



Looking back
Thinking ahead

Business University campus – Singapore

The UBS Business University Asia Pacific has been a center of excellence for the development and execution of wide-ranging curricula since 2007. With the focus on our employees, clients and the community, it also serves as a hub for research and thought leadership in new initiatives, such as the development of philanthropy in the region.





Contents

2	Looking back at UBS in 2012
6	UBS at a glance
8	Positioning clients for the path ahead
10	Banks – and why the economy needs them
12	Responding to an evolving regulatory environment
14	Investing in the future of Switzerland
	Our strategy
18	Moving forward by focusing on what we do best
	Our compensation and corporate governance
24	Our compensation in 2012
26	Our Board of Directors
28	Our Group Executive Board
	Our commitment
32	Working together to expand horizons
34	Our commitment to the community
36	Find out more about UBS

Editorial

Dear reader,

2012 was an important milestone in our firm's history. We celebrated our 150th anniversary and began executing our strategy to position the bank for sustainable success amidst the ongoing changes in our industry. Our anniversary gave us the opportunity to reflect on our strong heritage together with clients and other stakeholders around the globe, deepening existing relationships and establishing new ones.

UBS has a long tradition of adapting successfully to change while maintaining the qualities of excellence and client focus which have always been our hallmarks. 2012 was such a year of adaptation. This Annual Review explores some of the activities we undertook in the past year to prepare ourselves for the future. It highlights examples of our thought leadership and innovation and shows how we are adapting to a changing environment.

As a firm, we believe that it is important that we play an active and constructive role within the communities in which we do business. Throughout 2012, our employee volunteering and community affairs programs contributed to a wide variety of community-based projects around the world.



We remained focused on supporting education and entrepreneurship alongside efforts to promote sustainable business practices. In 2012, we supported educational and entrepreneurship activities around the world, investing over CHF 40 million. Just some of these initiatives are showcased in the photographs throughout this booklet.

We hope that the pages of this Annual Review give you a richer view of our activities which extends beyond the bottom line. As we look back on 2012, and think ahead to the future, we are convinced our strategy is the right one, and are determined to maintain our track record of successful execution in 2013 for the benefit of all our stakeholders.

Yours sincerely,

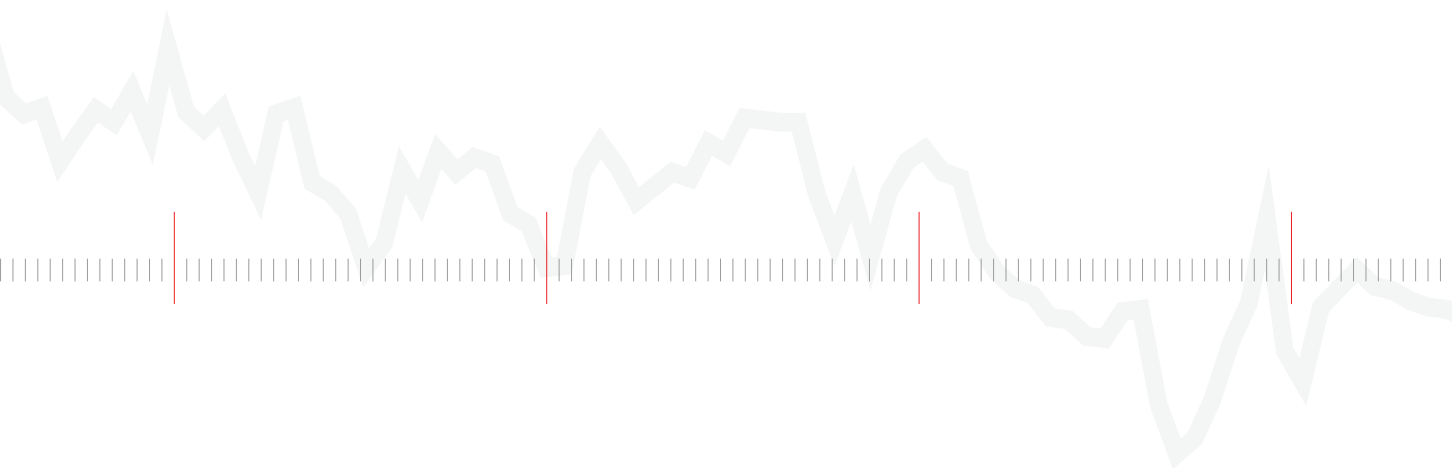
A handwritten signature in black ink, appearing to read 'Axel Weber', written in a cursive style.

Axel A. Weber
Chairman of the
Board of Directors

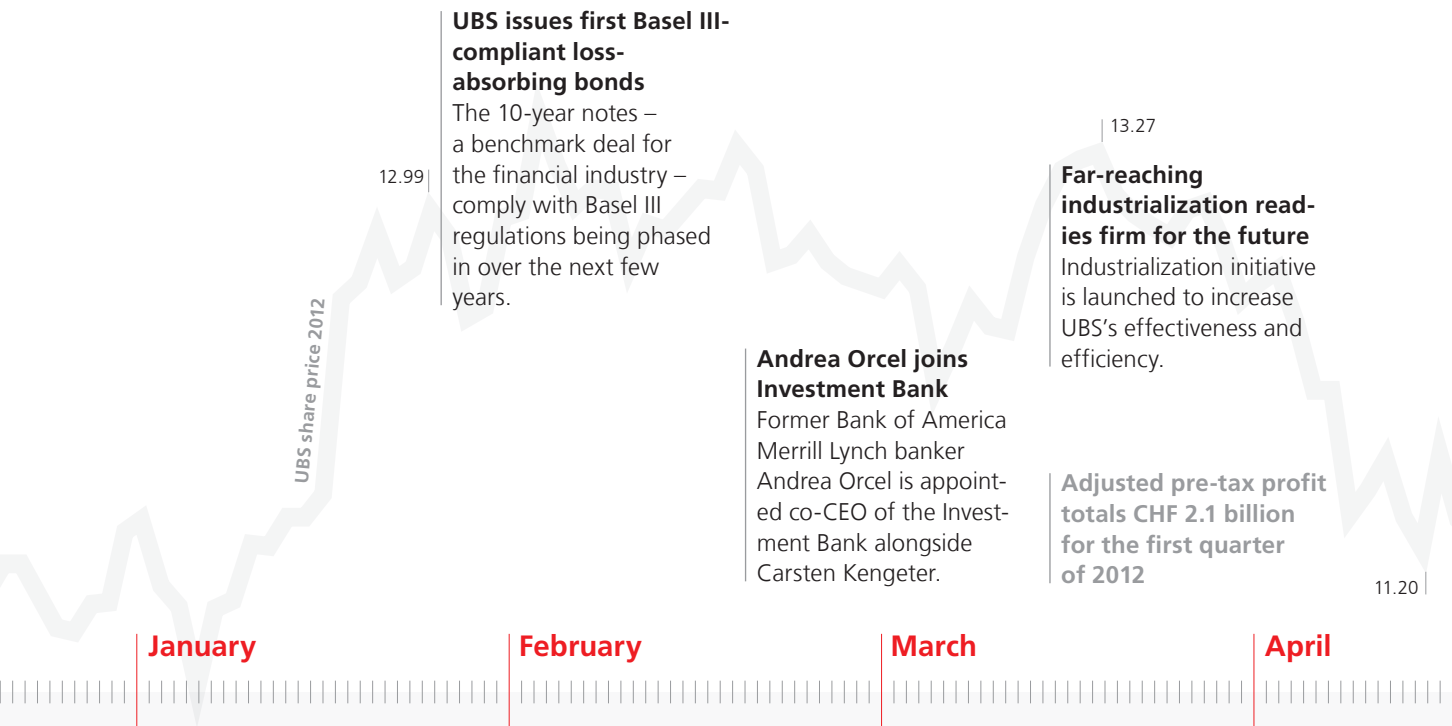
A handwritten signature in black ink, appearing to read 'Sergio Ermotti', written in a cursive style.

Sergio P. Ermotti
Group Chief
Executive Officer

Looking back at UBS *in 2012*



Our *business*



UBS issues first Basel III-compliant loss-absorbing bonds

The 10-year notes – a benchmark deal for the financial industry – comply with Basel III regulations being phased in over the next few years.

Andrea Orcel joins Investment Bank

Former Bank of America Merrill Lynch banker Andrea Orcel is appointed co-CEO of the Investment Bank alongside Carsten Kengeter.

Far-reaching industrialization readies firm for the future

Industrialization initiative is launched to increase UBS's effectiveness and efficiency.

Adjusted pre-tax profit totals CHF 2.1 billion for the first quarter of 2012

Our *environment*

Conference illuminates APAC region for investors

UBS hosts its annual Greater China Conference in Shanghai, China, for the twelfth time.



Former US presidents headline client event in Miami

Former US presidents Bill Clinton and George W. Bush reunite for an exclusive "Revitalizing Americas" client event hosted by Wealth Management Americas.

Innovative art partnership with Guggenheim commences

The Solomon R. Guggenheim Foundation and UBS launch the UBS MAP Global Art Initiative to identify and support art, artists and curators from three emerging regions.



Education initiative promotes learning in Switzerland and creates international economic research center

See page 14.

Axel A. Weber joins bank's leadership

At the Annual General Meeting, former Bundesbank president Axel A. Weber is elected to the Board of Directors for the first time. He is later appointed Chairman, succeeding Kaspar Villiger.

Operations begin at locally incorporated Chinese subsidiary

UBS (China) Limited commences operations, representing a significant milestone in UBS's development in China.

UBS wins key Euro-money awards

Leading financial markets magazine *Euromoney* bestows six Awards for Excellence in 2012 on UBS, including best global wealth manager and best bank in Switzerland.



Adjusted pre-tax profit totals CHF 662 million for the second quarter of 2012

May

June

July

August

11.41

10.93

9.80

Family Office Summit held in Asia for first time

The annual UBS Family Office Summit, held in Singapore, brings together over 120 global investors who manage the family fortunes of the wealthiest families from around the world.

Employees worldwide celebrate 150th anniversary

June 25 marks the official date of UBS's 150th anniversary. Various charity events, volunteering days, galas and other events are organized around the world to celebrate the big day. The Swiss public joins the festivities with free boat rides on the country's lakes.

150
Years

FTSE4Good index re-confirms firm's good citizenship credentials

2012 marks the twelfth consecutive year in which UBS has been included in the prestigious corporate responsibility index.



14.75

12.01

UBS in record equity offering for AIG

UBS acts as joint bookrunner on a USD 18 billion follow-on equity offering for American International Group (AIG) – the largest follow-on equity offering on record globally.

