordable with respect to UBS's long-term profitability

■ **Supplementary returns:**

special capital return (e.g., dividends above the baseline, buybacks)

■ **Reinvestments:**

in existing businesses or strategic investments from time to time, but only when clearly accretive

■ **Management countercyclical capital buffer:**

consideration of other factors, i.e., economic environment, outlook

**We are targeting a total payout ratio of more than 50% which combines a baseline dividend and flexible supplementary returns**

# Our vision for the UBS of the future

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An unrivaled franchise	Leading positions in all business divisions
Positioned for growth	Compelling industry growth prospects
Prepared for the future	Clear strategy, solid financial foundation, long-term efficiency measures and track record of execution
Attractive returns	Targeted return on equity of at least 15% from 2015 Attractive capital return policy

**A unique and valuable proposition to our clients, our employees and our shareholders**

## Strategy – Capital and Funding

# Financial strength is the foundation of our success

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Our business model will be less capital intensive in the future

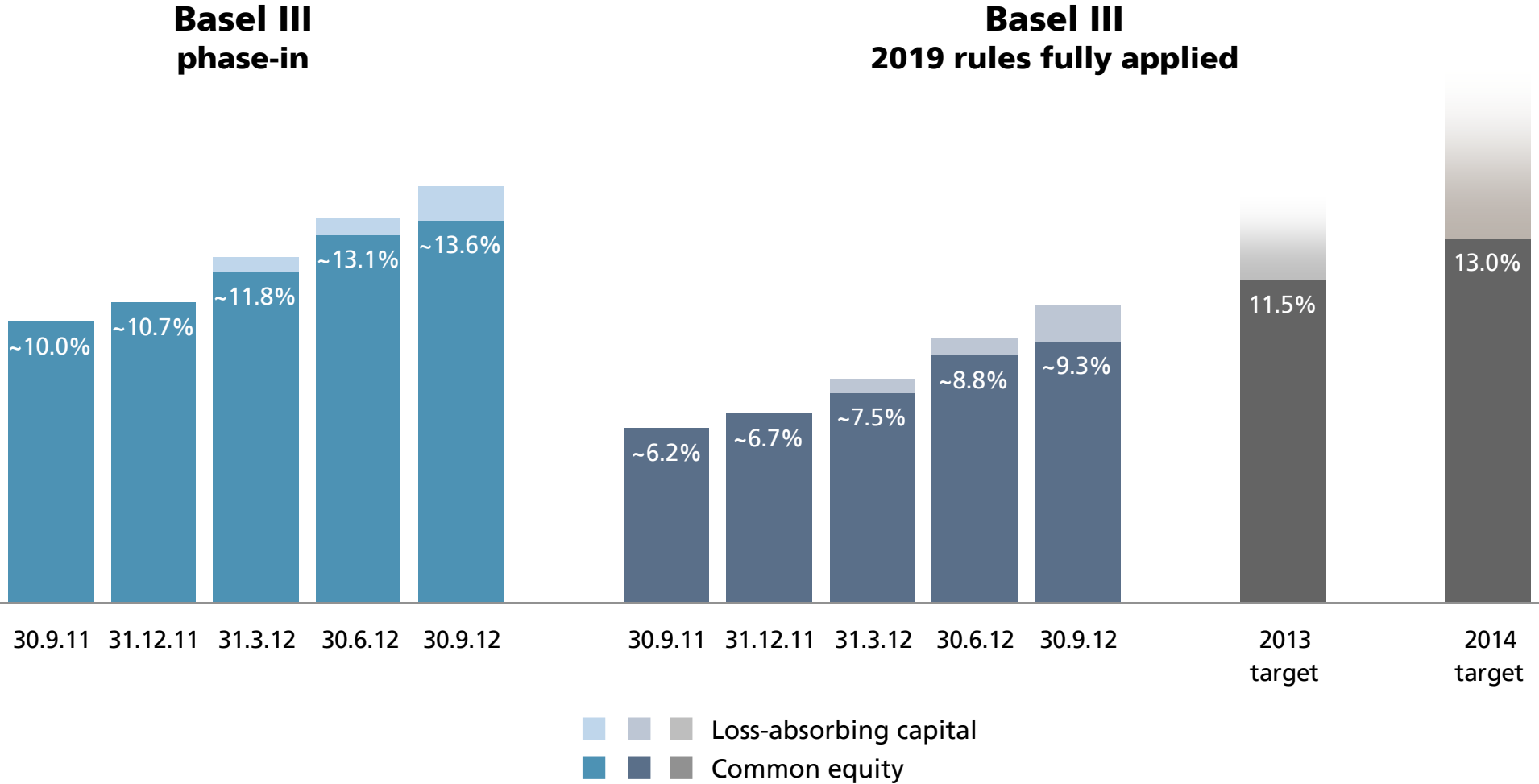
- Basel III CET 1 ratio targets of 11.5% in 2013 and 13% in 2014 on a fully applied basis
- Group Basel III RWA target of <CHF 250 billion by 2013, <CHF 225 billion by 2015 and <CHF 200 billion by 2017
- Our total capital requirements are expected to fall to 17.5% reflecting the planned decrease in RWAs and balance sheet<sup>1</sup>

Our strong liquidity and funding will be further enhanced

- We will reduce our funded balance sheet by ~30%, a reduction of ~CHF 300 billion
- Our leverage ratios will substantially improve as we reduce our balance sheet
- The proportion of deposits as a funding source will increase
- Lower funding requirements will allow us to buy back debt

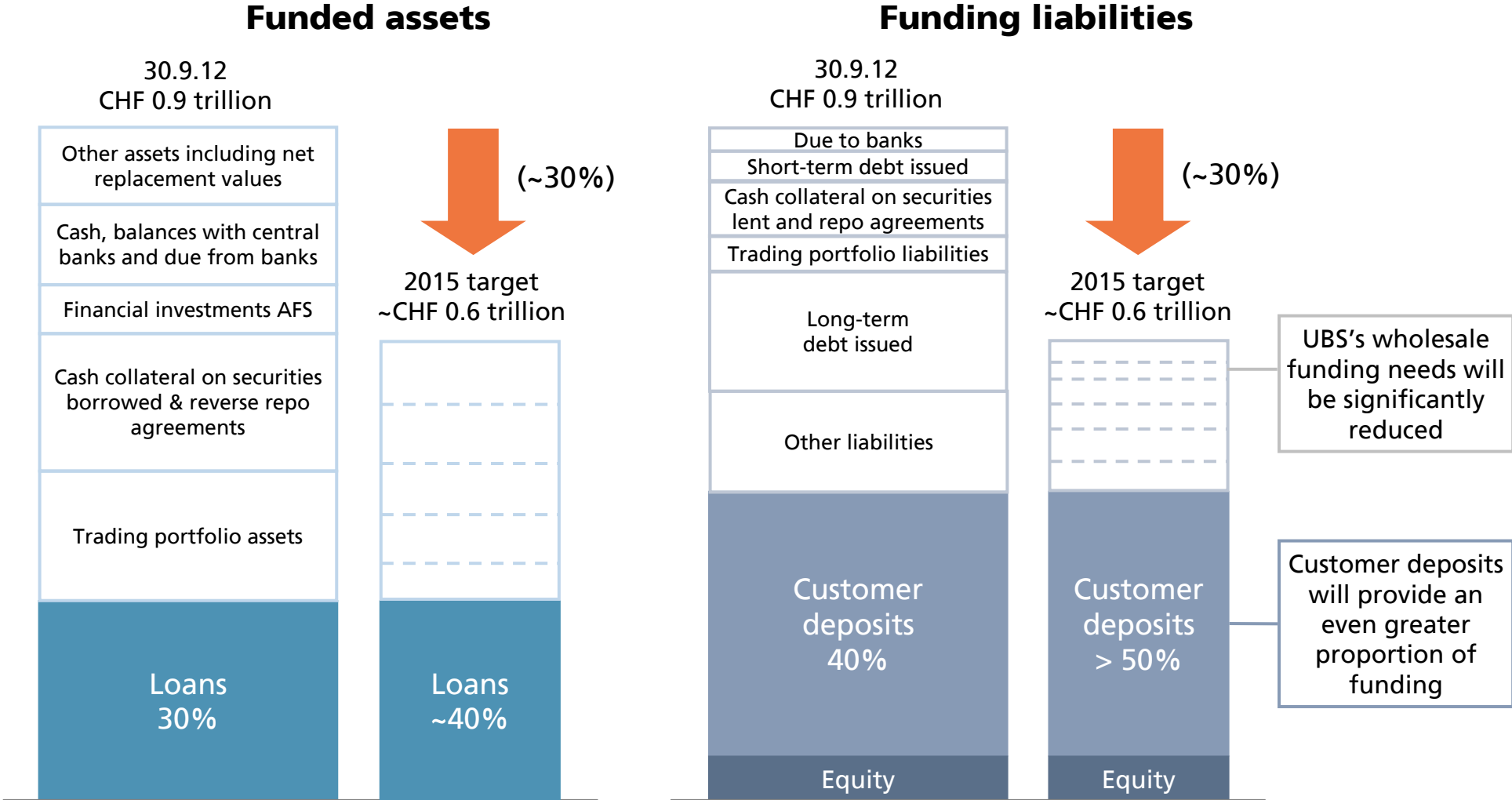
# Basel III – Capital ratios

## Targeting a 13% fully-applied CET1 ratio in 2014



Refer to slide 1 for details about adjusted numbers, pro-forma Basel III estimates and FX rates in this presentation

# Our funded balance sheet<sup>1</sup> will be reduced by a further ~30%



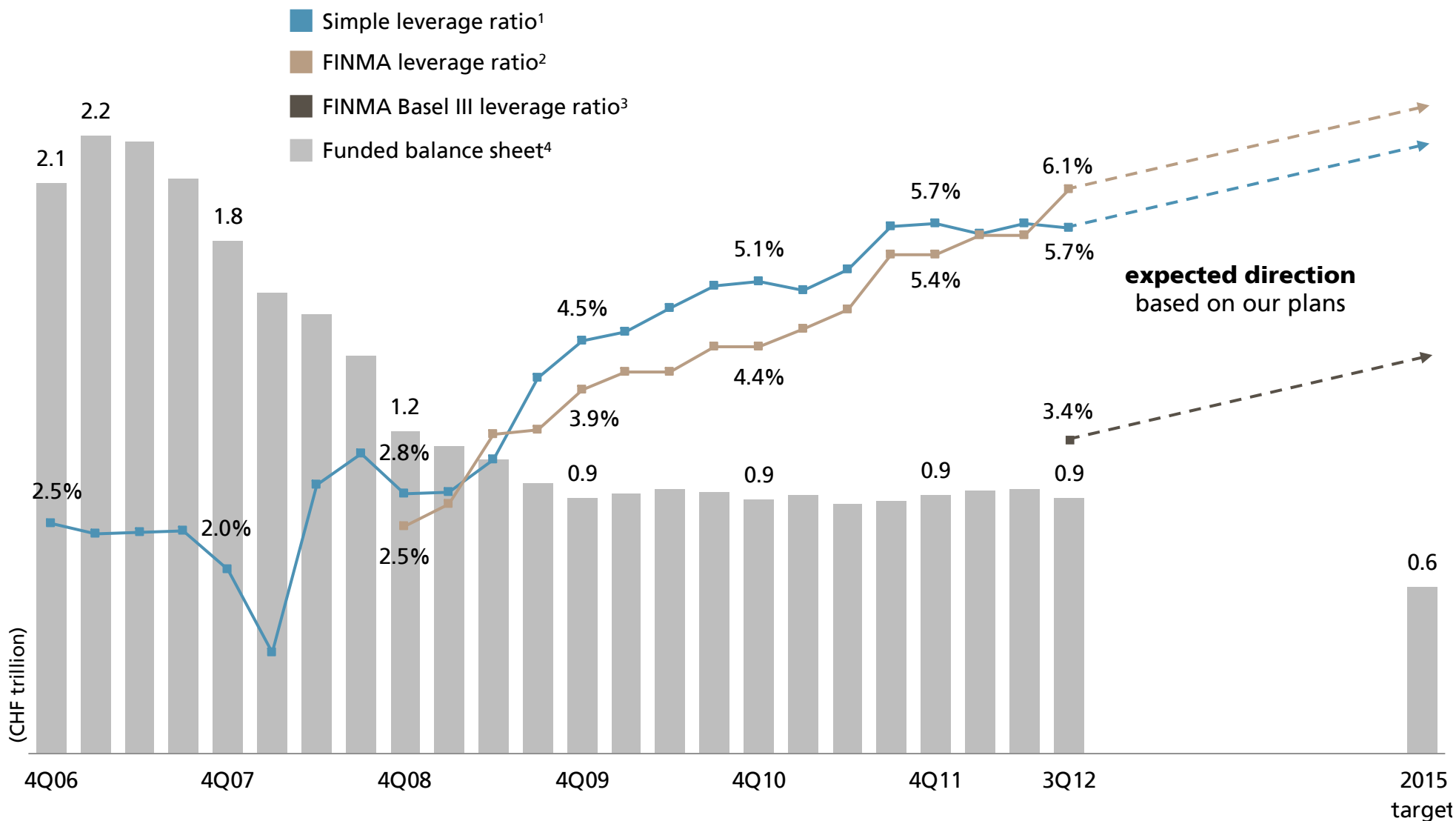
**Lower funding requirements will allow us to buy back debt**



<sup>1</sup> Funded balance sheet defined as total assets minus replacement values

# Leverage ratios

Our leverage ratios will improve substantially as we reduce our balance sheet



1 IFRS equity attributable to UBS shareholders / (total IFRS assets - positive replacement values)

2 FINMA tier 1 capital / total adjusted assets; refer to page 63 of UBS's 3Q12 report for more information on UBS's FINMA leverage ratio

