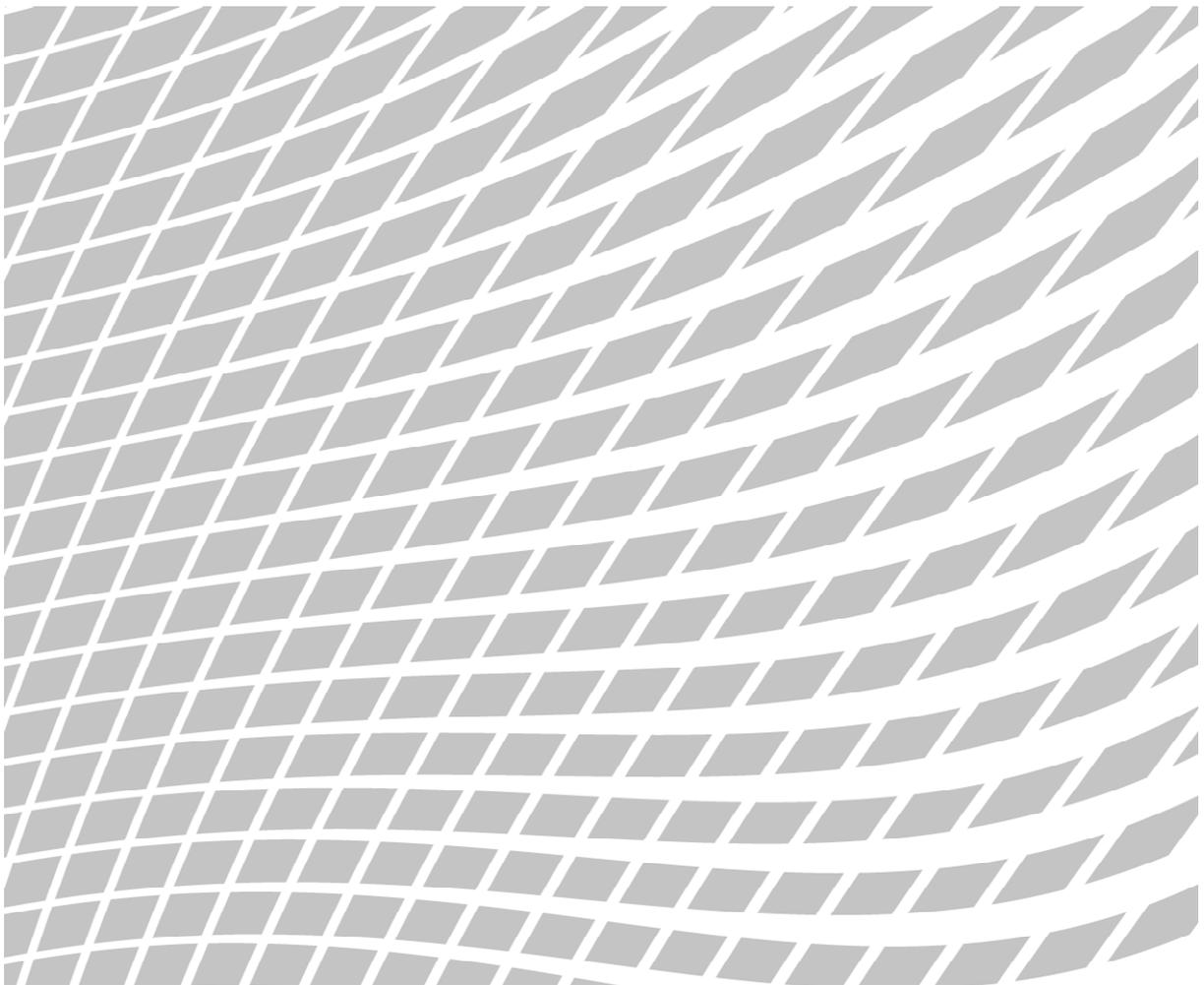


10 February 2009

UBS – variable remuneration 2008

Key facts and figures



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1 Key points

As part of the package of measures to strengthen Switzerland's financial system, FINMA has been appointed to approve UBS's variable remuneration for the year 2008. As part of the approval process, FINMA considered the variable compensation in all divisions of the group and at all levels of the UBS hierarchy. FINMA did not limit itself to cash payments but also included deferred components payable in shares or options. In its decision of 3 February 2009, FINMA authorised UBS to pay its employees variable remuneration in accordance with the following key points:

Guaranteed payments: UBS had at an earlier date bindingly undertaken to make payments of CHF 1.0 billion, whereof CHF 0.7 billion are to be made in cash. The bank is legally obliged to fulfil these commitments, irrespective of the loss that was recorded and the government support that was drawn on.

Discretionary cash payments: UBS will pay out a further CHF 1.2 billion in cash payments, mostly to lower and mid-ranking employees.

Annual results for 2008: Guaranteed and discretionary compensation components are relevant for the 2008 annual results. In total, the 2008 annual results are charged with CHF 1.8 billion at maximum. Valuation adjustments for still running compensation programs before 2008 account for a credit of CHF 0.4 billion.

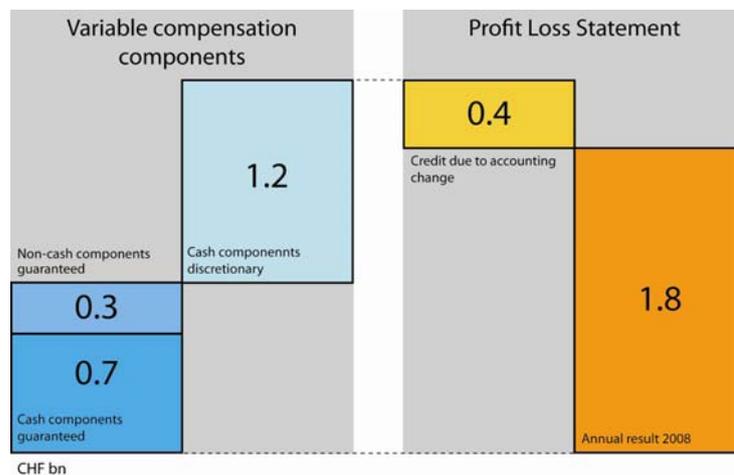


Fig. 1: Variable compensation components relevant for the annual result 2008

Deferred share and option programmes: UBS can continue its existing share and option programmes, but these are used only for selected key personnel. As in the past, employees can only be beneficiaries of these programmes if they do not leave the bank within the next few years. In addition, all employees have the opportunity to invest their cash payments or their own assets in UBS shares on preferential terms. As such, share and option plans contribute to the stability of the bank and protect profitable areas. The present value of share and option programmes for 2008 at the date of grant (23 February 2009) is limited to CHF 0.7 billion.

Deferred, conditional cash payments: In order to tie in key personnel over the longer term, UBS will grant deferred, conditional cash payments for 2008. These claims are limited to CHF 0.9 billion. Payments will be made on a staggered basis over three years, with the first instalment in 2010. Strict conditions will be attached, and the bank will only be able to pay out the instalments if it makes a profit. In addition, no payment can take place if UBS again has to draw on capital from the government.

Additional limitation of deferred compensation components by FINMA: In addition to the limitation of variable compensation components relevant for the 2008 annual result, FINMA has set a cap on the value of deferred compensation components. The present value of these components may not exceed a value of CHF 1.6 billion. However, this amount will be spread over several years and ultimately only be paid in full if the strict conditions described above are met. Moreover, the final value of the share and option programmes will depend on the performance of UBS's share price over the coming years. The deferred components are not charged against the 2008 annual result.