Adjusted pre-tax profit totals CHF 1.4 billion for the third quarter of 2012

Strategic acceleration announced

The significant acceleration in the implementation of our strategy underlines our commitment to transform UBS into a less capital- and balance-sheet-intensive business. See page 18.

Unauthorized trading trial concludes; UBS fined by FSA

After ten weeks, the trial of former Investment Bank employee Kweku Adoboli ends, with the defendant being found guilty on two counts of fraud and sentenced to seven years in prison. The UK's Financial Services Authority fines UBS GBP 29.7 million for its system and control failings that enabled the unauthorized trades.

UBS pays fines to US, UK and Swiss regulators in relation to LIBOR investigations

The settlements stem from industry-wide investigations into the setting of certain benchmark rates across a range of currencies, which focused on improper attempts by banks to manipulate LIBOR and other benchmark rates.

Adjusted pre-tax loss totals CHF 1.2 billion for the fourth quarter of 2012

September

October

November

December



Employees honored for volunteering efforts

In recognition of their community volunteer work, around 150 employees globally receive an award launched by UBS to commemorate its 150th anniversary. See page 34.

Hurricane Sandy rebuilding and relief efforts receive USD 1.2 million in aid

In response to the devastation, UBS commits USD 1.2 million to long-term relief and rebuilding efforts across Connecticut, New Jersey and New York.

Q-Series® marks tenth anniversary with conference in New York

Global thought leaders join nearly 200 clients and investors in New York City for the tenth annual Q-Series® conference, focusing on "Inflection points towards sustainability". See page 9.

Clients and companies flock to European Conference

The second annual UBS European Conference in London, which addresses the most pressing issues affecting business and investment, draws close to 900 clients.



UBS at a *glance*

UBS draws on its 150-year heritage to serve private, institutional and corporate clients worldwide and retail clients in Switzerland. Our strategy centers on our preeminent global wealth management businesses and our universal bank in Switzerland, together with a client-focused investment bank and a strong, well-diversified global asset management business.

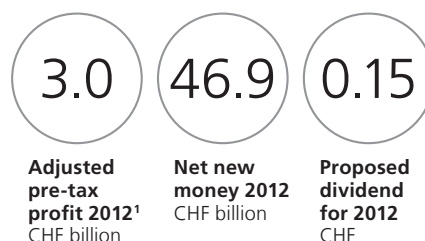


"We start 2013 in a strong position. We have significantly reduced our risk profile, and our financials are rock solid. UBS has an attractive and unique business mix and a fantastic global client franchise." Sergio P. Ermotti, Group CEO

Headquartered in Zurich and Basel, Switzerland, UBS is present in all major financial centers worldwide. Our shares are listed on the SIX Swiss Exchange and the New York Stock Exchange (NYSE). Our operational structure comprises the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, the Investment Bank, Global Asset Management and Retail & Corporate.

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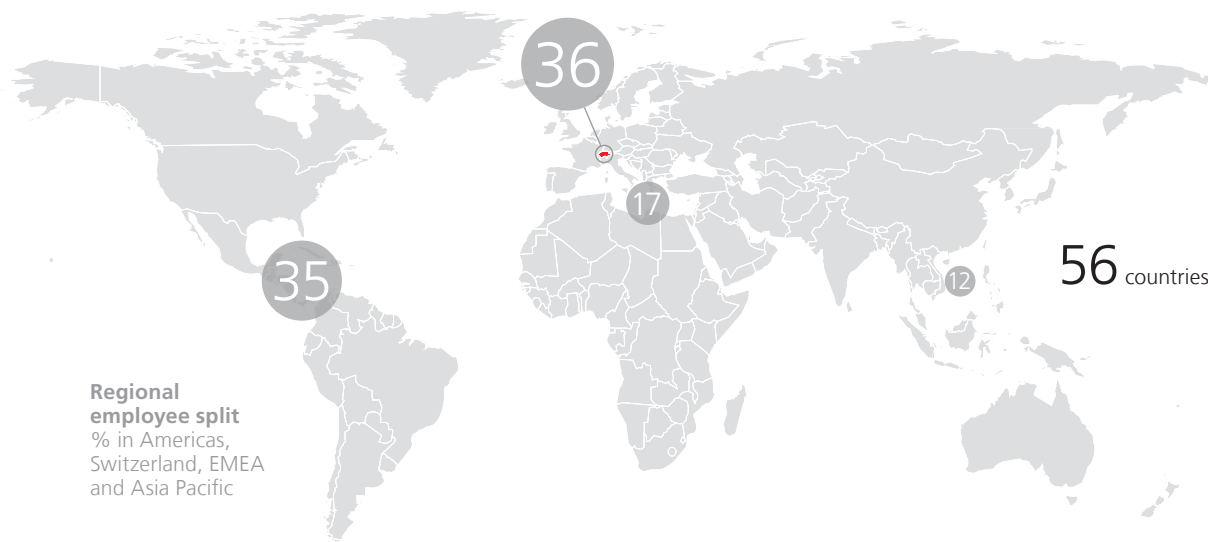
- One of the largest wealth managers in the world; named "Best Global Wealth Manager 2012" by *Euromoney* (Award for Excellence)
- UBS Investment Bank ranked Number 1 nine years in a row in *Institutional Investor's* All-Europe Research survey
- One of the largest global institutional asset managers
- Largest bank in Switzerland; named "Best Bank in Switzerland 2012" by *Euromoney* (Award for Excellence)



Positive developments during 2012 include:

- full-year net new money inflows in our wealth management businesses of CHF 46.9 billion
- strong share price performance, which was up 28% over the year
- significant progress in building our industry-leading capital ratios
- issuance of USD 4 billion of Basel III-compliant loss-absorbing bonds
- the firm's risk-weighted asset reduction target exceeded
- sufficient progress in executing the firm's strategy set out in 2011 to enable UBS to announce an acceleration of its implementation in October 2012

62,628 employees



Regional employee split
% in Americas, Switzerland, EMEA and Asia Pacific

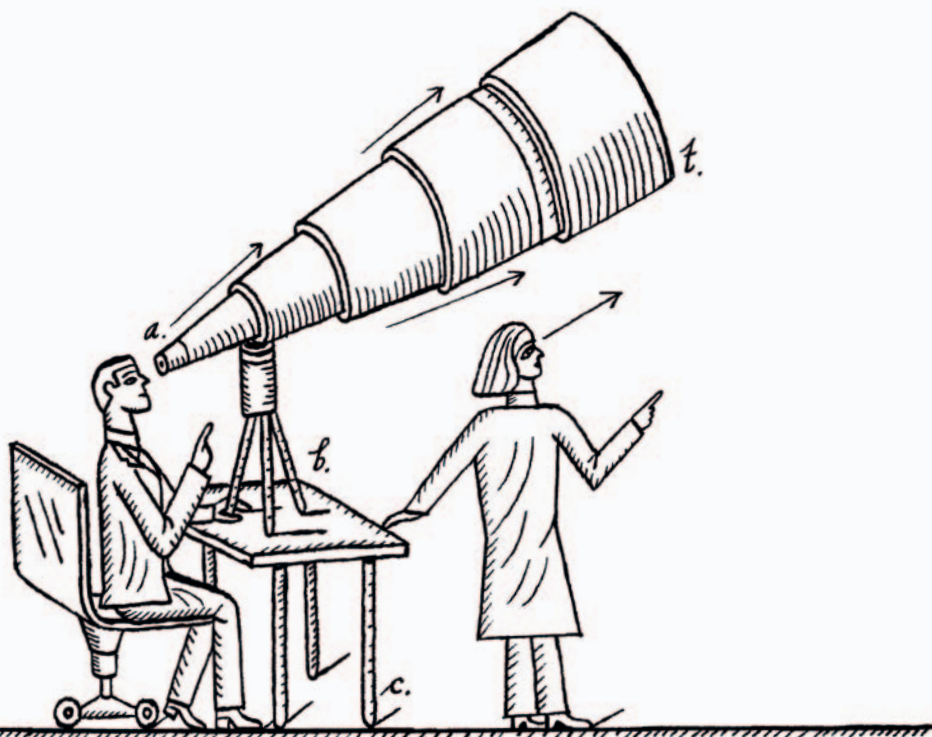
Our key figures

CHF million, except where indicated	As of or for the year ended		
	31.12.12	31.12.11	31.12.10
Group results			
Operating income	25,443	27,788	31,994
Operating expenses	27,216	22,482	24,650
Operating profit/(loss) from continuing operations before tax	(1,774)	5,307	7,345
Net profit/(loss) attributable to UBS shareholders	(2,511)	4,138	7,452
Diluted earnings per share (CHF) ²	(0.67)	1.08	1.94
Key performance indicators³, balance sheet and capital management, and additional information			
Performance			
Return on equity (RoE) (%)	(5.2)	9.1	18.0
Return on tangible equity (%) ⁴	1.6	11.9	24.7
Return on risk-weighted assets, gross (%) ⁵	12.0	13.7	15.5
Return on assets, gross (%)	1.9	2.1	2.3
Growth			
Net profit growth (%) ⁶	N/A	(44.5)	N/A
Net new money growth (%) ⁷	1.6	1.9	(0.8)
Efficiency			
Cost/income ratio (%)	106.5	80.7	76.9
Capital strength			
BIS tier 1 capital ratio (%) ⁸	21.3	15.9	17.8
FINMA leverage ratio (%) ⁸	6.3	5.4	4.5
Balance sheet and capital management			
Total assets	1,259,232	1,416,962	1,314,813
Equity attributable to UBS shareholders	45,895	48,530	43,728
Total book value per share (CHF) ⁹	12.25	12.95	11.53
Tangible book value per share (CHF) ⁹	10.52	10.36	8.94
BIS core tier 1 capital ratio (%) ⁸	19.0	14.1	15.3
BIS total capital ratio (%) ⁸	25.2	17.2	20.4
BIS risk-weighted assets ⁸	192,505	240,962	198,875
BIS tier 1 capital ⁸	40,982	38,370	35,323
Additional information			
Invested assets (CHF billion) ¹⁰	2,230	2,088	2,075
Personnel (full-time equivalents)	62,628	64,820	64,617
Market capitalization ¹¹	54,729	42,843	58,803

Footnotes for pages 6 and 7: 1 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 of CHF 414 million in 4Q12 (CHF 863 million loss in 3Q12, CHF 239 million gain in 2Q12, CHF 1,164 million loss in 1Q12); net restructuring provision charges of CHF 258 million for the Group in 4Q12 (net release of CHF 22 million in 3Q12, net charge of CHF 9 million in 2Q12, net charge of CHF 126 million in 1Q12); CHF 3,064 million charge related to impairment testing of goodwill and other non-financial assets in 3Q12 in the Investment Bank; credit to personnel expenses related to changes to a US retiree medical life-insurance benefit plan (CHF 116 million restated for IAS 19R for the Group in 2Q12) and changes to UBS's Swiss pension plan (CHF 730 million restated for IAS 19R for the Group in 1Q12). 2 Refer to "Note 8 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of our Annual Report 2012 for more information. 3 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of our Annual Report 2012. 4 Net profit attributable to UBS shareholders before amortization and impairment of goodwill and intangible assets/average equity attributable to UBS shareholders less average goodwill and intangible assets. 5 Based on Basel 2.5 risk-weighted assets for 2012. Based on Basel II risk-weighted assets for 2011 and 2010. 6 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 7 Group net new money includes net new money for Retail & Corporate and excludes interest and dividend income. 8 Capital management data is disclosed in accordance with the Basel 2.5 framework for 31 December 2012 and 31 December 2011, and in accordance with the Basel II framework for 31 December 2010. Refer to the "Capital management" section of our Annual Report 2012 for more information. 9 Refer to the "Capital management" section of our Annual Report 2012 for more information. 10 In 2012, we refined our definition of invested assets. Refer to "Note 35 Invested assets and net new money" in the "Financial information" section of our Annual Report 2012 for more information. Group invested assets includes invested assets for Retail & Corporate. 11 Refer to the appendix "UBS shares" of our Annual Report 2012 for more information.