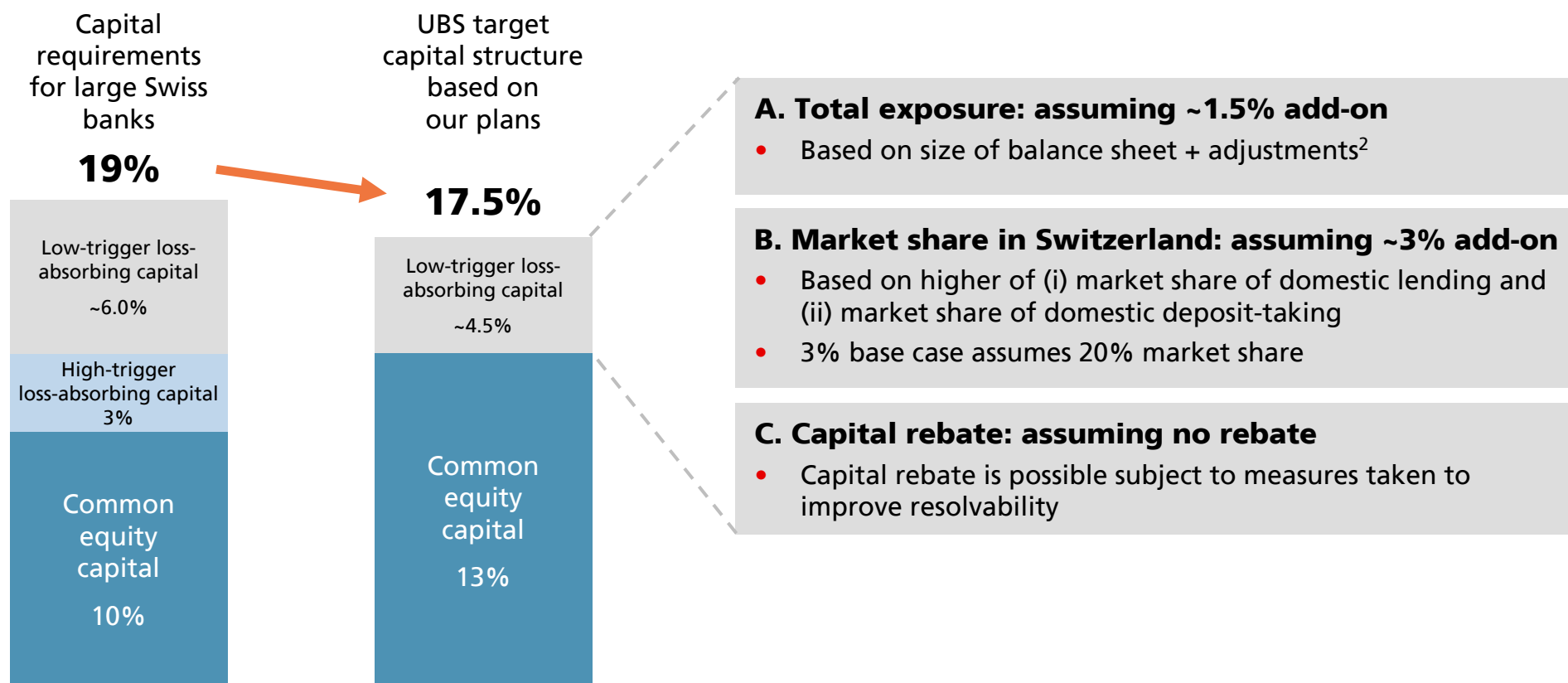
3 (Basel III phase-in CET1 capital + loss absorbing capital) / (total IFRS assets + adjustments); refer to slide 52 for more information about UBS's FINMA Basel III leverage ratio

4 Total IFRS assets - positive replacement values



# FINMA Basel III total capital requirements for large Swiss banks<sup>1</sup>

**UBS's total capital requirement will be a function of total exposure, market share in Switzerland and a possible capital rebate**



**Our total capital requirements are expected to fall to 17.5% reflecting the planned decrease in RWAs and balance sheet**

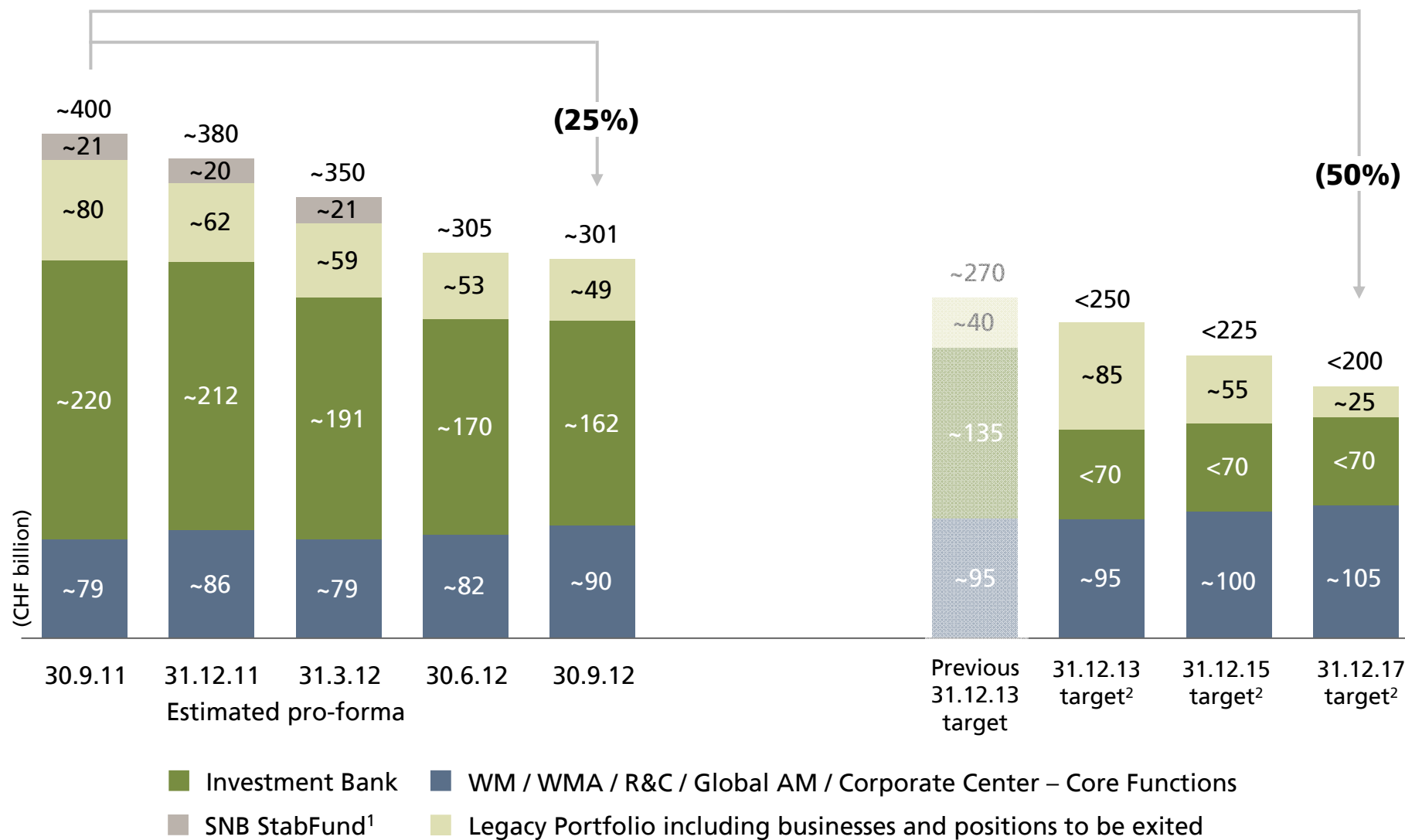


<sup>1</sup> Based on Swiss capital adequacy ordinance

<sup>2</sup> Balance sheet exposures net of specific provisions, derivative exposure netting and repurchase agreements; adjustments for OTC derivatives, off-balance sheet commitments and contingent liabilities

# Basel III – Risk-weighted assets

We aim to reduce Group RWAs to below CHF 200 billion by 2017



Refer to slide 1 for details about adjusted numbers, pro-forma Basel III estimates and FX rates in this presentation

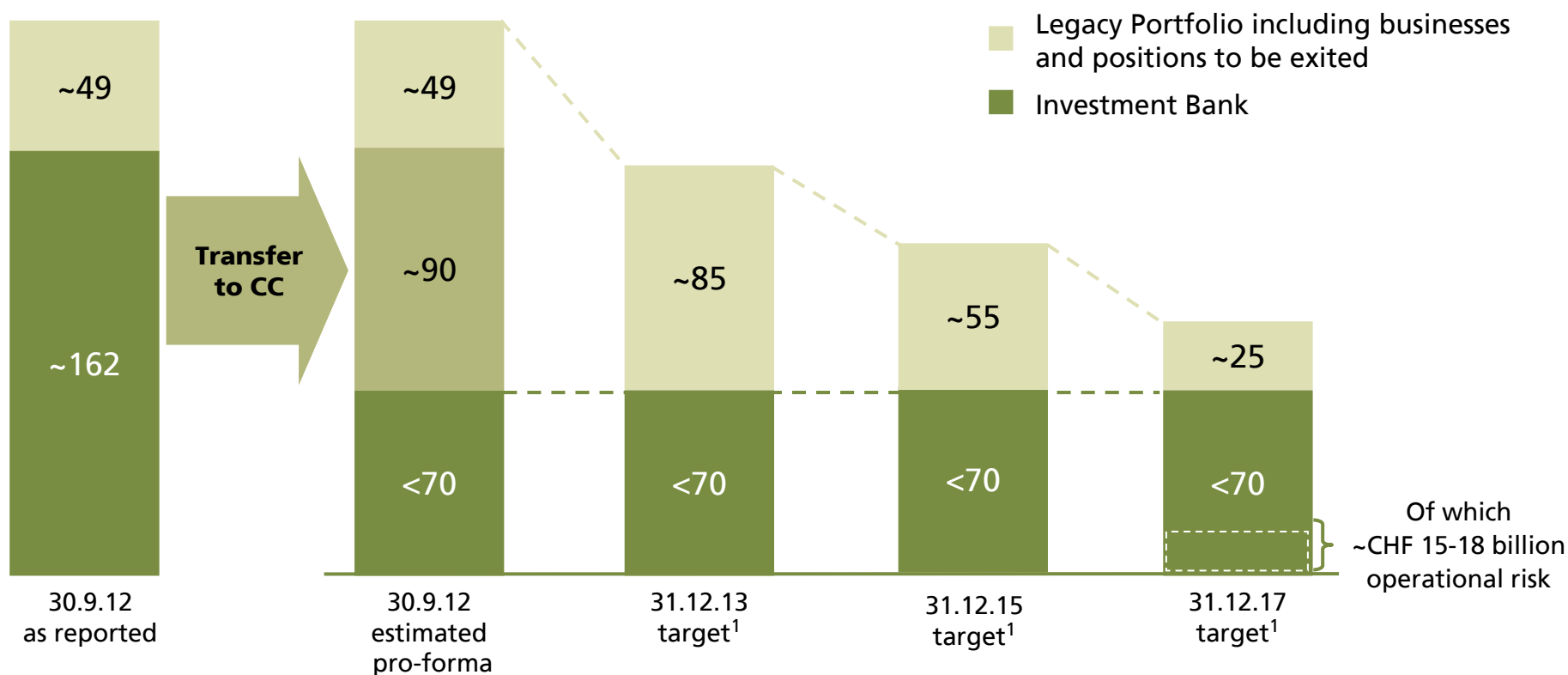
1 RWAs associated with UBS's option to purchase the SNB StabFund's equity. Treated as a participation with full deduction to CET1 capital from 2Q12

2 Targets assume constant FX rates

# Basel III – Investment Bank & Legacy RWAs

## Investment Bank and Legacy RWAs to be reduced ~CHF 120 billion by 2017

Basel III RWAs (CHF billion)



Businesses and positions to be exited will be managed within a robust governance and control framework similar to that supporting the successful execution of RWA reduction in the Legacy Portfolio so far

# Legacy Portfolio (30.9.12)

## Total Basel III RWAs ~CHF 49 billion

(CHF billion)	<b>Basel III RWAs</b>	<b>B/S excl. PRVs<sup>1</sup></b>	<b>PRVs</b>	Comments on Basel III RWAs:
CDOs	9.2	3.1	2.6	Reduced > 60% YoY
Auction rate securities	8.4 <sup>2</sup>	8.7	–	Reduced > 50% YoY
Muni swaps & options	8.1	–	5.4	Including CHF 3.6 billion CVAs <sup>3</sup>
Monolines	7.6	–	1.0	Including CHF 5.8 billion CVAs
Reference-linked notes	5.1	2.9	–	Reduced > 50% YoY
Real estate assets	3.1	0.4	2.3	Reduced > 50% YoY
Blackrock loan	0.9	3.7	–	Loan balance USD 3.8 billion <sup>4</sup> (down 22% YoY), LTV <80%
Other	3.3	4.1	6.7	No single position > CHF 1 billion
Operational risk	3.3	–	–	Operational risk RWAs allocated to the Legacy Portfolio
<b>Total<sup>5</sup></b>	<b>49.0</b>	<b>22.9</b>	<b>18.0</b>	

Refer to slide 1 for details about adjusted numbers, Basel III pro-forma estimates and FX rates in this presentation

1 Positive replacement values

2 Of which CHF 7.4 billion attributable to student loan ARS (30.9.12 carrying value CHF 5.1 billion). We expect a reduction of approximately CHF 5 billion of Basel III RWAs in 4Q12 related to sales and expected sales of certain student loan ARS

