



# UBS 2015 Annual General Meeting

**Axel A. Weber**

*Chairman of the Board of Directors*

Spring 2015



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# Cautionary statement regarding forward-looking statements

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This presentation 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 planned further reduction in its Basel III risk-weighted assets (RWA) and leverage ratio denominator (LRD); (ii) developments in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, currency exchange rates and interest rates and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS’s clients and counterparties; (iii) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings, or arising from requirements for bail-in debt 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 more stringent capital (including 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 requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in executing the announced creation of a new Swiss banking subsidiary and a US intermediate holding company, the squeeze-out to complete the establishment of a holding company for the UBS Group, changes in the operating model of UBS Limited and other changes which UBS may make in its legal entity structure and operating model, including the possible consequences of such changes, and the potential need to make other changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, including capital requirements, resolvability requirements and proposals in Switzerland and other countries for mandatory structural reform of banks; (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) 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; (ix) 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; (x) 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; (xi) 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; (xii) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xiii) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xiv) the occurrence of operational failures, such as fraud, unauthorized trading and systems failures; and (xv) 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. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS’s Annual Report on Form 20-F for the year ended 31 December 2014. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

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## Section 1

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# Key messages

# Key Messages

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UBS is asking its shareholders to support its 2015 AGM agenda, including the inaugural vote on GEB and BoD compensation

**As usual, UBS is also requesting that shareholders provide an advisory vote on its compensation report**

## **We believe shareholders should support management:**

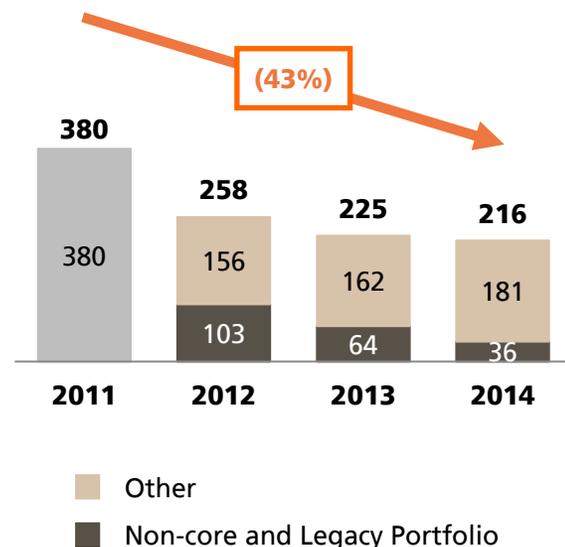
- We have built a robust compensation model premised on generating attractive and sustainable returns for shareholders
- We consider the UBS performance award framework to be one of the most demanding relative to our peers, and it has remained broadly unchanged in 2014
- UBS delivered a strong financial performance in 2014, completing its strategic transformation and delivering attractive returns to shareholders
  - Net profit attributable to shareholders increased 9% to CHF 3.5 billion
  - Executed on strategic cost savings initiatives reducing costs in Corporate Center by CHF 300 million
  - Made progress with resolution and recovery planning by establishing our Group holding company
  - Continued to improve our capital position, increasing our Swiss SRB leverage ratio 70bps to 4.1%, and our Basel III fully applied CET1 ratio by 60 bps to 13.4%
  - Proposed ordinary dividend of CHF 0.50, up 100%, with further one-time supplementary capital return of CHF 0.25 accrued
- 2014 performance pool was CHF 3.1 billion, 5% lower than in 2013, balancing our strong performance with the effects of charges for provisions for litigation, regulatory and similar matters
  - Total performance award pool down 5% to CHF 3.1 billion
  - Total GEB performance award pool down 7% to CHF 58.4 million
- Maximum aggregate amount of fixed compensation of CHF 25 million for the GEB for financial year 2016
- Maximum aggregate amount of compensation of CHF 14 million for the members of the Board of Directors from the 2015 Annual General Meeting to the 2016 Annual General Meeting

