



# Best of Switzerland

Andrea Orcel

*CEO Investment Bank*



September 19, 2013

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# Executive Summary

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## UBS — Bank of the future

- Unrivaled franchise with attractive returns and compelling growth prospects
- Industry-leading capital ratios with strong funding and liquidity position
- Proven execution track record and commitment to clear objectives

## UBS Investment Bank — Leadership in targeted segments

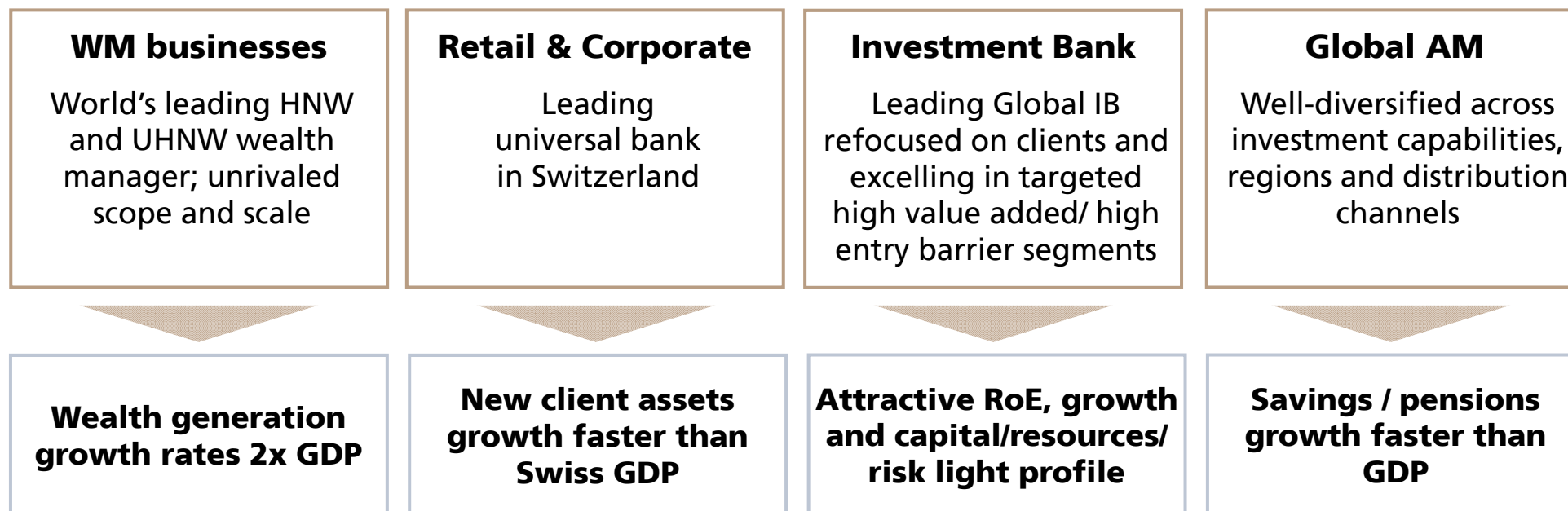
- Model consistent with UBS's client-centric DNA and designed for IB/WM mutual re-enforcements
- Leadership in targeted IB segments; compelling recurrent value with tightly controlled resources
- Committed to outperform on risk adjusted returns and growth

## UBS Investment Bank — Transformation levers

- Maintain or achieve leadership in defined target segments; fully optimizing Group-wide collaboration
- Focus on de-risking, efficient use of resources and earnings recurrence
- Enhance front office productivity and infrastructure efficiency