3 Credit valuation adjustments

4 Including amounts held in escrow

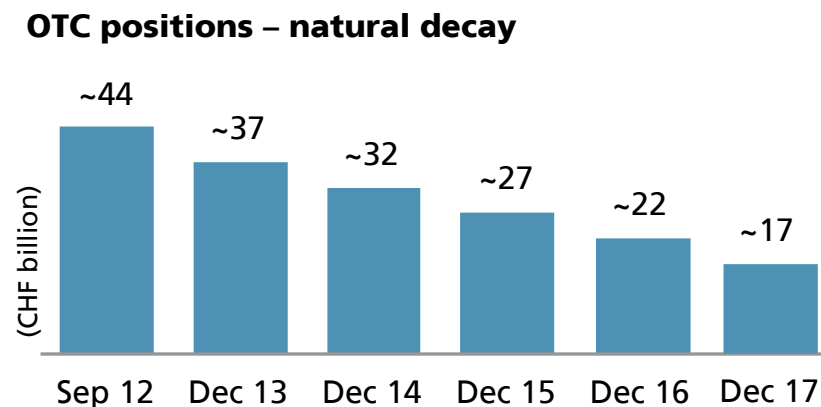
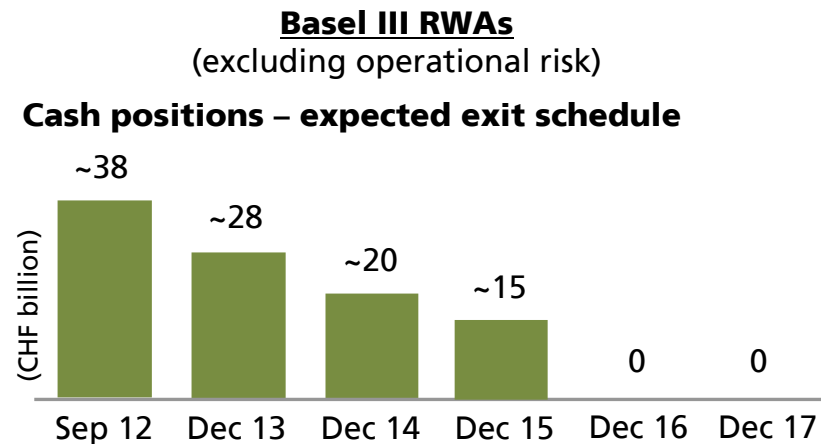
5 Excluding option to acquire the equity of the SNB StabFund (CHF 2.1 billion directly deducted from equity on 30.9.12)

# Businesses and positions to be exited (30.9.12)

## Total Basel III RWAs ~CHF 90 billion

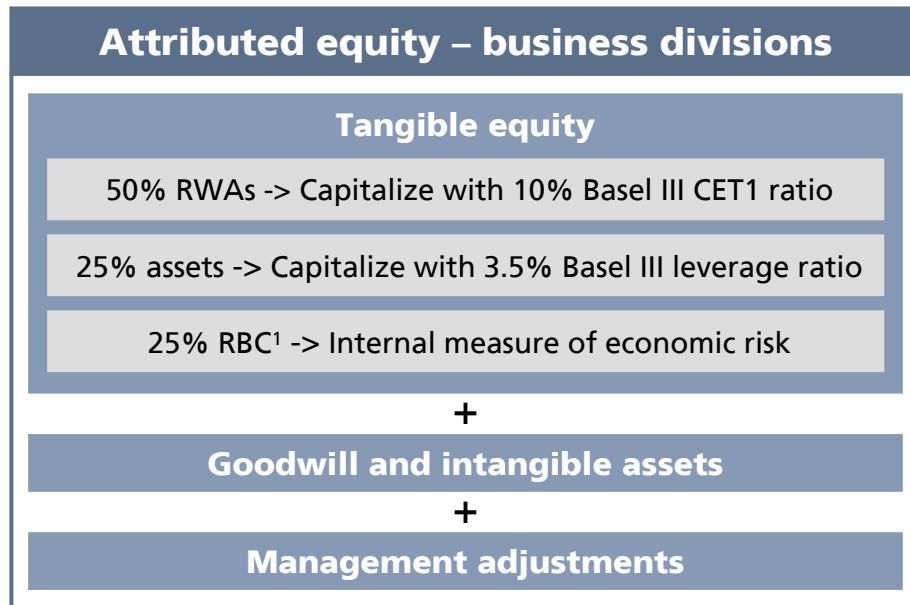
(CHF billion)	<u>Basel III RWAs</u>	<u>B/S excl. PRVs</u>	<u>B/S incl. PRVs</u>
Businesses within Credit	~30	~20	
Businesses within Rates	~40	~120	
Other	~10	~120	
Subtotal	~80	~260	
Operational risk	~10	-	
<b>Total</b>	<b>~90</b>	<b>~260</b>	<b>~560</b>

Level 3 assets are less than 3% of total assets



**We will manage businesses and positions to be exited in the most value accretive way**

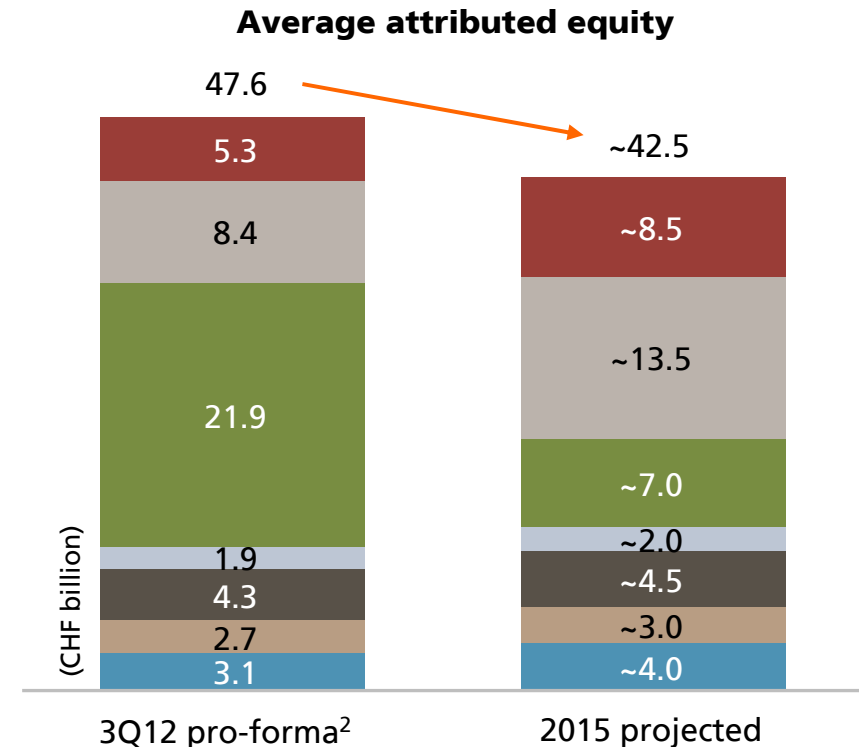
# UBS's equity allocation framework



→ Resources not under the direct control of the business divisions and allocated to the Corporate Center (“central items”) include:

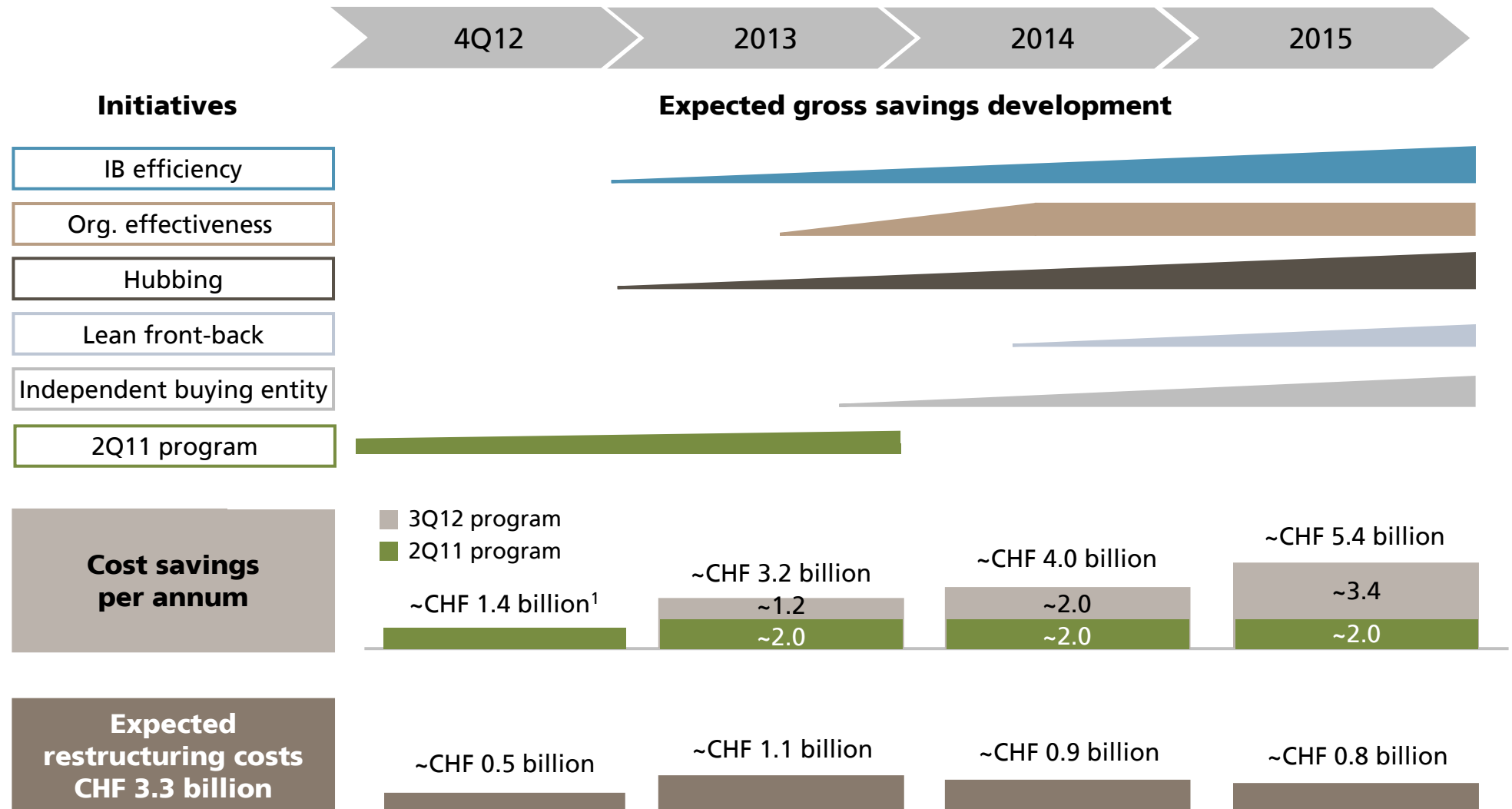
- Equity in excess of 10% of Basel III CET1 capital with regard to RWA driver
- Deferred tax assets
- Prepaid pension expenses

→ Effective 1.1.13, attributed equity related to CHF 3.9 billion of goodwill and intangible assets associated with the PaineWebber acquisition will be held in the Corporate Center



- Corporate Center – Legacy Portfolio
- Corporate Center – Core Functions
- Investment Bank
- Global Asset Management
- Retail & Corporate
- Wealth Management Americas
- Wealth Management

# Implementing long-term efficiency measures and reducing costs



# Business division targets<sup>1</sup>

## Ranges of sustainable performance in our businesses

Wealth Management		Wealth Management Americas		Retail & Corporate	
NNM growth rate	3-5%	NNM growth rate	2-4%	NNBV growth <sup>2</sup>	1-4%
Gross margin	95-105 bps	Gross margin	75-85 bps	Net interest margin	140-180 bps
Cost / income ratio	60-70%	Cost / income ratio	80-90%	Cost / income ratio	50-60%

Global Asset Management		Investment Bank effective from 1.1.2013		Legacy Portfolio including businesses and positions to be exited - Basel III RWA	
NNM growth rate	3-5%	Pre-tax RoAE <sup>2</sup>	>15%	31.12.13	~CHF 85 billion
Gross margin	32-38 bps	Basel III RWAs	< CHF 70 billion	31.12.15	~CHF 55 billion
Cost / income ratio	60-70%	Cost / income ratio	65-85%	31.12.17	~CHF 25 billion

**Group RoE expected to average in the mid-single digits in 2013-2014<sup>3</sup>, with a target of at least 15% from 2015<sup>1</sup>**



Refer to slide 1 for details about adjusted numbers, pro-forma Basel III estimates and FX rates in this presentation

1 Excluding own credit and significant non-recurring items (e.g., restructuring costs) unless otherwise stated; target assumes constant FX rates

2 NNBV = net new business volume; RoAE=return on attributed equity

3 As reported



# UBS—A unique and attractive investment proposition

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**Unrivaled franchise**  
with clear strategic direction  
and strong track record on execution

- **UBS's franchise is unrivaled**
  - Compelling industry growth prospects
  - Prepared for the future and committed to deliver highly attractive returns
- **Clear strategy** and well diversified business profile – both by business and geography
- **Decisive action** to further transform the Investment Bank and improve long-term efficiency
- **Proven track record** of focused and disciplined execution of strategic priorities
- **Firmly committed to return capital to shareholders**
  - Our business mix supports **attractive capital return program** after we reach our capital targets