# Completed our strategic transformation

Achieved strategic targets announced in 2011/2012

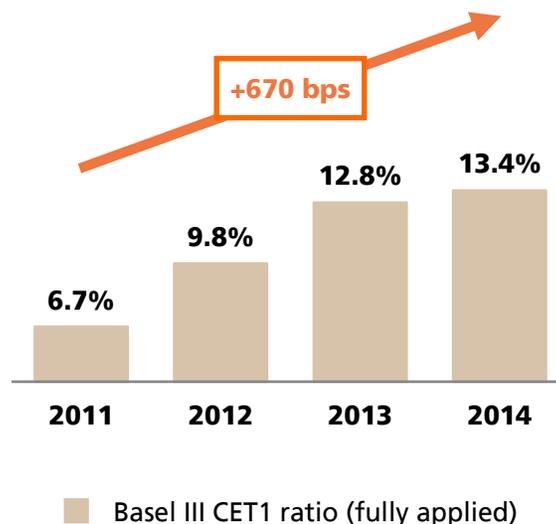
## Reduced risk-weighted assets

Basel III RWA (fully applied), CHF billion



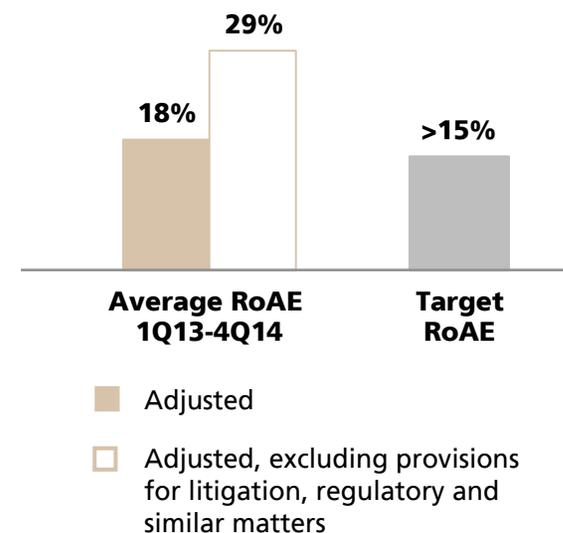
## Achieved our capital targets

Basel III CET1 ratio (fully applied)



## Transformed our Investment Bank

Investment Bank pre-tax RoAE<sup>1</sup>



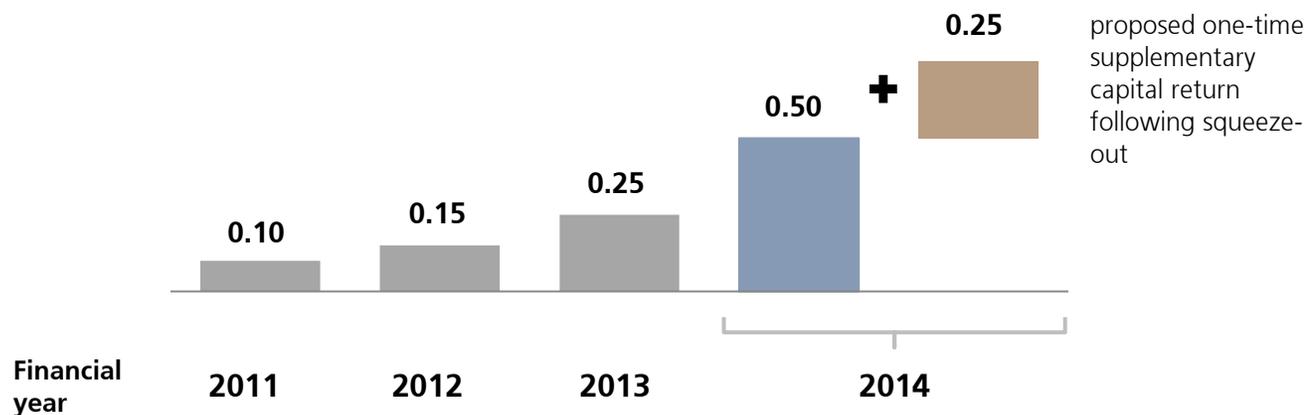
**We are focused on growing our core businesses profitably and delivering attractive shareholder returns**