→ For further information on our financial performance, please see our Annual Report 2012, www.ubs.com/annualreport

Positioning *clients* for the path ahead



The ongoing shift in market dynamics has meant that, more than ever before, investors must deal with volatility, uncertainty, and changing regulations, prompting them to increasingly seek guidance from their wealth managers. Leading our efforts to meet this demand are the Global Chief Investment Officer (CIO) Wealth Management and his team, who draw on the investment and research competence from across UBS to offer superior investment advice and solutions to our private clients.

“Being an investor is a bit like being an astronomer,” comments Global CIO Wealth Management Alexander Friedman. “You use powerful tools to try and make sense of the unknown. But while astronomers look back in time at stars and galaxies that sometimes no longer exist, investors look forward in time to events that have yet to happen.”

Bringing the best of what UBS has to offer

The CIO develops what we call the UBS Wealth Management House View – a unified, independent, clear and concise perspective on investing that brings the best of what UBS has to offer to our clients. What makes the UBS House View different from the investment advice provided by other financial institutions? And how can clients be assured of its quality?



The answer lies in the expertise, resources and global scope we leverage to sift through the vast flows of financial information and separate signal from noise, distinguish what is relevant to the markets and our clients from what is not.

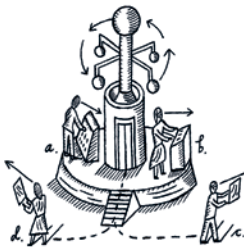
At our centralized knowledge hub we systematically bring together the latest market news with research gathered from UBS and third-party analysts worldwide and the insights of senior staff involved with key global and regional leaders in business, politics, etc. to gain a full perspective.

Serving all client segments and markets also provides us with valuable input into emerging trends,

opportunities and risks – simply put, we see trends at the local level before most other players. External investment managers from some of the largest and best-performing asset management firms in the world, such as BlackRock and Schroders, also give us special access to respected points of view that inform our thinking.



From this wealth of information, the CIO team delineates the events and developments that most affect market behavior and influence the performance of specific asset classes. We draft a number of scenarios for every asset class around our base case to forecast the probability and impact of varying outcomes. These forecasts are used to define investment strategies, asset class risk/return expectations, asset allocations for portfolios, and preferred investment themes.



A truly independent point of view

Together with top internal and external investment professionals, the CIO challenges our centrally formulated strategies. Then it's the turn of the Global Investment Committee to debate them. It's only after this rigorous vetting that Friedman, as global CIO, signs off on the UBS House View.

"Our clear separation of investment professionals from sales professionals within the investment process means that our House View is unaffected by sales or revenue targets," he emphasizes. "It is and must be our pure and unbiased view on the world and the financial markets."

The House View forms the basis of the recommendations we make to our wealth management clients. Our Investment Products & Services unit applies it to our discretionary and advisory offerings. We further disseminate it to our client advisors, who discuss important topics with their clients and offer advice on how to take advantage of our best ideas.

Daily screening and monitoring of client portfolios ensure that our advisors are personally alerted to the strategies being devised and the opportunities uncovered, which are then tailored in line with the client's risk profile.



"Being an investor is a bit like being an astronomer: You use powerful tools to try and make sense of the unknown. But while astronomers look back in time at stars and galaxies that sometimes no longer exist, investors look forward in time to events that have yet to happen."

Alexander S. Friedman,
Global Chief Investment Officer,
UBS Wealth Management

A decade of innovative thinking

Institutional clients around the world benefit from access to the broad and innovative research products offered by our investment bank and global asset management businesses. Ten years ago, when the Investment Bank launched the Q-Series®, it was meant not only to be a research product, but also a process leading a firm-wide drive for more thoughtful, proprietary and valuable research.

Its philosophy is that questions are as, if not more, valuable than answers, and its underlying premise is that continual questioning can lead to new areas of inquiry and greater understanding. That means critical thinking, reasoning by analogy, and constructive dialog are all central to the research process.

By talking to clients and focusing on the pivotal questions that matter to them, strong relationships are built and meaningful research developed. Over the years, the Q-Series® systematic approach has enabled UBS to present a differentiated research product in the market, addressing a wide spectrum of issues, such as "How will the world economy evolve in the decade ahead?" and "Global airlines: Are low-cost airlines always the cheapest option?"

www.ubs.com/q-series



Our investment process aims to optimally position our clients, based on their individual needs, preferences and expectations, to shape their financial future. It enables them, in a defined and disciplined manner, to benefit from our market insights, expertise, global reach and partner networks, and in doing so to make more effective investment decisions. ■

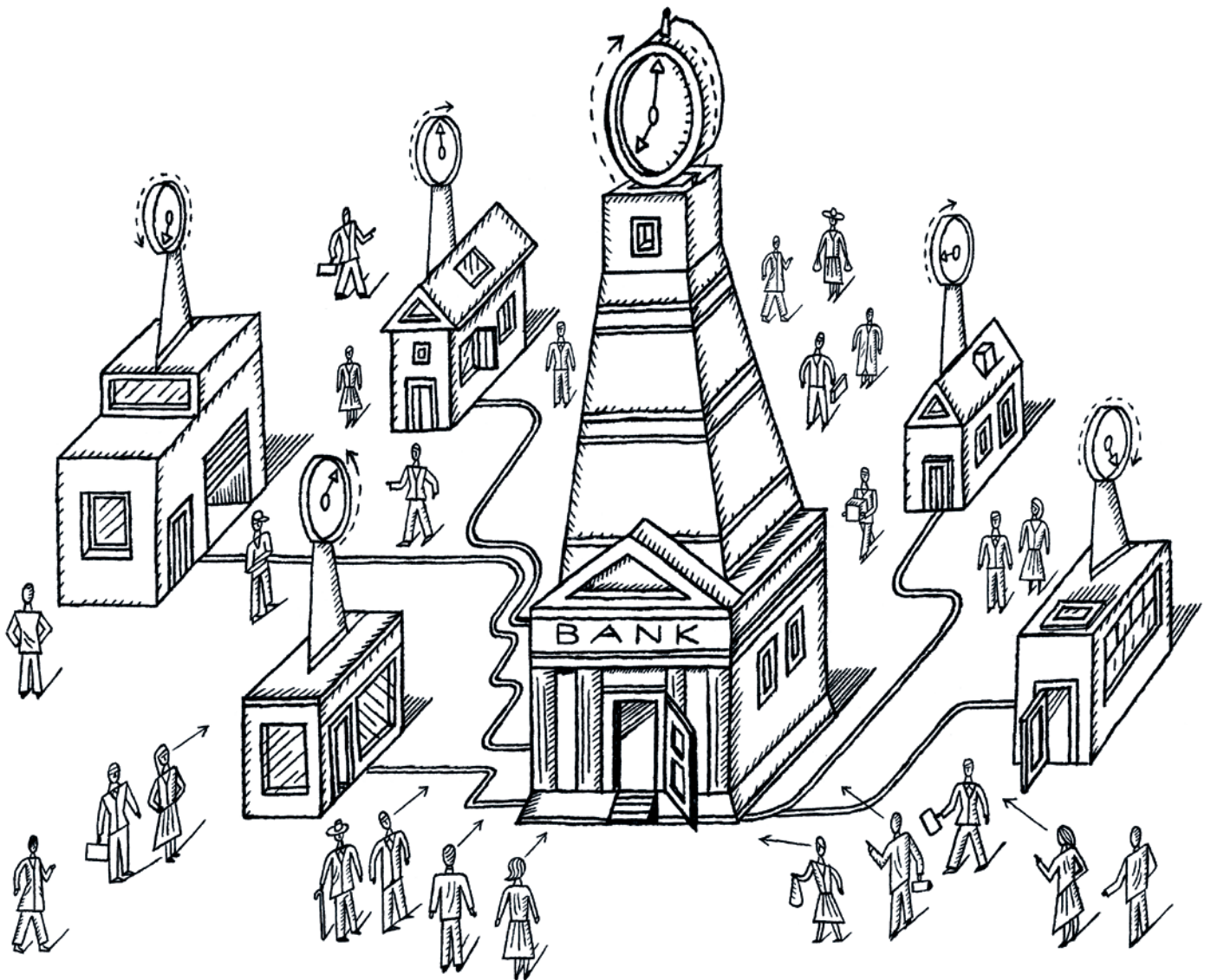
Find out more

For more information about the Wealth Management House View, visit www.ubs.com/houseview



*Banks – and why the **economy** needs them*

New York's Wall Street, the City of London, Paradeplatz in Zurich – global financial centers have become the epitome of everything good and bad about capitalism and banks. Regardless of whether you believe banks are one of the root causes of crises or essential to economic prosperity, their significance cannot be ignored.



On the back of the worst financial crisis since the Great Depression of the 1930s and various cases of misconduct in the financial industry, it has hardly been surprising to see the banking industry's reputation slip in recent years. For banks, policy-makers, politicians, clients and the broader public, the time has come to take a step back from the storm of criticism and focus in a balanced way on what banks should contribute to the rest of the economy and broader society.

So, what are banks actually for in the twenty-first century?

Helping others prosper

"Banks are the nerve system of a fully functioning economy," says Paul Donovan, Global Economist at the Investment Bank. "If the banking system isn't working, the economy is paralyzed." Of course, innovation and expansion require capital. And one of a bank's main functions is to help allocate and deploy capital to where it's needed the most – to businesses whose products and services shape our lives, give us jobs and create wealth. Because bankers act as intermediaries and facilitators, only they can bring together supply and demand of capital.