**Solid financial foundation**  
which will be strengthened further  
as UBS accelerates its transformation

- **Industry-leading capital ratios** and consistent non-dilutive capital objectives
  - Basel III fully applied CET1 ratio of 9.3%, up 310 bps YoY
  - 13% fully applied CET1 ratio target, highest in the industry
- **Substantial excess liquidity**
  - Large multi-currency portfolio of unencumbered high-quality assets
  - Basel III Liquidity Coverage Ratio of 113%
- **Solid funding structure**
  - Broadly diversified funding portfolio by product, currency and geography
  - Significant deposit / loan overhang at 133%
  - Significant customer deposit base represents a cost-efficient and reliable funding source
  - Basel III Net Stable Funding Ratio of 107%

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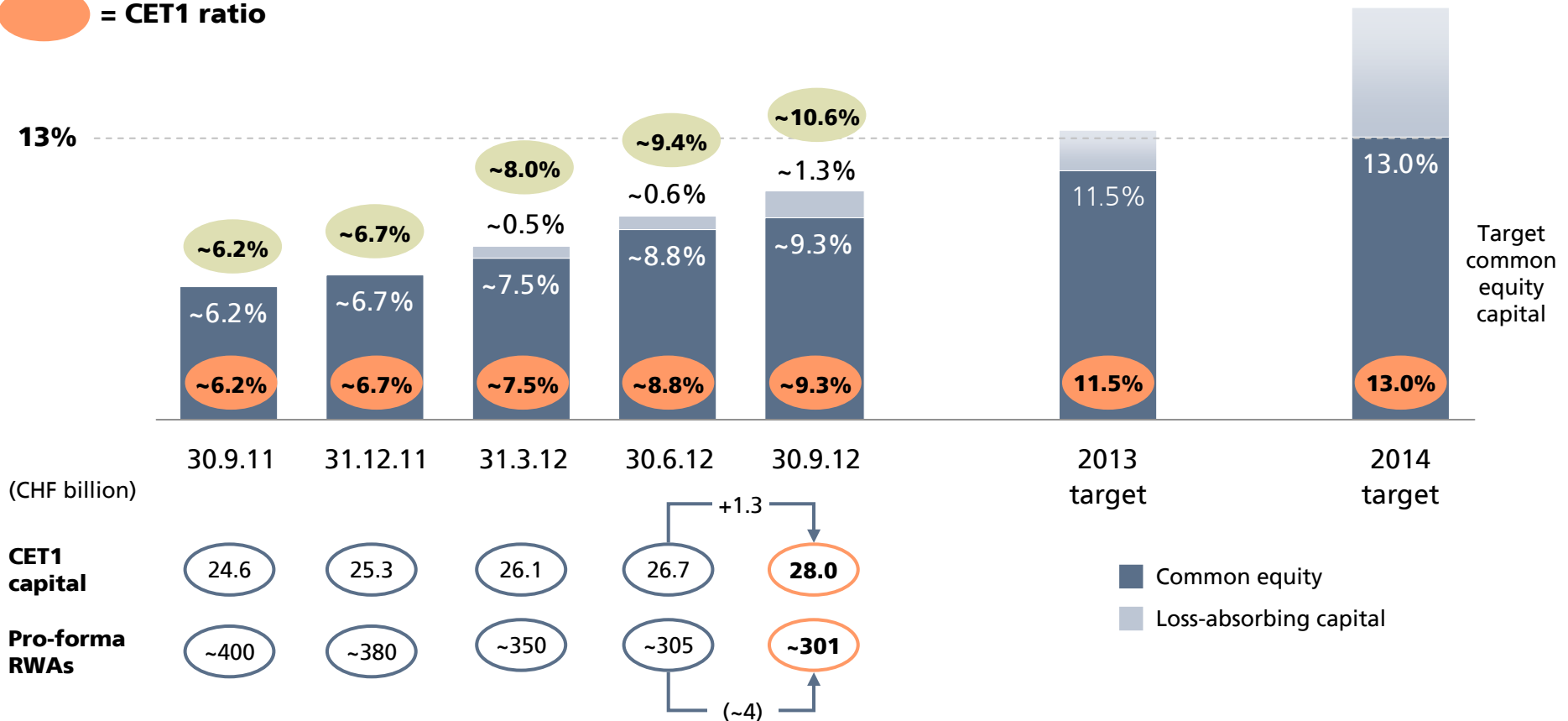
# Appendix

# Basel III fully applied CET1 ratio

## Fully applied CET1 Basel III ratio increased to ~9.3%

 = CET1 capital + loss-absorbing capital ratio

 = CET1 ratio

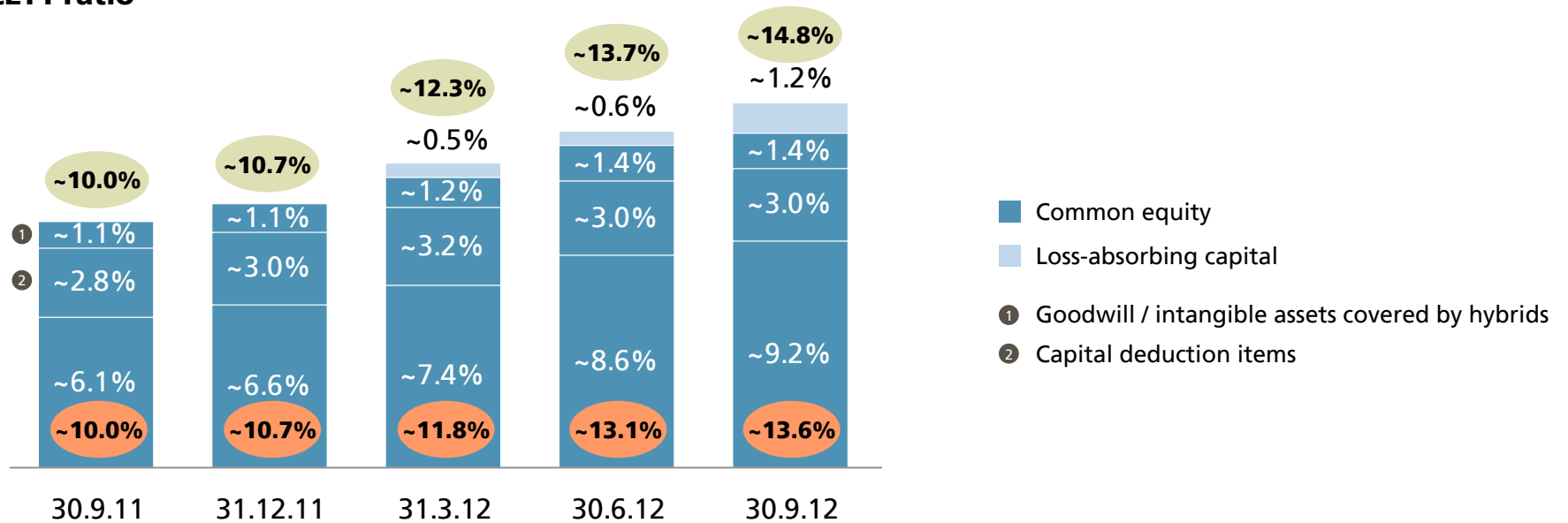


# Basel III phase-in CET1 ratio

## Phase-in CET1 Basel III ratio increased to ~13.6%

 = CET1 capital + loss-absorbing capital ratio

 = CET1 ratio



(CHF billion)

<b>CET1 capital</b>	40.4	41.0	41.8	40.4	41.5
<b>Pro-forma RWAs</b>	~403	~383	~354	~309	~305
				+0.9	
					(~4)

# FINMA Basel III leverage ratio

## UBS's current FINMA Basel III leverage ratio is above minimum requirements

- UBS's FINMA Basel III leverage ratio of 3.4% on 30.9.12

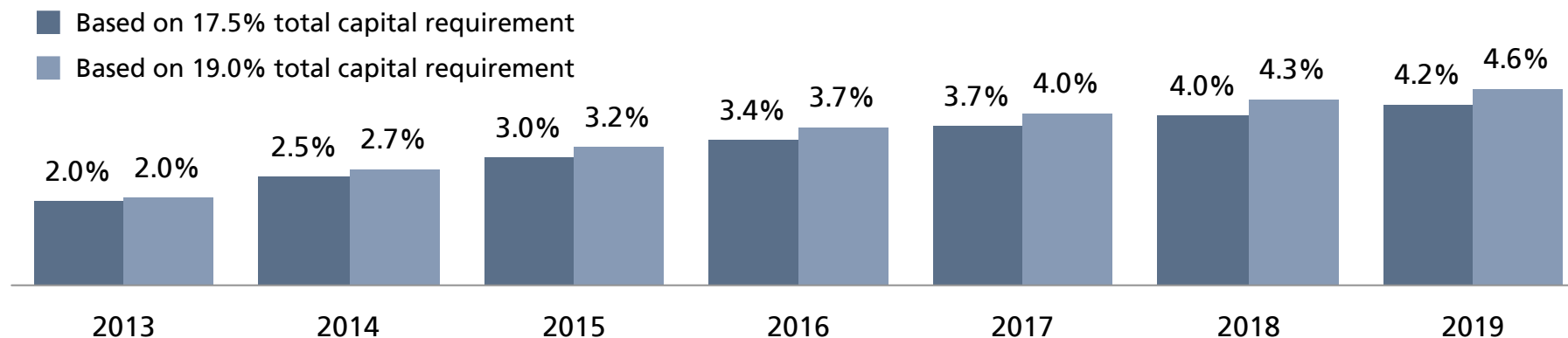
$$\frac{\text{Total capital (Phase-in CET1 + loss absorbing capital)}}{\text{Total exposure}^1 \text{ (Total IFRS assets + adjustments)}} = \frac{\text{CHF 45.3 billion}}{\text{CHF 1,335 billion}} = 3.4\%$$

- The minimum leverage ratio is defined as the total capital requirements x 24%

Total capital requirement	16.0%	16.5%	17.0%	17.5%	18.0%	18.5%	19.0%
Minimum leverage ratio	3.84%	3.96%	4.08%	4.20%	4.32%	4.44%	4.56%

x 24%

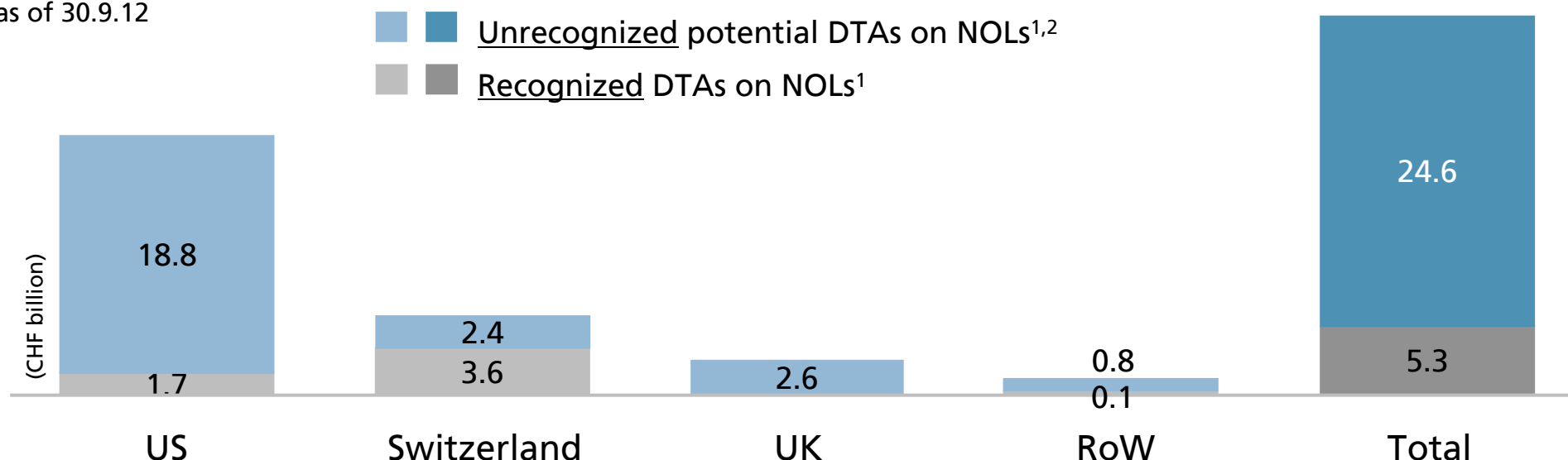
### FINMA Basel III minimum leverage ratio – illustrative examples



