2009

UBS Annual Review 2008

Union Bank of Switzerland (UBS)

https://elischolar.library.yale.edu/ypfs-documents2/2248

This resource is brought to you for free and open access by the Yale Program on Financial Stability and EliScholar, a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact yfps@yale.edu.
IMPORTANT NOTICE

UBS’s annual report for 2008 was restated on 20 May 2009 to correct a number of accounting errors. The total net impact of all restated items was a reduction of net profit and net profit attributable to UBS shareholders for full year 2008 of CHF 405 million. As a result, certain information appearing in UBS’s annual report issued on 11 March 2009 and this document is inaccurate and should not be relied upon.

The full, restated Annual Report 2008 in English can be downloaded from our website at www.ubs.com/annualreporting. Your attention is directed in particular to pages 33 and 276 of the restated report which contain a more detailed description of the changes made in the restatement. The restated annual report is not available in languages other than English.

This booklet provides key information on UBS’s strategy and financial results
Dear Shareholders,

UBS recorded a net loss attributable to shareholders of CHF 20.9 billion in 2008. This extremely poor result stemmed primarily from the results of the fixed income trading business of the Investment Bank, mainly due to losses and writedowns on exposures related to US real estate and other credit positions. The loss has affected all stakeholders in UBS: in 2008, in US dollar terms, shareholders suffered a 58% fall in market capitalization, compared with the average 47% decline of the other members of the Dow Jones Banks Titans 30 Index; the total number of employees was reduced by 7%; and employee compensation was cut 36%. Clients have, understandably, expressed to us their disappointment about our losses, while at the same time stressing their appreciation for the advice and service levels they receive from their advisors.

For financial markets as a whole, 2008 was an extraordinary year in economic and financial history: world stock markets fell 42% (the MSCI world index), interest rates reached the lowest levels ever in the US and the UK, and a major investment bank failed. Responses to the crisis included the injection of new capital into many of the world’s major financial institutions by governments. With hindsight, it is clear that UBS was not prepared for this. Our balance sheet was too large and the systems of risk control and risk management that should have limited our exposure failed. We placed too much emphasis on growth and not enough on controlling risks and costs, particularly in regards to our compensation systems, performance targets and indicators and executive governance structures. Imponderable levels of cross-subsidy and confusion about accountability resulted from complex relationships between our business divisions.
In 2008, we focused on addressing our structural and strategic weaknesses and on establishing the long-term financial stability of UBS. Activities centered on the key areas we identified as requiring change: corporate governance, risk management and control processes, the liquidity and funding framework and management compensation. As a result, 2008 saw the introduction of new organization regulations to clarify the responsibilities of the Board of Directors (BoD) and the Group Executive Board (GEB), the establishment of an Executive Committee (EC) to allocate and monitor the use of capital and risk in each of the business divisions, and the formation of a dedicated BoD risk committee. We also merged the credit and market risk functions of the Investment Bank into a single unit led by the newly established Chief Risk Officer position and a new liquidity and funding framework was introduced that requires each business division to be charged market-based rates for funding from other UBS divisions. We will continue to make changes in 2009, including the implementation of a new compensation model for senior executives that aligns compensation with the creation of sustainable results for shareholders. In addition, management compensation within business divisions will be based largely on divisional results and the responsible and independent management of each division’s resources and balance sheet.

Changes in our business divisions will play a vital role in the transformation of our firm. As announced on 10 February 2009, UBS now operates with four business divisions and a Corporate Center. The former Global Wealth Management & Business Banking division has been split into two business divisions: Wealth Management & Swiss Bank and Wealth Management Americas. We will continue to reposition the Investment Bank as a client-orientated and fee- and commission-earning business – in other words, the Investment Bank is moving away from the proprietary trading
business that adversely affected
our capital. A new unit has been estab-
lished within the Investment Bank
to manage the positions of those fixed
income businesses we have decided
to exit.

We took active steps to increase
the financial stability of UBS in
2008. The issuance of two Mandatory
Convertible Notes (MCNs) and a
rights issue raised CHF 34.6 billion of
new capital. During the year, our total
balance sheet was reduced 11% to
CHF 2,015 billion, risk-weighted assets
dropped 19% to CHF 302.3 billion and
our identified risk concentrations fell
sharply – with these reductions assisted
by an agreement made in 2008 to
sell a large portfolio of illiquid securities
and other positions to a fund owned
and controlled by the Swiss National
Bank. Operating expenses fell 19% and
the year-end tier 1 ratio was 11.0%,
compared with 9.1% for year-end
2007 under the different standards that
were then applicable under Basel I.

