

# Creating value

Annual Review 2015



A photograph of a workshop interior. The scene is dominated by large, white-framed windows on the left and right, which let in bright, natural light. The walls are a light, neutral color and feature a framed black and white photograph of a wooden structure, possibly a chair or a piece of furniture. In the foreground, the back of a person's head and shoulders is visible, suggesting they are sitting at a workbench or table. The overall atmosphere is bright and airy.

«I mim Böödeli het all daas siini Zuekunft,  
wo handgmacht ischt ond äägestendig ischt.»

In my little workshop there is a future for personal, handmade things.

**Roger Dörig**

Roger Dörig works with UBS. In 1994 he took over his grandfather's "Sennensattler" traditional crafts workshop in his native Appenzell region of Switzerland. He makes belts, belt buckles, cowbells, jewelry and other items by hand for customers around the world.





“For many of my clients it’s important to get something that they cannot get everywhere else.”

**Roger Dörig**

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The framework for the Annual Review is set by the Annual Report, the Global Reporting Initiative and the Integrated Reporting Framework.



A tablet version of the Annual Review 2015 is available at UBS Newsstand/ Annual Review

# What do we stand for?



**Axel A. Weber** Chairman of the Board of Directors

**In many ways this Annual Review is different from previous Reviews. Can you both explain what is different, and why?**

**Axel A. Weber** Our Annual Review still reflects, as it has done in the past, our firm's key achievements in the past year. But, crucially, it does not stop there. Instead, the Review shows the steps we're taking to shape the future of our firm for the benefit of our clients, shareholders and other stakeholders. And we highlight the risks and opportunities that will be influencing UBS's development and performance.

**Sergio P. Ermotti** In doing so, we draw strongly upon the concept of integrated reporting (and thinking) – and in particular its key focus – long-term value creation. It is this focus that is at the heart of our Review.

“We understand value creation to be the total benefit and value generated by our firm through all its activities in all the regions where we operate.”

Axel A. Weber

**On the important theme of value creation, what does this mean to you? What are the major steps UBS took in 2015 to advance the creation of value?**

**AW** We understand value creation to be the total benefit and value generated by our firm through all its activities in all the regions where we operate. This encompasses offering market-leading products and services across the globe, generating returns for shareholders and providing fulfilling and enriching employment opportunities. And it also means that we adhere strictly to local and international regulatory and tax regimes, and contribute actively and materially to society and local communities, while promoting innovation, sustainability and new ideas in banking and financial services.

**SE** Looking at some of our achievements, 2015 was a year of strong results and disciplined execution. We increased our net profit by 79% compared with 2014, despite a very challenging environment. We also made excellent progress toward meeting future regulatory requirements. We created UBS Switzerland AG, established our Group service company, UBS Business Solutions AG, and successfully issued our first total loss-absorbing and additional tier 1 instruments from our holding company. We also invested around CHF 300 million to simplify and modernize our technology and reduce operational risk.

**A question to the Chairman: Every year UBS undertakes an assessment to identify what's most important to our stakeholders. How do the results for 2015 relate to how you see the firm's key concerns?**

**AW** With our annual materiality assessment we endeavor to identify which topics our stakeholders regard as significant for UBS and our industry. This helps us to understand whether we are focused on the topics that our stakeholders regard as relevant. We also eval-

uate our own perception of the topics we believe will affect our firm's performance and development. Considering the results of the 2015 assessment, our Corporate Culture and Responsibility Committee found that it reflects our key priorities very well. Take a key example, conduct and culture, which – as we outline in more detail in the Annual Review – is among the three most highly ranked topics in the assessment. The importance of this topic is directly reflected in key developments at our firm, most notably the advancement of our Behaviors and Principles across all our processes and practices.

**And from a Group CEO perspective, why do you see the Pillars, Principles and Behaviors as crucial to the long-term success of UBS?**

**SE** The three keys in our logo symbolize to us the obligation to create added value for our shareholders and other stakeholders responsibly and sustainably. With our Pillars, Principles and Behaviors we essentially capture all the key financial and nonfinancial components that form the basis of our strategy – and of our continued success. It is for this significant reason that we spend a good part of this Annual Review describing and explaining the three keys. The UBS Behaviors play a very important role in the evaluation of our employees. Performance assessment based on the Behaviors has a direct influence on overall compensation, promotions and, sometimes, on whether an employee has a future with the firm.

**What do you regard as key achievements in 2015 in terms of our approach to sustainability?**

**AW** To start with something simple, but very telling, we changed the name of our Corporate Responsibility Committee to Corporate Culture and Responsibility Committee. This demonstrates very clearly the importance of corporate culture to the Board – and our commit-



**Sergio P. Ermotti** Group Chief Executive Officer

“With our Pillars, Principles and Behaviors we essentially capture all the key financial and nonfinancial components that form the basis of our strategy – and of our continued success.”

**Sergio P. Ermotti**

ment to actively support and supervise the significant activities in this area that the Group CEO is leading. A second important achievement was the establishment and advancement of our UBS and Society initiative and, with it, our commitment to making sustainability the everyday standard at our firm.

**SE** In 2015 our firm took over the leadership position in our industry group of the Dow Jones Sustainability Indices. The Industry Group Leader Report for UBS cites our support to clients and communities and our integration of societal and financial performance. Moreover, it points to our work to build UBS's capital strength and to improve our efficiency and effectiveness.

**What feedback did you receive from investors and clients in 2015?**

**AW** We meet investors and analysts throughout the year through quarterly roadshows after results, and we meet with major investors and clients

individually or at events like the Annual General Meeting. Investors tell us that they like the clarity and consistency of our strategy – a strategy that has worked through better and more difficult quarters. And investors who think long term also like the fact that we remain committed to our strategy and its disciplined execution.

**SE** Systematically collecting feedback tells us how we can further improve. Clients, for example, tell us that we can get better at collaborating within the bank. That means we could boost our potential to differentiate ourselves from our competitors if our different business divisions worked together even more. That's why collaboration – along with integrity and challenge – forms our UBS Behaviors.

# UBS in 2015

## Our strategy

Our direction is focused and clear.

Our strategy centers on our leading wealth management businesses and our premier universal bank in Switzerland, enhanced by our asset management business and our Investment Bank.

These businesses share three key characteristics: they benefit from a strong competitive position in their targeted markets, are capital efficient and offer an attractive structural growth and profitability outlook.



## **Our three keys to success**

Three keys help us achieve our vision and execute our strategy. They epitomize the best of our heritage.

## **Our Pillars are the foundation for everything we do.**

Capital strength  
Efficiency and effectiveness  
Risk management

## **Our Principles are what we stand for as a firm.**

Client focus  
Excellence  
Sustainable performance

## **Our Behaviors are what we stand for individually.**

Integrity  
Collaboration  
Challenge

We actively live these Principles and Behaviors. They determine how we work with our stakeholders and each other, how we recruit and how we make decisions.



# Our business

Group CEO Sergio P. Ermotti addresses a packed audience of global business leaders at the China Development Forum in Beijing.

Seventeen UBS financial advisors are named in *Barron's* 2015 ranking of Top 100 Women Financial Advisors across the US.

UBS publishes a white paper on "The New Global Context" for the World Economic Forum 2015 in Davos.

The Chief Investment Office releases its 2015 sustainable investing report: "Adding value(s) to investing."

UBS Paymit, Switzerland's first P2P payment app, enjoys a successful launch.

Around 1,700 delegates, representing USD 13 trillion in assets, gather for the Greater China Conference 2015 in Shanghai.

UBS Group AG raises the equivalent of CHF 3.5 billion in its inaugural issuance of additional tier 1 (AT1) capital.



UBS sweeps the board at the annual *Asiamoney* awards, winning in no fewer than 35 separate categories.

17.09

January

February

March

April

First-quarter adjusted profit before tax CHF 2.3 billion

# Our environment

UBS and Mercedes collaborate on a six-part film series featuring F1 legends Sir Stirling Moss, Damon Hill, Lewis Hamilton and Nico Rosberg.

UBS pledges up to CHF 1 million to support relief efforts following the earthquake in Nepal.

13.82

UBS is included in the 2015 RobecoSAM *Sustainability Yearbook* and awarded the Silver Class distinction for its excellent sustainability performance.

UBS's Walk for Education at the World Economic Forum 2015 donates 2,500 bikes to children in Africa.



UBS celebrates its second year as global Lead Partner of Art Basel with an expanded program for the show in Hong Kong.



UBS holds its Annual General Meeting of Shareholders at Messe Basel.

Euromoney honors UBS with five awards, including Best Global Wealth Manager and – for the fourth year running – Best Bank in Switzerland.



19.82

20.71

22.5

UBS completes the successful implementation of UBS Switzerland AG, now operating as a fully owned banking subsidiary of UBS AG.

The UBS Asia Healthcare CEO Summit 2015 gets under way in Singapore.

UBS acts as lead financial advisor to Anthem, Inc. on its USD 54.2 billion acquisition of Cigna Corporation – the largest healthcare M&A in history.

UBS is confirmed as the largest wealth manager worldwide in the Scorpio Partnership Global Private Banking Benchmark 2015, the leading analysis of the international wealth management market.

● May

● June

● July

● August

Second-quarter adjusted profit before tax CHF 1.6 billion

Following the UBS Environmental Month, UBS employees vote to support a water infrastructure project in sub-Saharan Africa.

The *Don't shoot the painter* exhibition opens at the Galleria d'Arte Moderna Milano featuring major works from the UBS Art Collection.

UBS announces an international tour of newly commissioned photographs by renowned photographer Annie Leibovitz.



Dr. Laura Stachel of We Care Solar is awarded the inaugural UBS Optimus Prize at the TEDWomen 2015 conference for her pioneering work saving the lives of women and babies.



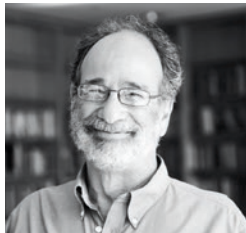
# Am I a good father?

Do I spend too much time at work?  
Can I have it all?

UBS launches its first global brand campaign in five years.

For some of life's questions, you're not alone. Together we can find an answer.

UBS's *Nobel Perspectives* goes online, a pioneering series of interviews with Nobel laureates in Economic Sciences.



UBS is named Best Global Private Bank at the PWM/The Banker Global Private Banking Awards for the third year running.

UBS honors the winners of the UBS Future of Finance Challenge, a global competition for pioneering entrepreneurs and technology start-ups.

UBS and PwC publish their groundbreaking Billionaires Report, "The changing faces of billionaires," examining the rise of female billionaires around the world.

UBS issues senior unsecured debt equivalent to CHF 4.2 billion, thus contributing to its total loss-absorbing capacity (TLAC).

19.5

Global Asset Management is renamed Asset Management with a new value proposition: "Your global investment challenges answered."

UBS manages the year's biggest IPO in Australia – completing the hat trick of the three largest Australian IPOs in 2015.

19.23

## September

Third-quarter adjusted profit before tax CHF 1.0 billion

UBS is named industry group leader in the 2015 Dow Jones Sustainability Indices.

UBS commits to 100% renewable electricity and a 75% reduction of its greenhouse gas footprint by 2020.

## October

The UBS Visionaris Social Entrepreneurship Award goes to Enrique Lomnitz, supporting his work to improve the water supply in Mexico City.



## November

Group CEO Sergio P. Ermotti joins more than 70 global business leaders in World Economic Forum call for a global climate deal.

## December

Full-year adjusted profit before tax CHF 5.6 billion

The winners of the UBS Global Employee Volunteer Awards 2015 are announced.

# UBS at a glance

We provide financial advice and solutions to private, institutional and corporate clients world-wide, as well as private clients in Switzerland. The operational structure of the Group is comprised of our Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank.

Value out >

> Value in

## Human

**More than 60,000 employees**

296 apprentices hired in 2015

475 university graduates hired into one of our undergraduate or MBA graduate talent programs

820 interns

## Financial

Invested assets: **CHF 2,689 billion**, which makes us the world's largest wealth manager and largest bank in Switzerland

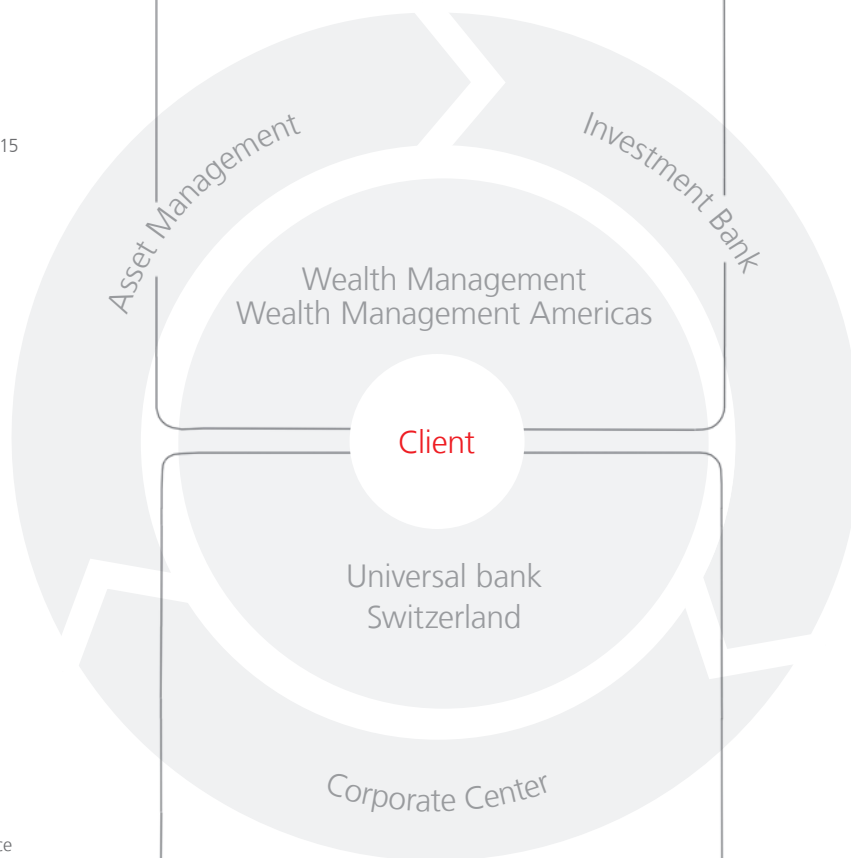
Common equity tier 1 (CET1) capital: **CHF 30,044 million**

## Relationships

**4,019 client advisors** in Wealth Management and a network of 7,140 financial advisors in Wealth Management Americas

## Intellectual

Over 150 years of experience in banking



## Human

Our permanent employees participated in approximately 754,000 development activities, an average of **12.2 training units per employee** or 2.4 training days

UBS ranked in the **global top 40** in Universum's 2015 **World's Most Attractive Employers** list

**16,356 employees volunteered** on various community projects

## Financial

Net profit attributable to UBS Group AG shareholders: **CHF 6,203 million**

Dividends per share to be proposed at the AGM for FY 2015: **CHF 0.60 ordinary and CHF 0.25 special dividend**

CET1 capital ratio: 14.5%

## Relationships

Value added to clients through products and services: UBS named *Euromoney's* **Best Bank in Switzerland** and voted **Best Global Wealth Manager**

In our Swiss business, client satisfaction rose by more than 50% between 2009 and 2015

## Intellectual

The **UBS House View** identifies and communicates investment opportunities and market risks to help protect and grow our clients' wealth

Product and service innovation, such as Swiss mobile payment app **UBS Paymit** launched in 2015, achieving more than 150,000 downloads by the end of the year

## Environmental and social

Total invested assets according to sustainable investment criteria representing **35% of total invested assets**

**101,604 direct beneficiaries** as a result of our community investment

Leadership position in the Diversified Financials industry group of the Dow Jones Sustainability Indices



## Roger Dörig

I think my work provides an added value for my region. In Appenzell, where I live, the old traditions are still very important. But the trades associated with these old traditions are dying out. To keep a trade like mine alive therefore also serves an economic function. It brings people to our area and strengthens our reputation – here in Switzerland, but also abroad.