Consequently, banks provide the framework to match global sources of savings with investment needs and opportunities around the world. Big institutional investors or wealthy individuals need to diversify risk by country, instrument and currency – and to be able to do that, they rely on banks and their advice, research, market access and portfolio and risk management skills.

Switzerland is a good illustration of the way the financial sector and general economic activity are connected in many more ways than apparent at first glance. The country owes its economic success in large measure to its strong integration in the global markets, with exports accounting for over 50% of GDP. Thanks to its presence in more than 50 countries, UBS offers global reach and a full range of services for the export industry, thus making an important contribution to the Swiss economy.

At the service of small companies

But banking is not just about international finance. Switzerland's approximately 310,000 small and mid-sized companies form the backbone of the country's economy, creating innovative and technologically sophisticated products which bear the "Swiss made" stamp of approval.

Swiss companies have differing requirements depending on their size and international focus. UBS has solutions to meet the needs of all client



"Banks are the nerve system of a fully functioning economy. If the banking system isn't working, the economy is paralyzed."

Paul Donovan,
Global Economist,
UBS Investment
Bank

groups in the field of payments, foreign exchange, securities, loans and export financing, as well as specialist advice on succession planning, restructuring and takeovers.

Smoothing the everyday

Banks also offer ordinary everyday services that most of us don't think twice about using yet would find it difficult to live without – ATMs, credit cards or e-banking. Nowadays, banks are involved in almost every aspect of our personal lives. They help people finance their homes, save for their children's education and build solid retirement plans.

This is particularly true for Switzerland, UBS's home market. Drawing on our network of around 300 branches and our 4,700 client-facing staff, complemented by state-of-the-art electronic and mobile banking services and customer service centers open to our clients around the clock seven days a week, we are able to reach approximately 80% of Swiss wealth, one in three households, one in three wealthy individuals and almost half of all Swiss companies.

So, what is the name of the game in banking going forward? It's simple: focusing on the economy, helping people make contributions to society, addressing human needs in a responsible way – this is what banking should be about.

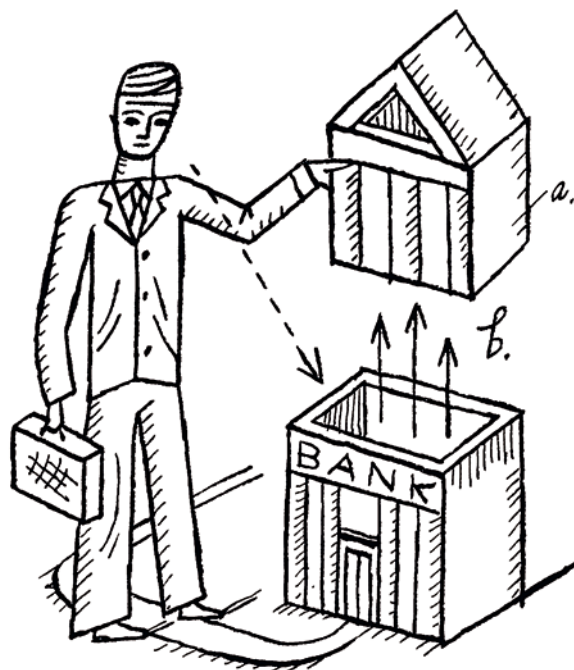
Building long-term sustainable relationships with clients that truly add value will pave the way for future recognition and renewed trust. Thanks to our universal bank model, broad client base and seamless multi-channel offering, we are well-positioned to capture future market growth and strengthen our leading position in our home market. ■

Find out more

For more information about UBS's important role in Switzerland, our home market, visit www.ubs.com/strongpartners



Responding to an evolving regulatory environment



12

Banks in the world's major financial centers are responding to fast-evolving regulations by reshaping their businesses. UBS has been at the forefront of this change, developing a strategy that focuses on building up its capital strength and emphasizes its commitment to clients and shareholders.

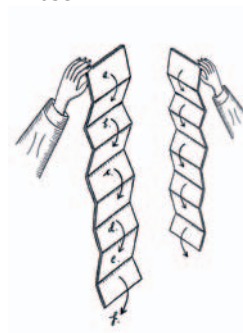
In the wake of the financial crisis, regulators and legislators around the world have sought to strengthen the financial system by imposing significantly stricter regulations on the financial industry, with far-reaching consequences for the affected institutions.

Overhauling the financial system

Regulators focused their early reform efforts on capital adequacy to improve banks' resilience. This has been addressed primarily at a global level, with the Basel III international standards tightening capital requirements for financial institutions considerably, as well as introducing liquidity and funding requirements.

In this context, a special focus has been put on large financial institutions to address the critical question of how to regulate institutions deemed "too big to fail". In Switzerland,

this issue has been addressed by the "too-big-to-fail law", a revision of the Swiss Banking Act, which was adopted in September 2011. As a result, Switzerland now has the world's most stringent capital requirements, far exceeding those under Basel III.



Another major concern of regulators relates to the contagion risk the failure of one large bank poses to the entire financial system. In an effort to address this, authorities have directed their efforts toward recovery and resolution planning. Accordingly, one of the main priorities in re-

forming the industry is getting banks to plan for an orderly dissolution in a severe crisis through what are commonly known as "living wills".



Regulators have also attempted to make banks more secure by compelling them to segregate certain activities. In the US, the Volcker rule goes so far as to prohibit banks from conducting proprietary trading (trading for their own account) and restrict

the types of relationships banks can have with private equity and hedge funds. In the UK, proposals have been made to “ring-fence” the retail banking businesses from the investment banking operations of banks. In a similar effort, the so-called Liikanen report, developed by the European Commission’s High-level Expert Group on reforming the structure of the EU banking sector, recommends separating certain activities.

An increasingly uneven playing field

All these reforms have led to an industry rethink – with greater transparency, client focus, and more ethical business conduct coming to the fore as the financial services sector seeks to regain the trust of governments, regulators and the general public.

However, while there has been broad consensus internationally about what the key areas of banking reform should be, there has not been agreement on their scope and extent. Different local regulations have given rise to an increasingly uneven playing

field for global financial institutions based in certain locations. As Axel A. Weber, Chairman of the Board of Directors, has stated, “Global banks cannot operate in markets with different regulatory environments. There should be global standards for global banks.”



Facing up to the new realities

Despite the current lack of international coordination in developing new regulations, UBS has already taken decisive steps to prepare itself for the new realities that lie ahead. We believe that capital strength is the foundation of our success. It allows us the flexibility to execute our strategy and reinforces client confidence. We have redesigned our business model with the aim of making it less capital and balance-sheet intensive. Choosing to focus on our strengths, we are exiting businesses that aren’t part of our core business, have high complexity and tail risks or that haven’t been earning their cost of capital.



“Global banks cannot operate in markets with different regulatory environments. There should be global standards for global banks.”

Axel A. Weber,
Chairman of the
Board of Directors,
UBS

Capital ratios explained

A bank’s capital ratio measures its capital adequacy or financial stability. As a general rule, the higher the ratio, the more sound the bank. Basel III is a global regulatory standard on bank capital adequacy that is being introduced from 2013 and 2018, and will be fully applicable to all banks globally in 2019.

Basel 2.5 tier 1 is the capital ratio that was applicable until the end of 2012 for UBS and non-US banks. Basel III is the new regulatory standard for all banks that is being phased in, starting on 1 January 2013. The new standard will be fully applied as of 2019. Basel III “phase-in” calculates capital ratios according to the step-by-step introduction of the Basel III standards. Basel III “fully applied” calculates capital ratios as if the final rules that will be valid as of 2019 were already effective today.



Overall, these changes are making UBS even more stable and capable of delivering improved performance. Our goal is to find the right balance between meeting the regulatory requirements in the more than 50 countries we do business in and rewarding shareholders with attractive and sustainable re-

turns. We are targeting a Group return on equity of at least 15% by 2015, and as capital returns are a cornerstone of our strategy, we are committed to a total payout ratio of over 50% to our shareholders, once we achieve our capital targets.

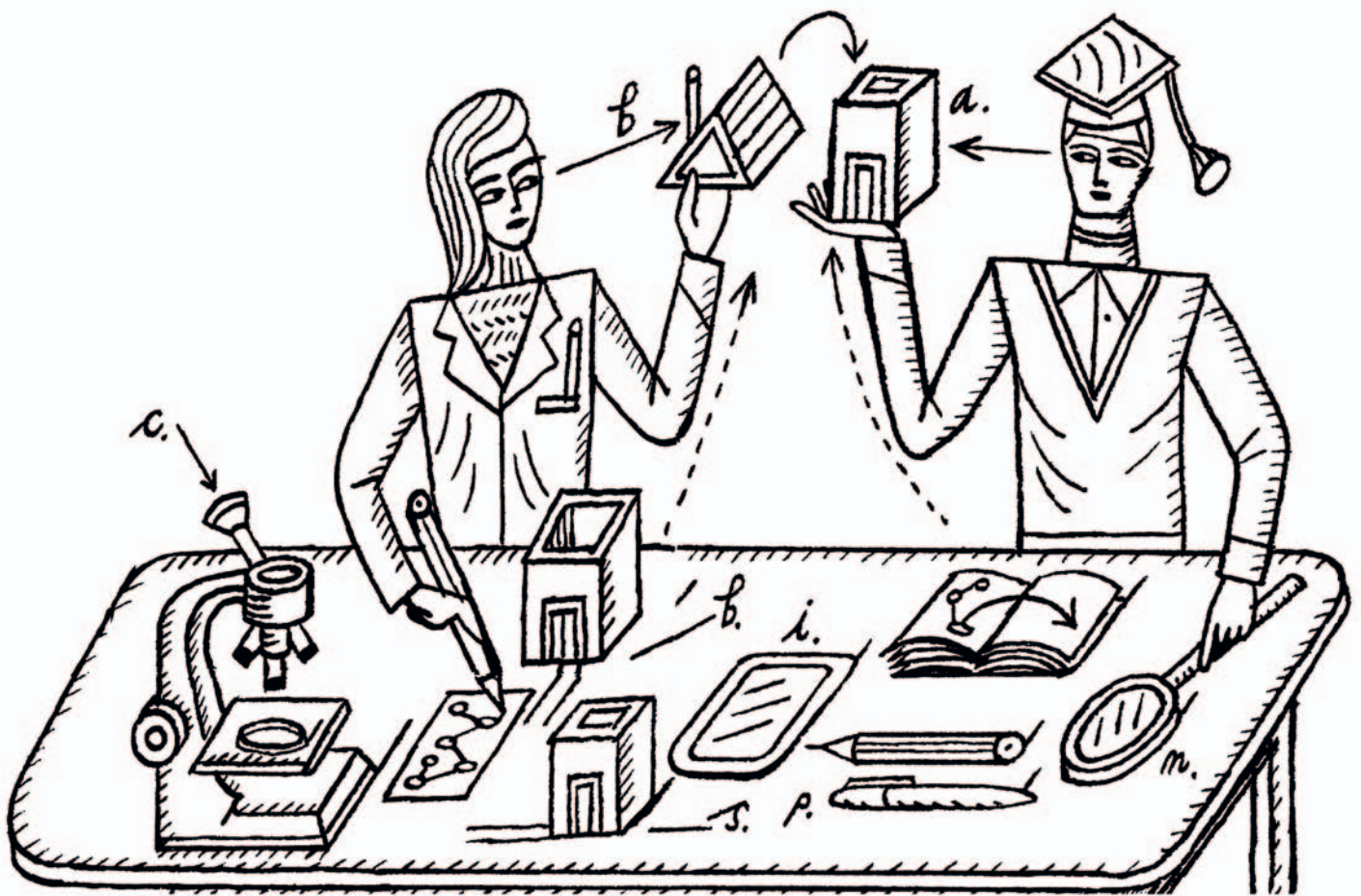
While more regulatory change over the next few years is likely, we are confident that we are well positioned for the future, enabling us to seize the opportunities that it brings. ■