As announced on 18 February 2009,
UBS settled a US cross-border case
with the US Department of Justice
(DOJ) and the US Securities and
Exchange Commission (SEC) by en-
tering into a Deferred Prosecution
Agreement (DPA) with the DOJ
and a Consent Order with the SEC.
As part of these agreements, we will
complete our previously announced
exit of our US cross-border business
and implement an enhanced program
of internal controls to ensure com-
pliance with the Qualified Intermediary
Agreement with the Internal Revenue
Service. In addition, pursuant to an
order issued by the Swiss Financial Mar-
ket Supervisory Authority, informa-
tion was transferred to the DOJ regard-
ing accounts of certain US clients
as set forth in the DPA, who, based on
evidence available to UBS, committed
tax fraud or the like within the meaning
The total cost for the settlement of
USD 780 million has been fully charged
to our 2008 results. This episode makes
it particularly clear that our control
framework must be extremely robust
and that employee incentives must be
aligned with risk management and
control and the creation of long-term
value for shareholders.
Outlook – The recent worsening of financial conditions and UBS-specific factors have adversely affected our results, particularly in the Investment Bank. Even after substantial risk reduction, our balance sheet remains exposed to illiquid and volatile markets and our earnings will therefore remain at risk for some time to come. Net new money remains positive for our Wealth Management Americas division, but this is being partially offset by net outflows in Wealth Management & Swiss Bank. Global Asset Management has also experienced further net outflows.

More generally, financial market conditions remain fragile as company and household cash flows continue to deteriorate, notwithstanding the very substantial measures governments are taking to ease fiscal and monetary conditions. Our near-term outlook remains extremely cautious. For 2009, we will continue to implement our program to strengthen our financial position by reducing our risk positions, our overall balance sheet size, and our operating costs. Management will also focus on securing and building the firm’s core client businesses and on returning the Group as soon as possible to a sustainable level of overall profitability.

11 March 2009

Peter Kurer
Chairman

Oswald J. Gruebel
Chief Executive Officer

On 26 February 2009, Oswald J. Gruebel joined UBS in the capacity of Group Chief Executive Officer, replacing Marcel Rohner. Mr. Gruebel brings to UBS his deep understanding of banking and the markets and proven management skills. He also brings a strong determination to restore the bank’s sustained profitability and regain client trust. As announced on 4 March 2009, Peter Kurer, Chairman of the UBS Board of Directors, has decided not to stand for re-election at the annual general meeting on 15 April 2009. The UBS Board of Directors is nominating Kaspar Villiger for the role of Chairman.
Strategy and development

**UBS’s strategic priorities**

*Client focus:* UBS’s purpose is to serve clients and give them confidence in making financial decisions. As client needs and the financial services industry constantly evolve, UBS makes a systematic effort to capture client feedback, identify potential for improvement and adapt its offerings accordingly.

*Profitable growth and earnings quality:* UBS strives to establish sustainable earnings based on customer benefit.

*Risk and capital management:* Taking, managing and controlling risk is a core element of UBS’s business activities. UBS’s aim is not, therefore, to eliminate all risks, but to achieve an appropriate balance between risk and return.

*Business divisions’ franchises:* UBS operates as a Group with business divisions that are accountable for their own results, but combine to provide a broad palette of cross-business solutions for clients. UBS considers the breadth and depth of its offering to be one of its main strengths, and key to its ability to create value for clients and shareholders.

**Measures taken**

The firm’s strategy was reviewed in 2008, by its Board of Directors and Group Chief Executive Officer, and a new strategic direction was announced in August 2008.

New policies and procedures were implemented in 2008 for corporate governance and risk management and control. The firm also developed new key performance indicators and a new compensation model for implementation in 2009.


The Investment Bank is in the process of re-positioning itself toward client-driven growth and reducing its balance sheet and risk positions.
Risk management and control

Key developments

UBS was severely affected by the financial crisis that unfolded in 2007 and worsened in 2008.

UBS entered 2008 with significant legacy risk positions, particularly related to US real estate and other credit positions, which exceeded the firm’s risk bearing capacity. As reported during 2008, UBS incurred significant losses on these positions. Risk reduction will remain a priority for UBS until risk exposure is commensurate with the firm’s targeted risk appetite.

UBS identified significant weaknesses in its risk management and control organization, as well as limitations in its traditional market risk, credit risk, liquidity risk and funding risk measures (including the interplay between these measures). As a result of these weaknesses, the firm failed to adequately assess correlated risks and risk concentrations. In order to address these weaknesses, UBS launched an extensive remediation plan, which included the overhaul of its risk governance, significant changes to risk management and control personnel, as well as improvements in risk capture, risk representation and risk monitoring. Implementation of this plan is ongoing and remains a high priority for UBS.