### **Our business model**

With a network of offices in over 50 countries on five continents, UBS is the world's largest and fastest-growing wealth manager. Wealth Management and Wealth Management Americas provide high net worth and ultra high net worth clients with products and services tailored to their financial needs and preferences.

UBS is the preeminent universal bank in Switzerland, the only country where we operate in all five of our business areas: personal banking, wealth management, corporate and institutional banking, investment bank services and asset management. We provide comprehensive financial products and services to our private, corporate and institutional clients, maintaining a leading position in these client segments and embedding our offering in a multichannel approach.

Asset Management is a large-scale asset manager, with a presence in 22 countries. It offers investment capabilities and investment styles across all major traditional and alternative asset classes to institutions, wholesale intermediaries and wealth management clients.

The Investment Bank provides corporate and institutional clients with expert advice, innovative solutions, execution and comprehensive access to the world's capital markets, supported by in-depth cross-asset research.

Corporate Center services include the Group's control functions, such as finance, risk control and legal. In addition, it provides all logistics and support services, including operations, information technology, human resources, communications, physical security and information security.

## 2015 financial highlights

6.2

**Net profit attributable to shareholders**  
CHF 6.2 billion up 79% on prior year

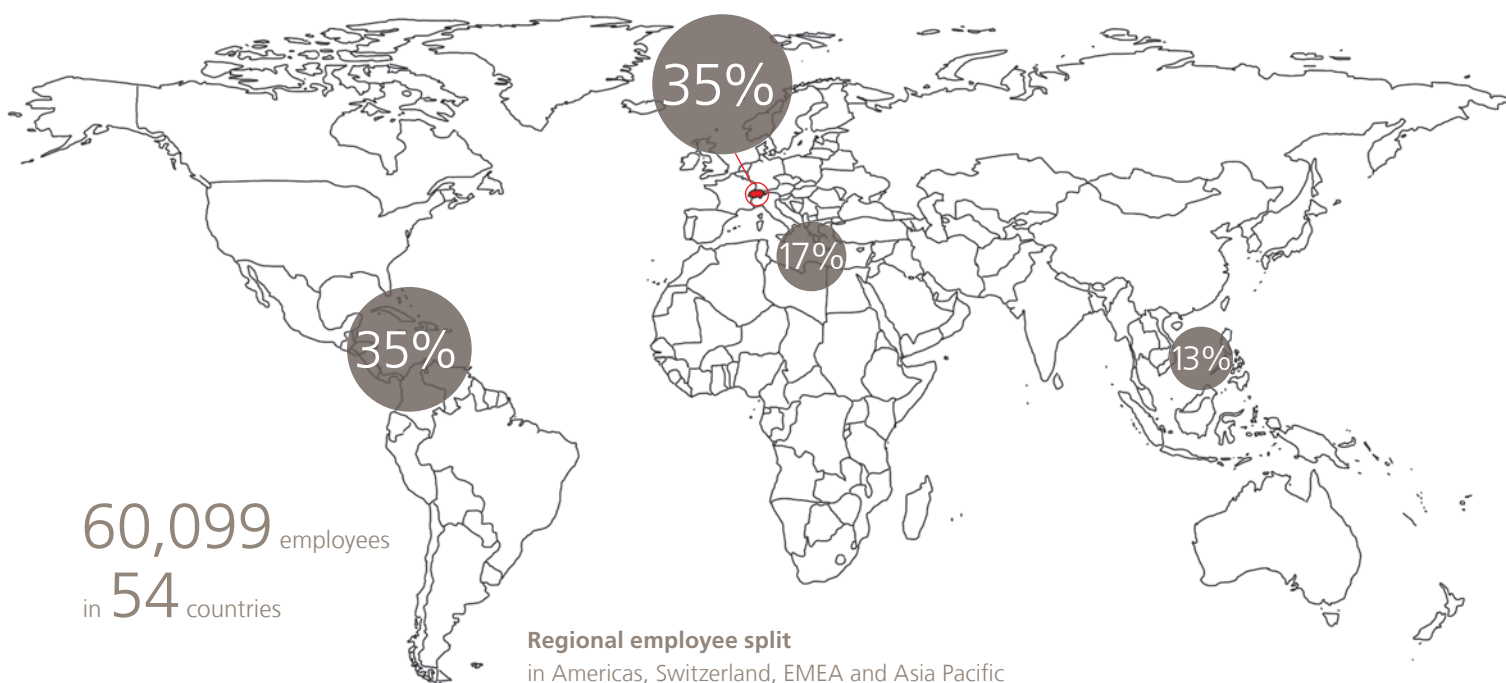
0.60

**Proposed ordinary dividend per share**  
CHF 0.60 and special dividend per share CHF 0.25

14.5

**Best CET1 capital ratio in our peer group of large global banks**  
at 14.5% (fully applied)

- Total payout ratio of over 50%<sup>1</sup>
- Special dividend of CHF 0.25 per share
- Fully applied leverage ratio<sup>2</sup> at 5.3%
- Full-year adjusted<sup>3</sup> return on tangible equity 13.7%, above 2015 target of around 10%
- Despite very challenging market conditions, UBS's business divisions delivered strong results in 2015



“Despite a very challenging environment, we had an excellent year, both in terms of shareholder returns and strengthened client relationships. Going forward, we will continue with the disciplined execution of our strategy while investing for profitable and sustainable growth.”

**Sergio P. Ermotti, Group Chief Executive Officer**

<sup>1</sup> Dividend per share as a percentage of diluted earnings per share. <sup>2</sup> From 31 December 2015 onwards, the Swiss SRB leverage ratio denominator calculation is fully aligned with the BIS Basel III rules. Prior-period figures are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. Refer to the “Capital management” section of our Annual Report 2015 for more information. <sup>3</sup> Refer to the “Group performance” section of our Annual Report 2015 for more information on adjusted results.

# UBS Group AG key figures<sup>1</sup>

CHF million, except where indicated	As of or for the year ended		
	31.12.15	31.12.14	31.12.13
<b>Group results</b>			
Operating income	30,605	28,027	27,732
Operating expenses	25,116	25,567	24,461
Operating profit / (loss) before tax	5,489	2,461	3,272
Net profit / (loss) attributable to UBS Group AG shareholders	6,203	3,466	3,172
Diluted earnings per share (CHF) <sup>2</sup>	1.64	0.91	0.83
<b>Key performance indicators<sup>3</sup></b>			
<b>Profitability</b>			
Return on tangible equity (%)	13.7	8.2	8.0
Return on assets, gross (%)	3.1	2.8	2.5
Cost/income ratio (%)	81.8	91.0	88.0
<b>Growth</b>			
Net profit growth (%)	79.0	9.3	
Net new money growth for combined wealth management businesses (%) <sup>4</sup>	2.2	2.5	3.4
<b>Resources</b>			
Common equity tier 1 capital ratio (fully applied, %) <sup>5</sup>	14.5	13.4	12.8
Leverage ratio (phase-in, %) <sup>6</sup>	6.2	5.4	4.7
<b>Additional information</b>			
<b>Profitability</b>			
Return on equity (RoE) (%)	11.8	7.0	6.7
Return on risk-weighted assets, gross (%) <sup>7</sup>	14.1	12.4	11.4
<b>Resources</b>			
Total assets	942,819	1,062,478	1,013,355
Equity attributable to UBS Group AG shareholders	55,313	50,608	48,002
Common equity tier 1 capital (fully applied) <sup>5</sup>	30,044	28,941	28,908
Common equity tier 1 capital (phase-in) <sup>5</sup>	40,378	42,863	42,179
Risk-weighted assets (fully applied) <sup>5</sup>	207,530	216,462	225,153
Risk-weighted assets (phase-in) <sup>5</sup>	212,302	220,877	228,557
Common equity tier 1 capital ratio (phase-in, %) <sup>5</sup>	19.0	19.4	18.5
Total capital ratio (fully applied, %) <sup>5</sup>	22.9	18.9	15.4
Total capital ratio (phase-in, %) <sup>5</sup>	26.8	25.5	22.2
Leverage ratio (fully applied, %) <sup>6</sup>	5.3	4.1	3.4
Leverage ratio denominator (fully applied) <sup>6</sup>	897,607	997,822	1,015,306
Leverage ratio denominator (phase-in) <sup>6</sup>	904,014	1,004,869	1,022,924
Liquidity coverage ratio (%) <sup>8</sup>	124	123	110
<b>Other</b>			
Invested assets (CHF billion) <sup>9</sup>	2,689	2,734	2,390
Personnel (full-time equivalents)	60,099	60,155	60,205
Market capitalization <sup>10</sup>	75,147	63,526	65,007
Total book value per share (CHF) <sup>10</sup>	14.75	13.94	12.74
Tangible book value per share (CHF) <sup>10</sup>	13.00	12.14	11.07

<sup>1</sup> Represents information for UBS Group AG (consolidated). Comparative information as of 31 December 2013 is the same as previously reported for UBS AG (consolidated) as UBS Group AG (consolidated) is considered to be the continuation of UBS AG (consolidated). Refer to the "The legal structure of UBS Group" section and to "Note 1 Summary of significant accounting policies" in the "Consolidated financial statements" section of our Annual Report 2015 for more information. <sup>2</sup> Refer to "Note 9 Earnings per share (EPS) and shares outstanding" in the "Consolidated financial statements" section of our Annual Report 2015 for more information. <sup>3</sup> Refer to the "Measurement of performance" section of our Annual Report 2015 for the definitions of our key performance indicators. <sup>4</sup> Based on adjusted net new money, which excludes the negative effect on net new money in 2015 of CHF 9.9 billion from our balance sheet and capital optimization program. <sup>5</sup> Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of our Annual Report 2015 for more information. <sup>6</sup> Calculated in accordance with Swiss SRB rules. From 31 December 2015 onward, the Swiss SRB leverage ratio denominator calculation is fully aligned with the BIS Basel III rules. Prior-period figures are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. Refer to the "Capital management" section of our Annual Report 2015 for more information. <sup>7</sup> Based on phase-in risk-weighted assets. <sup>8</sup> Refer to the "Liquidity and funding management" section of our Annual Report 2015 for more information. Figures reported for 31 December 2015 represent a 3-month average. Figures for 31 December 2014 and 31 December 2013 were calculated on a pro forma basis and represent spot numbers. <sup>9</sup> Includes invested assets for Personal & Corporate Banking. <sup>10</sup> Refer to the "UBS shares" section of our Annual Report 2015 for more information.







វាមានសារៈសំខាន់ណាស់ក្នុងការចែករំលែកបទពិសោធន៍ ហើយនិងចំណេះដឹង ដែលយើងមានទៅក្មេងៗ  
ជំនាន់ក្រោយ ឬក៏អ្នកណា ដែលយើងចង់ចែក។ ហើយអ្វីៗ ដែលយើងចង់ចែក គឺយើងសប្បាយចិត្តណាស់  
នឹងអោយពួកគាត់។

I think it is important to share my experience and knowledge with  
the younger generation, and I am very pleased to do so.

Sreydieb Long

Sreydieb Long is a teacher and administrator at the Bookbridge learning  
centers in Cambodia, which have received support from UBS. Born into a  
farmer's family, she earned a BA in English thanks to the generous  
assistance of sponsors and now works to give back to her community.

# Where do we come from?

To understand where we come from, it helps to take a look at the last 15 years of UBS's history. Even though our heritage is over 10 times as long.

Fifteen years ago, we were considered a role model, envied by many competitors. Five years later, we were determined to simply be "the best global financial services company." But during the financial crisis, UBS along with other large banks suffered significant losses.

## Loyal despite the crisis

The consequences are well known and culminated in CHF 6 billion of support from the Swiss government and a transfer of about CHF 38 billion of illiquid assets into a fund set up by the Swiss National Bank (SNB).

The Swiss government sold its stake in the bank at a CHF 1.2 billion profit less than a year later. And we ultimately bought back the remaining assets that had not been sold off by the SNB, leaving it with a profit of over CHF 5 billion. UBS suffered from the fact that

it required state support. Nonetheless, the vast majority of clients and employees remained loyal to the bank throughout the crisis.

## Increased capital, decreased risks

We knew we had to move quickly and decisively to regain our stakeholders' trust. So we rolled up our sleeves and worked to reduce risk exposures and strengthen our businesses.

We became more efficient and effective to regain profitability and restore dividends as soon as possible. We announced substantial cost-saving targets, and headcount was reduced from a precrisis peak of well above 80,000 to approximately 60,000. Our capital ratios improved to meet or exceed current and expected requirements, and our risk metrics were substantially improved.

## Strategy milestones



2011

Sergio P. Ermotti appointed Group Chief Executive Officer

New strategy: focus on wealth management, Investment Bank to become less complex

150  
Years

150th anniversary

Axel A. Weber appointed Chairman of the Board of Directors

Accelerate: speeding up the strategy rollout

### A clear strategic focus

Our current strategy was first laid out in 2011 and accelerated in 2012, which also marked the firm's 150th anniversary. The strategy is still valid today.