# Deferred tax assets on net operating losses

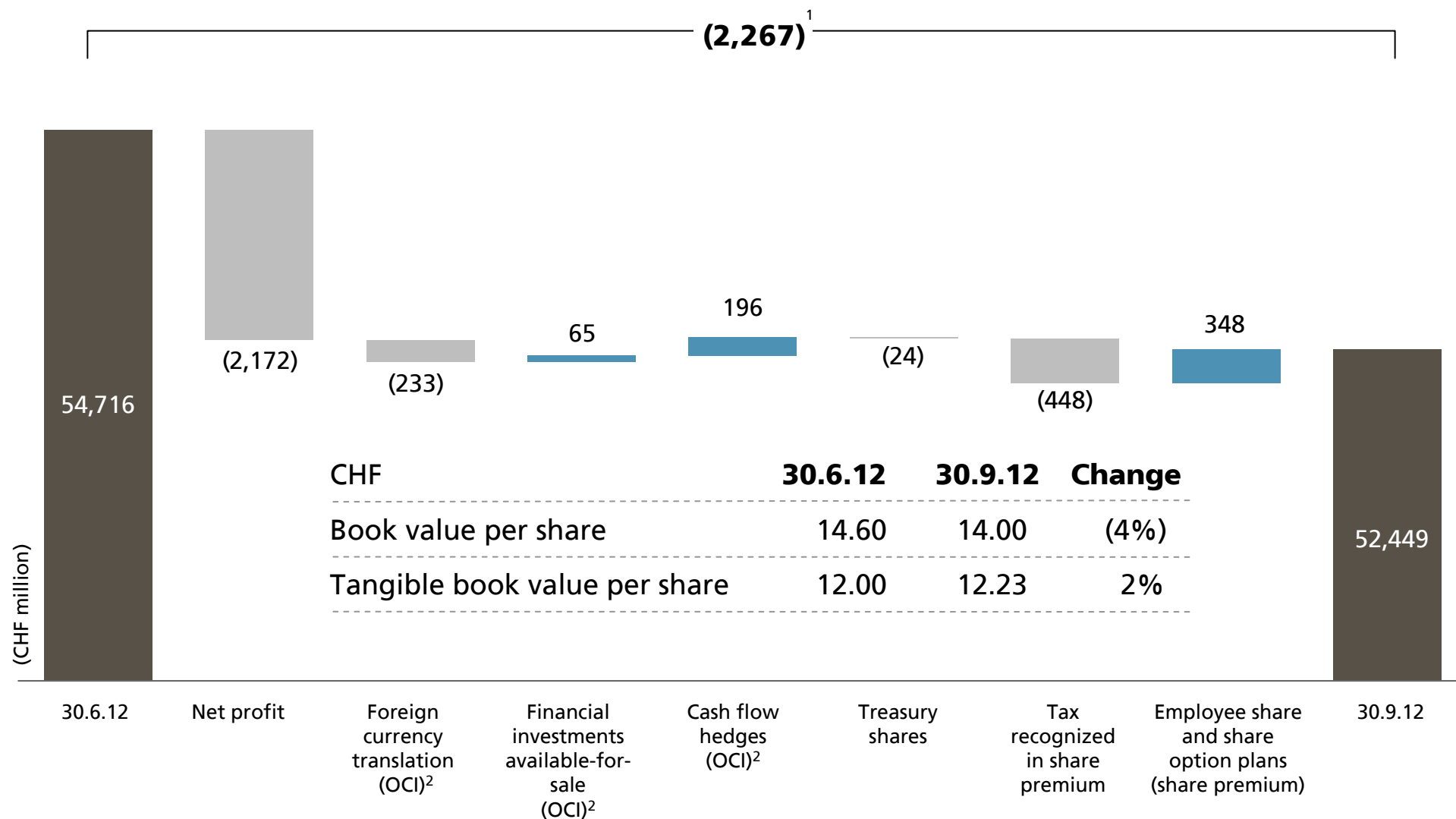
## The potential to recognize additional deferred tax assets remains significant

as of 30.9.12



- Unrecognized potential DTAs on NOLs<sup>1,2</sup> of CHF 24.6 billion on 30.9.12
  - Tax losses have a remaining average life of approximately 16 years in the US; indefinite life in the UK
  - Profitability assumptions over a 5-year time horizon form the basis of the recognition of DTAs
- DTAs have been remeasured in 3Q12 to reflect updated profitability assumptions, taking into account changes in the Investment Bank

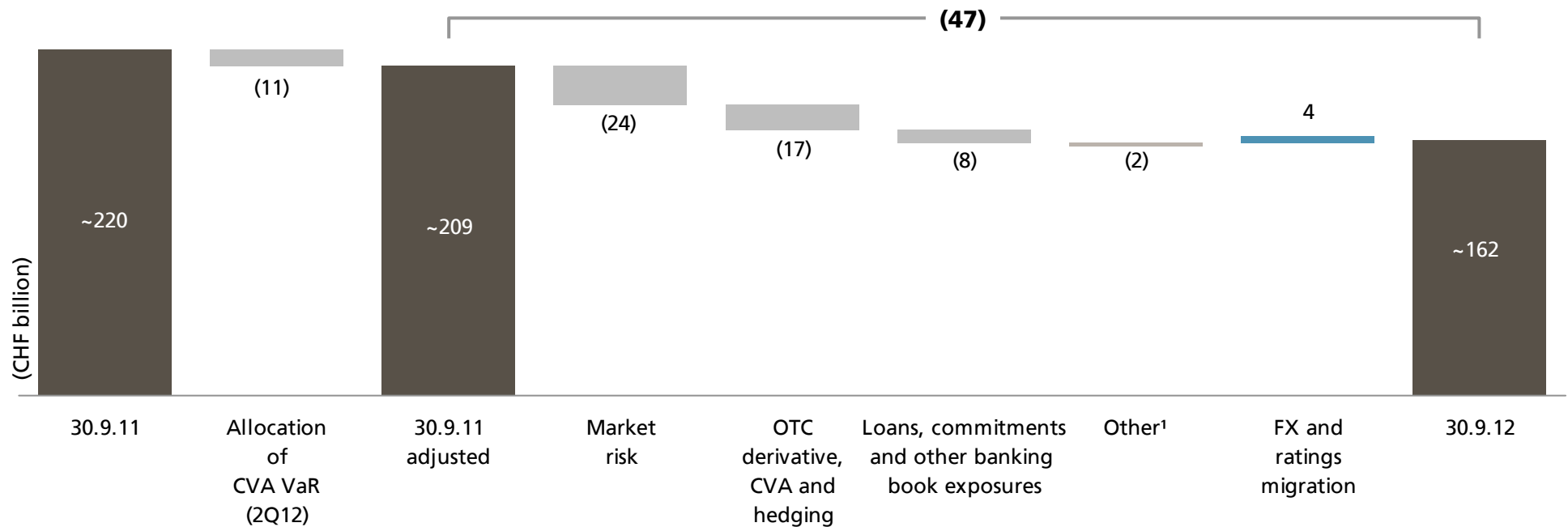
# IFRS equity attributable to UBS shareholders<sup>1</sup>



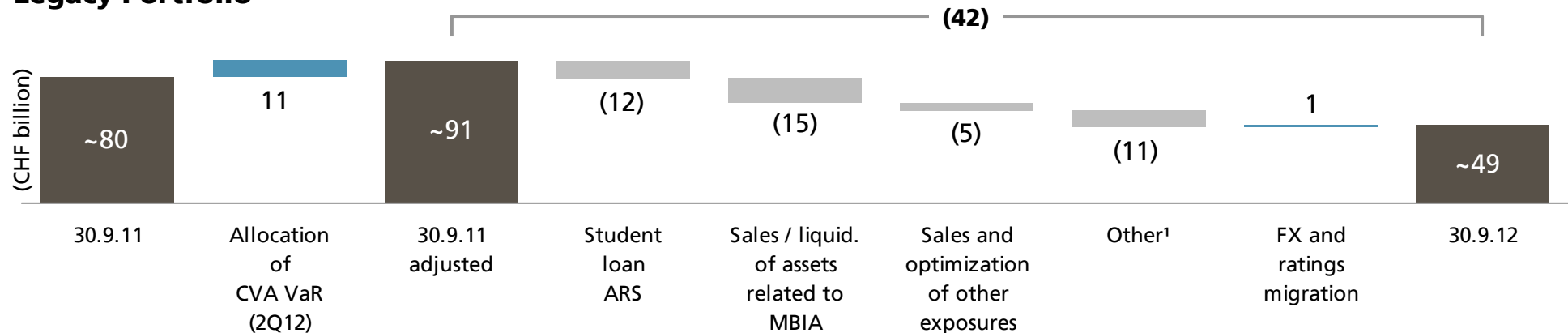
# Basel III – Investment Bank & Legacy RWAs reduction since 30.9.11

~85% of RWAs reduction since 30.9.11 through sales and exposure reductions

## Investment Bank



## Legacy Portfolio



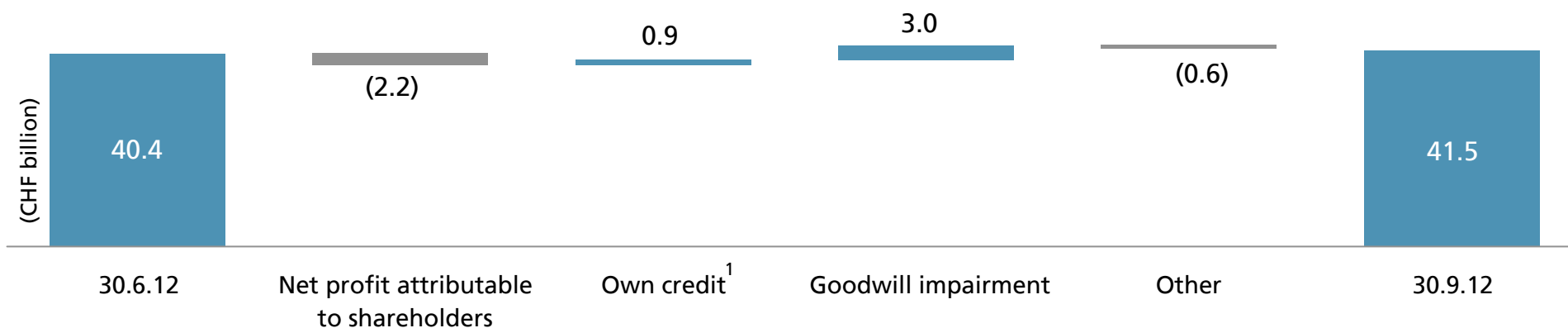
Refer to slide 1 for details about adjusted numbers, pro-forma Basel III estimates and FX rates in this presentation

<sup>1</sup> Other includes operational risk, reporting improvements, reversal of certain Basel III uplift-component for securitization which only becomes effective from 31.12.13, other model and methodology changes and rounding

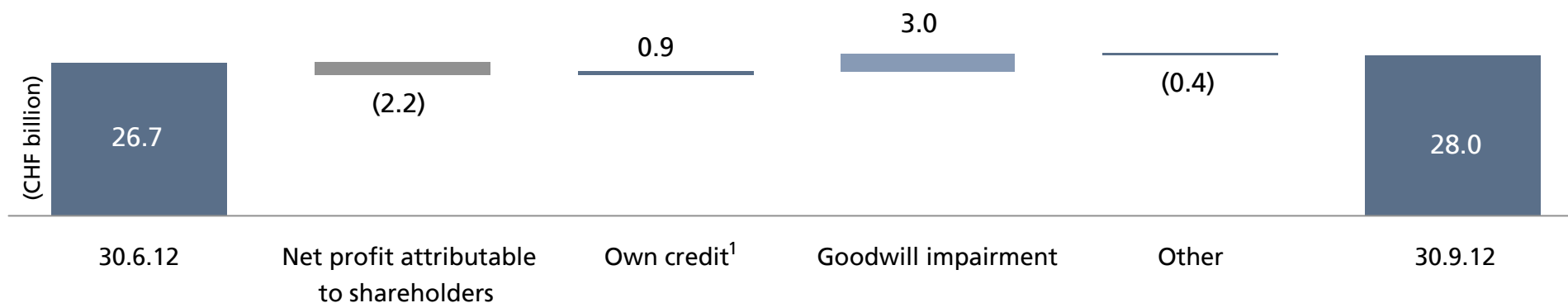


# Basel III – Common equity tier 1 capital

## Phase-in Basel III CET1 capital – QoQ change

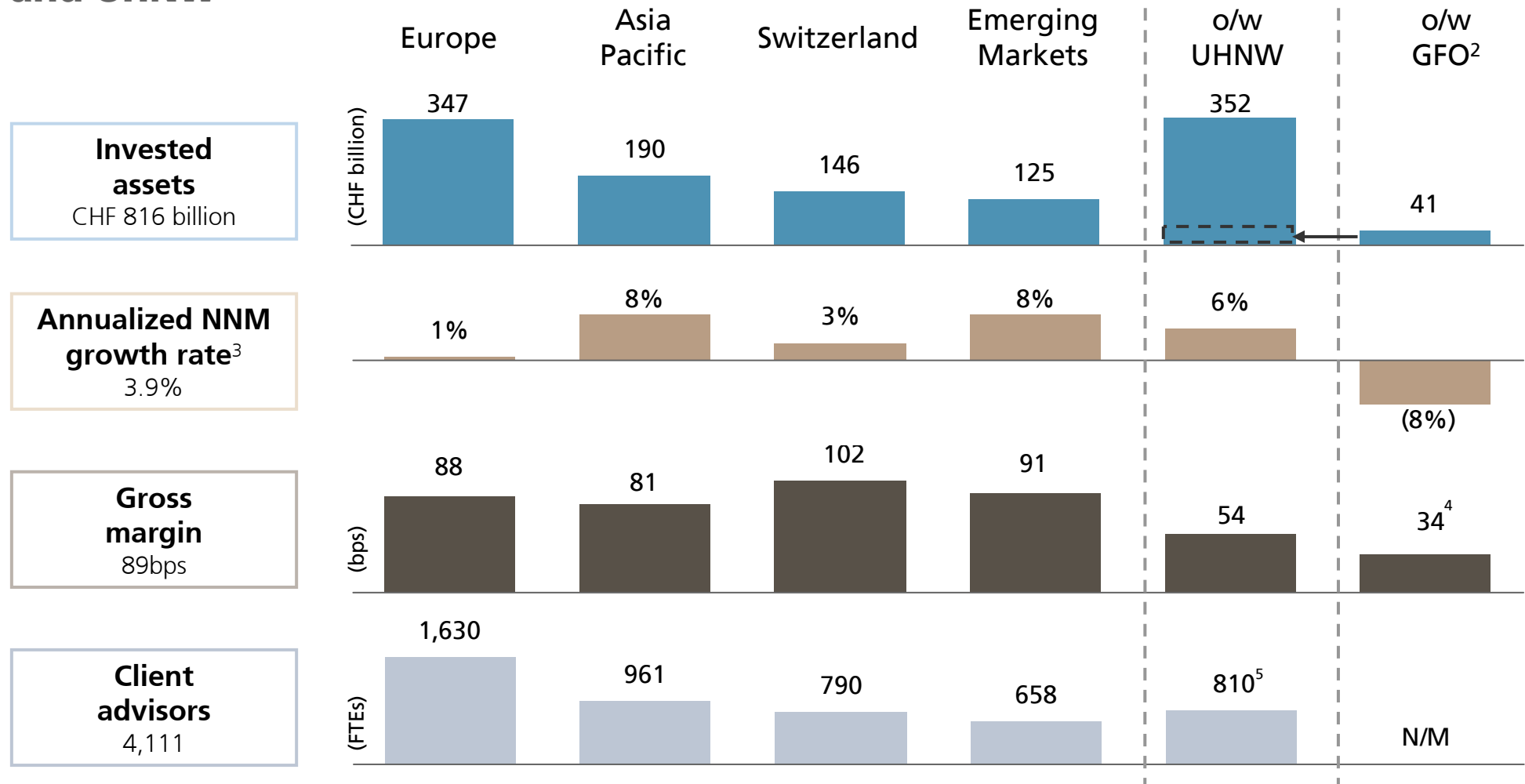


## Fully applied Basel III CET1 capital – QoQ change



# Wealth Management—3Q12 by business area<sup>1</sup>

## Net new money growth in all regions; strong contributions from APAC, EM and UHNW



<sup>1</sup> Based on the Wealth Management business area structure, and excluding minor functions with 72 client advisors, and CHF 8 billion of invested assets, and CHF 0.2 billion of NNM outflows which are mainly attributable to the employee share and option plan service provided to corporate clients and their employees