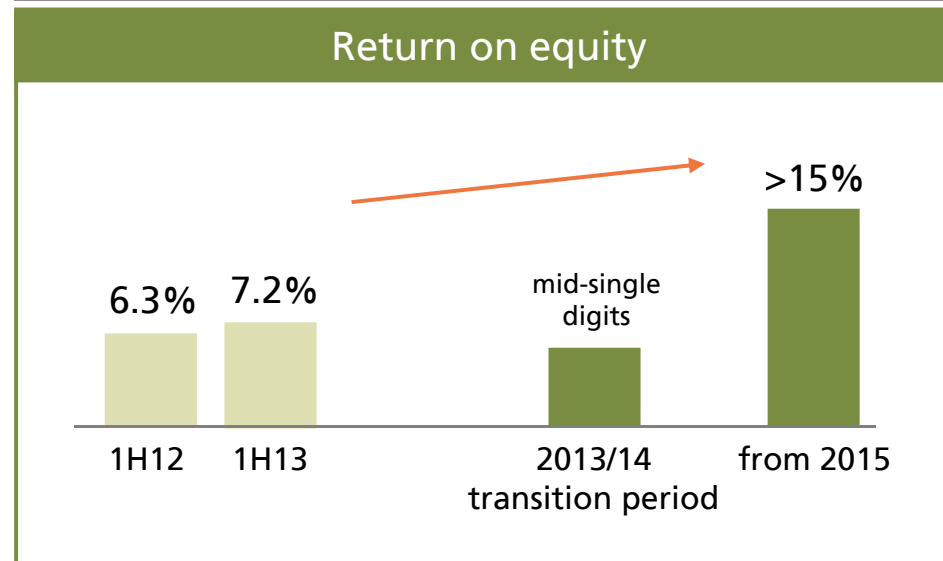
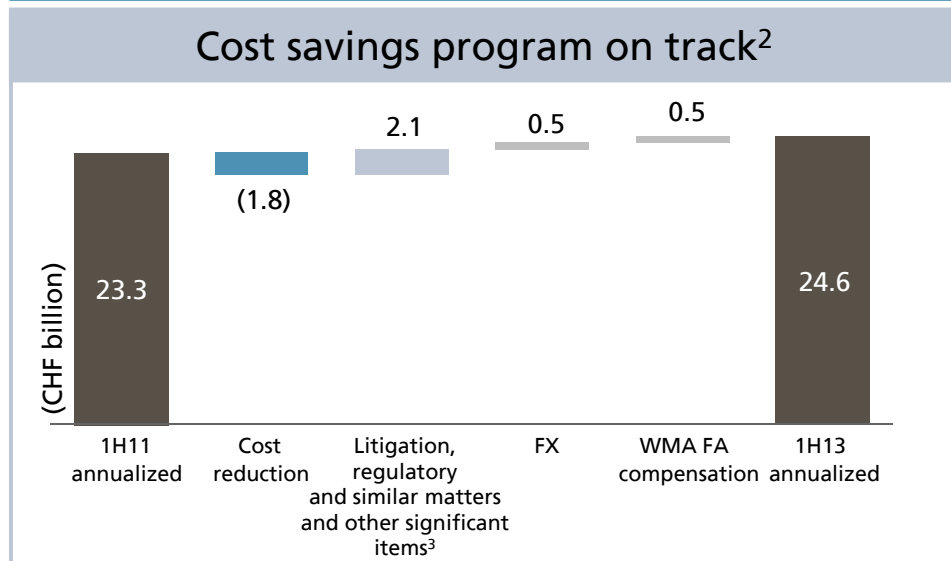
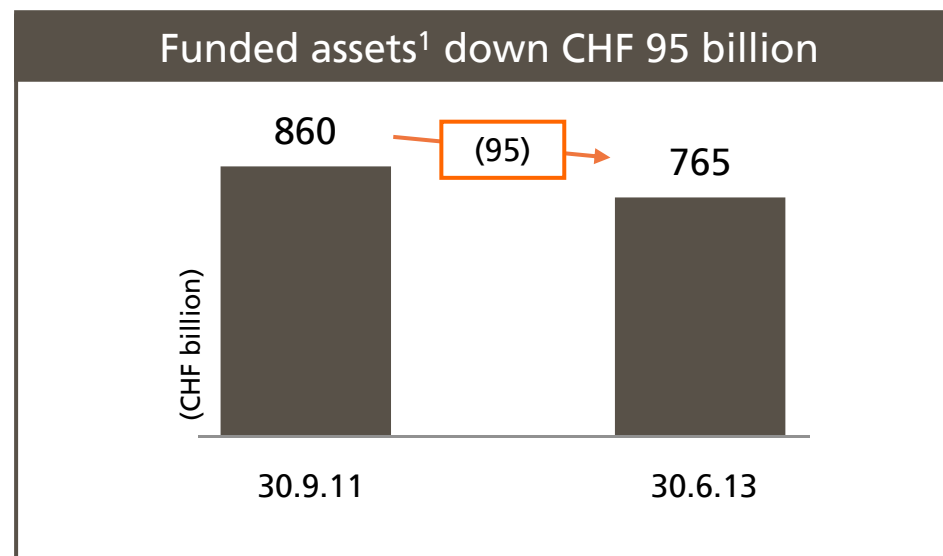
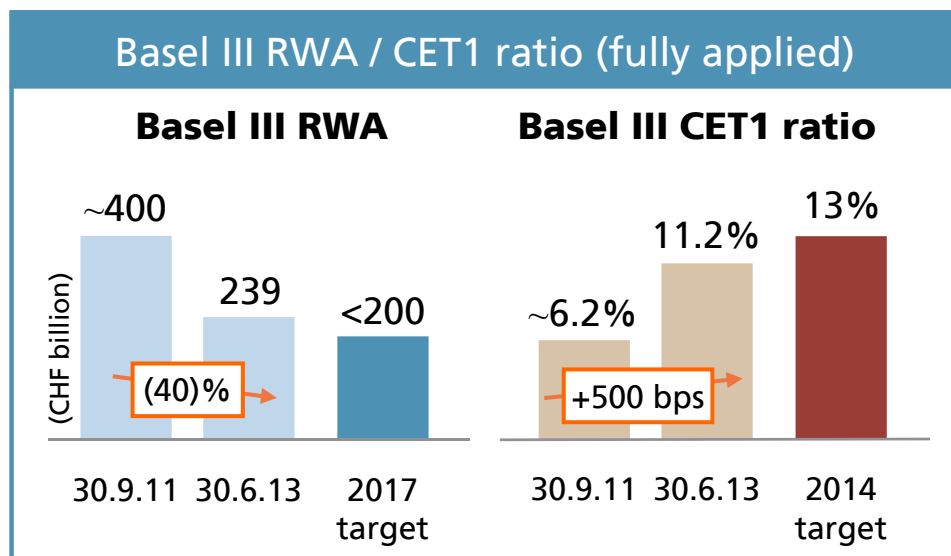
# UBS – Bank of the future

## Unrivaled franchise with compelling profitability and growth prospects



- Clear strategy and diversified leading business profile in high return, growth and predominantly less capital intensive businesses
- Industry-leading Basel III CET1 ratio with a strong funding and liquidity position
- Committed to sustainable RoE >15% (2015) and payout ratio of >50% once fully applied 13% CET1 target is achieved
- Proven execution track-record