We have created a business model adapted to the new regulatory and market environment that delivers more consistent and high-quality returns. We identified four core businesses to focus on going forward:

- Our leading global wealth management businesses
- Our leading universal bank in Switzerland
- Our asset management
- Our investment bank, focused on its key strengths in equities, advisory and foreign exchange

“From the beginning of our transformation, building capital and keeping ahead of regulatory requirements have been critical to maintaining our clients’ confidence in the safety and stability of the bank.”

Sergio P. Ermotti, Group Chief Executive Officer

By the end of 2014, our strategic transformation process was complete. We further reduced risk-weighted assets, improved our leverage ratio and maintained the best fully applied CET1 capital ratio in our peer group of large global banks. Our strong capital position now provides us with a solid foundation for success.

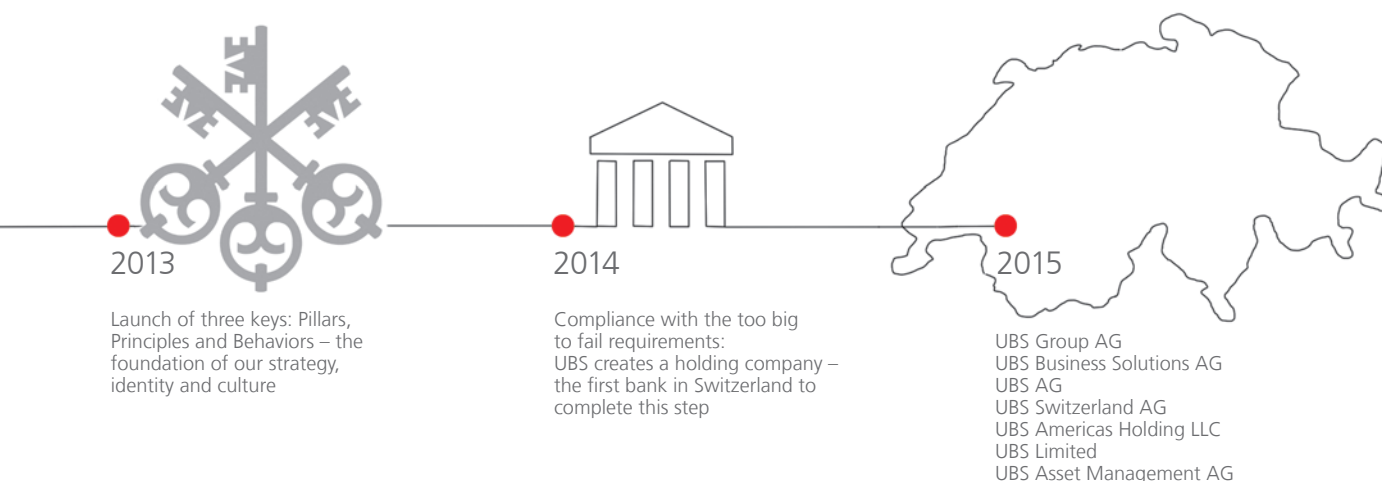
“The partnership with the Investment Bank is especially important to our ultra high net worth clients. It is key to sustaining our position as the world’s leading wealth manager.”

Jürg Zeltner, President Wealth Management

A key component of our earnings strength is the high percentage of revenues we generate from recurring income, such as portfolio management, asset-based investment fund fees, financing services and custody, plus net interest income. This means our results are more predictable and less prone to transactional and client activity shifts.

### Investment Bank is part of the solution

Meanwhile, UBS's Investment Bank is the only major player that has consistently generated returns above its cost of capital over the last three years, and well above its return





## Sreydieb Long

I was born into a farmer's family with eight members living in a little house. My father died when I was in the sixth grade, and my mother is a housewife and does farming to raise five children on her own. I was very lucky in that I was able to find someone to sponsor my education. I studied at Build Bright University and received a BA in English in 2015. I enjoy learning very much.

I discovered Bookbridge when I was hired to be a translator when they were setting up a new learning center in Chansom Senmongkul. I found the learning center a very good and helpful place for kids and young adults. So I decided to be involved with the learning center's local team as a full-time employee. I have had different jobs, including as assistant to the head of a learning center, as head of the first mobile learning center and as head of learning in Takeo province.



on attributed equity target of greater than 15%. Reflecting this success, we won the *International Financing Review's* Best Investment Bank award for 2015 – for the first time ever.

### **Early mover advantage**

There has been continuous regulatory pressure on the financial services industry to become simpler, more transparent and more resilient. Next to a number of other current and future trends, which we describe in a later chapter, regulation is expected to remain a major driver of change for the industry.

We believe we have the right business model for the new, more demanding regulations without the need to change our strategy.

### **Creating long-term value**

We not only believe we have the right strategy and structure in place, but will continue our journey to embed a strong culture across the firm. And we're serious about creating long-term value for our shareholders. Read more about it in the chapter "How do we align our interests with those of our stakeholders?"

### **Our strategic priorities**

We intend to build on our successful track record and focus on three key strategic priorities:

#### **1. Continue to execute our strategy and deliver on our performance targets**

The strategic changes we initiated in 2011 were driven by our decision to focus on our strengths and by anticipation of more demanding regulation. We outlined a strategy intended to produce sustainable results in a number of business environments. Having successfully completed our transformation, we now continue to execute our strategy in a focused and disciplined manner.



## 2. Improve effectiveness and efficiency

At year-end 2015, we achieved CHF 1.1 billion of net cost reductions versus full-year 2013, and we remain fully committed to achieving our net cost reduction target of CHF 2.1 billion by year-end 2017. Our effectiveness and efficiency improvements are centered on creating the right infrastructure and cost framework for the future, including workforce and footprint. However, we will continue to invest heavily in technology, compliance and risk control, as our initiatives create more stable IT platforms, reduce the need for manual intervention and enable faster upgrades and overall stronger controls.

## 3. Invest for growth

We will continue to build our capabilities in technology and digitization with a focus on further strengthening our position, particularly in regions such as the Americas and Asia Pacific. Our investments in technology have been winning us broad industry recognition, but, more importantly, they are used extensively by our clients and allow us to capture market share and attract business. We also continue to invest in attracting the right people and developing the talent we have. The ability to take advantage of growth opportunities in technology and our talent will help us to better serve our clients.



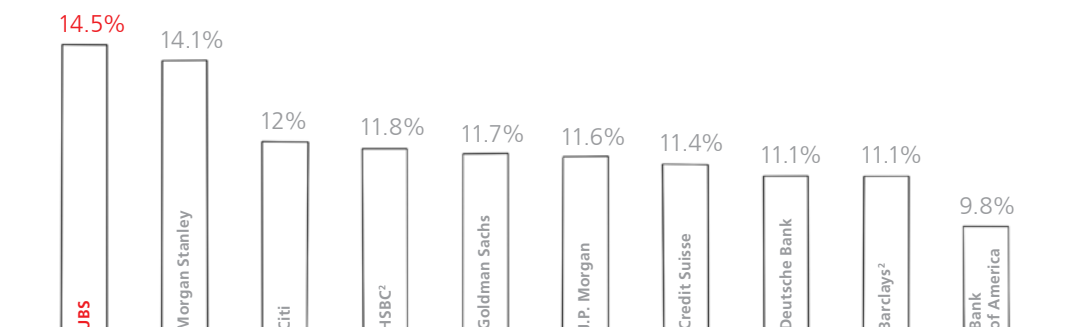
## Common equity tier 1 ratio – fully applied<sup>1</sup>

Source: companies' reporting. <sup>1</sup> All figures are fully applied. UBS and Credit Suisse are based on Swiss SRB Basel III; European peers are based on Basel III under CRD IV, while US peers are based on Basel III under advanced approach. <sup>2</sup> As of 30.9.2015.



I also create value by sharing my experiences with my students, particularly what I experienced when I was their age. Because I was also born into a poor family and can show them that even those who are born into poor families have a chance. They can see that I was like them, but was able to get out, and so they can see that they can do that too.

I think what I do – and what we do at Bookbridge – can create value for society. By helping people to improve their family situation through education, they become important human resources to help their families and develop their communities. **Sreydieb Long**





“Our company has almost no hierarchy. We work across disciplines. This helps us to be creative and innovative.”

Alexandre Callea

Alexandre Callea is a founder and the CTO of Clearmatics, a fintech start-up that has been collaborating with UBS. The company is working on digitizing financial assets and automating related post-trade processes using blockchain technologies and a distributed and shared computing network, also called a “consensus computer.”





# How do we create value?

At UBS we understand value creation to be the total benefit and value generated by UBS through all its activities in all the regions where we operate. It also means contributing actively and materially to society and local communities, while promoting innovation, sustainability and new ideas in banking and financial services.

## Banking made in Switzerland

UBS emerged from two Swiss regional banking traditions going back to the Bank in Winterthur and the Basler Bankverein, founded within ten years of each other in 1862 and 1872. It was no coincidence that these two regions soon emerged as hotspots of Swiss industrialization thanks largely to the capital raising and financing power of these two firms.

In the following century and a half, UBS never lost sight of its local origins and vital role in supporting Switzerland's industrial and economic development. UBS continues to see itself as more than just a bank, but as a motor and engine driving the Swiss economy and its integration into the global economy.

Today UBS draws on its Swiss network of around 300 branches and 4,500 client-facing staff, complemented by modern digital banking services and customer service centers. We reach

approximately 80% of Switzerland's wealth and serve one in three households as well as high net worth individuals, pension funds and around 80% of banks domiciled in Switzerland. UBS supports the country's SMEs, which make up 99% of Swiss businesses and are the backbone of the country's labor market. Of the 120,000 Swiss companies supported by UBS, 98% are SMEs.

## A global franchise

While firmly anchored in its home market of Switzerland, UBS is a global bank that generates over 75% of its revenues in overseas markets, operating in over 50 countries worldwide and employing approximately 60,000 people.

Our strategy centers on our leading wealth management businesses and our premier universal bank in Switzerland, enhanced by our Asset Management business and our Investment Bank. It builds on the strengths of all our busi-

Strong presence in growth markets<sup>1</sup>

Wealth Management and Wealth Management Americas invested assets

Estimated market growth

North America  
CHF 1,035 billion ~ 5%<sup>1</sup>

Emerging markets  
~ 11%<sup>1</sup>

CHF 156 billion

nesses and focuses our efforts on areas in which we excel, while seeking to capitalize on the growth prospects in the businesses and regions in which we operate.

**Managing wealth that is growing**

We are the only large global bank with a strong and geographically diversified wealth management franchise at the center of its strategy. Our footprint and capabilities provide us with access to the world’s largest and fastest-growing wealth pools. We expect this to help us capture market growth and increase share of wallet.

The wealth management industry offers fundamentally attractive economics with a forecast for robust wealth accumulation around the world. Asia Pacific and the emerging markets are the major growth regions. But even rather mature markets such as Western Europe and North America are forecast to see wealth accumulation grow at an annual rate exceeding their expected GDP growth. From a client segment perspective, we believe the global ultra high net worth market, including family offices, has the highest growth potential, followed by the high net worth market.

Asia and UBS: going back more than 50 years

In Asia Pacific, we are expanding with a focus on Hong Kong and Singapore, the leading regional financial centers, and China. In 2015, we opened a branch in Kowloon, our first branch in Hong Kong outside the central business district, and we also continue to expand our local onshore presence in

China to help capture long-term growth opportunities there. UBS celebrated 50 years in Hong Kong in 2014. With more than 1,110 client advisors in Asia Pacific, we have one of the largest and most experienced teams in the region.

**A worldwide presence**

In the emerging markets, we are focused on key markets such as Mexico, Brazil, Turkey, Russia, Israel and Saudi Arabia. Many emerging market clients prefer to book their assets in established financial centers and, with its unrivaled reach, UBS Wealth Management offers coverage for such clients via booking centers in Switzerland and the UK, as well as in the US through Wealth Management Americas (WMA), one of the leading wealth managers in the Americas in terms of financial advisor productivity and invested assets. WMA includes the domestic US and Canadian business as well as international business booked in the US. Invested assets in our combined wealth management businesses reached almost CHF 2 trillion as of year-end 2015.

Importantly, the partnership of our wealth management businesses with the Investment Bank, Asset Management and Personal & Corporate Banking in Switzerland is a key differentiating factor and a competitive advantage of our franchise.

**A leading fund house in Europe**

UBS Asset Management is a large-scale asset manager, with a presence in 22 countries. We are a leading fund house in



<sup>1</sup> Estimated market growth information represents the compound annual growth rate for the time period 2014–2019, Boston Consulting Group Wealth Report 2015.

<sup>2</sup> UHNW invested assets overlap with regional split. In the Boston Consulting Group Global Wealth Report 2015, this is defined as households with more than USD 20 million in private wealth.

## Group

Adjusted cost/income ratio	Target: 60–70% Expectation: 65–75% over short/medium term
Adjusted return on tangible equity	Target: >15% Expectation: approximately at 2015 level in 2016, approximately 15% in 2017 and >15% in 2018
Common equity tier 1 capital ratio (fully applied) <sup>1</sup>	At least 13% <sup>2</sup>
Risk-weighted assets (fully applied) <sup>1</sup>	Expectation: around CHF 250 billion short/medium term
Leverage ratio denominator (fully applied) <sup>1</sup>	Expectation: around CHF 950 billion short/medium term

<sup>1</sup> Based on the currently applicable rules. Refer to the "Capital Management" section of our Annual Report 2015 for more information. <sup>2</sup> Our capital returns policy is also subject to our objective of maintaining a post-stress fully applied CET1 capital ratio of at least 10%.

## Business divisions and Corporate Center

Wealth Management	Adjusted net new money growth rate <sup>1</sup>	3–5%
	Adjusted cost/income ratio	55–65%
Wealth Management Americas <sup>1</sup>	Net new money growth rate	2–4%
	Adjusted cost/income ratio	75–85%
Combined wealth management businesses	Annual adjusted pre-tax profit growth	10–15% through the cycle
Personal & Corporate Banking	Net new business volume growth rate	1–4% (personal banking business)
	Net interest margin	140–180 bps
	Adjusted cost/income ratio	50–60%
Asset Management	Net new money growth rate	3–5% excluding money market flows
	Adjusted cost/income ratio	60–70%
	Adjusted annual pre-tax profit	CHF 1 billion in the medium term
Investment Bank	Adjusted annual pre-tax RoAE	>15%
	Adjusted cost/income ratio	70–80%
	Risk-weighted assets (fully applied) <sup>2</sup>	Expectation: around CHF 85 billion short/medium term
	Leverage ratio denominator (fully applied) <sup>2</sup>	Expectation: around CHF 325 billion short/medium term
Corporate Center	Net cost reduction <sup>3</sup>	CHF 2.1 billion by 2017 <sup>4</sup>

<sup>1</sup> Based on USD. <sup>2</sup> Based on the currently applicable rules. Refer to the "Capital management" section of our Annual Report 2015 for more information. <sup>3</sup> Measured by year-end exit rate versus full-year 2013 adjusted operating expenses, net of changes in charges for provisions for litigation, regulatory and similar matters, foreign currency movements and changes in regulatory demand of a temporary nature. <sup>4</sup> We currently expect to achieve the previously announced CHF 1.4 billion of net cost reduction by mid-2016.