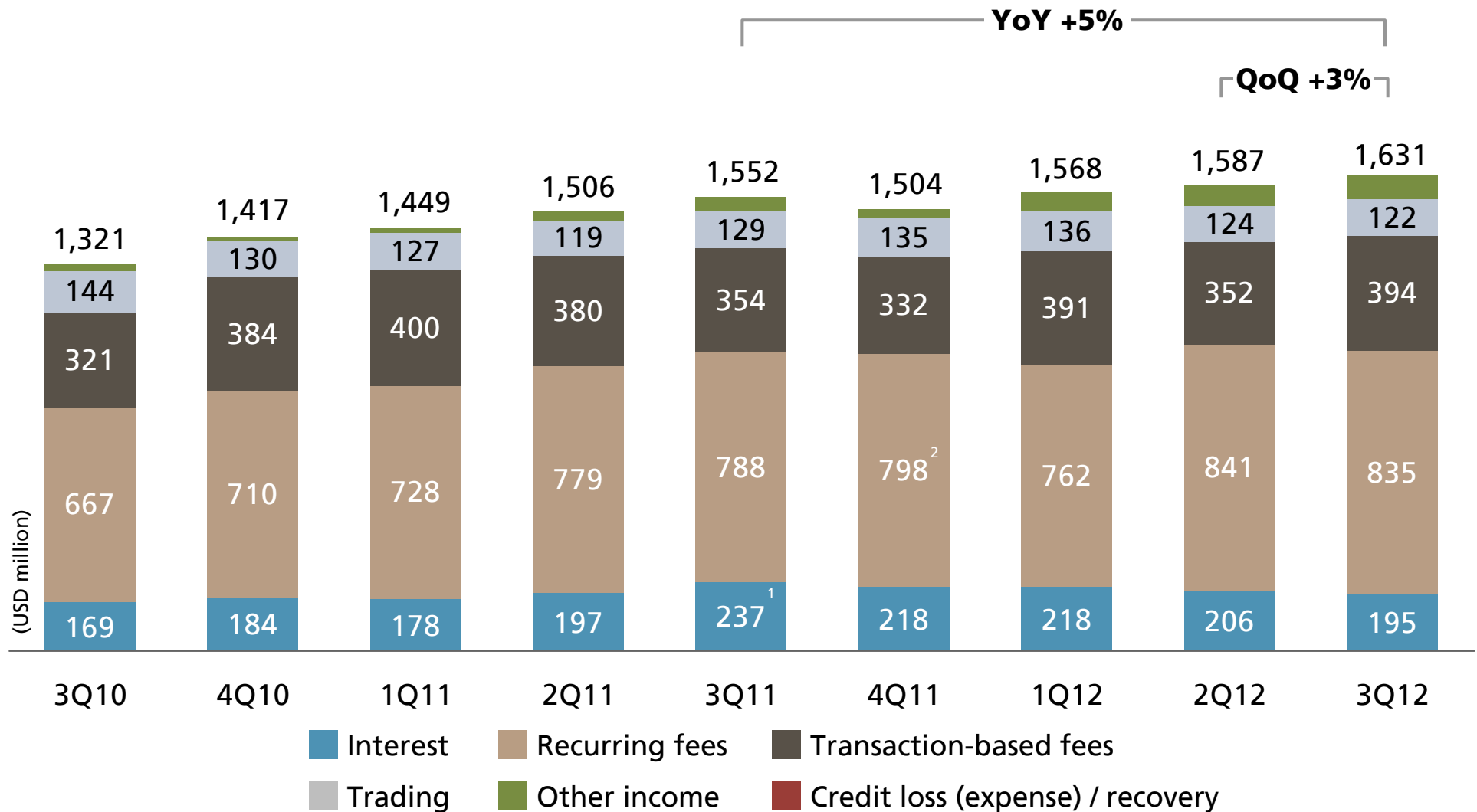
<sup>2</sup> Global Family Office: Joint venture between WM and the IB. Since June 2012, GFO is reported as a sub-segment of UHNW and is included in the UHNW figures

<sup>3</sup> Computed from 30.6.12 figures, which are restated as if the Global Family Office were a sub-segment of UHNW

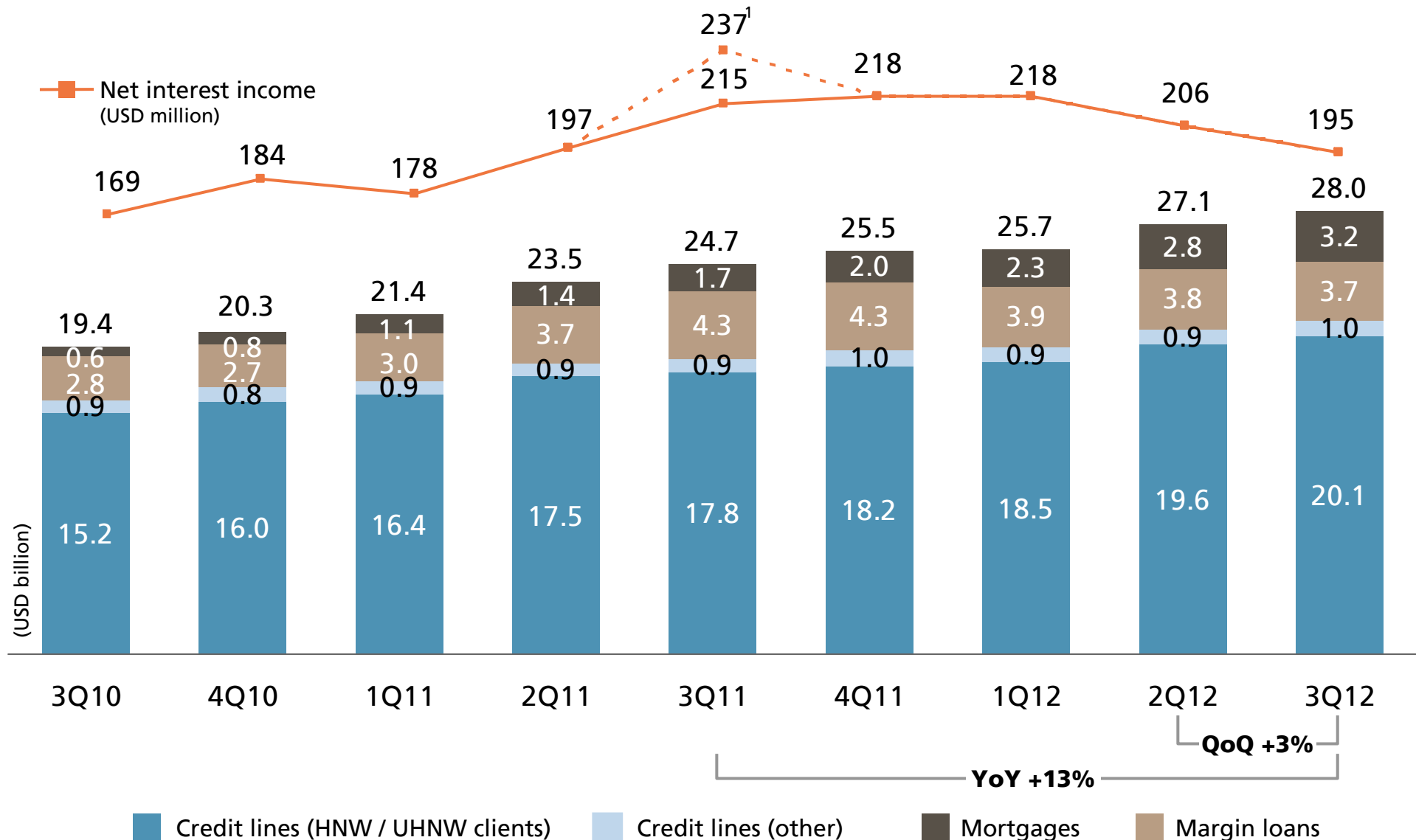
<sup>4</sup> Gross margin includes income booked in the IB. Gross margin only based on income booked in WM is 18 basis points

<sup>5</sup> Dedicated UHNW units: 591 client advisors. Non-dedicated UHNW units: 219 client advisors

# Wealth Management Americas – Operating income (USD)

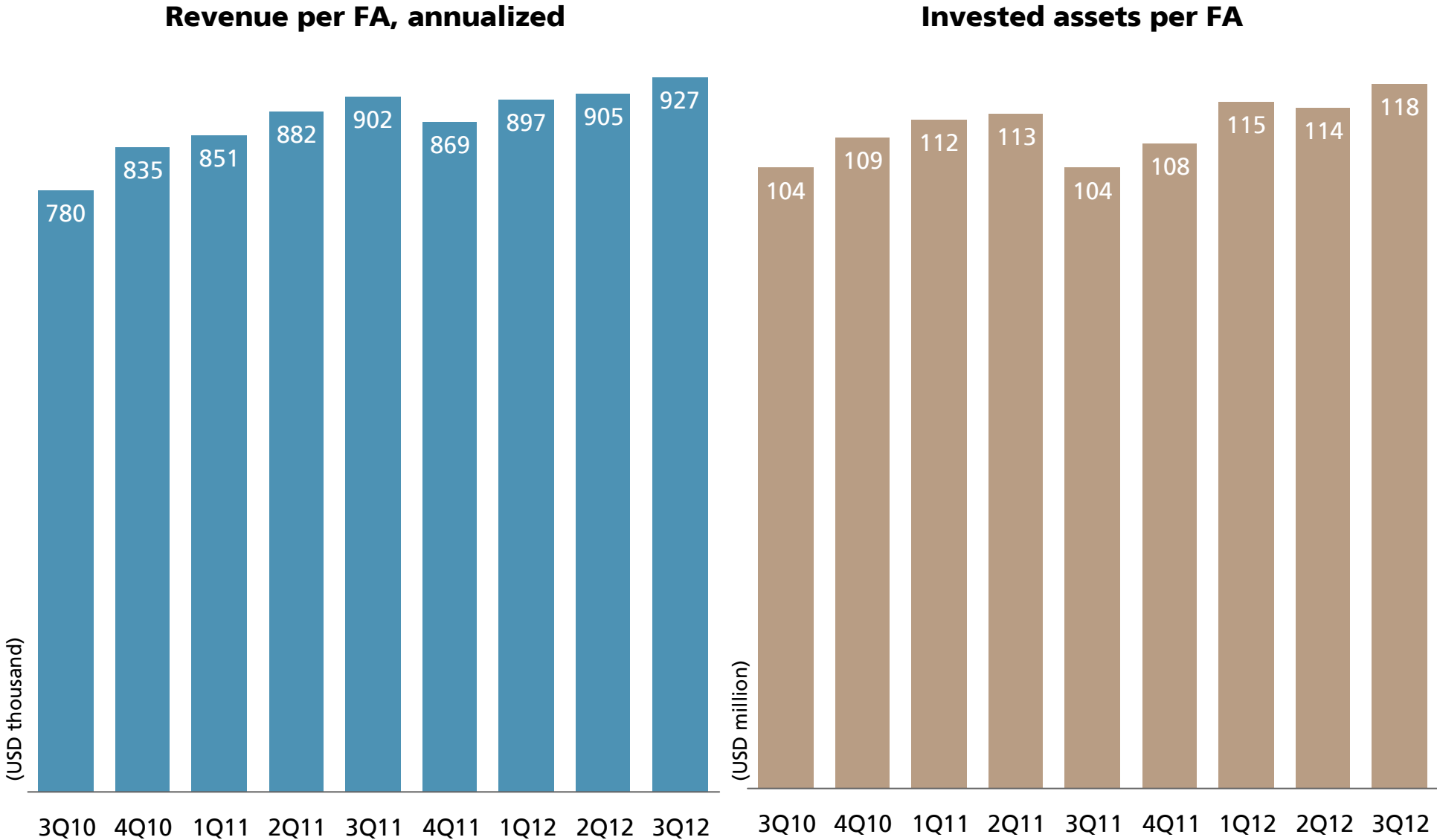


# Wealth Management Americas – Lending balances (USD)



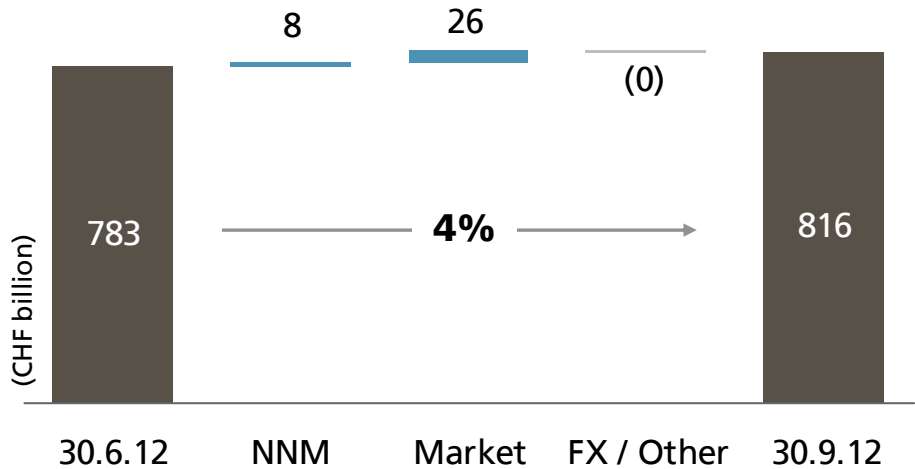
1 As reported; includes an upward adjustment reclassifying USD 22 million (CHF 20 million) from other comprehensive income relating to mortgage-backed securities in our AFS portfolio. The adjustment resulted from properly reflecting estimated future cash flows under the effective interest method, which gave rise to an increase in interest income and a decrease in unrealized gains in other comprehensive income