# UBS – Proven execution track record and commitment to clear objectives



**Payout ratio of >50% once our fully applied 13% CET1 target is achieved**



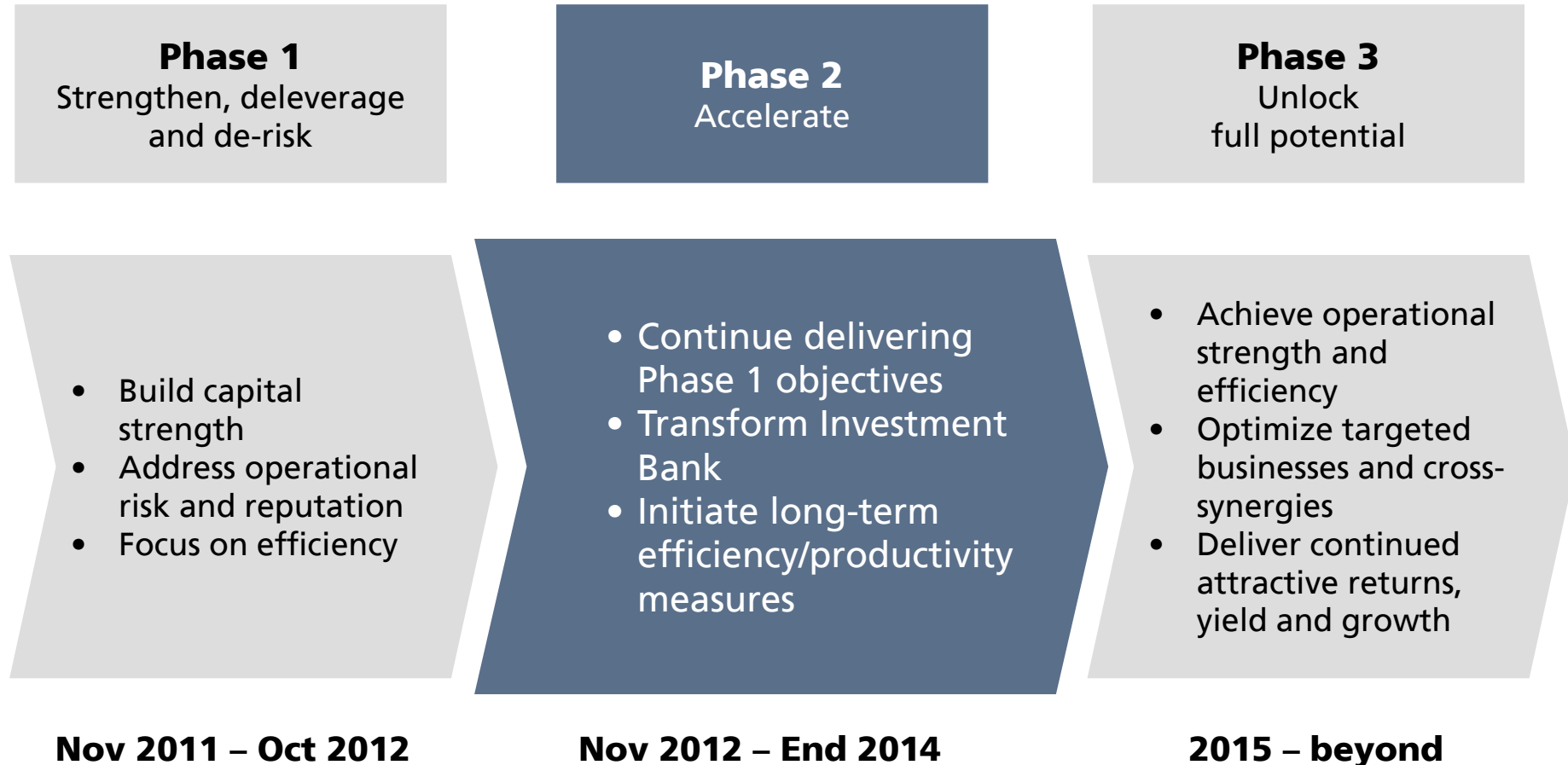
Refer to slide 26 for details about adjusted numbers, Basel III numbers and FX rates in this presentation

<sup>1</sup> Funded assets defined as total IFRS balance sheet assets less positive replacement values (PRV) and collateral delivered against over-the-counter (OTC) derivatives; <sup>2</sup> Adjusted operating expenses; <sup>3</sup> Represents charges for litigation, regulatory and similar matters in excess of annualized run rate for 1H11; other significant items are a charge of CHF 106 million in relation to the Swiss-UK tax agreement, an impairment charge of CHF 87 million related to certain disputed receivables and CHF 14 million other

# Our journey – The transformation of UBS

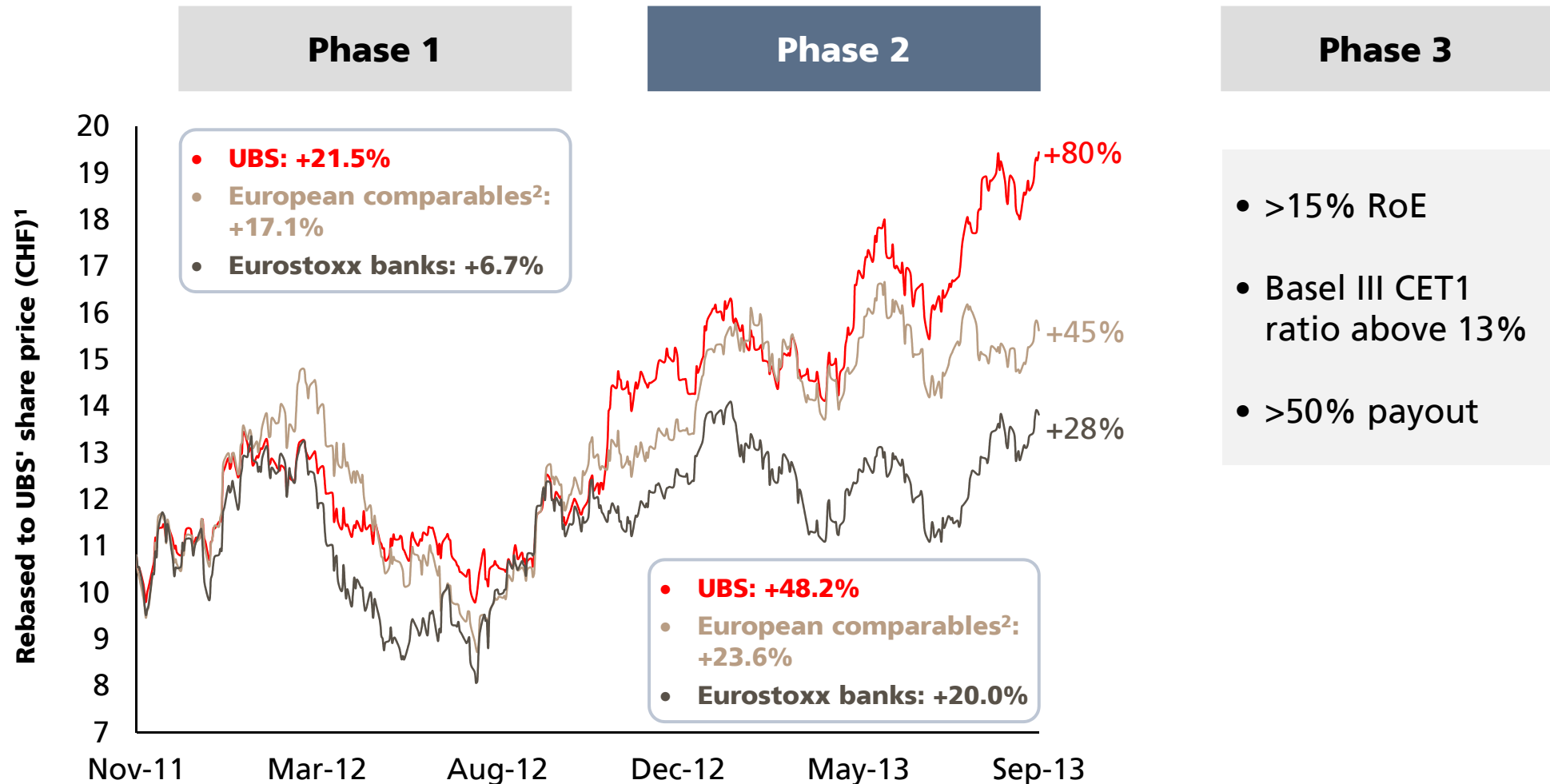
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**We are well on track in the execution of our strategy**