Europe, the third-largest international asset manager in Asia, and the largest mutual fund manager in Switzerland with one of the largest fund of hedge funds and real estate investment managers in the world. As of 31 December 2015, invested assets totaled CHF 650 billion and assets under administration were CHF 407 billion.

The long-term outlook for the asset management industry is positive, with three main drivers expected to continue to produce industry inflows: Firstly, populations are aging in developed countries and this will increase future savings requirements. Also, governments are continuing to reduce support for pensions and benefits, leading to a greater need for private funding. Finally, emerging regulation is creating opportunities for new value-added services.

**Defining the client-centric Investment Bank**

Our Investment Bank provides corporate, institutional and wealth management clients with first-class advice, innovative solutions, expert execution and comprehensive access to the world’s capital markets. Its client-centric business model makes the Investment Bank an ideal partner for our wealth management businesses, Personal & Corporate Banking and Asset Management, providing clients with deep market insight as well as global coverage and execution.

We continue to focus on our traditional strengths in advisory, capital markets, equities and foreign exchange businesses, complemented by a refocused rates and credit platform. To support our goal of earning attractive returns on our allocated capital, we operate within a tightly controlled framework of balance sheet, risk-weighted assets and leverage ratio denominator.

**UBS and Society**

Our clients increasingly care about societal issues and want their financial advice and investment options to permit them to address social and environmental challenges. Many of our clients look to us for support in sustainable investing.

We aim to be a leader in sustainability in the financial industry. This requires us to focus on the long term and to work to provide consistent returns to our stakeholders. We have created UBS and Society – a platform covering all our capabilities in sustainable investing and philanthropy, our environmental and human rights policies, our environmental footprint and our community investment. In 2015, we made good progress in advancing the ambitious goals we pursue through UBS and Society.

**UBS and Society** Making sustainability the everyday standard



**How we do business**

**Guidelines and principles**

Clear principles are necessary and collaboration is essential when tackling present-day challenges.

- Stakeholder management
- Environmental and social risk
- Environmental footprint



**How we support our clients**

**Sustainable investments**

We provide our clients with innovative products and services that address societal concerns and drive change for the better.

- Sustainable investing



**How we support our communities**

**Community investment**

We provide targeted financial support and employee volunteering in our local communities, focused on education and entrepreneurship.

- Community affairs

**Philanthropy**

We provide tailor-made advice in all stages of the philanthropy life cycle, and our global network supports clients in achieving their philanthropic goals.

- Global Philanthropy Forum
- Optimus Foundation

We want to generate long-term, sustainable and measurable benefits for our clients, shareholders and communities. Moreover, we are constantly looking for more environmentally sound and socially responsible ways to do business. This includes more than just managing our clients' assets; it means taking care of what we leave behind for future generations. We don't measure success by financial performance alone, but also by our performance relating to the environment, good governance and our social impact. To this end, we aim to

- make sustainability the everyday standard across the firm;
- channel a growing portion of investable client assets through innovative financial mechanisms to address societal challenges;
- make sustainable performance a part of every client conversation;
- train employees in sustainability;
- create a credible sustainability approach;
- measure the impact of our community investment activities; and
- support the transition to a low-carbon economy through our comprehensive climate change strategy.

To attain the twin goals of securing satisfactory returns while generating sustainable value, UBS has developed Performance Plus, an investment approach based on sustainable investment. UBS defines sustainable investing (SI) as a set of investment strategies that integrate environmental, social and governance (ESG) considerations into investment decisions. SI strategies generally aim to achieve one or more of the following objectives:

- Achieve a positive environmental or social impact alongside financial returns
- Align investments with personal values
- Improve portfolio risk/return characteristics

In 2015, 35% of our total assets under management were invested according to sustainable investing criteria, more than CHF 900 billion. A large part of these sustainable investments are attributable to norms-based screening, in particular due to our policy pertaining to controversial weapons. But we have also seen an increase in all our other sustainable investment classes, including integration, exclusionary screening, impact investing and third-party products.

### **UBS: supporting society and communities around the globe**

We have a significant commitment to entrepreneurship and education in the regions where we operate. We will intensify our support of high-impact social entrepreneurs using resources and skills from across the Group. In close cooperation with our partners in the social enterprise sector, we will identify and engage social enterprises that are best positioned to scale their impact with the support a UBS partnership can provide.

### **Americas**

In the Americas, UBS launched two major initiatives in 2015: Project Entrepreneur, a three-year partnership with Rent the Runway Foundation to support women who are building economically impactful companies, and The TalentED Project, a three-year partnership with Tennessee College Access and Success Network (TCASN) and Discovery Education to help increase the number of low-income, first-generation students going to and graduating from competitive four-year colleges.

## UBS in Switzerland

UBS is the preeminent universal bank in Switzerland and with 21,000 employees the third-largest employer in the country. About one quarter of the bank's operating income is generated in our home market. Good reason for us to demonstrate our commitment to Switzerland.

- Almost 28,000 hours of volunteer work were carried out by more than 3,200 UBS employees in 2015.
- Current and former UBS employees donated in excess of CHF 645,000 to selected aid projects in 2015.

- UBS supports the Swiss education system with a large number of apprenticeships and offers 1,800 training positions, with 80% of apprentices remaining with UBS beyond the end of their apprenticeships.
- UBS sponsors a wide variety of cultural, artistic, educational and sporting events, including Art Basel, the Montreux Jazz Festival and many others.
- UBS Foundation for Social Issues and Education supports education, training, employment and integration into

society and work for people suffering from social disadvantage and learning difficulties.

- The UBS Culture Foundation advances cultural and artistic communication and exchange between artists and society, and the diversity of cultural expression with a special focus on contemporary art and culture.

## Alexandre Callea

Our company is working on digitizing financial assets and automating related post-trade processes, mainly for clearing and settlement operations. To do this, we are using blockchain technologies and a new approach, a distributed and shared computing network that is also called a "consensus computer."

This can potentially create value in many ways. It lowers operational costs and raises efficiency of transaction processing, for example in terms of accuracy, speed or infrastructure. It also increases transparency, reduces counterparty risk and helps improve capital efficiencies. These are all benefits to banks but also other actors like hedge funds, trading companies and corporates.



## EMEA

In EMEA, we helped launch the Stepping Stones Fund with the City of London Corporation to provide targeted support to social enterprises seeking to increase their impact through social investment. In addition to financial support, UBS employee volunteers helped assess, coach and then select the grant winners. The first round of funding saw 17 organizations share just over GBP 700,000 to improve their social outcomes with the aim of reaching thousands of beneficiaries.

## Asia Pacific

UBS partnered with Yayasan Emmanuel in Indonesia to support international school teachers to raise the level of local elementary school teaching to international standards. The program engages teachers in a process of experiential learning and reflection, ultimately benefiting school pupils by improving teacher quality.

## Switzerland

In Switzerland, UBS continues to support our long-standing charity partner Young Enterprise Switzerland's Company program. More than 4,000 young students founded and ran real-life companies for a year. UBS supports the national final with volunteers and financial means. UBS has also strongly increased engagement for social entrepreneurs in the country by providing mentoring and supporting respective platforms.

## Community investment 2015 overview

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**CHF 27.4 million** invested in our **local communities**

**16,356 employees** volunteered  
**137,732 hours** on community projects

**CHF 7.4 million** spent matching **employee donations**

**326 community partners** supported worldwide

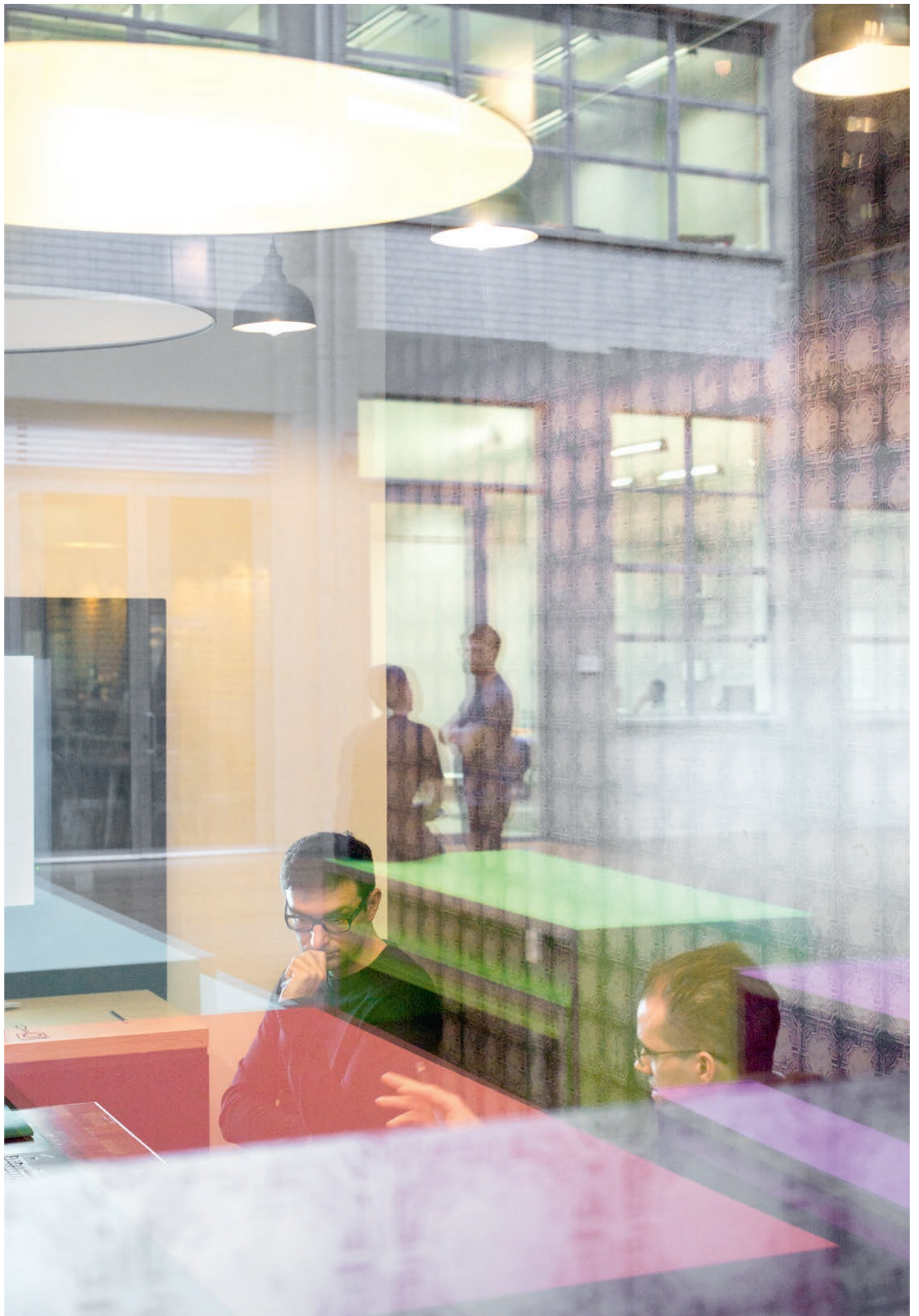
**101,604 direct beneficiaries** as a result of our community investment

"Using secure collective computing brings unmatched speed and efficiency to post-trade processing and reboots the traditional financial relationships."

Alexandre Callea







# How do we align our interests with those of our stakeholders?

How does UBS ensure its strategic orientation and the execution of its business model are in line with stakeholder aspirations? What are its stakeholders looking for? And who are the many groups and individuals on whom the bank's future depends? Aligning the firm's operations with stakeholder expectations is a major and multifaceted challenge – and, by following the three keys to success, one that UBS is rising to.

UBS's stakeholders have a direct effect on the firm's financial performance – and on its role within society and its many communities. At UBS, we recognize that the stakeholder relationships essential to our continued success demand policies and behaviors rooted in long-term thinking and sustainable action. We aim not only to generate value for stakeholders, but to be responsive to their needs and concerns. Moreover, we are aware that as a leading global bank we have a wider societal responsibility and believe our experience

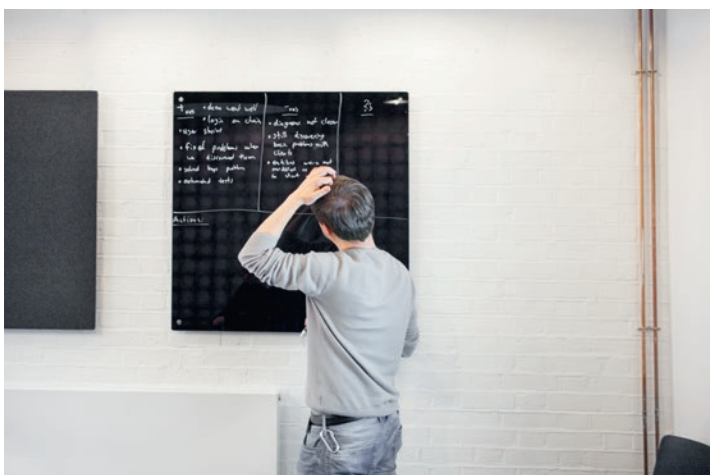
“For our firm, it's essential to understand the varying expectations and concerns of our stakeholders.”

**Axel A. Weber, Chairman of the Board of Directors and chair of the Corporate Culture and Responsibility Committee**

and expertise can help shape debates surrounding the future of the financial sector as well as environmental and social issues.

## **Taking responsibility**

To ensure we meet our stakeholders' expectations in line with our corporate values and sustainability agenda, we have embedded responsibility at the highest possible level, managing stakeholder relationships through an overarching structure incorporating the Board of Directors (BoD) and the Group Executive Board (GEB). The Chairman of the BoD presides over the annual general meeting of shareholders (AGM) and, along with the Group CEO, has overall responsibility for communication with our stakeholders, including investors, regulators and other public bodies.