# Wealth Management Americas – Financial advisor productivity (USD)

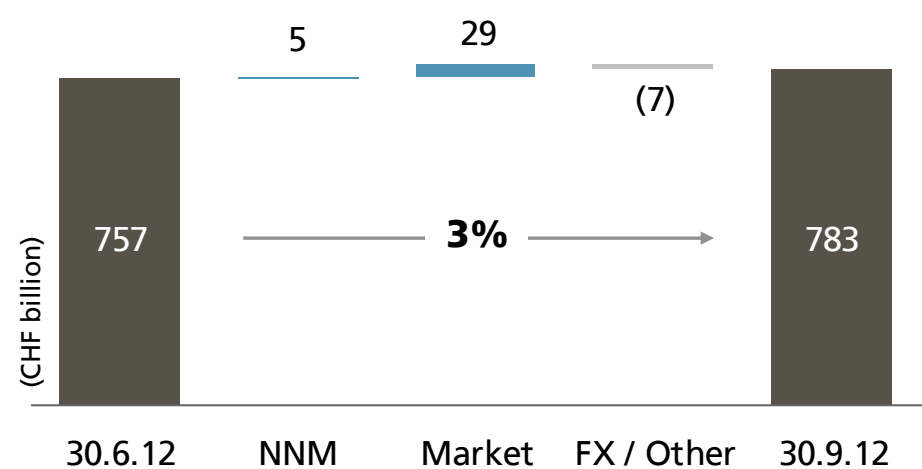


# Invested assets

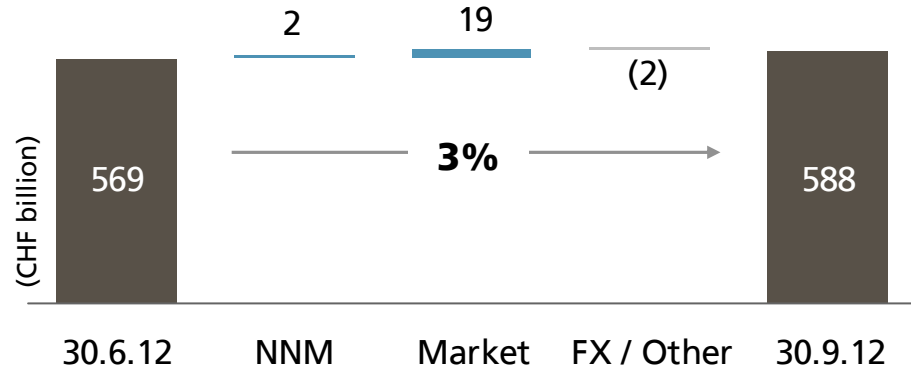
## Wealth Management



## Wealth Management Americas

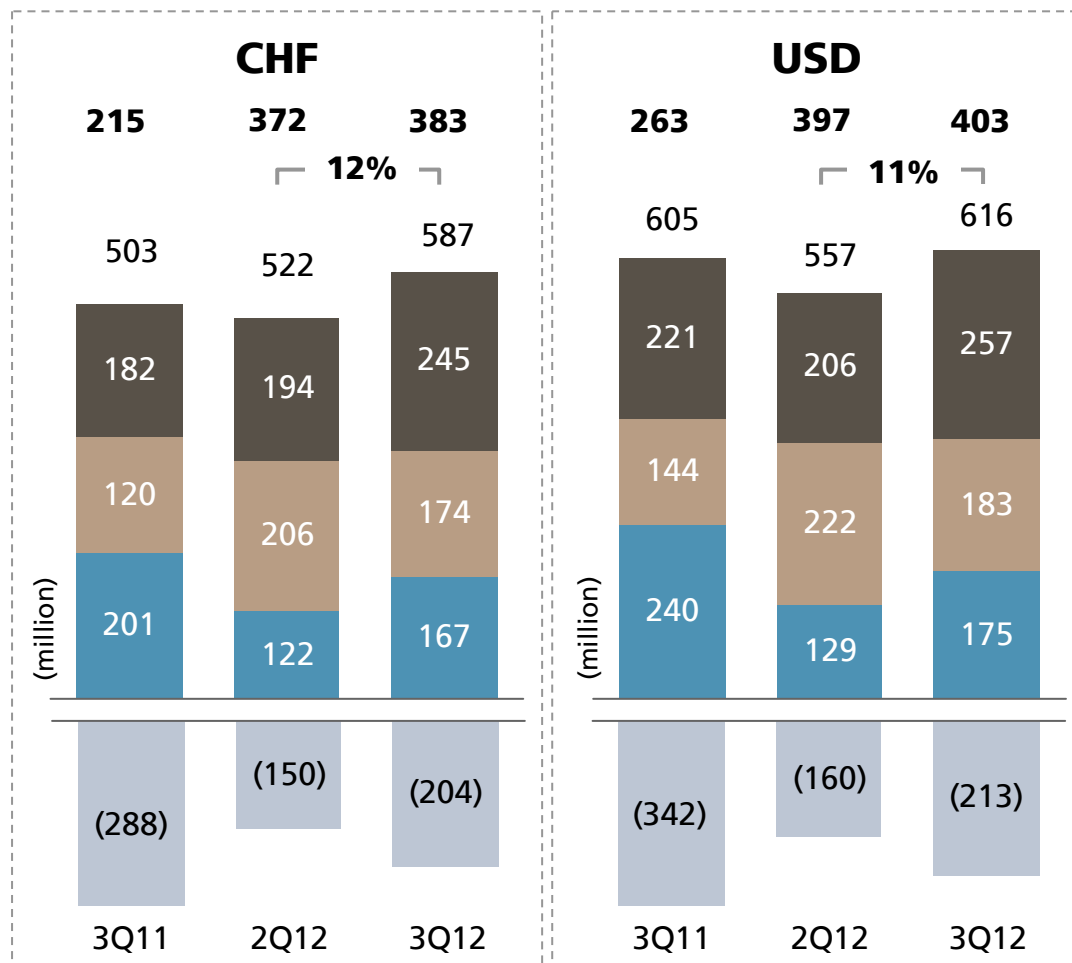


## Global Asset Management



# Investment Bank – IBD revenues

## Significant market share improvement in Advisory and Debt Capital Markets



### Comparison in USD terms

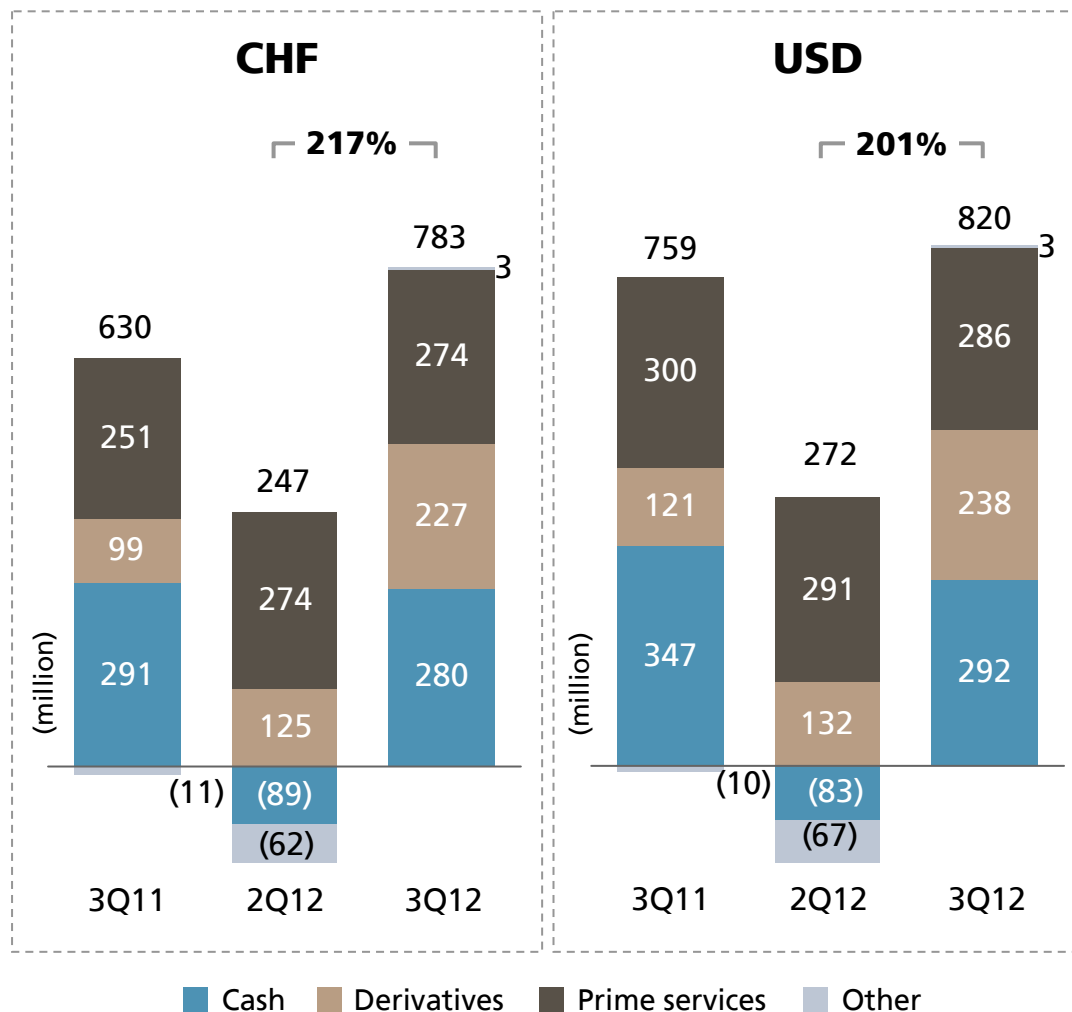
- Advisory +36%**
  - Improved rank and market share despite a 17% decline in global fee pool
  - Participated in 2 of top 6 transactions
- Equity capital markets (18%)**
  - Participated in 6 of the top 8 deals globally
  - 2Q12 included revenue from a number of private structured transactions
- Fixed income capital markets +25%**
  - Significant increase in DCM market share
  - Participated in 10 of the top 20 deals, 5 as bookrunner
- Other (33%)**
  - Increased mark-to-market losses on loan portfolio hedges and lower fees

■ Advisory ■ Equity capital markets ■ Fixed income capital markets ■ Other



# Investment Bank – Equities revenues

## Equities performed well



### Comparison in USD terms

- **Cash (n/m)**

- Strong performance on improved client trading against a global decline in turnover (lowest market turnover since 2005)

- **Derivatives +80%**

- Improved on gains from tightening funding spreads, offsetting weaker revenues in EMEA
- APAC and the Americas held up in challenging markets
- 2Q12 was impacted by changes in own credit methodology and corrections related to prior periods