# Our journey – The transformation of UBS

## The market has rewarded our execution since Project Accelerate



Source: DataStream as at 13 September 2013

<sup>1</sup> The percentage shown for Phase 1 represents the increase in price from the closing price of UBS common stock on the SIX Swiss Exchange on 16 November 2011 (preceding our Investor's Day announcements before the opening of trading on the following morning) to the closing price on the SIX Swiss Exchange on 29 October 2012 (preceding our announcement of a strategic acceleration before the opening of trading on the following morning). The percentage shown for Phase 2 represents the increase in price from the closing price on the SIX Swiss Exchange on 29 October 2012 to the closing price on the SIX Swiss Exchange on 13 September 2013; <sup>2</sup> European comparables refer to Barclays, Deutsche Bank and Credit Suisse (unweighted)

## Section 2

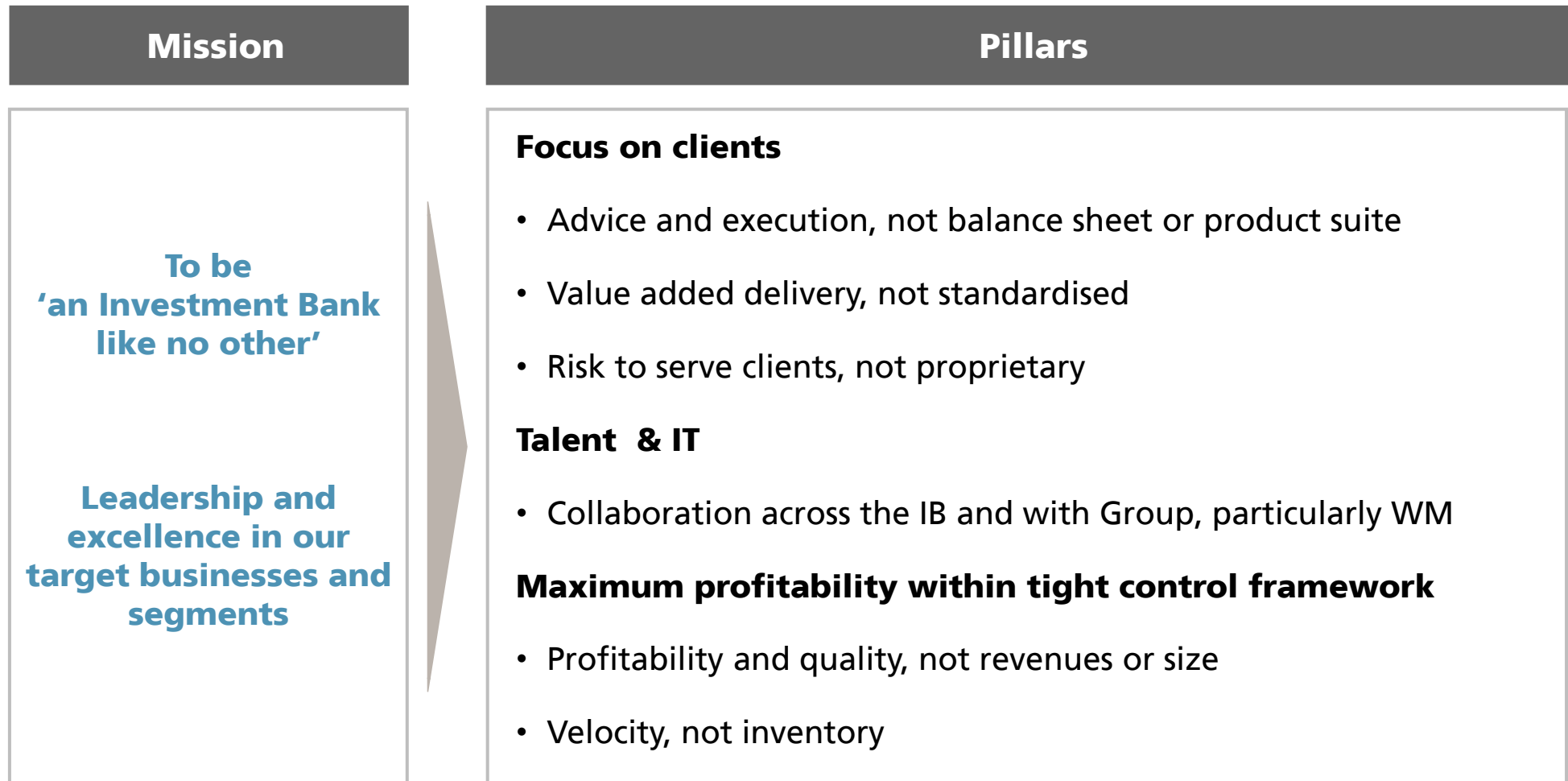
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# UBS IB – Leadership in targeted businesses and segments



# Accelerate in context—Model designed to complement UBS's DNA

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**Low capital intensity, high productivity model, delivering attractive returns (above cost of equity) in a tight risk framework**