2 Mandate and process

FINMA was appointed to act in the matter of UBS's variable remuneration for 2008 on the basis of the dispatch of the Swiss federal council on a package of measures to strengthen Switzerland's financial system of 5 November 2008 (08.077, Federal Journal 2008 8943). It stated that UBS must "*discuss the size, composition and distribution of the group-wide performance-related remuneration pool for 2008 with FINMA (formerly the Swiss Federal Banking Commission) and have it approved by the supervisory authority.*" The Swiss Parliament specifically decided against forbidding UBS from paying any variable remuneration and against laying down detailed rules. Nevertheless, Switzerland is going much further than other states that had to support banks or other financial institutions as a result of the financial crisis. FINMA is the only supervisory authority worldwide to intervene such massively in the remuneration practice of a bank. It considered the variable remuneration components at all levels of the UBS hierarchy, including components that are not payable immediately in cash.

FINMA has been in consultation with UBS on this matter since October 2008. The subject has been intensively discussed with the Board of Directors, the Group Executive Board and at operational level. UBS disclosed to FINMA the key elements in the determination of the size, distribution and composition of its variable remuneration. The bank also explained the respective rules and principles applied. FINMA laid down the conditions for the required approval. In particular, it targeted a massive reduction in the overall size and a stringent distribution policy. Based on the mandate assigned to it, FINMA was forced to intervene in UBS's business policy through its decision, even though legal responsibility for the remuneration policy remains with the Board of Directors. However, FINMA did not lay down any rules regarding the distribution of remuneration throughout the bank.

The actual implementation is the task of the operational units of UBS, which employs more than 78,000 people worldwide. FINMA therefore attaches great importance to suitable implementation throughout the entire group. UBS must report to FINMA after assigning the variable remuneration components for 2008. FINMA reserves the right to verify aspects of implementation for compliance with the approval issued and the distribution principles. This applies in particular to those remuneration components that UBS deems to be guaranteed and enforceable by law.

3 FINMA's considerations

3.1 Distinction between management and accounting perspective

Variable remuneration can be considered from a management or an accounting perspective. The management perspective values all remuneration components at today's present values and does not consider whether or when they will be paid out. For share and option plans, there is no consideration of the value that the components will have at the time of payment. This value cannot be determined with certainty, as there is the future development of market prices is unknown.

The accounting perspective looks at things from a different angle. It only considers remuneration components at the value relevant for the annual results of the financial year in question. Share and option programmes are progressively amortised over the term of the programmes and their values are recalculated annually. Changes in market prices lead to valuation adjustments that can have either a positive or a negative impact on the annual results. As a result, ongoing programmes out of previous years are subject to regular adjustments. Corrections of this nature represented a credit of some CHF 400 million in UBS's accounts for 2008.

FINMA's considerations are based on the management perspective, as this is the one relevant for employees and offers the only way to gauge the potential impact of the remuneration policy on the employees' situation. The management perspective also considers the possible charges that may arise in subsequent years as a result of today's distributions.

3.2 Payment of variable remuneration despite significant loss

In principle, it is not appropriate to pay variable remuneration if a company has recorded substantial losses. This is particularly true if a private company such as UBS has to draw on enormous amounts of government support. At the same time, FINMA recognises that there are major business policy and legal reasons for deviating from the above principle. However, UBS must limit the size of its variable remuneration components to a minimum. The volume of funds taken out of the bank must under no circumstances reach a level threatening its capital and liquidity situation in the prevailing difficult market environment.

However many competitors both in Switzerland and abroad will be granting considerably higher variable remuneration despite the current tense situation. There is a risk that this will result in UBS losing precisely those employees who contribute most to the future ability of the bank. This also applies to certain investment banking areas which were still profitable even in the difficult 2008 market environment. Remuneration considerations must further factor in both the potential for future profits and the urgent need to stabilise current business operations. Even loss-generating units of the bank require motivated and skilled personnel in order to manage existing balance sheet positions and to restructure the bank successfully.

A difficult balancing act is therefore required. A wrong decision in either direction could have serious consequences for the bank and in a worst-case scenario threaten its very existence and hence the success of the government support measures.