In addition, in light of the continued dislocation in financial markets, UBS has placed less emphasis on statistical models for the identification and management of risks, and more on its stress-based measures, particularly to identify and manage those portfolios considered most at risk.
Corporate governance and risk control

Independent risk control

Board of Directors

- Board of Directors
- Audit committee
- Risk committee

Group Executive Board

- Group Executive Board/Executive Committee

Corporate Center

- Group Chief Risk Officer
  - Portfolio Risk Control and Methodology
  - Operational risk
  - Risk Chief Operating Officer
- Group General Counsel
  - Head compliance
- Group CFO
  - Treasurer
  - Tax
  - Controlling & Accounting
  - Accounting Policy/SOX

Business division

- Risk Control (chief risk officers)
- Legal and Compliance (general counsels)
- Finance (chief financial officers)

Risk management

- Group Chief Executive Office
- Business division chief executive officers
- Business management
- Operations

Business division risk committees

For full listing of Board of Directors committees, refer to Annex C of the Organization Regulations of UBS AG.
Financial performance

UBS results for 2008

For full-year 2008, UBS recorded a net loss attributable to shareholders of CHF 20,887 million. The result was primarily driven by losses on risk positions in the Investment Bank. Wealth and asset management businesses remained profitable despite very difficult market conditions.

Operating expenses declined to CHF 28,555 million in 2008, a 19% decrease from the previous year. Personnel expenses decreased 36% from 2007, driven by significantly lower performance-related compensation.

Key factors affecting UBS’s financial position and results of operations in 2008

- Negative Investment Bank revenues driven by trading losses on risk positions.
- Credit losses due to a deteriorating economic environment and impairment charges.
- A positive accounting impact from the mandatory convertible notes issued in 2008.
- Increase of share capital by means of a rights offering as approved by shareholders in April.
- The sale of a securities portfolio to a fund managed by BlackRock, Inc.
- The agreement to transfer illiquid securities and other positions to a fund owned and controlled by the Swiss National Bank.
- A gain on own credit recorded by the Investment Bank.
- A provision made in connection with the US cross-border case.
- A net income tax benefit from tax losses which arose in 2008.
## UBS financial highlights

<table>
<thead>
<tr>
<th>Performance indicators from continuing operations</th>
<th>As of or for the year ended</th>
<th>% change from</th>
</tr>
</thead>
<tbody>
<tr>
<td>**Diluted earnings per share (CHF)**¹</td>
<td>31.12.08</td>
<td>31.12.07</td>
</tr>
<tr>
<td>(7.60)</td>
<td>(2.61)</td>
<td>4.64</td>
</tr>
<tr>
<td>**Return on equity attributable to UBS shareholders (%)**²</td>
<td>(57.9)</td>
<td>(11.7)</td>
</tr>
<tr>
<td>**Cost/income ratio (%)**³</td>
<td>680.4</td>
<td>111.0</td>
</tr>
<tr>
<td>**Net new money (CHF billion)**⁴</td>
<td>(226.0)</td>
<td>140.6</td>
</tr>
</tbody>
</table>

### Group results

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating income</strong></td>
<td>1,201</td>
<td>31,721</td>
<td>47,484</td>
<td>(96)</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>28,555</td>
<td>35,463</td>
<td>33,365</td>
<td>(19)</td>
</tr>
<tr>
<td><strong>Operating profit before tax (from continuing and discontinued operations)</strong></td>
<td>(27,155)</td>
<td>(3,597)</td>
<td>15,007</td>
<td>(655)</td>
</tr>
<tr>
<td><strong>Net profit attributable to UBS shareholders</strong></td>
<td>(20,887)</td>
<td>(5,247)</td>
<td>11,527</td>
<td>(298)</td>
</tr>
<tr>
<td>**Personnel (full-time equivalents)**⁵</td>
<td>77,783</td>
<td>83,560</td>
<td>78,140</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Invested assets (CHF billion)</strong></td>
<td>2,174</td>
<td>3,189</td>
<td>2,989</td>
<td>(32)</td>
</tr>
</tbody>
</table>

### UBS balance sheet and capital management

<table>
<thead>
<tr>
<th>Balance sheet key figures</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total assets</strong></td>
<td>2,015,098</td>
<td>2,274,891</td>
<td>2,348,733</td>
</tr>
<tr>
<td><strong>Equity attributable to UBS shareholders</strong></td>
<td>32,800</td>
<td>36,875</td>
<td>51,037</td>
</tr>
<tr>
<td><strong>Market capitalization</strong>⁶</td>
<td>43,519</td>
<td>108,654</td>
<td>154,222</td>
</tr>
</tbody>
</table>