# Promising initial results from the new IB model

(CHF million)	1H12 <sup>1</sup>	1H13	Change vs.	
			New IB (1H12)	Old IB <sup>2</sup> (1H12)
Revenues	3,707	5,033	+36%	+8%
Total costs	3,289	3,281	(0)%	(19)%
Pre-tax profit	418	1,752	+319%	+192%

# Tightly controlled resources framework

(CHF billion)	30.6.12 <sup>1</sup>	30.6.13	Change vs.	
			New IB (30.6.12)	Old IB <sup>3</sup> (30.6.12)
Basel III RWA (fully applied)	~82	67	(18)%	(61)%
Funded assets <sup>2</sup>	195	179	(8)%	n/a
Attributed equity	11.8	8.4	(29)%	(67)%
FTEs (#)	14,185	12,138	(14)%	(26)%



Refer to slide 26 for details about adjusted numbers, Basel III numbers and FX rates in this presentation

1 Pro-forma numbers adjusted for the reporting structure which was adopted from 1Q13; 2 Funded assets defined as total IFRS balance sheet assets less positive replacement values (PRV) and collateral delivered against over-the-counter (OTC) derivatives; 3 30.6.12 under the old structure as reported in our 2012 quarterly/annual reporting

# Resulting in solid productivity and returns

	1H12 <sup>1</sup>	1H13	Change vs.	
			New IB (1H12)	Old IB <sup>3</sup> (1H12)
Cost / Income ratio	89%	65%	(24)pp	(22)pp
RoRWA (Basel III, fully applied)	~8.6%	14.8%	+6pp	+10pp
Return on funded assets <sup>2</sup>	3.7%	5.5%	+2pp	n/a
Return on attributed equity	7.0%	43.0%	+36pp	+38%
Economic Profit	Negative	Positive		



Refer to slide 26 for details about adjusted numbers, Basel III numbers and FX rates in this presentation

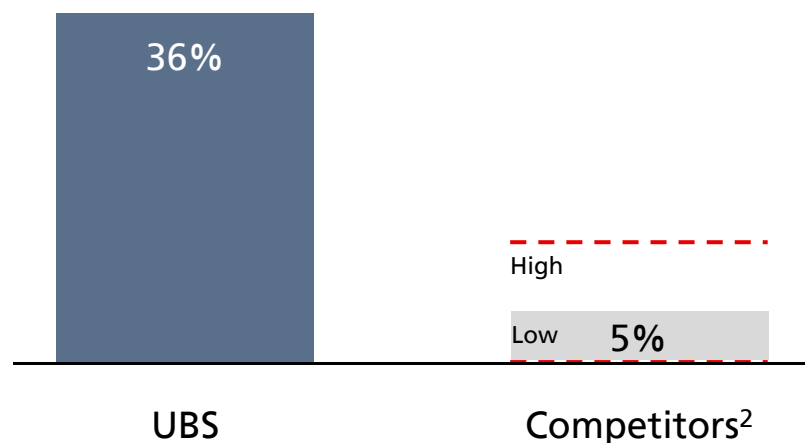
<sup>1</sup> Pro-forma results adjusted for the reporting structure which was adopted from 1Q13; 2Q12 included a loss of CHF 349 million related to the Facebook IPO

<sup>2</sup> Funded assets defined as total IFRS balance sheet assets less positive replacement values (PRV) and collateral delivered against over-the-counter (OTC) derivatives

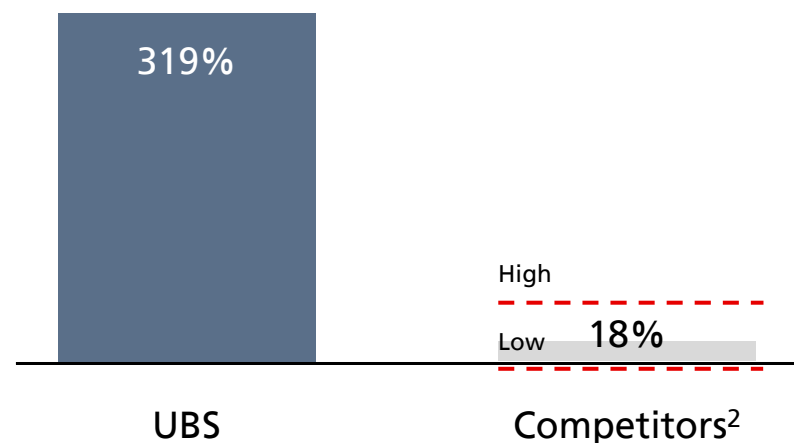
<sup>3</sup> 1H12 under the old structure as reported in our 2012 quarterly/annual reporting; 2Q12 included a loss of CHF 349 million related to the Facebook IPO