3.3 Guaranteed remuneration components must be paid

To help understand the bank's variable remuneration system, a distinction must be made between guaranteed – in other words legally enforceable – components and discretionary payments that the bank chooses to make. UBS has guaranteed to a number of employees to pay variable remuneration for the initial period of their contracts with UBS as part of their terms of employment. Payment of the

guaranteed amounts is often linked to performance targets that the employee has to meet. This is currently common market practice worldwide.

UBS has stated that these guarantees were given in order to strengthen key business areas and thereby safeguard the stability and future of the bank. At present, UBS has no option other than to fulfil these legally enforceable commitments. However, the bank has made efforts, by agreement with the employees in question, to withdraw guarantees already given.

3.4 Severe reduction in discretionary salary components

In addition to the guaranteed remuneration components, UBS will also grant variable components that it is not legally obliged to pay. The bank will grant these primarily to lower-ranking employees representing the largest group of personnel. There is also a limit on the maximum amount payable to any functional level, meaning that UBS has tightened the restriction already in place for several years. The reduction will be less severe at lower levels of the bank's hierarchy, and will largely affect employees in the middle and upper salary segments. Cash payments to employees will be reduced by over 80% compared with the previous year. Taking only the Investment Bank division into consideration, the reduction will be 95%.

3.5 Deferred remuneration components to retain employees

UBS will reduce its variable remuneration by far more than its Swiss and international peers. This could result in an employee exodus and hence further weaken the bank, mainly in the areas that are still profitable. Deferred remuneration components should therefore tie employees to the bank and help to maintain stability. At UBS, the bank's shares and derivatives on these shares will continue to be used as deferred remuneration components for this purpose. These will simply be allocated to employees and not definitively transferred until a waiting period of several years has elapsed. Furthermore, they will only be transferred if employees are still with UBS at that time. If they leave the bank, the entitlement will be forfeited. Since the value of these securities will depend on the performance of UBS's share price, deferred remuneration creates a link between the interests of shareholders and other capital providers and those of the employees.

FINMA approved the continuation of the share and option programmes not least because the burden on the bank's capital and earnings is lower at present and the size of the burden going forward will depend on the bank's future performance. UBS has also presented an extremely cautious allocation policy to FINMA that is restricted to key personnel within the bank.

3.6 Deferred, conditional cash payments to retain employees

FINMA has authorised UBS to allocate further cash payments, but these are subject to strict conditions. The payments are destined mainly for middle and senior managers, whose cash and share payments have been cut disproportionately compared with the market. These employees will today

receive only a conditional claim to these payments. The payments will not actually be made until 2010, 2011 and 2012. They will only be made if the bank and the division in which the employee works close the financial year in profit. The annual instalments will otherwise be forfeited. In this way, UBS ensures that these liabilities will only be payable if its financial situation enables a payout to be made. The deferred cash payments will also be forfeited if the bank has to draw on further Swiss government capital measures. As with the share and option programmes, the conditional cash payments will only be payable if the employees are still with the bank.

4 Future action

FINMA is currently developing general guidelines on financial sector remuneration systems, to be issued in the form of a circular. It will be guided in this by international recommendations, such as those of the Financial Stability Forum. FINMA's rules will apply not only to the very top managers, but also to members of management and employees who can decide upon or must manage large risks. Variable remuneration components are a sensible part of a compensation strategy. They enable companies to flexibly adjust their labour costs to the economic situation. Remuneration systems should promote the sustainable, long-term success of the company and should not create incentives to enter into inappropriate risks.

UBS is in the process of overhauling its remuneration system, and the models applied in the future will be geared towards the minimum standards currently in development. FINMA will subject the new models to in-depth scrutiny and approve them. In November 2008, FINMA has tightened the regulatory capital requirements for UBS and ordered the bank to regularly perform a medium term capital planning. Variable compensation components represent a significant cost component and are – amongst various other aspects – to be considered in the capital planning process.