2013 compensation *highlights and key changes*

We have built on the important strides we took in 2012 with the adoption of a revised compensation model founded on incentivizing disciplined capital management and with performance awards based on risk-adjusted profitability. In 2013, we have reviewed the firm's compensation model to ensure it continues to reinforce our employees' focus on medium- and longer-term performance, and in response to the competitive environment and feedback from our shareholders.

Performance achievements and performance award pool

A year ago, we committed to continue adapting our business to better serve clients, reduce risk, deliver more sustainable performance and enhance shareholder returns. In 2013, we made good progress in achieving all these goals and finished the year ahead of the majority of our performance targets.

Our business divisions posted strong results for 2013. Our adjusted Group profit before tax increased 44% year on year to CHF 4.1 billion. Our industry-leading fully applied Basel III common equity tier 1 (CET1) capital ratio increased by 300 bps to 12.8%, surpassing our 2013 target. We achieved this improvement primarily through reductions in fully applied risk-weighted assets (RWA), which were down CHF 33 billion to CHF 225 billion. We also significantly deleveraged our balance sheet, reducing total assets by CHF 250 billion. In 2013, we achieved our CHF 2 billion gross cost reduction target announced in July 2011.

As a result of our improved performance, the Board of Directors (BoD) is recommending a 67% increase in the dividend for shareholders for 2013 to CHF 0.25 per share.

Our 2012 performance award pool was significantly affected by the LIBOR matter, negatively impacting awards in the Investment Bank and in some areas of the Corporate Center, as well as the Group Executive Board (GEB). Based on our strong performance in 2013, we normalized our performance award levels for those areas most negatively affected last year and reduced gaps to market pay levels, leading to a performance award pool for 2013 of CHF 3.2 billion, which is 28% higher than for 2012. However, reflecting the reduced awards and longer deferrals in recent years which have resulted in decreased charges in 2013 for prior-year deferrals, the cost of performance awards was flat year on year on an accounting basis (IFRS).

Refinement of our compensation framework

While stability and predictability in our compensation framework are important, we have made some refinements to our framework for 2013 in response to the competitive environment and feedback from our shareholders.

Changes for the GEB:	Changes for employees below GEB level:
We introduced individual caps on performance awards of a maximum of five times the base salary for the Group CEO and a maximum of seven times the base salary for the GEB members. These caps are in addition to the overall GEB pool cap of 2.5% of adjusted Group profit before tax that we introduced last year.	We increased the threshold above which performance awards are deferred, up from CHF/USD 250,000 to CHF/USD 300,000.
We changed the GEB's performance award deferral mix by increasing the weighting of the equity portion under the Equity Ownership Plan (EOP) to at least 62.5% from 50% of the deferred amount and by decreasing the Deferred Contingent Capital Plan (DCCP) portion to 37.5% from 50%.	We introduced graduated rates on the amount to be deferred ranging from 40% to 75% compared with the previously flat rate of 60%. In general, this means employees with compensation levels at the lower end of the compensation scale benefited from lower levels of deferral compared with previous years, while those at the higher end of the compensation scale were subject to higher levels of deferral.
We increased the DCCP's phase-in CET1 capital ratio trigger to 10% from 7% for all GEB members including the Group CEO so that, if this capital ratio falls below 10%, the affected deferred performance awards would be written down to zero.	We changed the performance award deferral mix by increasing the weighting of the EOP to 60% of the deferred amount from 50% and reducing the DCCP portion to 40% from 50%.
We introduced a Group CEO/GEB performance scorecard based on financial and qualitative measures that were clearly defined and quantified in terms of relative weightings.	

High level of deferred performance awards for Group Executive Board members

For 2013, the performance award pool for the GEB increased by 20% to CHF 62.6 million.

On average 84% of a GEB member's performance award is deferred and at risk of forfeiture for periods of up to five years. The vesting of the EOP depends on Group and divisional performance. DCCP awards only vest in full if the firm delivers an adjusted profit before tax for any year during the vesting period and our phase-in common equity tier 1 (CET1) capital ratio does not fall below 10%.

On average 16% of the performance award was paid out in immediate cash.

We require the Group CEO to hold a minimum of 500,000 UBS shares and the other GEB members to hold a minimum of 350,000 UBS shares. All GEB members hold the required level of shares.

CHF

	Base salary	Immediate cash [1]	Annual performance award under EOP	Annual performance award under DCCP	Benefits	Contributions to retirement benefit plans	**Total**
Group CEO Sergio P. Ermotti	2,500,000	1,000,000	4,530,000	2,370,000	127,300	202,822	**10,730,122**
Highest paid GEB member Andrea Orcel	1,500,000	1,000,000	5,300,000	2,700,000	727,048	202,822	**11,429,870**
GEB aggregate total reward	16,873,360	9,949,062	33,894,646	18,790,161	1,548,784	1,347,784	**82,403,796**

1 Under the 2013 compensation framework, 20% is paid out in immediate cash for the performance year 2013, subject to a cash cap of CHF / USD 1 million.

The Group CEO, Sergio P. Ermotti, received a performance award of CHF 7.9 million, bringing his total compensation (excluding benefits and contributions to retirement benefit plan) for 2013 to CHF 10.4 million. 87% of his performance award was deferred, with 57% under EOP and 30% under DCCP.

The highest paid GEB member in 2013 was Andrea Orcel. He received a performance award of CHF 9 million, bringing his total compensation (excluding benefits and contributions to retirement benefit plan) to CHF 10.5 million. 89% of his performance award was deferred, with 59% under EOP and 30% under DCCP.

The Chairman of the BoD, Axel A. Weber, received an annual base salary of CHF 2 million and 200,000 UBS shares, valued at CHF 3,720,000 and blocked for four years. Accordingly his total compensation (including benefits and pension fund contributions) for his services as Chairman from January to December 2013 was CHF 6,069,516. Given the continued improvements in our share price since the inception of our compensation framework for the chairman role in 2009, the Human Resources and Compensation Committee has, in agreement with the Chairman, revisited the framework for 2014 and decided to limit the upside and cap the Chairman's total compensation at the current level of CHF 5.7 million. Following market practice for company chairmen, we have implemented a pay mix shift whereby a larger part of the Chairman's compensation will be paid in cash (currently forseen to be approximately 60%). The balance of the overall compensation will be delivered in UBS shares which will continue to be blocked from distribution for four years.

Base fees for independent BoD members remained unchanged.

Key regulatory developments

As a result of the implementation of the Ordinance against excessive pay issued by the Swiss Federal Council, from 2015 onwards, we will not only have an advisory vote on the compensation report, but will also seek shareholder approval on the amount of total compensation for both, the BoD and GEB. Revised Articles of Association, outlining the framework for the binding approval and other provisions in relation to the implementation of the Ordinance, will be presented at the upcoming Annual General Meeting. Furthermore, in accordance with the EU Capital Requirements Directive 2013, the BoD will propose, via a shareholder advisory vote, a cap of 2:1 for variable versus fixed compensation for UK-based employees whose professional activities could have a material impact on the firm's risk profile in the UK.