### BIS capital ratios⁷

<table>
<thead>
<tr>
<th></th>
<th>Tier 1 (%)</th>
<th>Total BIS (%)</th>
<th>Risk-weighted assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>11.0</td>
<td>15.1</td>
<td>302,273</td>
</tr>
<tr>
<td></td>
<td>9.1⁸</td>
<td>12.2²</td>
<td>374,421²</td>
</tr>
<tr>
<td></td>
<td>12.2²</td>
<td>15.0²</td>
<td>344,015²</td>
</tr>
</tbody>
</table>

### Long-term ratings

<table>
<thead>
<tr>
<th></th>
<th>Fitch, London</th>
<th>Moody’s, New York</th>
<th>Standard &amp; Poor’s, New York</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A+ AA AA+</td>
<td>Aa2 Aaa Aa2</td>
<td>A+ AA AA+</td>
</tr>
</tbody>
</table>

¹ Refer to “Note 8 Earnings per share (EPS) and shares outstanding” in the financial statements of UBS’s annual report for 2008.
² Net profit attributable to UBS shareholders from continuing operations/average equity attributable to UBS shareholders.
³ Operating expenses/operating income before credit loss expense or recovery.
⁴ Excludes interest and dividend income.
⁵ Excludes personnel from private equity (part of the Corporate Center).
⁶ Refer to the “UBS shares in 2008” section of UBS’s annual report for 2008 for further information.
⁷ Refer to the “Capital management” section of UBS’s annual report for 2008 for further information.
⁸ The calculation prior to 2008 is based on the Basel I approach.
Global Wealth Management & Business Banking

New organizational structure

As announced on 10 February 2009, Global Wealth Management & Business Banking split into two divisions: Wealth Management & Swiss Bank and Wealth Management Americas. UBS’s financial reports will reflect this new structure from first quarter 2009 onwards.

Wealth Management & Swiss Bank: UBS’s wealth management business caters to high net worth and affluent individuals around the world (except those served by Wealth Management Americas) whether they are investing internationally or in their home country. UBS offers these clients a complete range of tailored advice and investment services. Its Swiss Bank business provides a complete set of banking services for Swiss individual and corporate clients.

Wealth Management Americas: Wealth Management Americas offers sophisticated products and services specifically designed to address the needs of high net worth and affluent individuals. It includes Wealth Management US, domestic Canada, domestic Brazil and the international business booked in the United States.

Performance in 2008

Global Wealth Management & Business Banking recorded a pre-tax profit of CHF 5,352 million, compared with CHF 9,251 million in 2007.

Wealth Management International & Switzerland recorded a pre-tax profit of CHF 3,601 million, compared with CHF 6,310 million in 2007. This is partially due to a provision of CHF 917 million in connection with the US cross-border case. During this period: net new money outflows were CHF 101.0 billion compared with inflows of CHF 125.1 billion; invested assets declined 33% to CHF 870 billion; and the cost/income ratio increased to 63.1% from 51.1%.

Wealth Management US recorded a pre-tax loss of CHF 698 million in 2008, compared with a pre-tax profit of CHF 674 million in 2007. A negative impact of CHF 1,524 million from auction rate securities-related charges and trading losses drove this decline. During this period net new money outflows were CHF 10.6 billion compared with inflows of CHF 26.6 billion, and invested assets declined 29%.

Business Banking Switzerland recorded a record pre-tax profit of CHF 2,449 million in 2008, compared with CHF 2,267 million in 2007. The change resulted from a strong decrease in operating expenses during this period. During this period, the cost/income ratio improved to 51.2% from 57.7%.
### Business division/business unit reporting

<table>
<thead>
<tr>
<th>CHF million, except where indicated</th>
<th>Wealth Management International &amp; Switzerland</th>
<th>Wealth Management US</th>
<th>Business Banking Switzerland</th>
<th>Global Wealth Management &amp; Business Banking</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of or for the year ended</td>
<td>31.12.08</td>
<td>31.12.07</td>
<td>31.12.08</td>
<td>31.12.07</td>
</tr>
<tr>
<td>Total operating income</td>
<td>10,429</td>
<td>12,892</td>
<td>5,933</td>
<td>5,019</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>6,828</td>
<td>6,582</td>
<td>6,631</td>
<td>5,986</td>
</tr>
<tr>
<td>Business division/business unit performance before tax</td>
<td>3,601</td>
<td>6,310</td>
<td>(698)</td>
<td>674</td>
</tr>
</tbody>
</table>