Find out more

For more information about the regulatory environment in which we operate and the impact on our businesses, see pages 21–23 of our Annual Report 2012 available online at www.ubs.com/annualreport



Investing in the *future* of Switzerland



14

Jean-Michel Benkert is fascinated by the abstract, by theory. But the first doctoral scholarship recipient of the UBS International Center of Economics in Society is quick to emphasize that “a theory must have a practical use.”

Set up in 2012 in partnership with the Department of Economics at the University of Zurich, the UBS Center is at the heart of UBS’s Education Initiative, launched to commemorate the firm’s 150th anniversary. The center explores the complex interactions between economic activity and society by promoting interdisciplinary research that covers a wide range of market-oriented topics and providing practical answers to the most pressing issues of our time.

Cultivating talent and fostering dialog

Benkert’s focus on finding practical solutions is well in keeping with the stated aims of the center. Professor Ernst Fehr, the center’s director, believes that “we in academia should come out of our ivory towers and demonstrate how important research is for society.” Echoing his views, former Chairman of UBS and current Chairman of the UBS Foundation of Economics in Society Kaspar Villiger says,

"I believe that politicians and business leaders are not making enough use of scientific knowledge. While such knowledge will not relieve us from making difficult decisions in complex environments, it can provide us with insights that we should factor in when making these decisions."

The UBS Center has set itself the goal of becoming a world-leading economics research center. To this end, UBS is funding up to five new chairs at the department. The advisory board that provides guidance on all the center's academic matters has already been established, consisting of eight distinguished economics and public policy professors who hold four Nobel Prizes between them. The center is also fostering top young talent like Benkert by awarding full scholarships to several university graduates each year, enabling them to pursue a doctorate at the Department of Economics.

Stepping out of the ivory tower

Benkert values the many opportunities that his scholarship affords him. Apart from being at an institution with an excellent reputation, and being able to work in an interdisciplinary environment, Benkert will also have ample opportunity to exchange ideas both with fellow academics at the center and with the larger world outside it. "I believe that there are valuable synergies to be gained by interacting with other disciplines, and in particular with society. The UBS Center constitutes a highly valuable platform for this," he says.

Various forums and symposiums organized by the center provide valuable opportunities for its academics to engage with the public and the business world. The center's inaugural Forum for Economic Dialogue, entitled "The future of the international financial system", was held in Zurich in November 2012. Featuring prominent economists such as former European Central Bank president Jean-Claude Trichet and Daron Acemoglu from the Massachusetts Institute of Technology, it focused on the connection between debt, currency and banking crises. To make its research accessible to the public, the UBS Center will also issue several publications that contain its research findings.

UBS's investment in education demonstrates that it is looking clearly ahead to the future. As the country's greatest resource when it comes to competing in the global arena, education is key to Switzerland's long-term success. The UBS Center and the other education projects funded by the initiative make resources readily available and help nurture the next generation of minds, strengthening the country and creating an impact that reaches well beyond Switzerland's borders. ■



"I believe that politicians and business leaders are not making enough use of scientific knowledge. While such knowledge will not relieve us from making difficult decisions in complex environments, it can provide us with insights that we should factor in when making these decisions."

Kaspar Villiger,
former UBS Chairman and Chairman
of the UBS Foundation of Economics
in Society



"A theory must have a practical use. I believe that there are valuable synergies to be gained by interacting with other disciplines, and in particular with society."

Jean-Michel
Benkert, first UBS
Center scholarship
recipient

UBS 150th anniversary Education Initiative

To mark its 150th anniversary, UBS is investing up to 150 million Swiss francs over the next ten years to fund various education and training programs in Switzerland.

In addition to the UBS International Center of Economics in Society, the UBS Education Initiative will offer support to five additional fields of education by funding projects, associations and additional apprenticeship positions that assist people at various stages of life, including primary and high school students, university students, academics, entrepreneurs and lifelong learners.

As part of the initiative, UBS has also established 150 additional apprenticeship places in Switzerland as well as creating 150 additional internship places globally through our Emerging Talent Program.

"Excellent education is fundamental to every successful society. That is why we are making this commitment, which we intend to uphold in good as well as in less good times," says Markus U. Diethelm, Group General Counsel and a member of the UBS Center's Foundation Council.

Find out more

For more information about our anniversary Education Initiative, visit www.ubs.com/educationinitiative





Our strategy

**UBS Americas Elevating Entrepreneurs initiative –
New York, Chicago, Los Angeles**

Elevating Entrepreneurs provides strategic mentoring, access to capital and educational opportunities to high-potential small business owners who are looking to take their companies to the next level. Each entrepreneur is mentored by a senior UBS Financial Advisor and a top UBS client who has achieved significant success in a related industry.



Moving forward by focusing on what we do best

We are committed to providing clients with superior financial advice and solutions while generating attractive and sustainable returns for shareholders. Our strategy centers on our Wealth Management and Wealth Management Americas businesses and our leading universal bank in Switzerland, supported by our Global Asset Management business and our Investment Bank. Our strategy builds on the strengths of all of our businesses. It focuses our efforts on areas in which we excel and seeks to capitalize on the compelling growth prospects in the businesses and regions in which we operate.

Acceleration of our strategic transformation

Since presenting our strategy at our Investor Day in November 2011, we have successfully executed on our plans to improve our already strong capital position and reduce Basel III risk-weighted assets (RWA) and costs. Just over one year into the transformation of our firm, our Basel III capital ratios remain among the highest in our peer group, and we have reduced Basel III RWA¹ by 35%. Furthermore, we are on track with our CHF 2.0 billion cost reduction program announced in August 2011.

capable of maximizing value for shareholders. We are transforming our Investment Bank, focusing on its traditional strengths in advisory, research, equities, foreign exchange and precious metals, and we are taking additional action to reduce costs and improve efficiency across the Group.

We are exiting certain business lines, predominantly those in fixed income, that have been rendered less attractive by changes in regulation and market developments. After transferring the non-core businesses and positions to be exited to the Corporate Center, we have retained limited credit and rates trading in our Investment Bank, along with structured financing capabilities, to support its solutions-focused businesses. Our leading equities and foreign exchange businesses, including our emerging markets foreign exchange capabilities, continue to be cornerstones of our Investment Bank's services. We have not significantly altered our advisory and capital markets businesses, but have reorganized our existing business functions to better serve our clients. As a result of the abovementioned transfers and additional RWA reductions, our Investment Bank started 2013 operating with approximately CHF 64 billion of Basel III RWA, within its target RWA of CHF 70 billion or less. We are convinced that our new Investment Bank is capable of deliver-

2013 and 2014 will be key years of transition for our Investment Bank and our Group as we work through our plans to restructure our businesses and reduce our cost base.

In October 2012, from this position of strength, we announced a significant acceleration in the implementation of our strategy. This announcement underlined our commitment to transform our Group into a less capital- and balance-sheet-intensive business that is more focused on serving clients and



ing returns well in excess of its cost of capital, and we are targeting a pre-tax return on attributed equity of greater than 15% starting in 2013 in this division.

Our Corporate Center is tasked with managing non-core assets, previously part of the Investment Bank, in the most value-accretive way for shareholders. These diversified assets will be reported within our "Non-core and Legacy Portfolio" unit within the Corporate Center from the first quarter of 2013. At the end of 2012, this portfolio represented approximately CHF 105 billion in Basel III RWA, which we aim to reduce progressively to approximately CHF 25 billion by the end of 2017. As a result, we are targeting Group RWA of less than CHF 200 billion on a fully applied Basel III basis by the end of 2017.

Maintaining cost discipline is critical to our long-term success and is a key element of the cost reduction plans we announced in October 2012. To this end, we announced measures to achieve additional annual costs savings of CHF 3.4 billion by 2015 that include reducing our Investment Bank's complexity and size, improving organizational effectiveness, primarily in our Corporate Center, and introducing lean front-to-back processes across our Group. These savings come in addition to the CHF 2.0 billion annual cost reduction program that we announced in 2011 and expect to complete by the end of 2013. As a consequence of our measures to support the long-term efficiency of our firm, we expect our headcount to be around 54,000 in 2015 compared with approximately 63,000 at the end of 2012. Our investment in these initiatives is reflected in restructuring charges of CHF 258 million in the fourth quarter of 2012 and expectations of further incremental charges of approximately CHF 1.1 billion in 2013, CHF 0.9 billion in 2014 and CHF 0.8 billion in 2015.

Our efficiency programs will free up resources to make investments over the next three years to support growth across our firm and enable us to service our clients with greater agility and effectiveness, improving quality and speed to market. These investments are expected to reach CHF 1.5 billion over the next three years.

2013 and 2014 will be key years of transition for our Investment Bank and our Group as we work through our plans to restructure our businesses and reduce our cost base. As a result, during these years we expect our Group to deliver a return on equity in the mid-single digits as we transform our business. We believe the changes we are making will enable us to deliver improved returns and thus we have set a Group return on equity target of more than 15% from 2015 onwards. We are also targeting a Group cost/income ratio of 60% to 70% from 2015 onwards.