# Delivering attractive returns to our shareholders

## Proposed ordinary dividend and accrued one-time supplementary capital return in 2014

### Total capital return per share

CHF per share



proposed one-time supplementary capital return following squeeze-out

Financial year	2011	2012	2013	2014
<b>Payout ratio</b>	9%	N/M	30%	55% (ordinary dividend) <sup>3</sup>
<b>CET1 ratio fully applied</b>	~6.7%	~9.8%	12.8%	13.4%

- Ordinary dividend
- Proposed ordinary dividend for 2014
- Proposed one-time supplementary capital return

- 31.12.14 Basel III fully applied CET1 ratio of 13.4% reflects accrual for both the 2014 ordinary dividend and the one-time supplementary capital return
- The ordinary dividend<sup>1</sup> and the one-time supplementary capital return<sup>2</sup> will be paid out of capital contribution reserves
- Ordinary dividend and one-time supplementary capital return will have different record and payment dates

**We are committed to a total payout ratio of at least 50% of net profit attributable to UBS Group AG shareholders<sup>4</sup>**



Refer to slide 23 for details about adjusted numbers, Basel III numbers and FX rates in this presentation

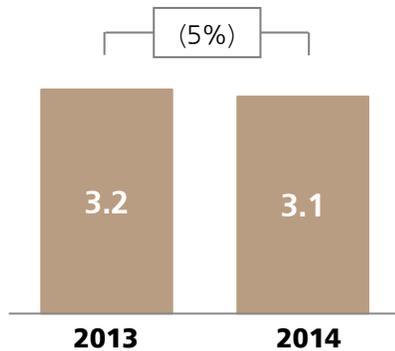
1 Expected dates for UBS Group 2014 ordinary dividend: 11.5.15 (ex date), 12.5.15 (record date) and 13.5.15 (payment date); 2 One-time supplementary capital return expected to be paid out after the completion of the squeeze-out process; 3 Ordinary dividend per share as a % of diluted earnings per share; 4 Payout ratio of at least 50% conditional on both fully applied CET1 ratio of minimum 13% and fully applied CET1 ratio of at least 10% post-stress

# 2014 compensation highlights

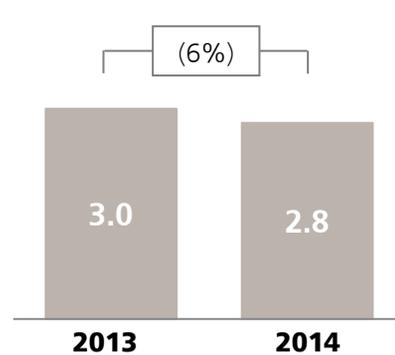
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- Performance award pool takes into account the firm's strong performance, but also recognizes the effects of charges for provisions for litigation, regulatory and similar matters
- 2014 performance award pool was reduced significantly, mainly in the Investment Bank, from what it would have otherwise been in the absence of the matters related to our foreign exchange business
- Over 5,000 employees received on average 54% of their performance award in deferred equity compensation that vests from 3-5 years and deferred contingent capital that vests in 5 years

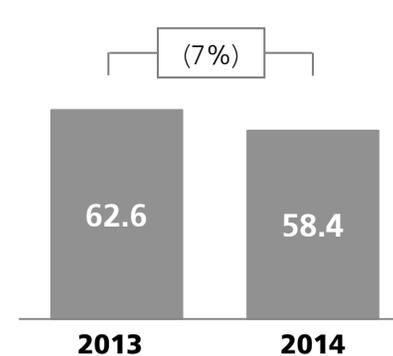
**Performance award pool**  
CHF billion



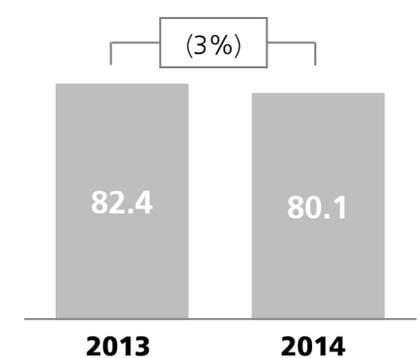
**Performance award expense**  
CHF billion



**Performance award GEB**  
CHF million



**Total compensation GEB**  
CHF million



Section 2

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## 2015 AGM Agenda

# 2015 AGM agenda items

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## Say-on-pay agenda items

### Advisory vote on Compensation Report

The BoD proposes that the shareholders approve the Compensation Report 2014. This provides us with valuable feedback on our compensation practice in relation to the Compensation Framework 2014, governance and policy.