# Outperforming competition on Y/Y growth and competitive returns

## Revenue growth 1H13 vs. 1H12<sup>1</sup>

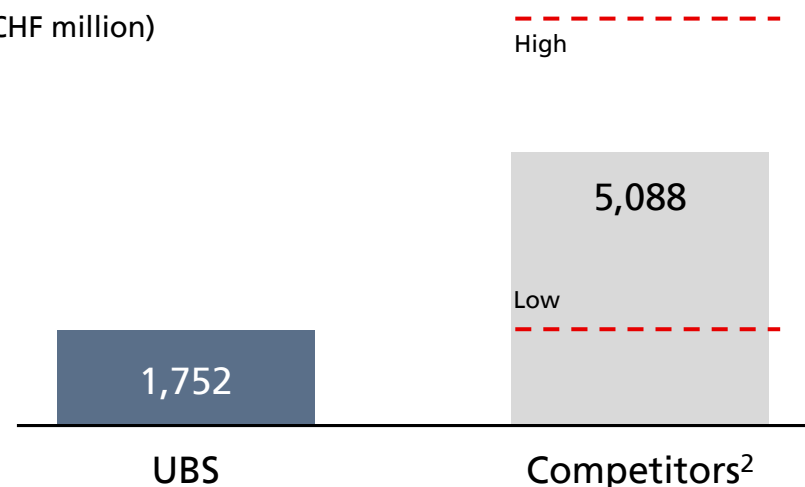


## Pre-tax profit growth 1H13 vs. 1H12<sup>1</sup>

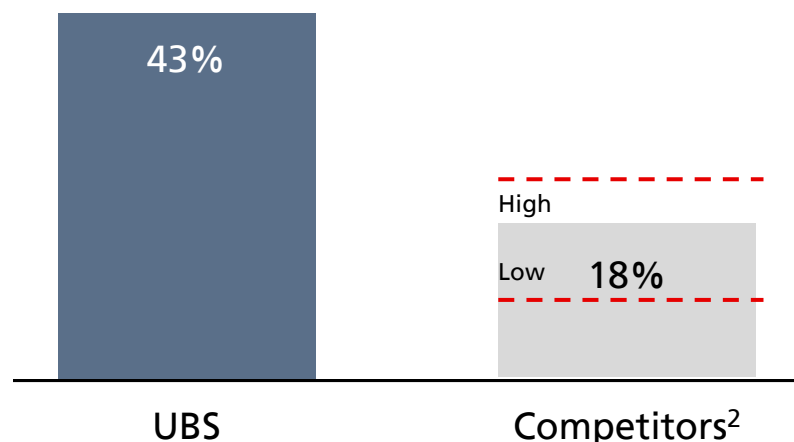


## Pre-tax profit 1H13

(CHF million)



## Return on attributed equity 1H13<sup>3</sup>



<sup>1</sup> UBS: 1H12 pro-forma results adjusted for the reporting structure which was adopted from 1Q13; 2Q12 included a loss of CHF 349 million related to the Facebook IPO; <sup>2</sup> Source companies reporting: Bank of America, Citigroup, Credit Suisse, Goldman Sachs, JP Morgan, Morgan Stanley; <sup>3</sup> Indicative only for competitors. Attributed equity based on 12% of published or estimated B3 RWA. Very few competitors consistently disclose capital / balance sheet information at the IB or a comparable perimeter level

# Two phases to achieve our mission post Accelerate

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## Accelerate – November 2012

**Phase 1:**  
Implement the model

- Top-down actions almost completed

**Phase 2:**  
Strengthen businesses to achieve targeted leadership and results

- In progress, promising initial results
- Three to five year implementation horizon

**Good progress achieved**

## Section 3

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# UBS IB – Transformation levers