We are well prepared for the future with a clear strategy and a solid financial foundation. We are firmly committed to returning capital to our shareholders and plan to continue our program of progressive returns to shareholders with a proposed 50% increase in dividends to CHF 0.15 per share for the financial year 2012. Once we have achieved our capital targets, we are aiming for a total payout ratio of 50%, consisting of a baseline dividend and supplementary returns. We intend to set a baseline dividend at a sustainable level, taking into account normal economic fluctuations. The supplementary capital returns will be balanced with our need for investment and any buffer we choose to maintain for a more challenging economic environment or other stress scenarios. Through the successful implementation of our strategy, we believe we can sustain and grow our business and maintain a prudent capital position.

¹ The pro-forma Basel III information is not required to be presented because Basel III requirements were not in effect on 31 December 2012. Such measures are non-GAAP financial measures as defined by SEC regulations. We nevertheless include information on the basis of Basel III requirements because they are effective as of 1 January 2013 and significantly impact our RWA and eligible capital. The calculation of our pro-forma Basel III RWA combines existing Basel 2.5 RWA, a revised treatment for low-rated securitization exposures that are no longer deducted from capital but are risk-weighted at 1250%, and new model-based capital charges. Some of these new models require final regulatory approval and therefore our pro-forma calculations include estimates (discussed with our primary regulator) of the effect of these new capital charges, which will be refined as models and the associated systems are enhanced.



Our business divisions

Our *Wealth Management* business provides comprehensive financial services to high net worth and ultra high net worth individuals in over 40 countries. We will continue to strengthen Wealth Management's industry-leading position, particularly in growth markets such as Asia Pacific and the emerging markets. This will enable us to capitalize on wealth generation growth rates that are expected to continue outstripping economic growth. We are developing our business model as a dynamic wealth manager with investment management capabilities at its core. We are transforming our

consider ourselves uniquely positioned to serve high net worth and ultra high net worth individuals and families in the world's largest wealth market. We believe the long-term growth prospects of wealth management are attractive in the Americas, with our target high net worth and ultra high net worth markets expected to be the fastest-growing segments in terms of invested assets. We will continue our strategic banking initiatives, including mortgage and securities-based lending initiatives, to ensure continued growth in balances from our target client base. Our Wealth Management Americas business targets a net new money growth rate of 2% to 4%, a gross margin of 75 to 85 basis points and a cost/income ratio of 80% to 90%.

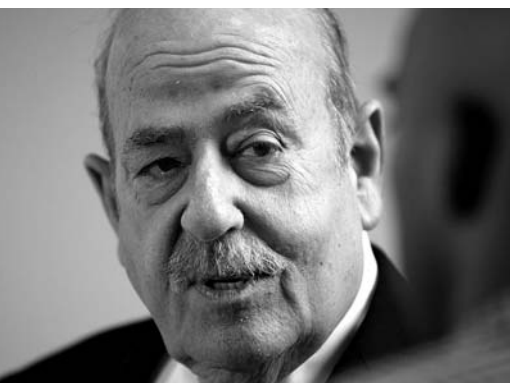
Through the successful implementation of our strategy, we believe we can sustain and grow our business and maintain a prudent capital position.

European operating model to reflect our clients' converging needs, to increase efficiency and to anticipate the changing regulatory environment in this market. Our clients continue to benefit from our global research, superior investment advice and solutions, execution competencies and access to global financial markets. To this end, and with the ultimate goal of improving our clients' investment performance, our Chief Investment Officer organization synthesizes the research and expertise of our global network of economists, strategists, analysts and investment specialists from across all business divisions and asset classes. Wealth Management aims to achieve a net new money growth rate of 3% to 5%, a gross margin of 95 to 105 basis points and a cost/income ratio of 60% to 70%.

Wealth Management Americas provides advice-based solutions through financial advisors who deliver a fully integrated set of products and services to individuals and families mainly in the United States and Canada. We remain committed to our client-focused and advisor-centric strategy and con-

Our *Investment Bank* is among the global market leaders in its core businesses of advisory, research, equities, foreign exchange and precious metals. We will continue to invest in these areas and compete to increase market share. In order to align the delivery of our services and the execution of our strategy with the needs of our core clients, the Investment Bank has been reorganized into two segments, Corporate Client Solutions and Investor Client Services, effective from the beginning of 2013. Corporate Client Solutions includes all advisory and solutions businesses and execution for corporate, financial institutions and sponsor clients. Investor Client Services includes execution, distribution and trading for institutional investors, and will provide support to our Group's wealth management businesses. We aim to capitalize on attractive opportunities in less capital-intensive businesses by focusing on delivering best-in-class expertise, solutions-led advisory, thought leadership and global execution capabilities. Operating with under CHF 70 billion of Basel III RWA and less than CHF 200 billion of funded assets, our Investment Bank aims to deliver a pre-tax return on attributed equity in excess of 15%, with a cost/income ratio of 65% to 85%.

Our *Global Asset Management* business is a large-scale asset manager with businesses well-diversified across regions, capabilities and distribution channels. We work closely with our clients in pursuit of



their investment goals with long-term performance as our focus. The diversification of our business places us in a good position to benefit from shifting market dynamics and provides a solid foundation for capturing industry growth opportunities arising from savings and pensions growth. We will continue investing in our fast-growing passive capabilities and expanding our strong third-party institutional business while also expanding third-party wholesale distribution and remaining committed to delivering distinctive products and solutions to the clients of our Group's wealth management businesses. We also continue to expand our successful alternatives platform, building on our established positions in real estate and fund of hedge funds businesses. These measures will support us as we seek to deliver a net new money growth rate of 3% to 5%, a gross margin of 32 to 38 basis points and a cost/income ratio of 60% to 70% in Global Asset Management.

Retail & Corporate maintains a leading position across its client segments in Switzerland and constitutes a central building block of our universal bank model in Switzerland. We aim to provide comprehensive financial products and services to our retail, corporate and institutional clients in Switzerland. We will continue to enhance the range of life cycle products and services we offer our clients, while capitalizing on additional growth opportunities in advisory and execution. From a financial perspective, we expect this business to continue to provide a stable and substantial source of profits and funding for our Group and to generate revenue growth opportunities for other businesses within our Group. Our Retail & Corporate business aims to achieve new business volume growth of 1% to 4%, a net interest margin of 140 to 180 basis points and a cost/income ratio of 50% to 60%.

→ For more information about our Group and divisional business strategy, see pages 24–51 of our Annual Report 2012 available online at www.ubs.com/annualreport

UBS Switzerland

UBS is the preeminent universal bank in Switzerland, the only country where we operate and maintain leading positions in all five of our business areas of retail, wealth management, corporate and institutional banking, asset management and investment banking. We are fully committed to our home market as our leading position in Switzerland is crucial in terms of profit stability, sustaining our global brand and growing our global core business. *Euromoney* and *The Banker*, two of the world's leading financial markets magazines, acknowledged our preeminent position in Switzerland with their prestigious "Best Bank in Switzerland 2012" and "Bank of the Year 2012 in Switzerland" awards, respectively.

We strive to be the strongest bank in Switzerland and our unique universal bank model is central to our success. Our dedicated Swiss management team has representatives from all five business areas and ensures we apply a consistent approach to the market when offering our full range of banking products, expertise and services. Our cross-divisional management approach allows us to utilize our existing resources efficiently, promotes cross-divisional thinking and enables seamless collaboration across all business areas. As a result, we are in a unique position to serve our clients efficiently with a comprehensive range of banking products and services to fit their needs. We are able to differentiate ourselves by leveraging our strengths across all segments while ensuring stability and continuity throughout the client's life cycle. Our universal bank model has proven itself to be highly effective in Switzerland and consistently provides a substantial part of the Group's revenues.

Given the strength of the economy and the stable political environment in Switzerland, the country remains an attractive financial market. This inherent stability and growth has been the basis for UBS Switzerland's success and its contribution to the Group's financial performance. Thanks to our universal bank model, broad client base and seamless multi-channel offering, we are well-positioned to capture future market growth and to strengthen our leading position in our home market.





Our compensation and corporate governance

University of Zurich

The new UBS International Center of Economics in Society at the University of Zurich was set up in April 2012 to commemorate the firm's 150th anniversary. It forms one of the six subprojects of our anniversary Education Initiative. See page 14 for more information.



Our compensation *in 2012*

In 2012, we implemented far-reaching changes to our compensation framework, aligning our plans to our strategy and strengthening the link between compensation and the firm's medium- to longer-term performance. We believe our new compensation structure will help to promote a stronger pay-for-performance culture and will discourage excessive risk-taking.

Following the advisory vote on UBS's Compensation Report at last year's Annual General Meeting we consulted widely with our shareholders to better understand their views about our compensation plans and disclosures. We incorporated these findings into our review process and have implemented changes for 2012. We have strengthened the link between compensation and medium- to longer-term performance, and streamlined our compensation framework by eliminating a number of plans for the Group Executive Board (GEB) and replacing them with two universal plans that apply to all employees: the revised Equity Ownership Plan (EOP) and the new Deferred Contingent Capital Plan (DCCP).

Performance awards granted for 2012

In 2012, we made substantial progress towards achieving our strategic objectives and recorded a resilient underlying performance. Adjusting for items associated with the acceleration of our strategy, the largest being goodwill impairments and own credit charges, we recorded an adjusted pre-tax profit of CHF 3 billion which includes the CHF 1.4 billion in costs associated with the LIBOR settlement. However, our overall results for the year were affected by the costs involved in shaping the business for future success and in connection with litigation and regulatory matters to address issues from the past, including the settlements reached in relation to LIBOR.

In determining the overall performance award pools, the Human Resources and Compensation Committee considered a multitude of factors and consequently, UBS's performance award pool was reduced to CHF 2.5 billion. This represents a 7% decrease compared with 2011, and a 42% decrease compared with 2010, and is the lowest level since before the financial crisis. The reduction must also be viewed in the context of the wide-ranging changes we have made to our new compensation plans, including increased deferral periods, the elimination of leveraged plans, the cap on the GEB performance award pool and the halving of the maximum immediate cash component of any performance award. Taken in conjunction with the firm's achievements in building its industry-leading capital ratios and the proposed 50% increase in dividend payments to shareholders for 2012, our

We have strengthened the link between compensation and medium- to longer-term performance, and streamlined our compensation framework.

Both plans reinforce the firm's commitment to delivering sustainable performance while allowing our employees the opportunity to benefit from improved longer-term performance. We increased the deferral periods under the EOP and have added multi-year Group and divisional performance conditions that apply to our key leaders and risk takers. In addition, the DCCP has a five-year cliff vest with performance criteria for annual vesting (GEB only) and for interest payments (all recipients).



compensation framework illustrates the continuing shift in the relationship between compensation, capital and dividends.