### Additional information

| Net new money (CHF billion) | 101.0 | 125.1 | (10.6) | 26.6 | (11.4) | 4.6 | (123.0) | 156.3 |
| Invested assets (CHF billion) | 870 | 1,294 | 600 | 840 | 129 | 164 | 1,599 | 2,298 |
| Personnel (full-time equivalents) | 15,271 | 15,811 | 18,929 | 19,347 | 15,341 | 16,085 | 49,541 | 51,243 |

### Invested assets

<table>
<thead>
<tr>
<th>CHF billion</th>
<th>31.12.06</th>
<th>31.12.07</th>
<th>31.12.08</th>
</tr>
</thead>
<tbody>
<tr>
<td>161</td>
<td>164</td>
<td>824</td>
<td>840</td>
</tr>
</tbody>
</table>

### Total operating income

<table>
<thead>
<tr>
<th>CHF million</th>
<th>31.12.08</th>
<th>Total: CHF 21,381 million</th>
</tr>
</thead>
<tbody>
<tr>
<td>5,019</td>
<td>10,429</td>
<td>5,933</td>
</tr>
<tr>
<td>2,570</td>
<td>6,828</td>
<td>6,631</td>
</tr>
<tr>
<td>2,449</td>
<td>10,429</td>
<td>6,660</td>
</tr>
<tr>
<td>2,267</td>
<td>6,828</td>
<td>5,317</td>
</tr>
<tr>
<td>5,352</td>
<td>3,601</td>
<td>9,251</td>
</tr>
</tbody>
</table>

- Wealth Management International & Switzerland
- Wealth Management US
- Business Banking Switzerland
Global Asset Management

Business description

Two principal client segments:

**Institutional:** corporate and public pension plans; endowments, municipalities, charities and private foundations; insurance companies; governments and their central banks; and supranationals.

**Wholesale intermediary:** financial intermediaries including Wealth Management and third-parties.

Broad range of investment capabilities and services:

Traditional, alternative, real estate, infrastructure and private equity investments.

Over 500 investment funds, exchange-traded funds and others.

Performance in 2008

Global Asset Management recorded a pre-tax profit of CHF 1,333 million, an 8% decrease from CHF 1,454 million in 2007. Excluding costs related to the closure of Dillon Read Capital Management in 2007 and the gain on UBS’s sale of its minority stake in Adams Street Partners in 2008, full-year pre-tax profit would have decreased CHF 501 million due to lower performance fees and lower management fees.

The business division saw net new money outflows of CHF 103.0 billion for full-year 2008, compared with outflows of CHF 15.7 billion for full-year 2007. Flows through UBS channels – namely the asset management flows relating to Global Wealth Management & Business Banking clients – accounted for more than a third of these full year 2008 outflows and UBS reputational issues also impacted third-party flows.
### Business division reporting

<table>
<thead>
<tr>
<th>CHF million, except where indicated</th>
<th>31.12.08</th>
<th>31.12.07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Institutional fees</td>
<td>1,659</td>
<td>2,370</td>
</tr>
<tr>
<td>Wholesale intermediary fees</td>
<td>1,246</td>
<td>1,724</td>
</tr>
<tr>
<td>Total operating income</td>
<td>2,904</td>
<td>4,094</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>1,572</td>
<td>2,640</td>
</tr>
<tr>
<td>Business division performance before tax</td>
<td>1,333</td>
<td>1,454</td>
</tr>
</tbody>
</table>

### Additional information

<table>
<thead>
<tr>
<th></th>
<th>31.12.06</th>
<th>31.12.07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested assets (CHF billion)</td>
<td>575</td>
<td>891</td>
</tr>
<tr>
<td>Net new money (CHF billion)</td>
<td>(103.0)</td>
<td>(15.7)</td>
</tr>
<tr>
<td>Personnel (full-time equivalents)</td>
<td>3,786</td>
<td>3,625</td>
</tr>
</tbody>
</table>

### Total operating income

- **CHF million**

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total:</td>
<td>1,803</td>
<td>2,370</td>
<td>1,659</td>
</tr>
<tr>
<td>Institutional fees</td>
<td>1,417</td>
<td>1,724</td>
<td>1,246</td>
</tr>
<tr>
<td>Wholesale intermediary fees</td>
<td>686</td>
<td>646</td>
<td>413</td>
</tr>
</tbody>
</table>

### Invested assets by client type

- **In %, except where indicated**

<table>
<thead>
<tr>
<th></th>
<th>31.12.06</th>
<th>31.12.07</th>
<th>31.12.08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total:</td>
<td>40</td>
<td>41</td>
<td>42</td>
</tr>
<tr>
<td>Institutional</td>
<td>60</td>
<td>59</td>
<td>58</td>
</tr>
<tr>
<td>Wholesale intermediary</td>
<td>40</td>
<td>42</td>
<td>44</td>
</tr>
</tbody>
</table>
The Investment Bank comprises the following business units:

The **equities** business area distributes, trades, finances and clears cash equity and equity-linked products. It also structures, originates and distributes new equity and equity-linked issues and provides research on companies, industry sectors, geographical markets and macro economic trends.