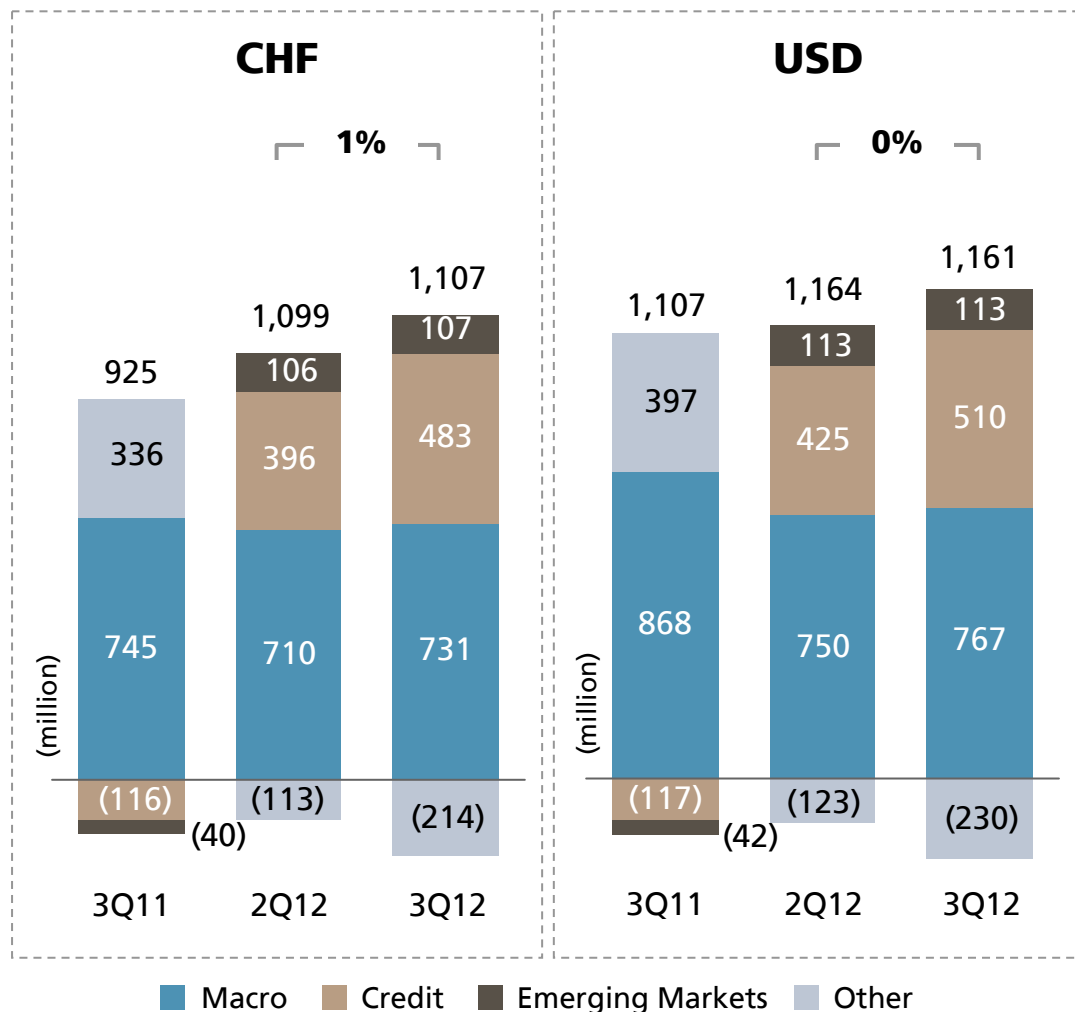
- **Prime services (2%)**

- Steady performance as improved funding revenues offset lower revenues in securities lending



# Investment Bank – FICC revenues

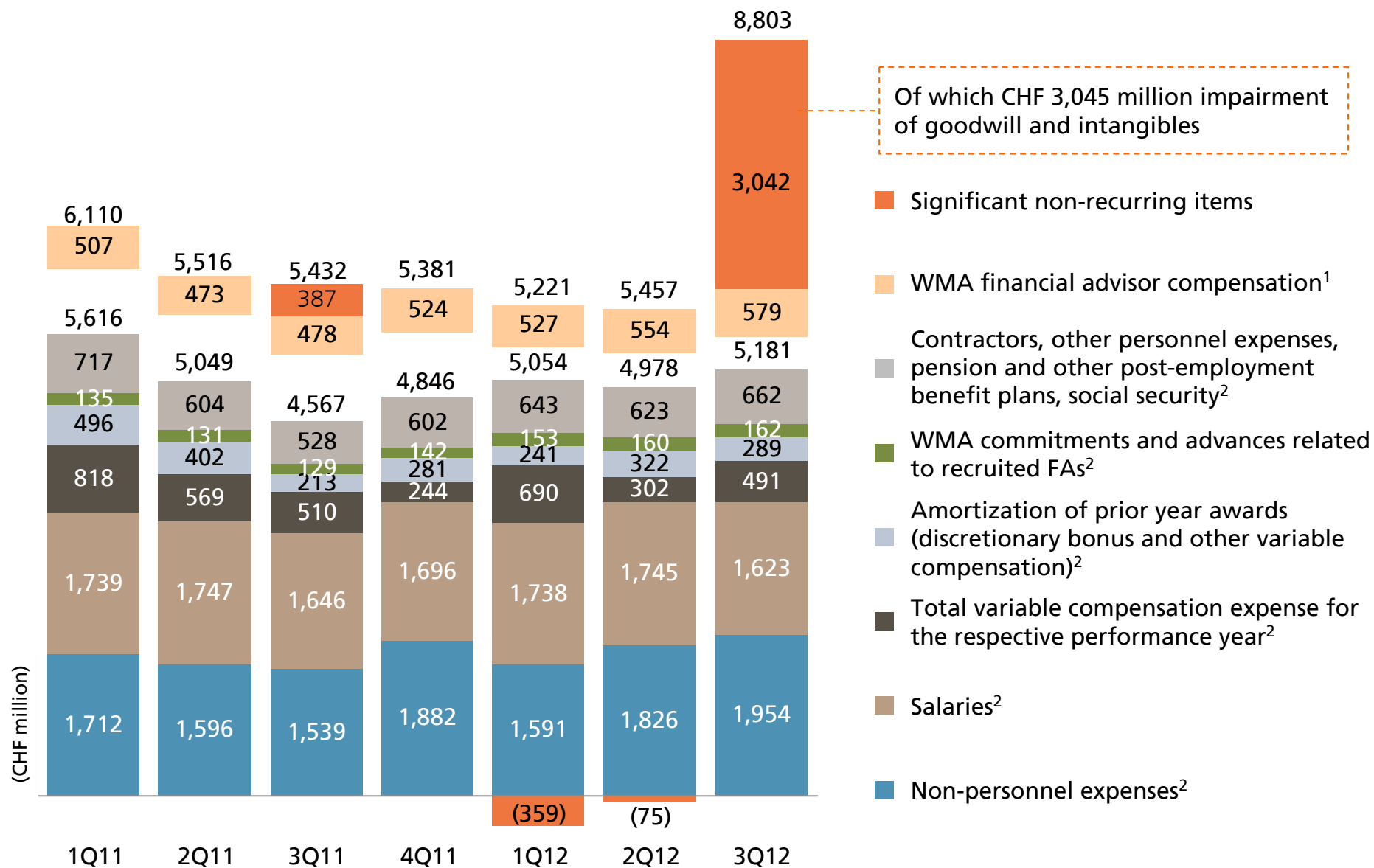
## Solid result with improved revenues in Credit and Macro up 9% QoQ



### Comparison in USD terms

- Macro +2%**
  - Strong revenue growth in FX e-trading on increased customer volumes, more than offset by impact of subdued FX markets
  - Improved results in long-end and non-linear interest rates
- Credit +20%**
  - Strong improvement in flow trading across all regions
  - Solid performance in structured credit
- Emerging markets 0%**
  - Improved performance in Latin America while EMEA continued to lag

# 3Q12 operating expenses



# Exposure to eurozone countries rated lower than AAA / Aaa<sup>1</sup>

**Our direct exposures are limited and we continue to manage them carefully**

30.9.12 (CHF million)	Sovereigns <sup>2</sup>		Local governments		Banks		Other <sup>3</sup>		Total	
	Before hedges <sup>4</sup>	Net of hedges	Before hedges <sup>4</sup>	Net of hedges	Before hedges <sup>4</sup>	Net of hedges	Before hedges <sup>4</sup>	Net of hedges	Before hedges <sup>4</sup>	Net of hedges <sup>5</sup>
France	3,016	2,807	12	12	2,298	2,298	4,283	3,163	9,608	8,280
Italy	2,601	1,273	115	115	911	911	2,342	1,755	5,969	4,053
Spain	174	174	51	51	3,057 <sup>8</sup>	3,057	1,144	342	4,426	3,624
Austria	1,254	1,087	5	5	477	477	194	194	1,931	1,764
Ireland <sup>6</sup>	84	84	0	0	490	490	1,082	1,082	1,655	1,655
Belgium	921	906	0	0	146	146	103	103	1,169	1,154
Portugal	30	30	3	3	23	23	108	11	163	66
Greece	32	32	0	0	1	1	7	7	39	39
Other <sup>7</sup>									190	190

- The majority of our net exposure relates to counterparty risk from derivatives and securities financing (26%) and trading inventory (35%) which are carried at fair market value

1 By at least one of the major rating agencies. Refer to pages 48 to 49 of UBS's 3Q12 report for more information

2 Includes central governments, agencies and central banks

3 Includes corporates, insurance companies and funds

4 Banking products: includes loans, loan commitments and guarantees. Traded products: after master netting agreements and net of collateral. Trading inventory: net long per issuer

5 Not deducted from the "Net" exposures are total allowances and provisions of CHF 27 million (of which: Austria CHF 14 million and France CHF 7 million)

6 The majority of the Ireland exposures relates to funds and foreign bank subsidiaries

7 Includes Andorra, Cyprus, Estonia, Malta, Monaco, Montenegro, San Marino, Slovakia and Slovenia. Split by counterparty type not disclosed

8 The majority of the banking products exposure shown to Spanish banks relates to secured facilities that are collateralized by non-European sovereign debt securities

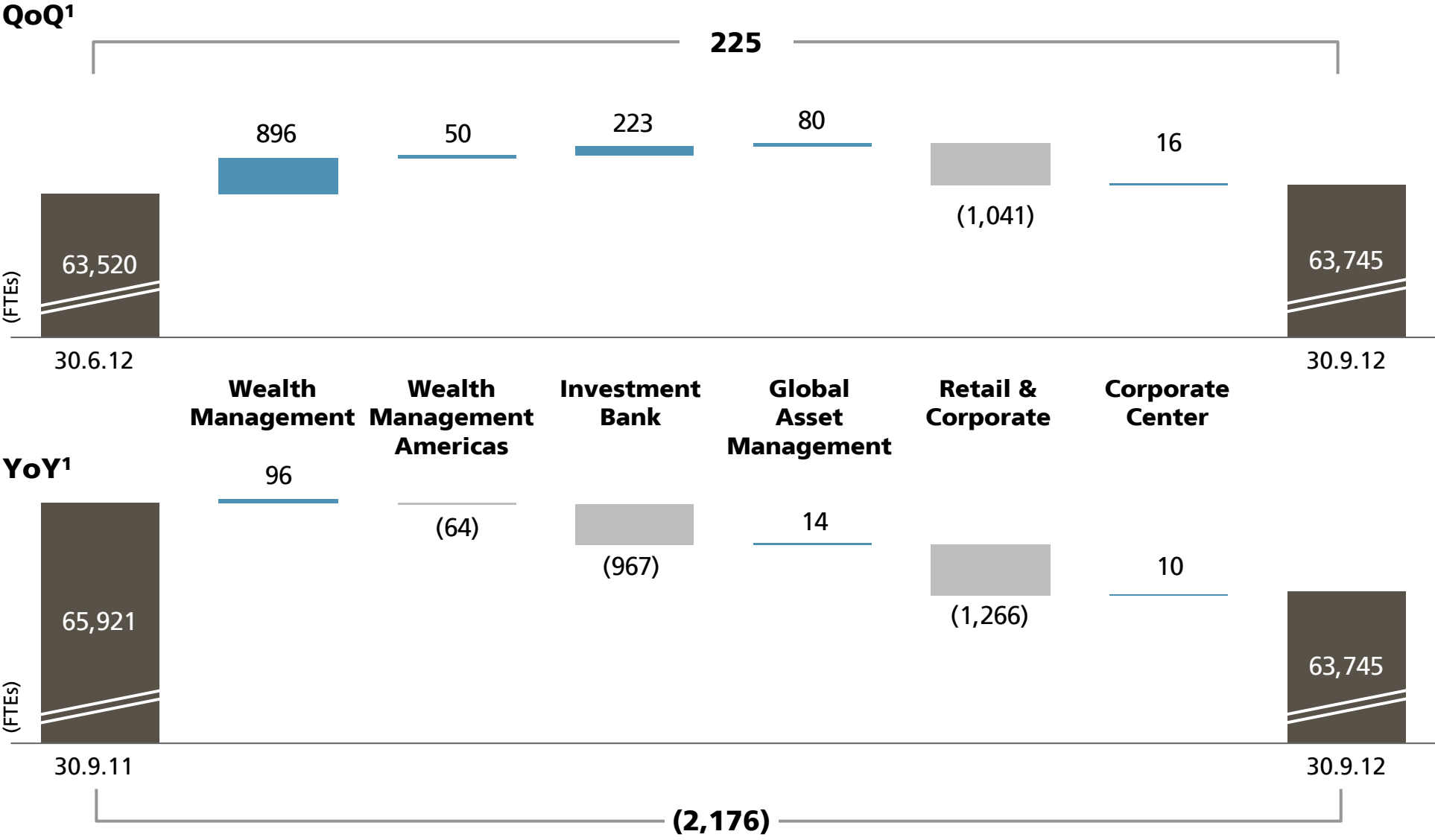
# Tax expense

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## 3Q12 net tax benefit of CHF 345 million

<b>Pre-tax loss (as reported)</b>	<b>CHF 2,516 million</b>
Net deferred tax <b>benefit</b> with respect to recognition of DTAs	CHF (355 million)
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Other net tax <b>expenses</b> in respect of 3Q12 taxable profits	CHF 85 million
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Tax benefits arising from the release of provisions in respect of tax positions that had previously been uncertain	CHF (75 million)
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<b>3Q12 net tax benefit</b>	<b>CHF (345 million)</b>
<b>3Q12 effective tax rate</b>	<b>13.7%</b>

# Headcount



<sup>1</sup> 3Q12 personnel allocations have increased by approximately 800 in Wealth Management, 250 in the Investment Bank and 50 in Global Asset Management, with a corresponding decrease of 1,100 in Retail & Corporate. Refer to page 8 of UBS's 3Q12 report for more information