The Chairman also liaises with the various chairpersons to coordinate the work of the BoD committees, all of which monitor business performance within the context of generating sustainable value. Our BoD's Corporate Culture and Responsibility Committee (CCRC) supports the BoD in its duties to safeguard and advance the Group's reputation for responsible and sustainable conduct and also focuses on assessing how we meet our stakeholders' expectations.

Stakeholders who wish to contact an independent BoD member can contact the Senior Independent Director of the BoD. The Senior Independent Director meets with the independent BoD members, in the absence of the Chairman, at least twice annually. He subsequently passes on any concerns raised by independent BoD members to the Chairman.

#### **Our key stakeholders and how we work with them**

We attach great importance to finding out how our stakeholders view us and what their values and priorities are. To this end, we initiate regular and productive dialogue across a wide range of topics. Our stakeholder relationships are multifaceted and consist of interactions with groups, regular communications in print and online, events held across the globe and individual meetings. This engagement is essential if we are to understand their expectations and respond to their concerns.

The stakeholders with the greatest direct influence on our business are:

- Investors
- Clients
- Employees
- Governments/regulators

#### **Investors: generating dialogue, generating returns**

UBS senior management and the Investor Relations team communicate regularly with the investment community. We meet regularly with investors and investor groups, including discussions focused on nonfinancial issues such as compliance, corporate culture and climate change. A major shareholder engagement channel is the AGM. All proposals put forward at the 2015 AGM were approved.

We are committed to delivering sustainable performance and attractive returns to shareholders. We have delivered progressive capital returns over recent years and remain committed to a total payout ratio of at least 50% of net profit attributable to shareholders, provided that we maintain certain capital ratio targets. In line with our dividend policy, we proposed to shareholders, for a vote at the 2016 AGM, an ordinary dividend per share of CHF 0.60 for 2015, up 20% compared to 2014, and a special dividend per share of CHF 0.25 for 2015, resulting in a total payout ratio of above 50%.

“We encourage innovation and creativity through the way we work.”

Alexandre Callea

### **Clients: building relationships through trust**

We realize that our future depends on the long-term satisfaction of our clients. Dialogue with and feedback from our clients – be they personal banking customers or major institutional investors – help us nurture long-term sustainable relationships based on trust.

To strengthen client relationships, in a number of regions we operate a Quality Feedback management system. Feedback is received in many forms, from informal comments to employees in local branches to formal communications via the bank ombudsman. We aim to respond to everyone who provides feedback and use their input to develop products and services more in tune with their requirements. In Switzerland, we launched our Client Insight initiative in 2014, which systematically collects feedback from 120,000 clients.

#### *Satisfaction is key*

In addition, we recently started asking for immediate feedback from clients about how satisfied they are with the advice they receive from us and whether they would recommend our services to others. This is complemented by monitoring social media channels and client behavior using big data analysis tools. It is our goal to continuously improve client satisfaction. This makes relationship sense as well as business sense: clients that are exceptionally satisfied with how we meet their needs generate three times the returns compared with unhappy clients.

In our Swiss business, between 2009 and 2015, client satisfaction levels have gone up more than 50% and are approaching precrisis levels. We also saw that the willingness to recommend UBS has increased across all client segments. Client surveys showed that UBS's image and media headlines have ceased to be one of the top-five reasons for not recommending the bank.

#### *A great conference*

In 2015, we again organized various events worldwide, giving clients the opportunity to discuss a range of issues and trends with us and other experts directly. In January, for example, we welcomed around 1,700 delegates to our Greater China Conference in Shanghai. On a smaller scale, we also hosted the UBS Global Philanthropy Forum in December, which drew a record 150 clients and prospects to St. Moritz, Switzerland, for two days of interactive discussion and exchange around the theme "Daring to innovate."

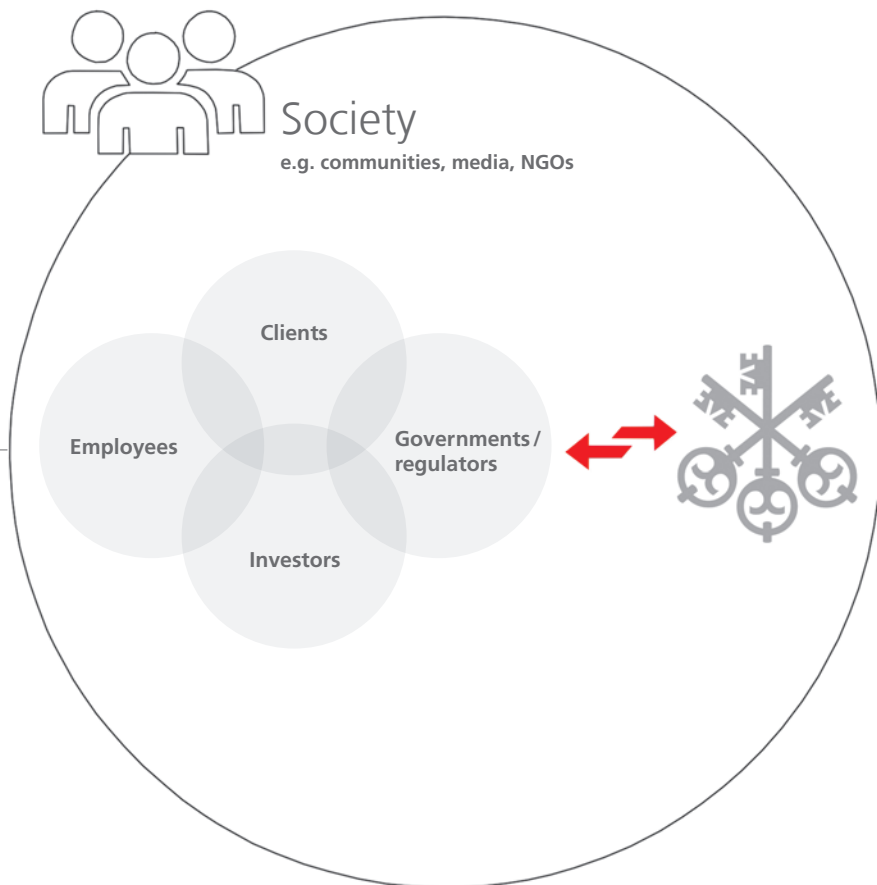
### **Employees: developing our most valuable resource**

UBS values its employees. We are aware that their know-how, talents, motivation and experience underpin our success and the value we generate for clients and investors. We communicate with our employees on a daily basis and through a host of different channels – not only to ensure they are well informed, but also to provide them with the opportunity to contribute their own ideas and expertise and drive UBS forward.

## Our stakeholders

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**We take seriously the expectations and concerns of our stakeholders**





Creativity and innovation are key to our company, and we try to encourage these by the way we work. We have a very flat and horizontal structure for instance. There is almost no hierarchy. We also work using a multidisciplinary approach. The business is involved in technical decisions, and the technical teams are involved in business decisions. In effect we build ad hoc teams across the company for any topics we need to research or problems we need to solve.

I think working like this creates value. It allows everybody to see the big picture of what is going on, encourages interaction and increases communication between different parts of the organization. By increasing the number of points of view regarding a problem, we stay agile and focused without losing the big picture. We can pilot very quickly, for instance, and see immediately if what we are doing is right. We can try it, we can test it, not only technically but also in terms of how it works as a process and service. That's because everybody is involved. **Alexandre Callea**



#### Giving employees a voice

Three times a year, we conduct a survey among a representative sample of 20,000 employees to identify where we are in terms of culture and strategy and how we can foster an even more effective and enjoyable working environment. The latest survey revealed high and increased levels of employee engagement and pride in working at UBS. In addition, employees confirmed that their colleagues generally embody the Principles and Behaviors at the heart of our corporate culture.

Such surveys also, of course, highlight areas for improvement. More challenging findings are also communicated openly and form the basis for future change. As follow-up, the survey is complemented by our Quality Feedback system, regular townhall meetings and personal interviews, all of which provide a forum for open, two-way discussion with senior management.

#### Fostering diversity, nurturing talent

UBS also benefits from its internal employee networks. These groups cover elements such as gender, age and sexual orientation and help to promote an open working environment and cross-divisional relationships. The networks provide mentoring and support as well as encourage a diverse and inclusive corporate culture, which benefits the firm as a whole.

All employees also have access to a wide range of training and professional development opportunities. Our e-learning portfolio comprises more than 5,000 courses across a host of general and more specialized topics. This commitment to nurturing our employees' talents has the twofold advantage of, firstly, ensuring that UBS has the best staff with state-of-the-art skills and knowledge and, secondly, providing the optimal foundation for each individual's personal career progress.

#### **Governments and regulators: meeting the standards, shaping the future**

Our fundamental aims of financial stability and efficiency depend to a great degree on the regulatory and political environment on both a national and international level. We are therefore committed to actively contributing our insights to debates and decision making in the areas of regulation and corporate responsibility.

We closely monitor political and regulatory developments and manage stakeholder relationships with key bodies around the world. UBS tries to provide expert input at an early stage of a policy life cycle with the aim of constructively shaping the regulatory frameworks of the future.

We also produce regular reports on regulatory and legislative matters, formulate and publish responses to consultations, and actively participate in industry associations. In addition to communicating UBS's position to the relevant bodies, this research and reporting activity guarantees that other stakeholders are up to date on the latest policies and proposals. As a global financial company with a wide range of products, UBS maintains direct contact with representatives from the political sphere, public authorities, supervisory authorities and international bodies.

To extend communication and transparency in this crucial and constantly changing area, we have developed a special website dedicated to policy and regulatory issues.

#### **What matters most to industry stakeholders and what do we do about it?**

Each year, we assess which topics our stakeholders regard as significant to UBS and our industry. We also evaluate our own perception of the topics we regard as impacting our firm's performance and development. We want to understand whether we are focused on the topics on which our stakeholders would want us to be focused. This annual comprehensive materiality assessment is overseen by a Board committee, the Corporate Culture and Responsibility Committee (CCRC).

A firm-wide, cross-regional expert team who, by virtue of their roles at UBS, deal with stakeholders every day gather their feedback and feed it into an assessment based on the Global Reporting Initiative. In addition, we also regularly invite stakeholders to directly share their views, be it via an online survey open to all – as was the case in 2014 – or via a survey targeting particular groups. In 2015, we commissioned a student organization to survey students on their expectations regarding the banking sector. In what we believe to be the largest survey of its kind ever undertaken for a bank, students in seven countries across all continents were asked to prioritize a wide range of topics.

After identifying the topics that matter most through these surveys (and also those that are perceived to be less significant), we capture the results in our UBS Materiality Matrix. It documents the current state of play and indicates how the issues and stakeholder priorities may develop in the future.

#### *Getting to the heart of the matter*

Our 2015 materiality assessment identified the following three topics as those of greatest significance to both our stakeholders and our firm:

- Conduct and culture
- Client protection
- Financial stability





### **Conduct and culture**

Our Code of Conduct and Ethics sets out publicly and unequivocally the parameters for all our policies and employee behavior. This Code is supplemented with compulsory and ongoing training for all employees in order to prevent money laundering, market manipulation, insider trading and other illegal or unethical practices. Read more about how the Code translates into a strong everyday culture in the chapter “How do we do business?”

UBS works to prevent financial crime through active cooperation with regulators as well as through rigorous internal controls. Internationally, UBS is a member of the Wolfsberg Group, an association of 13 leading global banks providing guidance and effective frameworks to combat financial crime. Along with the other group members, we work closely with the Financial Action Task Force (FATF), an intergovernmental body that helps formulate and implement policies on money laundering and terrorist financing.

Internally, we have introduced a raft of measures to ensure that crime prevention is anchored in our culture and practices. We assess the money-laundering and corruption risks associated with our business and take follow-up action to further mitigate that risk. Each year, our financial crime prevention function carries out a global antibribery and anticorruption (ABC) risk assessment that identifies the risk

rating for each line of business and escalates any indication of noncompliance with our anticorruption policies.

UBS also conducts a worldwide, cross-divisional Annual Risk Assessment. This brings together a comprehensive catalog of potential compliance risks and highlights those areas requiring further monitoring. We are thus able to identify compliance risks throughout the entire firm and initiate preventive measures before serious problems arise.

UBS has a team in place that provides oversight of compliance-related issues, such as potential conflicts of interest, as well as designing and implementing firm-wide compliance guidelines and training. Its independence enables it to support and advise the different business divisions and to report any serious concerns to management, in this way guaranteeing that our clients receive the best possible protection.

### **Client protection**

As a global bank we are responsible to our clients: we must treat them fairly, always act with integrity and gain their loyalty by earning and retaining their trust. Conduct risk is the risk that the firm’s or employees’ conduct could unfairly affect clients and the integrity of competition and the markets. We have therefore strengthened conduct risk management throughout the organization so that we

› **For further information** on the stakeholder groups mentioned above, please visit  
[www.ubs.com/gga](http://www.ubs.com/gga)  
[www.ubs.com/investors](http://www.ubs.com/investors)  
[www.ubs.com/employees](http://www.ubs.com/employees)

understand how our activities can affect our clients and integrate these factors into our day-to-day decision making.

In March 2015, the Group Executive Board approved our global conduct risk plan. Following the successful launch in the UK, the plan is now being introduced worldwide. It has three primary objectives:

- To embed conduct risk management and monitoring in all aspects of the firm's operation
- To ensure conduct risk has the same priority and prominence as other risks
- To educate employees to understand our conduct risk policy

A number of work streams have been put in place to consolidate client protection within UBS's day-to-day operations. These include a comprehensive operating model that clearly defines roles and responsibilities and a communications campaign to raise awareness of conduct risk, supported by compulsory courses for staff.

Client protection also extends to the question of product suitability, and to clients' quite natural expectation to be offered only products that are appropriate and that they understand. This expectation is anchored in law and regulations in most jurisdictions. The European Union's Markets in Financial Instruments Directive (MiFID) is just one example.

Within the context of client protection, our wealth management businesses (WM and WMA) and Personal & Corporate Banking have put in place a Suitability Framework.

This enables UBS to draw up an investor profile for mandate and advisory clients from which we develop a corresponding investment strategy for the client portfolio. In addition, advisory platforms and tools help define products according to their risk characteristics and support both clients and their advisors in assessing the impact of investment products and services.

### **Financial stability**

Capital strength is one of the three Pillars of UBS. Capital strength provides the financial stability that is the foundation for growing our business and enhancing our competitive positioning. It also inspires confidence among our stakeholders and contributes to strong external credit ratings.