The **fixed income, currencies and commodities (FICC)** business area delivers products and solutions to corporate, institutional and public sector clients in all major markets.

The **investment banking** department provides advice and a range of execution services to corporate clients, financial sponsors, sovereign wealth funds and hedge funds. Its advisory group assists on complex transactions and advises on strategic reviews and corporate restructuring solutions, while UBS’s capital markets teams arrange the execution of equity and debt issues worldwide.

The Investment Bank recorded a pre-tax loss of CHF 34,092 million in 2008, compared with a pre-tax loss of CHF 16,669 million in 2007. The change was primarily due to losses on risk positions in FICC.

During this period: equities revenues decreased 42% to CHF 5,184 million; FICC revenues decreased to negative CHF 31,687 million from negative CHF 16,837 million; investment banking revenues fell 57% to CHF 2,880 million; and operating expenses declined 37% to CHF 9,925 million, with personnel expenses down 57%.
## Business division reporting

<table>
<thead>
<tr>
<th>CHF million, except where indicated</th>
<th>As of or for the year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment banking</strong></td>
<td>2,880</td>
</tr>
<tr>
<td><strong>Sales and trading</strong></td>
<td>(26,504)</td>
</tr>
<tr>
<td><strong>Credit loss (expense) / recovery</strong></td>
<td>(2,575)</td>
</tr>
<tr>
<td><strong>Total operating income excluding own credit</strong></td>
<td>(26,199)</td>
</tr>
<tr>
<td><strong>Own credit</strong></td>
<td>2,032</td>
</tr>
<tr>
<td><strong>Total operating income as reported</strong></td>
<td>(24,167)</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>9,925</td>
</tr>
<tr>
<td><strong>Business division performance before tax</strong></td>
<td>(34,092)</td>
</tr>
<tr>
<td><strong>Personnel (full-time equivalents)</strong></td>
<td>17,171</td>
</tr>
</tbody>
</table>

## Repositioning

The Investment Bank is in the process of repositioning itself toward client-driven growth, combined with a further reduction of its balance sheet and risk positions and the implementation of a new market-based funding model and robust risk framework. UBS simplified the structure of FICC to emphasize the client business and reduce risk and balance sheet usage. The municipal securities business and fixed income proprietary trading businesses have been closed and certain commodities businesses have been sold. Real estate and securitization businesses and complex structured products have been substantially downsized or exited.
Corporate governance

Corporate governance structure

UBS operates under a strict dual-board structure: the Board of Directors (BoD) and the Group Executive Board (GEB). The BoD is the most senior body and ultimately responsible for the firm’s strategy and the supervision of its executive management. The CVs of the BoD members are available at www.ubs.com/boards.

Changes in 2008

New corporate governance guidelines were implemented to clearly reinforce the roles and responsibilities of the boards and BoD committees.

The position of senior independent director was created to facilitate direct communication between shareholders and the BoD, as well as between BoD members and their Chairman.

The term of office for BoD members was reduced to one year, effective for all elections and re-elections held from 2008 onwards.

Shareholders participation

The following items were approved at extraordinary general meetings in February and November 2008: creation of a maximum of CHF 10,370,000 in authorized capital, allowing the distribution of a stock dividend (for the year 2007), and the creation of conditional share capital for the issuance of mandatory convertible notes (MCNs) in the amount of CHF 13 billion to two financial investors and in the amount of CHF 6 billion to the Swiss Confederation.

Executive compensation

Compensation for 2008 included no incentive awards or discretionary stock options granted to the Chairman and executive members of the BoD nor to the members of the GEB, due to UBS’s negative financial performance in 2008.

New compensation principles were developed in 2008, following a review of the principles for senior executive compensation. Effective from 2009 onwards, these principles will align compensation with the creation of sustainable shareholder returns through measured risk taking; promote a performance-driven culture with a long-term view to results and shareholder interests; and support the firm’s focused business strategy.

Annual general meeting 2009 (AGM)

Shareholders will be invited to participate in a non-binding advisory vote on the guiding principles for senior executive compensation at the AGM in April.