Group Executive Board (GEB) members

To ensure that overall GEB compensation is sufficiently tied to the firm's profitability, we introduced a cap on the total GEB performance award pool. The pool will not exceed 2.5% of the firm's adjusted pre-tax profit. Taking into consideration the Group adjusted pre-tax profit for 2012, the GEB performance award pool was capped at CHF 75 million for the 2012 performance year. However, the actual GEB award pool for 2012 was CHF 52 million, representing 1.7% of the adjusted pre-tax profit.

For GEB members who were in office for both the full year 2011 and 2012, performance awards were down 10% and total compensation was down 7% year on year. While the firm's compensation framework provides for up to 20% of the performance award to be paid immediately in cash, in light of the firm's overall results for the year, and based on a recommendation from the Group CEO, it was deemed appropriate that performance awards for the firm's most senior leaders be fully deferred for 2012 over three to five years. Consequently, the cash component of the award was delivered in the form of deferred equity under the EOP, which subsequently comprises 60% of GEB performance awards for 2012.

Furthermore, 100% of a GEB member's deferred compensation is subject to performance conditions. Under the EOP, GEB awards will be fully forfeited if the Group and/or relevant business division does not make an average adjusted pre-tax profit during the performance period, and performance below specific thresholds will cause partial forfeiture. Awards granted under the new DCCP will be forfeited if our Basel III CET1 ratio falls below 7% or if a viability event occurs. In addition, 20% of DCCP awards, including the relevant notional interest, will be forfeited for each year in which UBS does not achieve an adjusted pre-tax profit. Thus, GEB mem-

bers' full DCCP awards are at additional risk of forfeiture.

Group CEO Sergio P. Ermotti was granted a performance award of CHF 6.1 million reflecting his achievements in his first full year as Group CEO. As such, his total compensation was CHF 8.9 million. The highest paid GEB member in 2012, apart from the Group CEO, was Robert J. McCann, with total compensation of CHF 8.5 million. As for all GEB members, the full amount of the performance award is deferred over three to five years.

Chairman of the Board of Directors' compensation

Our compensation framework provides for the Chairman of the BoD, Axel A. Weber, who was elected at the AGM in May 2012, to receive annually a base salary of CHF 2 million and 200,000 UBS shares, blocked for four years, as well as benefits in kind. Such shares are not designed or intended as variable compensation. The number of shares that Mr. Weber received for 2012 was pro-rated to take into account that he assumed the role of Chairman in May. At grant, the pro-rated number of shares he received (133,333) was valued at CHF 2,003,995. Accordingly, his total compensation, including benefits in kind and pension fund contribution for his services as Chairman from May to December 2012, amounted to CHF 3,568,341. As previously announced, the BoD approved a one-time payment to Mr. Weber upon his election to the BoD at the 2012 AGM.

→ For more information about our compensation model and framework, see our Compensation Report available online at www.ubs.com/compensation



Our Board of Directors

The Board of Directors is our most senior body. Under the leadership of the Chairman, it determines the strategy of the Group based upon the recommendations of the Group Chief Executive Officer. It exercises ultimate supervision of management and is responsible for the appointment and dismissal of all Group Executive Board members, the Company Secretary and the Head of Group Internal Audit as well as supervising and setting appropriate risk management and control principles for the firm. With the exception of its current Chairman, Axel A. Weber, all members of the Board of Directors are independent.



1	2	3	4
5	6	7	8
9	10	11	12

→ To read the full biographies of our Board members, visit www.ubs.com/bod or see pages 230–234 of our Annual Report 2012 available online at www.ubs.com/annualreport



1 Axel A. Weber Chairman of the Board of Directors, Chairperson of the Governance and Nominating Committee and member of the Corporate Responsibility Committee **2 Isabelle Romy** Member of the Audit Committee and the Governance and Nominating Committee **3 David Sidwell** Senior Independent Director, Chairperson of the Risk Committee and member of the Governance and Nominating Committee **4 Beatrice Weder di Mauro** Member of the Audit Committee and Corporate Responsibility Committee **5 William G. Parrett** Chairperson of the Audit Committee and member of the Corporate Responsibility Committee **6 Wolfgang Mayrhuber** Chairperson of the Corporate Responsibility Committee and member of the Human Resources and Compensation Committee **7 Michel Demaré** Independent Vice Chairman, member of the Audit Committee and the Governance and Nominating Committee **8 Axel P. Lehmann** Member of the Governance and Nominating Committee and the Risk Committee **9 Ann F. Godbehere** Chairperson of the Human Resources and Compensation Committee and member of the Audit Committee **10 Rainer-Marc Frey** Member of the Human Resources and Compensation Committee and the Risk Committee **11 Joseph Yam** Member of the Corporate Responsibility Committee and the Risk Committee **12 Helmut Panke** Member of the Human Resources and Compensation Committee and the Risk Committee

Our Group Executive Board

The management of the firm is delegated by the Board of Directors to the Group Executive Board. Under the leadership of the Group Chief Executive Officer, the Group Executive Board has executive management responsibility for the Group and its businesses. It assumes overall responsibility for the development of the Group and business division strategies and the implementation of approved strategies.



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→ To read the full biographies of our Board members, visit www.ubs.com/geb or see pages 239–242 of our Annual Report 2012 available online at www.ubs.com/annualreport



1 **Sergio P. Ermotti** Group CEO 2 **Lukas Gähwiler** CEO UBS Switzerland and CEO Retail & Corporate 3 **Ulrich Körner** Group Chief Operating Officer and CEO UBS Group Europe, Middle East and Africa 4 **Philip J. Lofts** Group Chief Risk Officer 5 **Robert J. McCann** CEO Wealth Management Americas and CEO UBS Group Americas 6 **Jürg Zeltner** CEO UBS Wealth Management 7 **Tom Naratil** Group CFO 8 **Chi-Won Yoon** CEO UBS Group Asia Pacific 9 **Andrea Orsel** CEO Investment Bank 10 **John A. Fraser** Chairman and CEO Global Asset Management 11 **Markus U. Diethelm** Group General Counsel



Our commitment

Bridge Academy – London

Working in partnership with clients, government and the local community, UBS has helped create and now partners with The Bridge Academy, a school for 11–18 year olds. Located in Hackney, which borders our London offices and is one of the UK's most disadvantaged communities, the Academy welcomed its first students in 2007.



Working together to expand horizons

In 2012, we continued to support our clients in understanding key societal opportunities and challenges and acted as a trusted financial advisor on sustainability issues. We did so by expanding our comprehensive range of sustainability products and services, including impact investing, sustainable real estate funds, socially responsible investment products and advisory on sustainability challenges.

We have established a leading position in values-based investing and providing environmental, social and governance (ESG) research. In 2012, we demonstrated this, for example, through the global roll-out of our Investment Bank's ESG Analyzer and through the honors we received in the annual Thomson Reuters Extel/UKSIF Socially Responsible Investing & Sustainability Survey. Our firm's efforts also received external recognition in the S&P Carbon Disclosure Project report.

Our compliance function is a significant contributor to ensuring that our corporate responsibility commitments are met and plays a key role in protecting our firm from reputational, business or financial damage. At the same time, it makes a valuable and significant contribution to the fight against financial crime, in particular by deploying our global sanctions, anti-money laundering and anti-bribery programs to deny rogue states, suspected criminals and terrorists access to the financial system via UBS or its products and services. A comprehensive legal and compliance risk assessment in 2011 did not identify any significant incidents of non-compliance with our anti-corruption policy and other regulations related to anti-corruption. Nonetheless, in 2012 an anti-corruption initiative was put in place to strengthen our defenses against corruption involving the firm.

We apply a robust framework to manage environmental and social risk in our businesses. In 2012, we continued to strengthen the implementation of key policies and standards, including our position on controversial activities, supported by a sustained roll-out of training and awareness-raising activities for client-facing staff. In doing so, we were able to draw from an industry-leading environmental and social risk screening process, which we established through a successful collaboration between our risk and compliance functions in 2011.

Our environmental and social risk management and our global sanctions, anti-money laundering and anti-bribery programs are important examples of the need for effective outreach and internal collaboration between our business divisions and external collaboration with our stakeholder community. In 2012, we once again demonstrated our commitment to engaging with various initiatives and partners to develop and, where appropriate, enhance our standards. We joined the Roundtable on Sustainable Palm Oil as part of its "Banks &

Our well-established and vigorous community investment program formed an integral part of our firm's 150th anniversary celebrations.



Investors" membership category. We also joined other organizations focused on topics of major relevance to society, including the European Venture Philanthropy Association and the World Demographic & Ageing Forum. We are among the thought leaders in corporate responsibility in banking and participate actively in key international corporate responsibility initiatives. These include the Wolfsberg Group (on anti-money laundering), the UN Principles for Responsible Investment (on responsible investing), the UN Global Compact and the UN Environment Program (UNEP) Finance Initiative.

Our long-standing involvement in the UNEP Finance Initiative reflects our commitment to managing our environmental footprint. Our worldwide environmental management system covers in-house operations, risk management and products and services. In 2012, UBS successfully passed its ISO 14001 surveillance audit. We accomplished our Group-wide CO₂ emission reduction target of 40% below 2004 levels, as originally decided by the GEB in February 2006. In addition, we renewed our climate change strategy and are determined to prepare our clients for success in an increasingly carbon-constrained world.

Our well-established and vigorous community investment program formed an integral part of our firm's 150th anniversary celebrations. In Switzerland, we launched a major education initiative, consisting of six subprojects centering on the UBS International Center of Economics in Society at the University of Zurich. This initiative will benefit the entire Swiss population notably by providing support to projects aimed at apprentices, young entrepreneurs, start-up companies and employees of all age groups.

→ For more information about our corporate responsibility, visit www.ubs.com/responsibility, and about our community involvement, visit www.ubs.com/community

Community Affairs in 2012 – facts and figures

In 2012, UBS and our affiliated foundations made direct cash donations totaling CHF 27.5 million to carefully selected non-profit partner organizations and charities, compared with CHF 31.1 million in 2011. Additionally, spending on the UBS Anniversary Education Initiative amounted to CHF 16.7 million. These donations were primarily aimed at our Community Affairs key themes of education and entrepreneurship.

Contributions were also made to other causes, in particular disaster relief, including a commitment of more than USD 1.2 million in total financial contributions to long-term relief and rebuilding efforts in response to the devastation caused by Hurricane Sandy in the United States.

In 2012, 12,563 employees spent 110,065 hours volunteering, an increase of 8% and 5%, respectively, compared with 2011. We support their commitment by offering up to two working days a year for volunteering efforts, and also match employee donations to selected charities.