At the end of 2015, our common equity tier 1 (CET1) capital ratio was 14.5% on a fully applied basis, representing a further increase compared with year-end 2014 ratios and the highest fully applied capital ratio in our peer group of large global banks. As of 31 December 2015, our Swiss systemically relevant banks (SRB) leverage ratio was 5.3% on a fully applied basis.

At our company everyone has a lot of responsibility, but also a lot of engagement. People have space to express and discuss. It is a very rich process in terms of communications. Everybody is encouraged to contribute, and most of the decisions in our company are team decisions. This means there is usually a general consensus on what we are doing. I think that is a very important added value for any organization.

**Alexandre Callea**



“Encountering these magnificent marine animals makes you naturally want to protect them.”

**Hanli Prinsloo**

Hanli Prinsloo works with UBS Philanthropy. She is a champion freediver and ocean conservationist as well as the founder of the I AM WATER Foundation.





# How do we do business?

The last decade has been a turbulent time for banks with the industry's reputation badly damaged. So how can UBS regain the client confidence it had lost and create a future where both performance and transparency count? What measures has it taken to avoid the mistakes of the past, what contribution can its employees make and how do the three keys lead to strategic and business success?

Our strategy led us to redefine our values and corporate culture and to integrate them into a sustainable long-term approach that benefits all our stakeholders. The infographic below summarizes the road traveled since the financial crisis and some of the steps we have taken since then to resolve legacy issues and transform our firm.

## Tying strategy and corporate culture

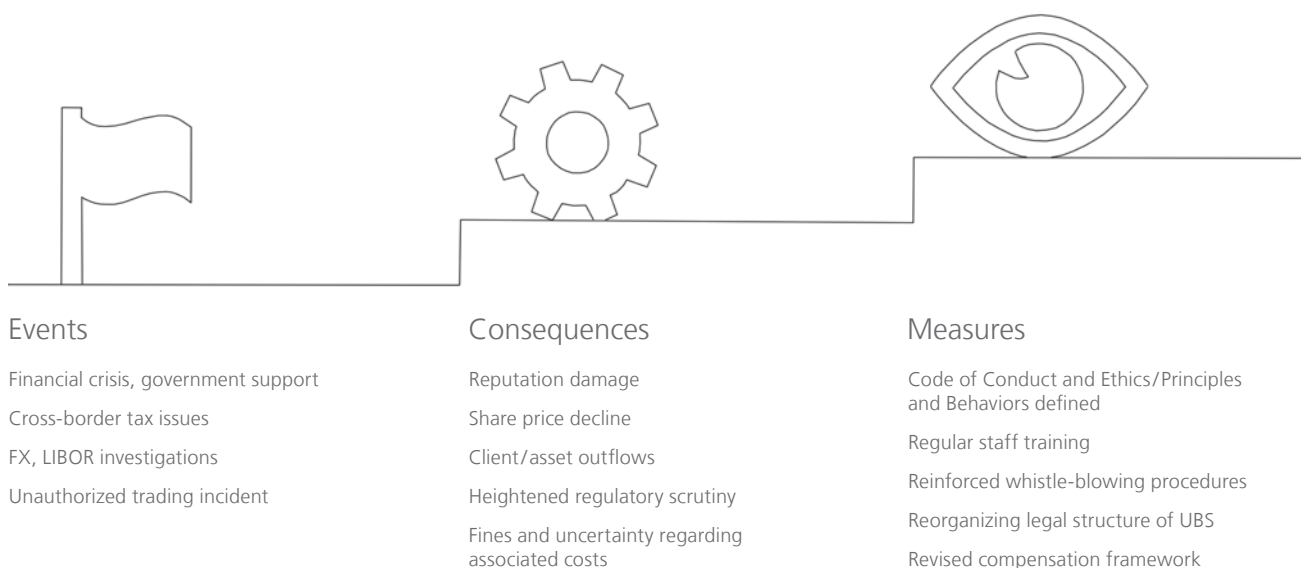
We believe that the right strategy and a sound corporate culture drive strong performance. Therefore we established the UBS Code of Conduct and Ethics. This document defines the way we do business and sets out the standards that apply to everything and everyone at UBS. In a nutshell, the Code underscores the critical importance of responsible

behavior and covers our dealings with clients, counterparties, shareholders, regulators, business partners and other stakeholders – including each other.

## Opening the door to the future

What we call our three keys to success – our Pillars, Principles and Behaviors – embodies the foundation of our strategy and culture. We're working to embed the keys throughout the organization so that we can unlock the full potential of our firm.

Because we believe that leadership drives culture and that culture drives performance, we have also defined criteria that establish what good leadership looks like (UBS House



View on Leadership). These are a set of explicit expectations for our leaders that establish consistent leadership standards across UBS, in particular in the areas of people, client, and change and results leadership. We also use the UBS House View on Leadership to help us make the right decisions when hiring, developing and promoting present and future UBS leaders.

**Beyond the balance sheet**

All of our employees’ annual performance evaluations measure not only whether their goals were achieved (the “what”), but also whether they were achieved according to our Behaviors (the “how”). In 2015, we introduced separate ratings for individual goals and behaviors to further emphasize the importance of integrity, collaboration and challenge in daily business activities. Both goal and behavior ratings are a factor in development, reward and promotion decisions.

**And in practice?**

The disciplined execution of our strategy based on our Pillars, Principles and Behaviors is crucial for the protection of our clients’ interests and the value of UBS’s franchise. With our strategy, clients are the focus of everything we do. But in practice, what does this mean?

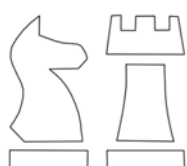
**Keeping our promise**

In wealth management for example, we made our clients a promise: to offer superior advice and solutions for their wealth. For our clients, this translates into

- actively listening and fully understanding their needs;
- providing them with clear investment guidance and excellence in execution thanks to our research capabilities and our investment process;
- treating our clients’ assets as if they were our own; and
- only offering suitable solutions that match their level of sophistication and understanding as well as their appetite for risk.

“It is not just what we do, but also how we do it. It is therefore not just about returns, but also about conducting ourselves professionally and responsibly, recognizing our role in society.”

**Sergio P. Ermotti, Group Chief Executive Officer**



**Outcomes**

- Positive corporate culture sustainable over the long term
- Many legacy issues resolved and associated risks reduced
- Enhanced detection capabilities (financial crime, “Know your client”)
- Stronger capital base gives more flexibility
- Improved resolvability in line with TBTF
- Tax regularization and product suitability
- Enhanced employee engagement

**Success indicators/public recognition**

- Regained client confidence/increased client satisfaction
- Progressive capital returns to shareholders since 2011
- Received a number of important industry awards
- Progress recognized by regulators, rating agencies
- UBS sets Swiss benchmark for client advisor certification
- UBS online banking recognized as industry leading
- UBS seen as one of the most attractive employers
- UBS is industry group leader DJ Sustainability Indices

### **Learning the lessons**

We also invest in our employees' learning and development (through the compulsory Wealth Management Diploma for all our WM client advisors for example) and in technology (we are a member of roughly 80 stock exchanges and every relevant clearing and settlement infrastructure).

And to make sure that all of us have a common understanding of our culture and the way we do business, our approximately 60,000 employees working in more than 50 countries attend compulsory e-learning training sessions on these topics every year.

We have a mandatory training program in place for all employees covering a range of compliance and risk-related topics, including anti-money laundering and operational risk. During 2015, our employees and external staff were required to complete over 800,000 mandatory training sessions, an increase of approximately 14% compared with 2014.

### **Standing out from the crowd**

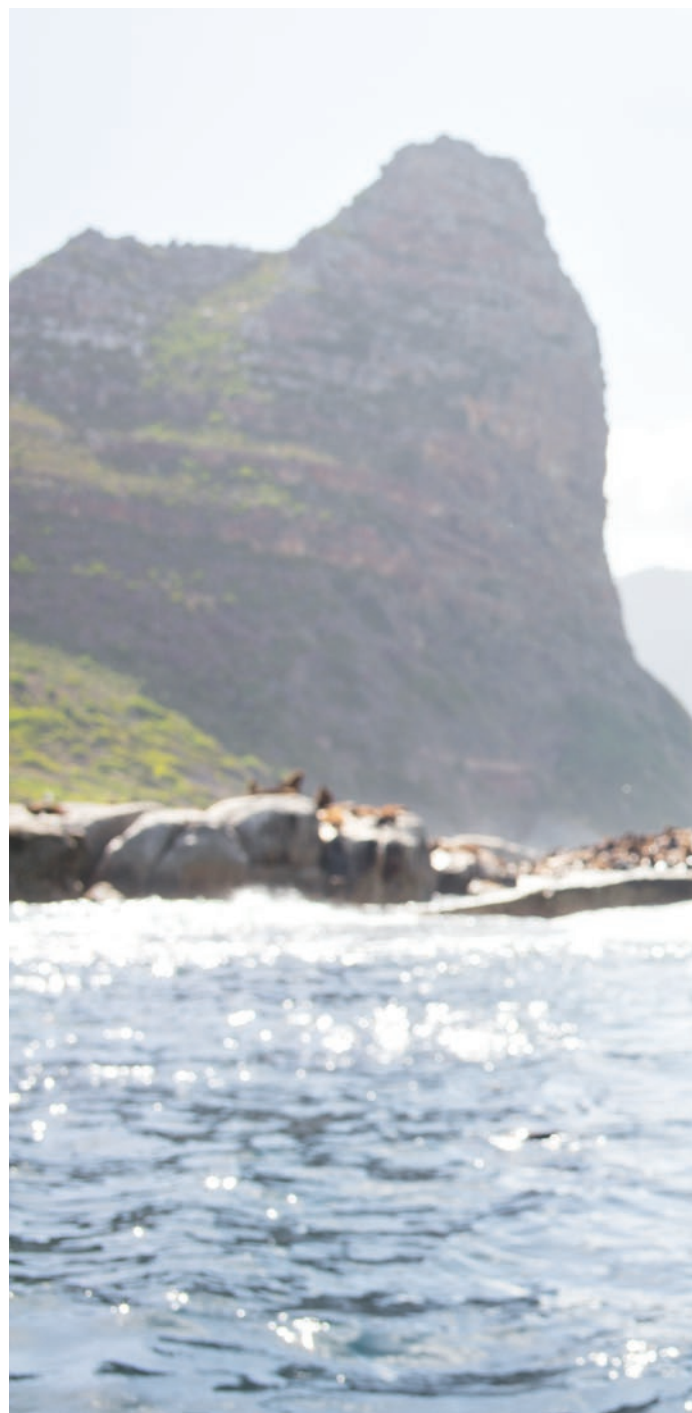
We are able to help our clients find the right solutions because executing our strategy also meant that we concentrated on our areas of excellence. Combined with our investments in people and systems, this enables us to offer expertise and know-how that differentiate us from our peers.

### **Keeping our assets in shape**

To continue the successful execution of our strategy, we protect our assets from being lost, stolen, damaged or misused. For example, to protect our bank and its reputation, we have a global whistle-blowing policy and procedures. These provide a formal framework and multiple channels for all employees to speak up.

### **It's good to talk**

If employees suspect breaches of laws, regulations or legal requirements to which the Group is subject, or of our Code of Conduct and Ethics or policies, or of any relevant professional standards, they can use a dedicated website or a telephone hotline to raise concerns confidentially. Our policies prohibit adverse action against employees acting in good faith. Following a comprehensive communications campaign, including a video message from our Chairman and CEO, cases brought to our attention have risen significantly since 2008. In line with our intent to actively encourage challenge, UBS employees are increasingly speaking up, and half of the cases reported in 2015 merited further investigation.



## **Hanli Prinsloo**

My interest in ocean conservation started with competitive freediving. I was fascinated by the ability of the body to be underwater and redefining the limits of what the body could do. While traveling for the sport, I started to get opportunities to swim with marine animals, and my experiences swimming with these intelligent and often highly misunderstood creatures ignited my need to protect them and their environment. That led me to start the I AM WATER Foundation and to try to put systems in place to share these experiences with others.





“You can’t change people’s behavior by telling them what to do, but showing them the problem inspires them to change.”

Hanli Prinsloo



#### **State-of-the-art protection**

To help us reduce operational risk linked to human behavior, we protect UBS's assets by enhancing our operational risk management capabilities. For example, we've made significant investments in technology to enable us to detect and react to potential issues faster, and to improve our ability to identify suspicious transactions or matters relating to political sanctions. We've also improved transaction surveillance and restricted the personal investment activities of our employees worldwide.

"The brand campaign is an expression of the successful strategic transformation UBS has undergone over the past four years."

Sergio P. Ermotti, Group Chief Executive Officer

#### **A new structure**

Another way to protect the bank and its clients is by adapting to the evolving and demanding regulatory environment in which we operate. Our legal structure improves the resolvability of the Group in response to too big to fail (TBTF) requirements in Switzerland and other countries in which the Group operates.

#### **Industry recognition**

We have received leading industry awards in numerous categories, including from *Euromoney*, *International Financing Review* and *The Banker*. We also took over the leadership position in 2015 in the Diversified Financials industry group of the Dow Jones Sustainability Indices, a recognition of what we have achieved since we started our journey of transformation.