As announced on 4 March 2009, Peter Kurer has decided not to stand for re-election at the AGM. The UBS BoD is nominating Kaspar Villiger as a candidate for the role of Chairman.
# Board of Directors

<table>
<thead>
<tr>
<th>Name</th>
<th>Address</th>
<th>Function(s) in UBS</th>
<th>Nationality</th>
<th>Year of initial appointment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peter Kurer</td>
<td>UBS AG Bahnhofstrasse 45 CH-8098 Zurich</td>
<td>Chairman of the Board of Directors / chair of the corporate responsibility committee / chair of the strategy committee</td>
<td>Swiss</td>
<td>2008</td>
</tr>
<tr>
<td>Sergio Marchionne</td>
<td>Fiat S.p.A. Via Nizza 250 I-10126 Turin</td>
<td>Independent vice chairman / senior independent director / member of the governance and nominating committee / member of the strategy committee</td>
<td>Canadian and Italian</td>
<td>2007</td>
</tr>
<tr>
<td>Ernesto Bertarelli</td>
<td>Bemido SA Avenue Giuseppe-Motta 31–33 PO Box 145 CH-1211 Geneva 20</td>
<td>Member of the governance and nominating committee / member of the human resources and compensation committee</td>
<td>Swiss</td>
<td>2002</td>
</tr>
<tr>
<td>Sally Bott</td>
<td>BP p.l.c. 1 St. James’s Square GB-London SW1Y 4PD</td>
<td>Member of the human resources and compensation committee / member of the corporate responsibility committee</td>
<td>American (US)</td>
<td>2008</td>
</tr>
<tr>
<td>Rainer-Marc Frey</td>
<td>Horizon21 Poststrasse 4 CH-8808 Pfaeffikon</td>
<td>Member of the risk committee / member of the strategy committee</td>
<td>Swiss</td>
<td>2008</td>
</tr>
<tr>
<td>Bruno Gehrig</td>
<td>Swiss Life General-Guisan-Quai 40 P.O. Box CH-8022 Zurich</td>
<td>Member of the audit committee</td>
<td>Swiss</td>
<td>2008</td>
</tr>
<tr>
<td>Gabrielle Kaufmann-Kohler</td>
<td>Lévy Kaufmann-Kohler 3–5, rue du Conseil-Général CH-1205 Geneva</td>
<td>Chair of the governance and nominating committee / member of the corporate responsibility committee</td>
<td>Swiss</td>
<td>2006</td>
</tr>
<tr>
<td>Helmut Panke</td>
<td>BMW AG Petuelring 130 D-80788 Munich</td>
<td>Member of the human resources and compensation committee / member of the risk committee</td>
<td>German</td>
<td>2004</td>
</tr>
<tr>
<td>William G. Parrett</td>
<td>433 Country Club Rd.W USA-New Canaan, Ct. 06840</td>
<td>Member of the audit committee</td>
<td>American (US)</td>
<td>2008</td>
</tr>
<tr>
<td>David Sidwell</td>
<td>Apartment 26-O 25 Central Park West USA-New York, N.Y. 10023</td>
<td>Chair of the risk committee / member of the corporate responsibility committee</td>
<td>American (US) and British</td>
<td>2008</td>
</tr>
<tr>
<td>Peter R. Voser</td>
<td>Royal Dutch Shell plc 2501 AN NL-The Hague</td>
<td>Chair of the audit committee / member of the strategy committee</td>
<td>Swiss</td>
<td>2005</td>
</tr>
<tr>
<td>Joerg Wolle</td>
<td>DKSH Holding AG Wiesenstrasse 8 CH-8034 Zurich</td>
<td>Chair of the human resources and compensation committee / member of the governance and nominating committee</td>
<td>German and Swiss</td>
<td>2006</td>
</tr>
</tbody>
</table>
The Group Executive Board (GEB) is responsible for the executive management of the firm and accounts to the Board of Directors for the firm’s financial results. It is led by the Group Chief Executive Officer (Group CEO) and supported by the newly established Executive Committee. The CV of each member is available at www.ubs.com/geb.
Marco Suter and Joe Scoby resigned from the GEB in 2008. On 12 November 2008, Marten Hoekstra assumed the duties on an interim basis of Raoul Weil, Chairman and CEO of Global Wealth Management & Business Banking, who relinquished his duties on that date. Currently Raoul Weil is a member of the GEB but does not hold a function. Francesco Morra and Juerg Zeltner were appointed to the GEB on 10 February 2009 and Marten Hoekstra became head of the business division Wealth Management Americas and no longer assumes the role of deputy Chairman and CEO of Global Wealth Management & Business Banking. Oswald J. Gruebel was named Group CEO on 26 February 2009, replacing Marcel Rohner who stepped down as Group CEO on that date.
The *Annual Report 2008* is available in English and German (SAP no. 80531). The report contains information that is current as of the date of publication. UBS undertakes no obligation to update this information or notify readers if it should change or if new information should become available.