# Levers available to us

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## TRANSFORMATION LEVERS

**Leadership in our  
defined target model**

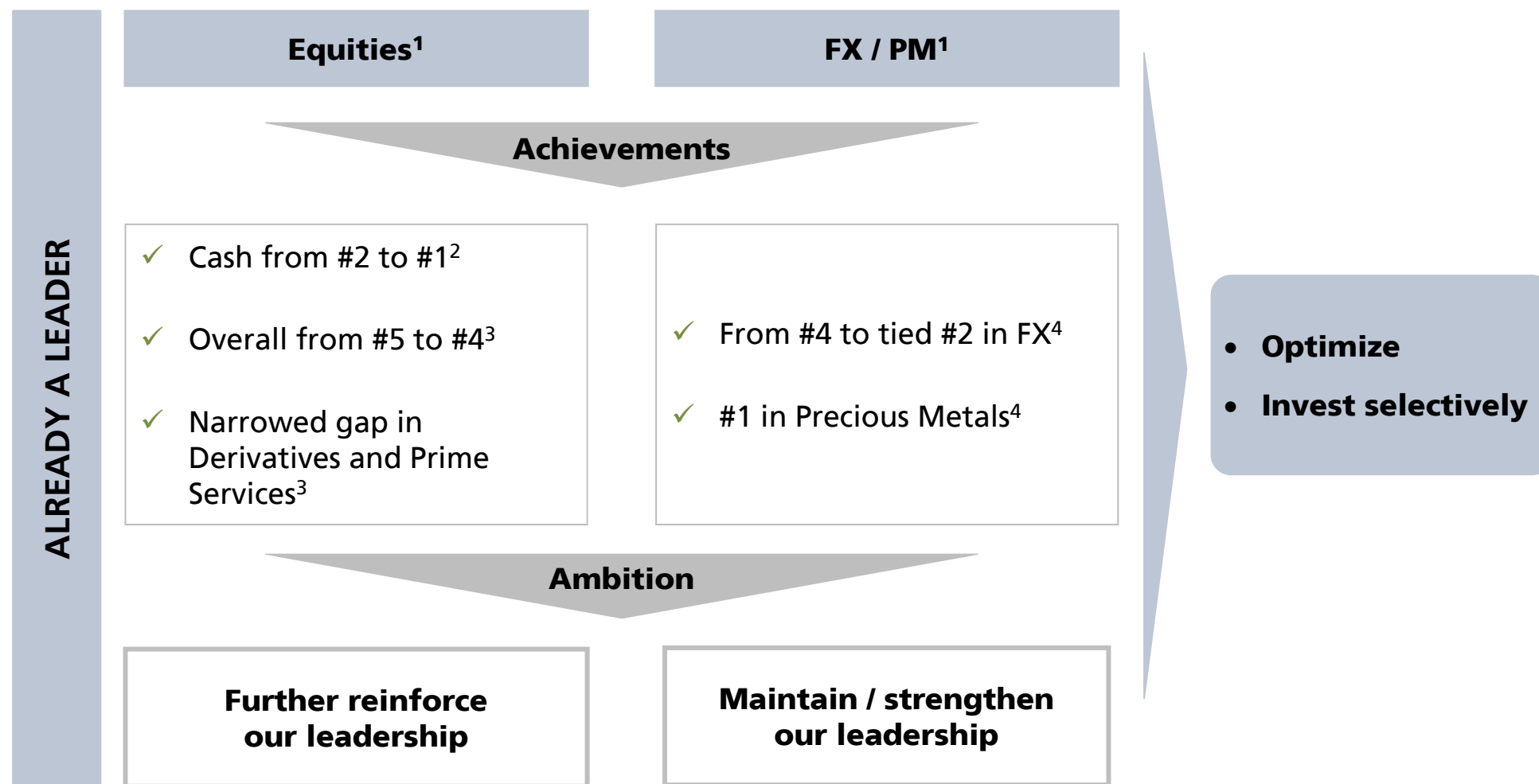


## LEVER IMPACT

- **Higher quality business**
- **Increased profitability and growth**

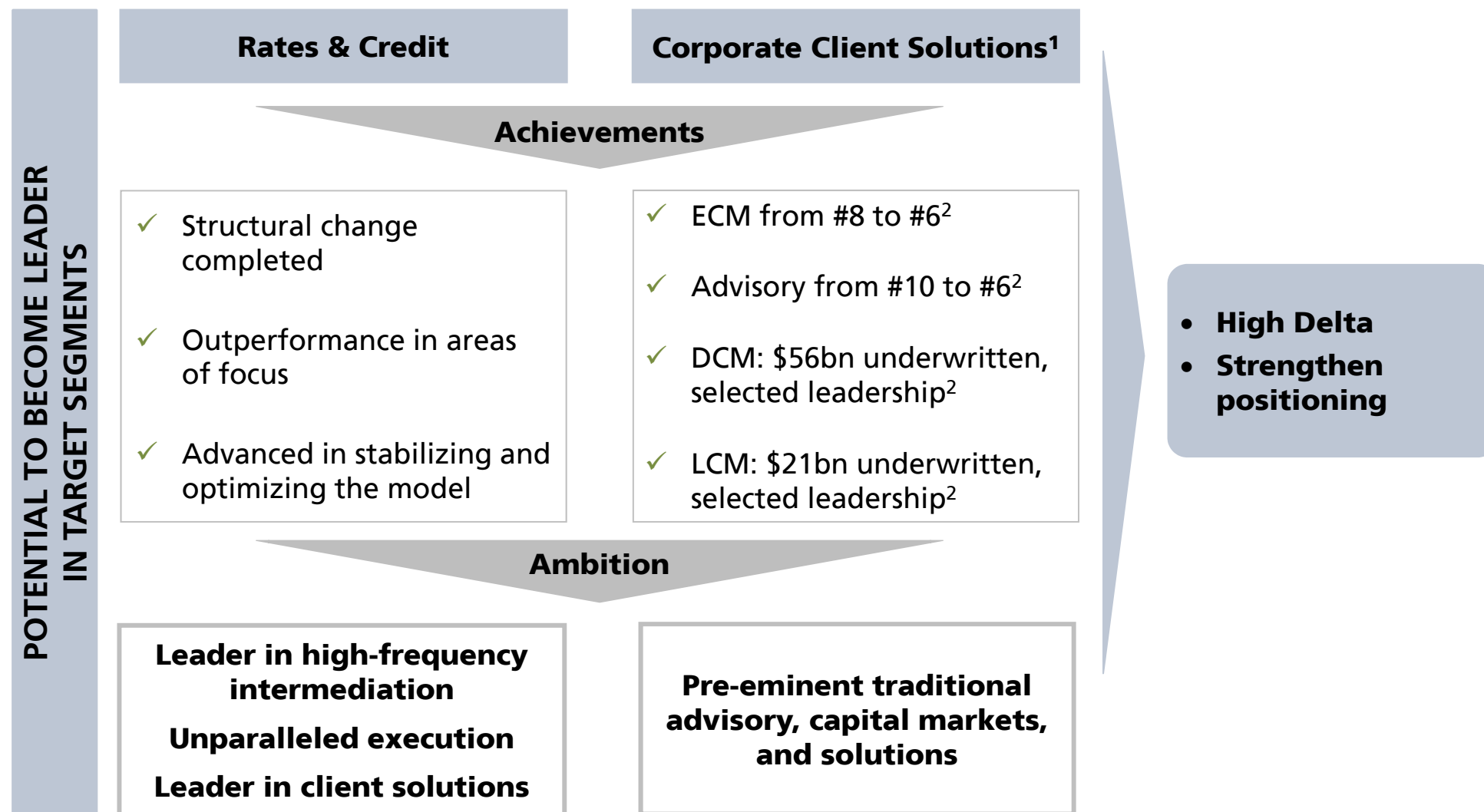


# Leadership in our defined target model



**An Investment Bank like no other**

# Leadership in our defined target model

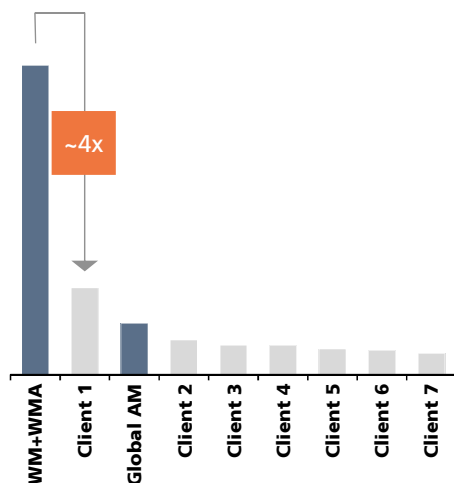


**An Investment Bank like no other**

# Leverage underused infrastructure – 4 key examples

## WM partnership

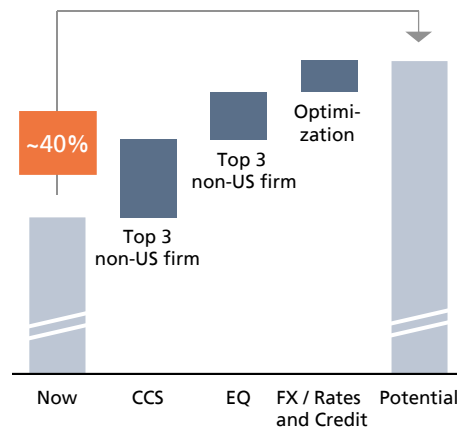
**Largest client of Investor Client Services**  
(top clients by revenues)



- Our most important client
- Source of strength for the IB
- Substantial scope to do more with increased collaboration

## US opportunity

**Substantial regional upside**



- The largest region but the most underweight relative to competitors
- Significant upside from leveraging existing infrastructure