#### **UBS: brand new**

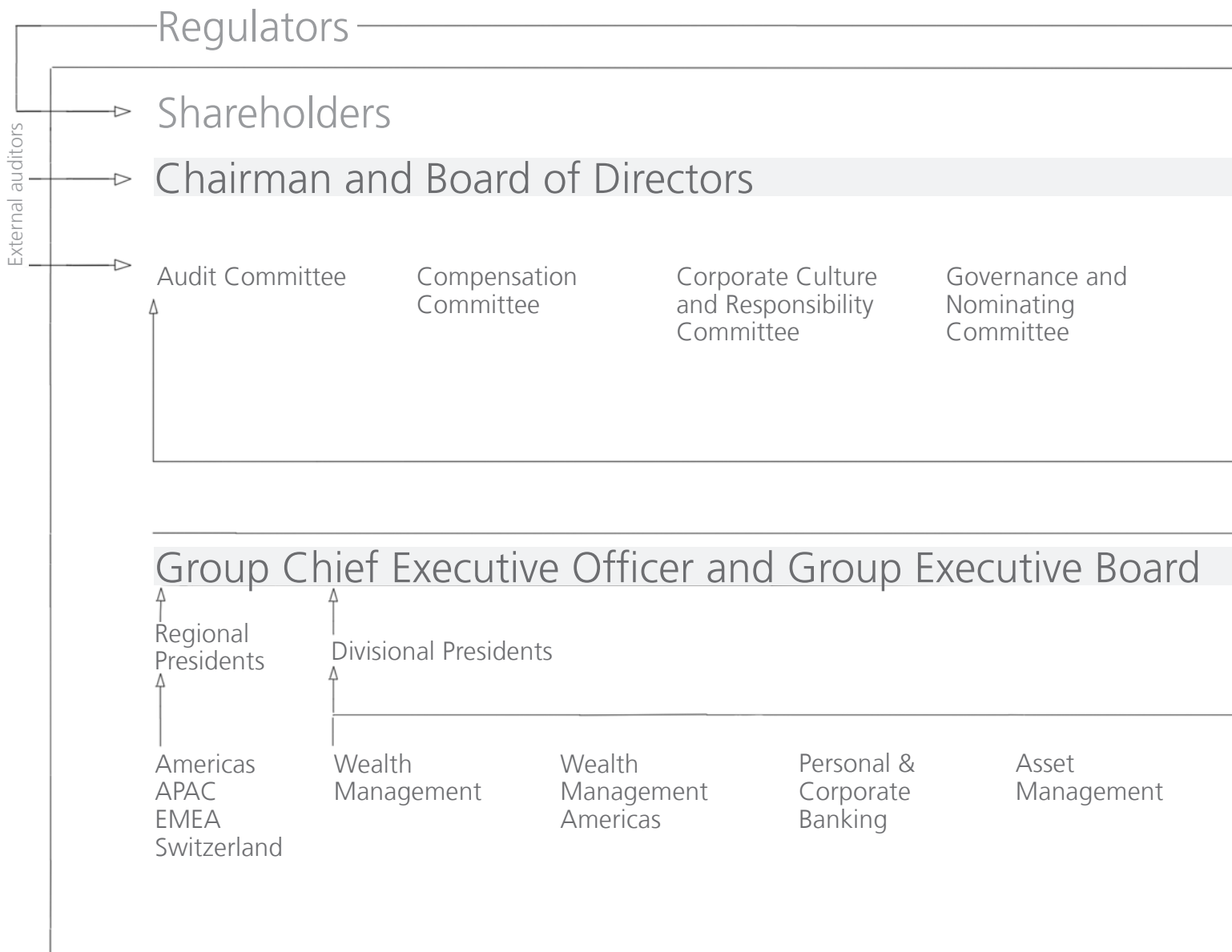
Many of the changes that have occurred at UBS in the last four years found expression in our successful global brand campaign launched in September. The campaign featured a series of life- and career-defining questions asked by clients that ended with the promise: "For some of life's questions, you're not alone. Together we can find an answer."

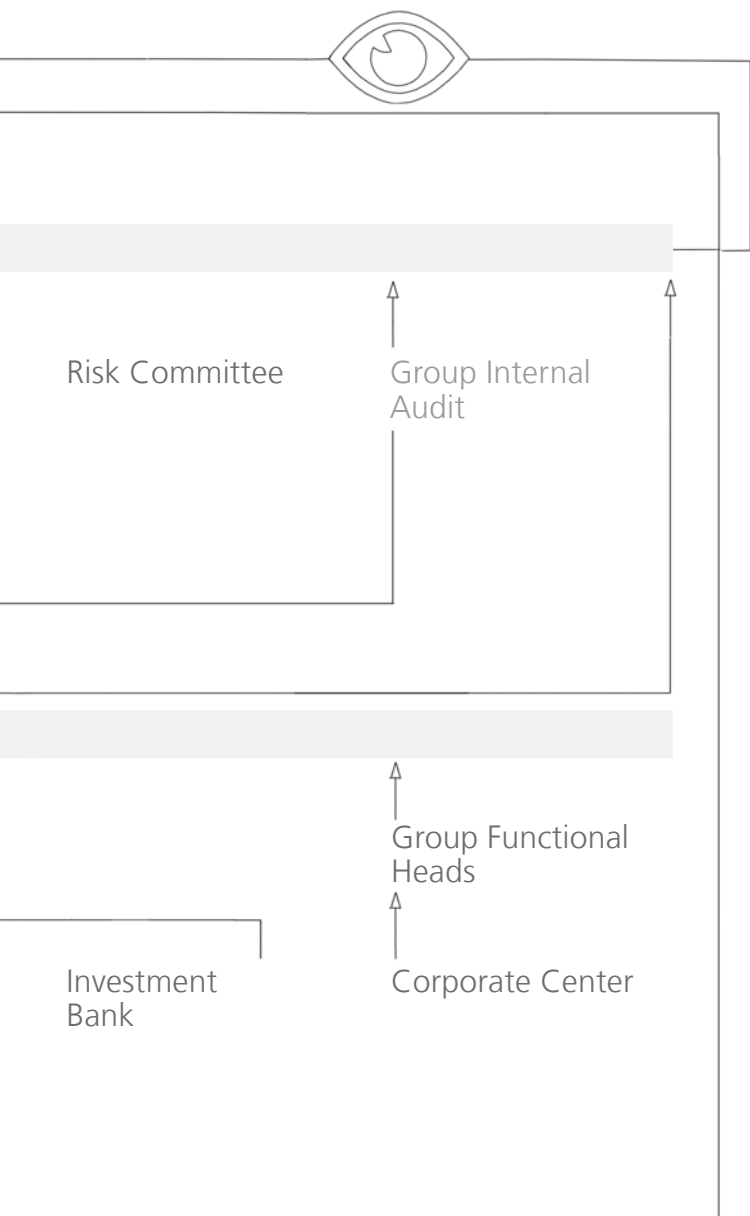


We explain that we need to be more responsible about how we consume seafood because we are eating away the food that sea creatures rely on. If you encounter a seal or a dolphin yourself, rather than just reading about it, it is easier to understand and even feel what it means that we are eating it out of existence. The same with pollution. When you go for a wonderful blue water snorkel, someplace extremely remote that you think must be pristine, and you bump into plastic every time you surface, it's an experience you don't forget. And there are no parts of the oceans anymore that are free of floating plastic waste.

I really believe that these direct experiences people have can be transformational. And I think that is an added value, because it makes people start to ask questions, start to see things they hadn't seen before and start to think. I don't believe you can change behavior by telling people what to do. But by allowing them to see, they will change their behavior themselves. **Hanli Prinsloo**

# How do we manage the firm?





## Shareholders

The general meeting of shareholders is the supreme corporate body of UBS. All shareholders registered with voting rights are entitled to participate in general meetings of shareholders.

## Chairman and Board of Directors (BoD)

Under the leadership of the Chairman, the BoD decides on the strategy of the Group on recommendations by the Group CEO, exercises ultimate supervision over management and appoints all GEB members. The Chairman presides over all general meetings of shareholders, and works with the committee chairpersons to coordinate the work of all BoD committees.

## Group CEO and Group Executive Board (GEB)

Under the leadership of the Group CEO, the GEB has executive management responsibility for the steering of the Group and its business. It assumes overall responsibility for developing the Group and business division strategies and the implementation of approved strategies.

For further information on our corporate governance, please visit [ubs.com/governance](https://ubs.com/governance)





“With art, you can never be indifferent. That is what art gives the world.”

**Dominique Lévy**

Dominique Lévy works with UBS. The owner of the Dominique Lévy Gallery with offices in New York City, London and Geneva, she is considered one of the most influential and admired art dealers in the world.

# What are the current and future trends around us?

The current market environment and geopolitical situation confront UBS and its businesses with several major challenges. Each of these challenges presents both risks and opportunities. Here we examine some of the potential future scenarios and look at how through innovation and collaboration UBS incorporates these into its long-term strategic and risk planning.

## Rethinking banks' business models

The macroeconomic environment is likely to remain challenging for banks in the near future, with the lack of growth and low to negative interest rates putting further pressure on banks' margins and revenues. Regulation, overcapacity and legacy issues also continue to present challenges. Banks therefore need to focus and optimize their business models and come up with more effective and efficient ways of doing things.

UBS set up UBS Business Solutions AG in 2015 as the Group's service subsidiary into which we plan to move the majority of our middle- and back-office processes over the next 18 to 24 months. The transfer is a first step in enabling us to commercialize middle- and back-office processes and benefit

from economies of scale. In addition, it allows us to take advantage of opportunities to share regulatory investments.

## New legal structures

The need to meet increasingly strict and demanding regulatory measures, in particular leverage and liquidity coverage ratios, has already had a huge impact on banks' business models. Many global banks have undergone major strategic and structural changes to satisfy these new regulations. UBS has been one of the pioneers.

Fragmented regulatory implementation across regions and countries and the asymmetrical implementation of capital adequacy requirements (or the too big to fail [TBTF] framework) are already having a significant impact on banks'





legal and organizational structures. Banks are creating locally autonomous legal entities not only to meet strict local regulatory requirements, but to provide more accountability and additional ring fencing in the event of another crisis. Geopolitical conflicts and governance issues could make certain markets and regions inaccessible or too problematic to operate in, intensifying the focus on more stable geographic regions.

Regulation may also accelerate and accentuate other trends, such as technological and demographic developments. Increasingly sophisticated and accessible mobile and e-banking applications and digital payment technology such as blockchain could facilitate the emergence of entirely new banking models. At the same time, new regulations such as the Swiss financial regulator FINMA's proposals for "lighter" banking licenses may smooth the way for entrance into the market by new, low-cost digital competitors. This opens up new opportunities for cooperation, while the entry barriers remain high in many areas, as banks' institutional know-how and personal client relationships cannot be easily copied. However, a level regulatory playing field is all the more important, otherwise new providers will provide bank-like services without being subjected to the same strict regulations, for example regarding financial privacy or client data protection.

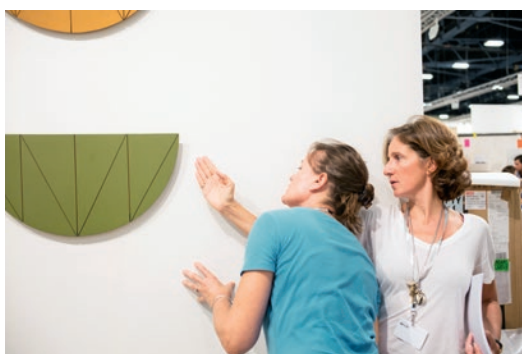
### **Fintech challenge**

According to CB Insights, a data provider to the venture capital industry, global investment in venture-backed fintech companies hit a record USD 4.85 billion in the third quarter 2015. The same research also shows it's not only UBS and other banks who have caught the fintech bug: Google is now the most active corporate investor in fintech companies and, alongside other tech giants like Amazon, Facebook and Apple, is exploring and launching its own finance initiatives.

*"Here at UBS, one in six jobs is in IT, so we can now also consider ourselves a technology company which, for example, is conducting research with over 100 start-up firms."*

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

Technology and innovation therefore remained a priority in 2015. We further upgraded our IT infrastructure and enhanced our technology offering for customers with our mobile and e-banking solutions. This included our award-winning Swiss payment app Paymit and Wealth Management Online – a new digital platform for Wealth Management clients in Switzerland and a number of other European countries.



“In art, the most important added value is emotion.”

Dominique Lévy

Our Investment Bank continued to upgrade UBS Neo, its highly innovative, award-winning client platform, with further features and enhancements.

UBS also opened its own innovation lab at Level39, Europe's largest technology accelerator and incubator. The lab is exploring potential applications for blockchain and other disruptive digital technologies in financial services. UBS received awards for Most Innovative Digital Offering from *Private Banker International* and Most Innovative Investment Bank for Financial Institutions from *The Banker*. UBS's commitment to and interest in innovation were also highlighted by the launch of the first ever UBS Future of Finance Challenge, an international competition for entrepreneurs and technology start-ups developing ideas and solutions for the financial services industry. The competition attracted over 600 entrants from 50 countries.

#### **The other side of digitization**

While technology and digitization offer opportunities for both established banks and new entrants, they also bring risks and threats that could offset or even derail their technological benefits. Some of these innovations and initiatives may challenge traditional banking in some areas, but these new technologies and business models are still maturing and their long-term stability remains unproven.

Cybersecurity is fast moving up the agenda of banks and other financial institutions as they seek to balance risks with the advantages and convenience of offering customers the ability to manage their bank accounts online and make payments via mobile devices. Cybersecurity is absorbing an increasing share of corporate IT budgets: UBS already invests 5% of its annual IT budget to mitigate threats from cyberattacks and cybercrime. In December 2015, UBS appointed its first Head of Cyber Risk to address the evolving number of cyber risks it faces. UBS also undertakes regular stress and behavioral intrusion tests of its systems, infrastructure and personnel to probe and expose potential weaknesses and vulnerabilities, whether human, hardware or software.

#### **Banking for future generations**

Demographics present one of the most disruptive challenges to established banking and financial institutions. The emerging millennial generation is driving a technology and consumer revolution accelerated by the increasing power and sophistication of mobile devices. These offer instant and uninterrupted access to information, services and social media that is democratizing the world of consumer services. Many millennials are digital natives who have never known a world without the Internet. For them, mobile and digital connectivity are an integral part of their personal and professional lives.



## Dominique Lévy

When I look back over what we have been doing for the last 20 years, we have certainly created value for buyers. A carefully curated collection, particularly if you buy well, is an asset that appreciates. So that is added value in the financial sense.

More interesting, I think, is trying to create value for the art world. When you have an exhibition you are inviting collectors to see art in a different way. And it is not just the buyer, the seller or the artist. It's also the writer you commission for the catalog, the poet, the critic, those who see the art: they are all affected by art's ability to make people ask questions. That has always been my passion too: to ask questions. In my opinion this is an extremely important added value of art, though it is less tangible than the financial one.

I truly believe that art can change the world. Collectors become different people; they change as a person. I know an extraordinary collector, from a very humble background, a self-made man, and when he started to collect he began to ask questions, and it changed him and how he ran his business, and his business became exponentially more successful. That is an added value that is both financial and emotional.

As well as investing in technology and fintech innovation, UBS recently set up its own think tank – UBS Y – to identify and help shape some of these generational trends. UBS Y is especially attuned to the aspirations and expectations of the millennial generation and seeks to challenge UBS’s leadership and management to rethink their perception of our business and the world we operate in.

“We can only minimize the threat of cyberattacks. If we attempt to eliminate it, it would be way too costly, and impossible to manage.”

**Sergio P. Ermotti, Group Chief Executive Officer**

### **Mind the generation gap**

At the same time, older generations more familiar and comfortable with traditional banking, and with more conventional purchasing and investing habits, will be either leaving the workforce or putting aside larger amounts of disposable income as they approach retirement.