*Quarterly reports* provide detailed quarterly financial reporting and analysis, including comment on the progress of UBS’s businesses and key strategic initiatives. These reports are available in English (SAP no. 80834).

*Reports are available* in PDF format on the internet at [www.ubs.com/investors](http://www.ubs.com/investors) topics in the reporting section. Printed copies can be ordered from the same website by accessing the order form in the services section of the website. Alternatively, they can be ordered by quoting the SAP number and the language preference where applicable, from UBS AG, Information Center, P.O. Box, CH-8098 Zurich, Switzerland.

The *Analysts & Investors website* at [www.ubs.com/investors](http://www.ubs.com/investors) offers a wide range of information about UBS, financial information (including SEC filings), corporate information, share price graphs and data, an event calendar, dividend information and recent presentations given by the senior management to investors at external conferences.

This review should be read in conjunction with UBS’s *Annual Report 2008* and the other publicly available information referred to on this page.
Contacts

Switchboards
Zurich +41-44-234 1111
London +44-20-7568 0000
New York +1-212-821 3000
Hong Kong +852-2971 8888

Investor Relations
Hotline
Zurich +41-44-234 4100
New York +1-212-882 5734
sh-investorrelations@ubs.com

Media Relations
Zurich +41-44-234 8500
London +44-20-7567 4714
New York +1-212-882 5857
Hong Kong +852-2971 8200
mediarelations@ubs.com

Shareholder Services
Hotline +41-44-235 6202
UBS AG
Shareholder Services
P.O. Box
CH-8098 Zurich, Switzerland
sh-shareholder-services@ubs.com

US Transfer Agent
Calls from the US +866-541 9689
Calls outside the US +1-201-680 6578
BNY Mellon Shareowner Services
480 Washington Boulevard
Jersey City, NJ 07310, USA
sh-relations@melloninvestor.com

Cautionary statement regarding forward-looking statements | This document contains statements that constitute “forward-looking statements”, including but not limited to statements relating to the anticipated effect of transactions described herein, risks arising from the current market crisis and other risks specific to UBS’s business, strategic initiatives, future business development and economic performance. While these forward-looking statements represent UBS’s judgments and expectations concerning the development of its business, 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 extent and nature of future developments in the market segments that have been or may be affected by the current market crisis and their effect on UBS’s assets and exposures, including UBS’s remaining net and gross exposures related to the United States mortgage market; (2) developments affecting the availability of capital and funding to UBS and other financial institutions, including any changes in UBS’s credit spreads and ratings; (3) other market and macroeconomic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates; (4) changes in internal risk control and limitations in the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (5) the possible consequences of governmental investigations of certain of UBS’s past business activities, including the possibility that tax or regulatory authorities in various jurisdictions will focus on the cross-border wealth management services provided by UBS and other financial institutions; (6) the degree to which UBS is successful in implementing its remediation plans and strategic and organizational changes, and whether those plans and changes will have the effects anticipated; (7) changes in the financial position or creditworthiness of UBS’s customers, obligors and counterparties, and developments in the markets in which they operate, including possible failures resulting from the current market crisis and adverse economic environment; (8) management changes and changes to the internal or overall structure of UBS’s business divisions; (9) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures; (10) legislative, governmental and regulatory developments, including the effect of new and more stringent capital requirements and of direct or indirect regulatory constraints on UBS’s business activities; (11) changes in accounting standards or policies, and accounting determinations affecting the recognition of gain or loss, the valuation of goodwill and other assets or other matters; (12) changes in and the effect of competitive pressures, including the possible loss of key employees as a result of compensation issues or for other reasons; (13) technological developments; and (14) the impact of all such future developments on positions held by UBS, on its short-term and longer-term earnings, on the cost and availability of funding and on UBS's capital ratios. In addition, these results could depend on other factors that we have previously indicated could adversely affect our business and financial performance which are contained 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 2008. 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 document may not add up precisely to the totals provided in the tables. 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.

Imprint | Publisher: UBS AG, P.O. Box, CH-8098 Zurich; P.O. Box, Switzerland, CH-4002 Basel, Switzerland; www.ubs.com
Language: English, French, German and Italian | SAP-No. 80530E-0901
© UBS 2009. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.