## Emerging market is a priority

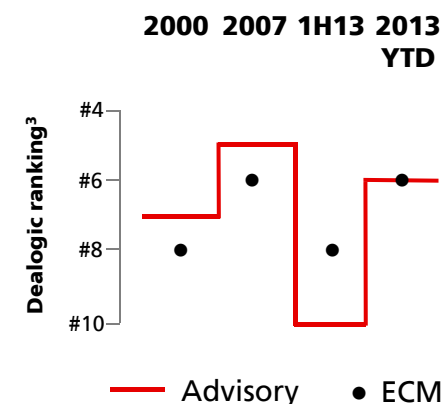
**EM in UBS DNA**

- ~20% of industry IB fees<sup>1</sup>...
- ... expected to grow to 35% by 2015
- ~20% of UBS' global AuM is from emerging economies<sup>2</sup>

- Increased but focussed presence
- Collaborate with WM to achieve best leverage in these markets

## Advisory DNA

**Correlation with ECM**



- Client centric DNA
- Focus on productivity and profitability

# Levers available to us

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## TRANSFORMATION LEVERS

**Leadership in our  
defined target model**

**De-risk / increase  
earnings recurrence**

## IMPACT

- Higher quality business
- Increased profitability and growth

- Reduce CoE from above average to below average

# De-risk and increase earnings recurrence

**Market and credit risks under strict control and limits**

**Credit Risk**

**Market Risk**

**Stringent risk limits**

**RWA (<CHF 70bn)**

**LRD<sup>1</sup>**

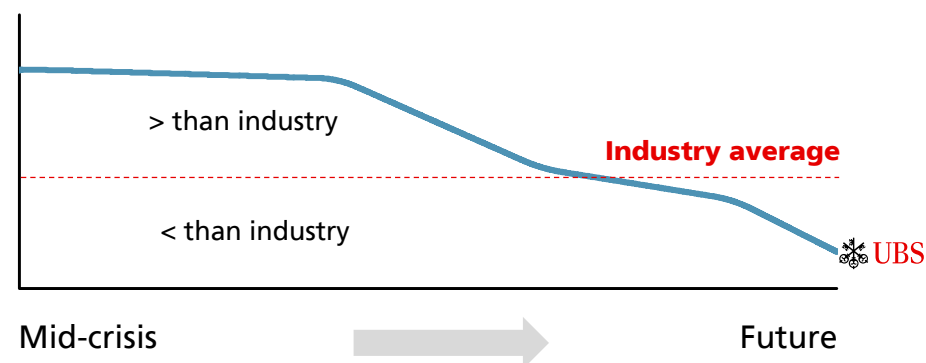
**LAS<sup>2</sup>**

**VaR<sup>3</sup>**

**Operating risks improving, but remediation still in progress**

- Tight operating environment
- Change culture / ownership
- Leverage technology

**Industry operational risk evolution**  
(illustrative example)



# Levers available to us

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## TRANSFORMATION LEVERS

**Leadership in our  
defined target model**

**De-risk / increase  
earnings recurrence**

**Enhance front office  
productivity and infrastructure  
efficiency**

## IMPACT

- Higher quality business
- Increased profitability and growth

- Reduce CoE from above average to below average

- Maximize revenues
- Minimize costs & op risk
- Maximize margins & profits

# Creating efficiency in all areas

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## Front Office

**Direct** cost base significantly reduced and under tight control

Going forward, main focus on further increasing **productivity**

## Back Office

Significantly improve **Corporate Center efficiency** by rationalization and re-engineering of processes and capabilities

# Levers available to us

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## TRANSFORMATION LEVERS

**Leadership in our  
defined target model**

**De-risk / increase  
earnings recurrence**

**Enhance originators productivity  
and infrastructure efficiency**

## LEVER IMPACT

- **Higher quality business**
- **Increased profitability and growth**

- **Reduce CoE from above average to below average**

- **Maximize revenues**
- **Minimize costs & op risk**
- **Maximize margins & profits**



## Section 4

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# Summary

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# Important information related to numbers shown in this presentation

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## Use of adjusted numbers

Unless otherwise indicated, "adjusted" figures exclude each of the following items, to the extent applicable, on a Group and business division level:

- Own credit gain on financial liabilities designated at fair value for the Group of CHF 138 million in 2Q13 (CHF 181 million loss in 1Q13, CHF 239 million gain in 2Q12)
- Net restructuring charges of CHF 140 million for the Group in 2Q13 (net charges of CHF 246 million in 1Q13, net charges of CHF 9 million in 2Q12)
- Gain of CHF 34 million on the disposal of Global Asset Management's Canadian domestic business in 1Q13
- Gain on the sale of the remaining proprietary trading business in the Investment Bank of CHF 55 million and an associated foreign currency translation loss of CHF 24 million in Corporate Center – Core Functions in 1Q13
- Net loss of CHF 92 million for the Group incurred on the buyback of debt in a public tender offer in 1Q13
- Credit to personnel expenses related to changes to a retiree benefit plan in the US (CHF 116 million for the Group in 2Q12)

Refer to page 13 of the 2Q13 financial report for an overview of adjusted numbers.

## Basel III RWA, Basel III capital and Basel III liquidity ratios

Basel III numbers in the presentation are BIS Basel III numbers unless otherwise stated. In addition to being required to comply with the BIS Basel III rules, as implemented by the revised Swiss Capital Adequacy Ordinance issued by the Swiss Federal Council and required by FINMA regulation, systemically relevant banks (SRB) in Switzerland (currently UBS and Credit Suisse) are required to comply with Swiss SRB-specific rules. The Swiss SRB Basel III transition rules are in line with the BIS Basel III transition rules, except that under the Swiss SRB Basel III rules our high trigger loss-absorbing capital which was granted as part of UBS's deferred compensations programs is subject to different amortization criteria than under BIS and that phase-out Tier 2 capital is not recognized.

Basel III risk-weighted assets in the presentation are calculated on the basis of Basel III fully applied unless otherwise stated.

From 1Q13 Basel III requirements apply. All Basel III numbers prior to 1Q13 are on a pro-forma basis. Some of the models applied when calculating pro-forma information required regulatory approval and included estimates (discussed with our primary regulator) of the effect of these new capital charges. These estimates have been refined with prospective effect during the first and second quarter of 2013, as models and associated systems were enhanced.

Refer to the "Capital Management" section in UBS's 2Q13 report for more information.

## 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 2Q13 report for more information.