The rising average age of the world’s population, escalating geriatric costs and funding challenges faced by national pension systems will impact retirement provisioning. A global shift away from the strong reliance on national pension schemes will make reform imperative. Although each country will follow its own regulatory agenda, a general and gradual shift from public to privately funded pension schemes seems inevitable.



To me, the most important added value of art is emotion. Art can move, it can teach. You may love it, you may hate it, but you won't be indifferent. That is essential: not being indifferent, being pushed to doubt, think and rethink. That is what drives me, what gets me out of bed in the morning, what I care about, this idea of touching people through art.

In this way, art also has an added value for society as a whole. Art not only reflects, it also has a canny way of preannouncing things, of telling you what is coming, like a sixth sense.  
**Dominique Lévy**

This development will benefit UBS's businesses, as individuals and privately funded pension schemes seek investment advice and tailored service offerings with a relevant product range. UBS's strong capabilities in asset management and structured products, as well as our ability to tailor our services to clients' financial requirements and preferences, put us in a strong position to profit from these emerging needs.

### **Facing the future**

Taken together, these and other megatrends are changing the way banks interact with customers and investors and how they sell their products and services. These trends present challenges and opportunities. UBS is working to ensure it is prepared for the former and well positioned to take advantage of the latter.

What banks – not just UBS – need today is not just to focus on one area or region, but to find the right mix to produce stable, sustainable profits. They have to make choices and ask themselves whether they want to offer all things to all customers. The answer is a definite no: certain products and client segments are no longer profitable for all banks. At UBS we began adapting to the new reality over four years ago, by focusing on our global wealth management and our universal bank in Switzerland. The Investment Bank and Asset Management remain integral parts of our business and highly competitive. While we believe we have found some of the right answers to cope with future challenges, we know that for UBS, too, change is the only certainty.

Three questions about the future to Dierk von Schuckmann, Head Corporate Development & Performance

### **What will the banking value chain of the future look like?**

I expect the banking value chain to break up as banks cease trying to provide everything themselves, but concentrate instead on activities in which they have a sustainable competitive advantage and that generate greater sustainable returns. As a result, banks are expected to radically adjust their business models by substantially expanding the outsourcing of noncore activities. This in turn offers substantial simplification potential, including standardization of products and services.

### **How do we balance risks and opportunities?**

First of all, risk cannot be eliminated completely: risk taking is part of our business. Banking is inherently complex – reflecting its highly regulated nature, the diverse range of products offered, banks' cross-border footprint and in some cases the aging nature of their IT platforms. That means banks will have to make stark choices in terms of priorities, business activities and geographic footprint to differentiate themselves and achieve greater cost effectiveness and therefore profitability. Regulation is likely to play an ongoing role in shaping banks' legal and organizational structures.

### **What will UBS look like in 10 years?**

In view of the fast-changing regulatory environment and volatile macroeconomic situation, it's difficult to predict how UBS may look in 10 years. It is safe to say, however, that UBS will be exposed to the same forces and challenges as its peers and the need to make choices over services, products and geographies. At the same time, UBS like other banks will have to become more innovative to exploit emerging technologies and trends to improve efficiency and tap new revenue sources.

› **Find out more** Further information on risks, their likelihood, source and mitigation: **Annual Report 2015**

# Our Board of Directors



**Axel A. Weber** Chairman of the Board of Directors/Chairperson of the Corporate Culture and Responsibility Committee/Chairperson of the Governance and Nominating Committee



**Beatrice Weder di Mauro** Member of the Audit Committee/member of the Risk Committee



**David Sidwell** Senior Independent Director/Chairperson of the Risk Committee/member of the Governance and Nominating Committee



**William G. Parrett** Chairperson of the Audit Committee/member of the Compensation Committee/member of the Corporate Culture and Responsibility Committee



**Isabelle Romy** Member of the Audit Committee/member of the Governance and Nominating Committee



**Michel Demaré** Independent Vice Chairman/member of the Audit Committee/member of the Compensation Committee/member of the Governance and Nominating Committee



**Reto Francioni** Member of the Compensation Committee/member of the Corporate Culture and Responsibility Committee/member of the Risk Committee



**Ann F. Godbehere** Chairperson of the Compensation Committee/member of the Audit Committee



**Joseph Yam** Member of the Corporate Culture and Responsibility Committee/member of the Risk Committee

The Board of Directors (BoD) of UBS Group AG and UBS AG, each under the leadership of the Chairman, consists of six to twelve members as per our Articles of Association. The BoD decides on the strategy of the Group upon recommendation of the Group Chief Executive Officer (Group CEO) and is responsible for the overall direction, supervision and control of the Group and its management as well as for supervising compliance with applicable laws, rules and regulations. The BoD exercises oversight over UBS Group AG and its subsidiaries and is responsible for ensuring the establishment of a clear Group governance framework to ensure effective steering and supervision of the Group, taking into account the material risks to which UBS Group AG and its subsidiaries are exposed. The BoD has ultimate responsibility for the success of the Group and for delivering sustainable shareholder value within a framework of prudent and effective controls, approves all financial statements for issue and appoints and removes all Group Executive Board (GEB) members.

# Our Group Executive Board



**Sergio P. Ermotti** Group Chief Executive Officer



**Lukas Gähwiler** President Personal & Corporate Banking and President UBS Switzerland



**Tom Naratil** Group Chief Financial Officer and Group Chief Operating Officer until 31 December 2015, President Wealth Management Americas and President UBS Americas as of 1 January 2016



**Markus U. Diethelm** Group General Counsel



**Kathryn Shih** President UBS Asia Pacific as of 1 January 2016



**Kirt Gardner** Group Chief Financial Officer as of 1 January 2016



UBS Group AG and UBS AG operate under a strict dual board structure, as mandated by Swiss banking law, and therefore the BoD delegates the management of the business to the GEB. Under the leadership of the Group CEO, the GEB has executive management responsibility for the steering of the Group and its business. It assumes overall responsibility for developing the Group and business division strategies and the implementation of approved strategies.

→ To read the full biographies of our BoD and GEB members, visit [www.ubs.com/bod](http://www.ubs.com/bod) or [www.ubs.com/geb](http://www.ubs.com/geb) or refer to "Board of Directors" or "Group Executive Board" in the "Corporate governance" section of the Annual Report 2015



**Jürg Zeltner** President Wealth Management



**Ulrich Körner** President Asset Management and President UBS Europe, Middle East and Africa



**Sabine Keller-Busse** Group Head Human Resources



**Andrea Orcel** President Investment Bank



**Christian Bluhm** Group Chief Risk Officer as of 1 January 2016



**Axel P. Lehmann** Group Chief Operating Officer as of 1 January 2016

# Where are we headed?



**Axel A. Weber** Chairman of the Board of Directors

“In a broader context, what has been called the fourth industrial revolution will have huge implications for investors, the global economy and the relative competitiveness of developed and emerging nations.”

Axel A. Weber

**Sergio, how do you as Group CEO deal with the fact that many markets and media tend to focus on the short term? Are investors really interested in the long term?**

**Sergio P. Ermotti** I know that many people have observed that short-term thinking prevails among investors, analysts and media, and we continue to see a strong focus on quarterly performance. At UBS we are certainly trying to change this, in part by providing our investors with a solid investment case. Let's take our wealth management businesses as an example. The numbers for one quarter should not be overly emphasized, as this is a business that is built on relationships over decades. As we put it very clearly in one of our UBS Principles, we are aiming to achieve sustainable performance, and hence trying to attract long-term oriented investors who want to share the journey with us.

**What, from the Chairman's perspective, are the key macroeconomic trends that will influence global economies and societies between now and 2020?**

**Axel A. Weber** In the short term, financial market volatility, caused by diverging monetary policies, will continue to pose challenges to investors and policymakers throughout the year. As a wealth manager, we consider it our main task to guide our clients through these difficult times. Beyond that, I consider demographic change a major economic challenge of the coming years and decades. In many important economies, the potential workforce has started to shrink or is about to start to shrink. This will put increasing strains on pay-as-you-go pension schemes, and low interest rates are depriving funded pension schemes of profitable investment opportunities. Add to that the increasing life expectancy, and you realize that our welfare states are facing an existential threat. As a bank, we are going to great lengths to inform our clients about these challenges and to help them find solutions.

**This takes us directly to some of the key risks and opportunities. What will influence our firm, and indeed our industry's course, over the coming years?**

**SE** Digitization is one area. More than many other topics it combines risk and opportunity in one. Digital capabilities are likely to play a significant role in transforming not only how banks operate internally, but also how banks and clients interact. Recognizing that technological innovation is not something UBS can do on its own, we work with a wide range of start-up companies, venture capitalists and academic institutions. For example, UBS launched an initiative to explore blockchain technology and has become one of the thought leaders in this area.

**AW** In a broader context, what has been called the fourth industrial revolution will have huge implications for investors, the global economy and the relative competitiveness of developed and emerging nations. Developed economies are likely to be relative winners at this stage, whereas developing economies face greater challenges as their abundance of low-skill labor ceases to be an advantage and becomes more of a headwind. Economies with the most flexible labor markets, educational systems, infrastructure and legal systems are likely to be relative beneficiaries as they are well positioned to adapt their workforces and business models to a highly automated and connected world.

**In terms of geographic markets and our business, where do you see opportunities for growth for UBS?**

**SE** Let's consider Asia and China in particular. We have been in Asia for more than 50 years. And we have been in China for almost 30 years. If we assume a 5% growth for the next 14 years, then in that time China will add another USD 20 trillion to its economy. This is the equivalent of adding another whole China to the global economy. China's long-term growth prospects and the rising wealth of Chinese citizens will be a strong business engine for UBS. That's why, in the next five years, we anticipate doubling our staff in the region from around 600 to 1,200, because we really believe we have room for growth across the board, particularly in Wealth Management and Asset Management, but also in the Investment Bank. Another very important geographic market is the US. It is the largest market for financial services, and we are well positioned to continue to grow there.

**UBS has the declared objective of making sustainability the everyday standard at our firm. What exactly does this mean?**



**Sergio P. Ermotti** Group Chief Executive Officer

*"A strong economy must be able to rely on a strong, diversified and profitable banking system."*

**Sergio P. Ermotti**

**AW** Sustainability in banking means both seizing opportunities and managing risk. For example, our clients are increasingly interested in sustainable investing, so we are offering novel financial products and services such as impact investing. Apart from our activities in sustainable investing, our UBS and Society program also covers philanthropy, our environmental and human rights policies, our environmental footprint, and our firm's community interactions. In the end, it's also about each one of us and our daily actions, not just as bankers, but also as consumers and citizens.

**The public continues to be skeptical about whether banks can achieve positive change. Do you believe that this perception will be more positive in three to five years?**

**SE** Personally, I believe we are judged not just by what we do, but how we do

it. We have taken a number of steps to ensure that we take this into account at UBS. But it's a journey, and that also applies to changing the perception by the outside world. Perception has a lot to do with how strong people think you are. Today, banks have 8 or 10 times as much capital compared to 2008. Perception is also about profitability. Our investors demand reasonable and sustainable returns, and rightly so. And it goes further than keeping investors satisfied. Because a strong economy must be able to rely on a strong, diversified and profitable banking system. If we stay on track and stick to efficient execution, I am confident that this will also benefit perception.

# Find out more about UBS

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## Imprint

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Publisher: UBS Group AG, Zurich,  
Switzerland | [www.ubs.com](http://www.ubs.com)

Photography: Martin Rüttschi, Schindellegi, Switzerland  
Infographics/art direction: Corinne Spielmann, UBS, Switzerland  
Project manager: Michael Gubser, UBS, Switzerland  
Editorial concept: Christiane Kamp, UBS, Switzerland  
Printed by Neidhart + Schön AG

Languages: English/German/French/Italian | SAP-No. 80530E-1601

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## Do you have any questions?

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## Corporate calendar

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**3 May 2016**  
First-quarter 2016 results

**10 May 2016**  
Annual General Meeting

**29 July 2016**  
Second-quarter 2016 results

**1 November 2016**  
Third-quarter 2016 results

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The Annual Review 2015 "Creating value" will be available from mid-April 2016 as a tablet version at UBS Newsstand/Annual Review (App Store or Google Play Store) and as a PDF version at [ubs.com/investors](http://ubs.com/investors).



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Print | ID53232-1602-1021

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## Corporate information

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**UBS Group AG** is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations as an Aktiengesellschaft, a stock corporation.

Its registered office is at Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, phone +41-44-234 1111, and its corporate identification number is CHE-395.345.924.

UBS Group AG was incorporated on 10 June 2014 and was established in 2014 as the holding company of the UBS Group.

UBS Group AG shares are listed on the SIX Swiss Exchange and on the New York Stock Exchange (ISIN: CH0244767585; CUSIP: H42097107).

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**Cautionary statement regarding forward-looking statements** | This document 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: (i) the degree to which UBS is successful in executing its announced strategic plans, including its cost reduction and efficiency initiatives and its targets for risk-weighted assets (RWA) and leverage ratio denominator (LRD), and the degree to which UBS is successful in implementing changes to its wealth management businesses to meet changing market, regulatory and other conditions; (ii) the continuing low or negative interest rate environment, developments in the macroeconomic climate and in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS’s clients and counterparties; (iii) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt that will be eligible for total loss-absorbing capacity (TLAC) requirements, or loss-absorbing capital; (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose, or result in, more stringent capital, TLAC, leverage ratio, liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration or other measures; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve reductions to the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA, or will approve a limited reduction of capital or gone concern requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in implementing changes to its legal structure to improve its resolvability and meet related regulatory requirements, including changes in legal structure and reporting required to implement US enhanced prudential standards, implementing a service company model, the transfer of the Asset Management business to a holding company, and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements relating to capital requirements, resolvability requirements and proposals in Switzerland and other countries for mandatory structural reform of banks and the extent to which such changes have the intended effects; (vii) 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; (viii) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including measures to impose new or enhanced duties when interacting with customers or in the execution and handling of customer transactions; (ix) 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 the potential for disqualification from certain businesses or loss of licenses or privileges as a result of regulatory or other governmental sanctions; (x) the effects on UBS’s cross-border banking business of tax or regulatory developments and of possible changes in UBS’s policies and practices relating to this business; (xi) 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 differences in compensation practices; (xii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xiii) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xiv) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xv) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyber-attacks, and systems failures; (xvi) restrictions on the ability of UBS Group AG to make payments or distributions, including due to restrictions on the ability of its subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA of its broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; (xvii) the degree to which changes in regulation, capital or legal structure, financial results or other factors, including methodology, assumptions and stress scenarios, may affect UBS’s ability to maintain its stated capital return objective; and (xviii) 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. 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