Our commitment to the *community*

Across all business regions, our employees continue to play a very active role in our community investment efforts, in particular through their volunteering activities. In 2012, we launched an Employee Recognition Award, recognizing 150 UBS employees or teams of employees for their outstanding community involvement. Just four of the regional award winners are highlighted below.

Team Tohoku and Naoko Yamazaki, Tokyo, Japan

Team Tohoku, a group of 57 UBS staff volunteers, have spent thousands of hours in the months since the devastating tsumani in Japan in March 2011 giving their free time, energy and resources to communities in the northeast of the country.

Working closely with Community Affairs and Japan senior management, as well as with a core group of specialized not-for-profit organizations, Team Tohoku developed customized relief programs, and found strategies that maximized impact, drawing up a five-year regeneration plan.

The first year of the plan focused on emergency response; in 2012 efforts shifted to temporary housing, income generation, and capacity building in the communities; from 2013 activities will target income and job creation, psychological care, and further capacity; and in 2014/15 recovery housing and reducing future risk.

Naoko Yamazaki, a client advisor in Wealth Management, was spotlighted for being a pioneer of UBS's recovery efforts in the region. She headed to the worst-hit areas soon after the disaster to work in soup kitchens, distribute emergency goods, and remove debris. On weekends and holidays, she racked up more

than 400 hours of volunteering service and served as a model and advisor for Team Tohoku's efforts.

"Team Tohoku as well as Yamazaki-san served as instigators for action that helped to engage more than 180 UBS volunteers," said Zenji Nakamura, Japan Country Head. "Our firm didn't simply write a check. We joined with real people in devastated villages to mourn, preserve, rebuild, and plan differently for the future."

Mike McNamara, Stamford, Connecticut, USA

Every Thursday, Mike McNamara hops on the bus and heads back to school. The 15-minute trip delivers him to the second graders of the Stark Elementary School in Stamford, where he spends 40 minutes reading to the students as part of UBS's Power Lunch program.

"We read to them in an effort to instill in them a love of reading," he noted. About 75 UBS volunteers take part in the Stamford reading programs, which run from October through May.

A business analyst who's been with the firm for 15 years, Mike began his Power Lunch commitment in 2001 after transferring from UBS in London to Stamford. That makes him the longest-serving participant in any of UBS's Power Lunch programs.



But it's not his only connection to community service. For three hours each Tuesday night, he joins a team of UBS volunteers in Stamford to teach 22 students from different high schools the mechanics of planning, starting and running a company, as part of a joint program with Junior Achievement.

Students selected for the 12-week program are elected to key corporate positions – company president, vice president of marketing, among others. "It teaches responsibility, how a business works and how the business world they will one day enter really operates," he said. "It's a great learning experience."

It's also one of many successful Junior Achievement volunteer projects that UBS sponsors each year. Through a wide range of programs, this organization helps empower young people to achieve economic success.

Beat Oetiker, Zurich, Switzerland

Almost every year Beat Oetiker makes use of the two paid working days that UBS offers its employees for voluntary work. From maintaining footpaths to working with the disabled and taking part in sponsored runs, the volunteering veteran has lent a hand in many community projects.

Beat usually spends his working day in front of the computer, which may explain why he's particularly drawn to outdoor volunteering opportunities. "Working in a forest in the mountains or in a meadow is a completely different experience. There's the fresh air and also the physical work, which are often unfamiliar. Both make a nice change from the usual routine," he says.

The project that's made a lasting impression on Beat is helping to build a new garden together with the residents of a home that provides employment opportunities for disabled adults. "Working with the disabled on such a major project made a real impact on me, and we all had a shared sense of achievement at the end."

Beat doesn't hesitate to recommend volunteer work to other employees. "There are so many dif-

ferent projects, so there really is something for everyone," he emphasizes. And while he is of course very pleased that his many years of volunteering have been recognized with an employee volunteering award, he emphasizes that this is not his main focus – his main motivation is and will continue to be the desire to make a contribution to society: "I want to help people. That's my number one priority."

Paul Schneider, London, UK

Paul Schneider has been an enthusiastic participant in UBS's Community Affairs program since he joined UBS ten years ago. Among its achievements, the program, which has been running in London for over 25 years, has helped transform educational results in the deprived London borough of Hackney.

One of the program's most important UK initiatives is its partnership with the Bridge Academy (see page 39). In 2008, Paul was part of a group that made recommendations on how the academy's new facilities could be used outside school hours to support the community and become self-sustaining in the process. The results are evident today in the academy's extensive program of out-of-hours community activities.

Paul's work at the academy led directly to his largest project, co-organizing the 2011 client dinner "Food for Thought", aimed at supporting excellence in the school's new sixth-form class. The event raised over GBP 220,000, and also gave UBS the opportunity to introduce some of its most important clients to the school to see the firm's commitment for themselves.

Paul's role and position as an analyst at UBS lets him see every day the importance industry analysts attach to how companies conduct themselves with regard to environmental, social and governance issues. Paul sees UBS's support for the school as a key differentiator that positions UBS as a responsible corporate citizen. "I challenge anyone to name ten companies in the UK who do this better than we do," he says.



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Corporate calendar

30 April 2013

First-quarter 2013 results

2 May 2013

Annual General Meeting

30 July 2013

Second-quarter 2013 results

29 October 2013

Third-quarter 2013 results



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Corporate information

The legal and commercial name of the company is UBS AG. The company was formed on 29 June 1998, when Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872) merged to form UBS.

UBS AG is incorporated and domiciled in Switzerland and operates under Swiss Company Law and Swiss Federal Banking Law as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors.

The addresses and telephone numbers of our two registered offices are: Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, phone +41-44-234 1111; and Aeschenvorstadt 1, CH-4051 Basel, Switzerland, phone +41-61-288 5050.

UBS AG shares are currently listed on the SIX Swiss Exchange and the New York Stock Exchange.

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UBS launches Shareholder Portal

UBS is the first firm in Switzerland to offer its shareholders an online portal. In doing so, we are responding to our shareholders' needs for additional online services, thereby improving our corporate governance. Shareholders can use the portal, which will be integrated in the UBS internet platform, to issue proxy voting instructions or order their admission tickets for the Annual General Meeting. They can also, among other things, subscribe for corporate publications, change their address as well as view their shareholdings.

www.ubs.com/shareholderportal

Imprint

Publisher: UBS AG, Zurich and Basel, Switzerland | www.ubs.com
Photography: Martin Rüttschi, Schindellegi, Switzerland
Illustrations: Russell Cobb, Debut Art, UK
Printed by FO-Fotorotar, Egg, Switzerland
Languages: English/German/French/Italian | SAP-No. 80530E

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Photographs in this Annual Review

The photographs in this Annual Review showcase just four of the education and entrepreneurship activities we supported around the world in 2012.



Business University campus

Front cover

The UBS Business University Asia Pacific has been a center of excellence for the development and execution of wide-ranging curricula since 2007.

Located in the heart of Singapore, Command House, a significant and historic building, has been transformed by UBS into a state-of-the-art training facility. With the focus on our employees, clients and the community, it also serves as a hub for research and thought leadership in new initiatives, such as the development of philanthropy in the Asia Pacific region.

In 2012, our employees participated in a total of 599,763 development activities, averaging 9.6 training experiences per employee (FTE), an average of 2.1 training days.



UBS Americas Elevating Entrepreneurs initiative

Page 16

Elevating Entrepreneurs provides strategic mentoring, access to capital and educational opportunities to high-potential small business owners who are looking to take their companies to the next level. Each entrepreneur is mentored by a senior UBS Financial Advisor and a top UBS client who has achieved significant success in a related industry. Together, with the full support of UBS leaders across the Americas, the teams address critical business needs and opportunities for growth.

Since first launching in 2011, the mentorship program has engaged 30 small businesses across New York, Chicago and Los Angeles, allocated more than USD 3 million of USD 15 million in available loan funds, and supported the creation of more than 100 jobs.

In 2013, Elevating Entrepreneurs will be expanding significantly to include new US markets and additional capabilities.



University of Zurich

Page 22

The new UBS International Center of Economics in Society at the University of Zurich was set up in 2012 to commemorate UBS's 150th anniversary. The initiative will enable the creation of up to five professorships in coming years, starting in 2013, to facilitate top-quality international economic research that examines interrelationships between society and the economy and promotes the transfer of knowledge.

It forms one of the six subprojects of our anniversary Education Initiative. This initiative will benefit the entire Swiss population notably by providing support to projects aimed at apprentices, young entrepreneurs, start-up companies and employees of all age groups. See page 14 for more information.



Bridge Academy

Page 30

Working in partnership with clients, government and the local community, UBS helped create and now partners with The Bridge Academy, a school for 11–18 year olds. The Academy is located in Hackney, which borders our London offices and is one of the UK's most disadvantaged communities.

The highly acclaimed partnership is based on a shared ambition – to build a continuous program that gives students, staff and UBS employees opportunities to work and learn together, developing motivated students who are equipped to succeed now, and as the citizens of tomorrow.

Since the project's inception in 2003, UBS has contributed financially in a variety of ways, beginning with GBP 1 million in start-up funding. However, our most significant contribution has been through employee volunteering and management time with over 2,800 employees volunteering more than 29,400 hours of their time.

Cautionary Statement Regarding Forward-Looking Statements | This review 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) the degree to which UBS is successful in executing its announced strategic plans and related organizational changes, in particular its plans to transform its Investment Bank, its efficiency initiatives and its planned reduction in Basel III risk-weighted assets, and whether in each case those plans and changes will, when implemented, have the effects intended; (2) developments in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, currency exchange rates and interest rates and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS’s clients and counterparties; (3) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings; (4) changes in financial legislation and regulation in Switzerland, the US, the UK and other major financial centers which may impose constraints on or necessitate changes in the scope and location of UBS’s business activities and in its legal and booking structures, including the imposition of more stringent capital and liquidity requirements, incremental tax requirements and constraints on remuneration; (5) changes in UBS’s competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS’s ability to compete in certain lines of business; (6) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including those that may arise from the ongoing investigations relating to the setting of LIBOR and other benchmark rates, from market events and losses incurred by clients and counterparties during the financial crisis of 2007 to 2009, and from Swiss retrocessions; (7) the effects on UBS’s cross-border banking business of tax treaties negotiated or under discussion between Switzerland and other countries and future tax or regulatory developments; (8) UBS’s ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including compensation practices; (9) changes in accounting standards or policies, and accounting determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill and other matters; (10) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (11) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (12) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures; and (13) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. Our business and financial performance could be affected by other factors identified 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 Annual Report on Form 20-F for the year ended 31 December 2012. 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.

Rounding | Numbers presented throughout this review may not add up precisely to the totals provided in the tables and text. Percentages and percent changes are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages and percent changes that would be derived based on figures that are not rounded.

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