### Binding vote on BoD remuneration

The BoD proposes that the shareholders prospectively approve the maximum aggregate amount of remuneration for the BoD for the period from AGM 2015 to AGM 2016. This ensures that the term of office and the compensation period are aligned. The AGM 2015 invitation sets out the amount and details.

### Binding vote on fixed GEB compensation

The BoD proposes that the shareholders prospectively approve the maximum aggregate amount of fixed compensation for the GEB for the financial year 2016. The AGM 2015 invitation sets out the amount and further details.

### Binding vote on variable GEB compensation

The BoD proposes that the shareholders retrospectively approve the aggregate amount of variable compensation of the GEB for the performance year 2014. The AGM 2015 invitation sets out the amount and further details.

## Other notable agenda items

- Appropriation of results and distribution of dividend:
  - Appropriation of results and distribution of ordinary dividend out of capital contribution reserve
  - Supplementary distribution of a dividend out of capital contribution reserve upon the completion of the acquisition of all shares in UBS AG
- Election of a new member to the Board of Directors: Jes Staley

# Changes to our compensation framework

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## Our framework has remained broadly unchanged in 2014

### **Changes to Deferred Contingent Capital Plan (DCCP)**

- DCCP was introduced in 2012 as a key component of UBS's compensation framework to better align the interests of shareholders, bondholders and employees and to align compensation incentives with the capital strength of the firm
- To further strengthen our capital position, we have enhanced certain features of our employee compensation framework in anticipation of increased focus on tier 1 capital instruments
- Starting with compensation for 2014, DCCP awards qualify as fully applied additional tier 1 capital under Basel III regulations
- Consistent with the prior year, 40% of the deferred annual performance award will be deferred under the DCCP for five years

### **Other Changes**

- In 2014, the EU Capital Requirements Directive IV requires a cap on the fixed to variable compensation ratio for certain employees within the EU
- As part of the implementation of such a cap, and in response to competitive practices, we have implemented role-based allowances as a feature of the fixed compensation for certain employees

## Section 3

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# CEO and Group Executive Board compensation

# Group Executive Board compensation framework

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Total GEB performance award pool down 7% to CHF 58.4 million

	Under framework
Performance award cap - CEO	5x base salary
Performance award cap – other GEB	7x base salary
Performance award cap – full GEB	2.5% of the Group's adjusted PBT
Determination of individual performance awards	KPI scorecard
Equity portion of deferred compensation	At least 62.5%
DCCP portion of deferred compensation	Up to 37.5%
DCCP's phase-in CET1 capital ratio trigger	10%

# Performance Awards for GEB Members

## GEB performance awards are at the discretion of the Board of Directors

### Pay for performance

- Human Resources and Compensation Committee (HRCC) reviews the performance of the CEO/GEB against the Group's performance targets; The GEB's performance awards are based on financial and non-financial performance measures and consider performance of the individual and the Group overall
- The Group CEO/GEB performance scorecard is based on a set of quantitative and qualitative measures, and provides a framework for a balanced assessment
- Compensation plan forfeiture provisions enable the firm to reduce the unvested deferred portion if the compensation plans' relevant performance conditions are not achieved

### Safeguards

- Our compensation framework contains a number of features designed to ensure that risk is appropriately managed. Our framework has:
  - A balanced mix of shorter-term and longer-term performance awards with a focus on deferral
  - A cap on the total GEB performance award pool
  - Individual caps on the proportion of fixed to variable pay for the CEO and other GEB members
  - A policy that GEB members must build up and hold a minimum stock position
  - an evaluation of the risk control effectiveness and adherence of each GEB member
  - Provisions that enable the firm to trigger forfeiture of some, or all, of the unvested deferred performance award if an employee commits certain harmful acts, or if the employment is terminated for cause

Appendix A

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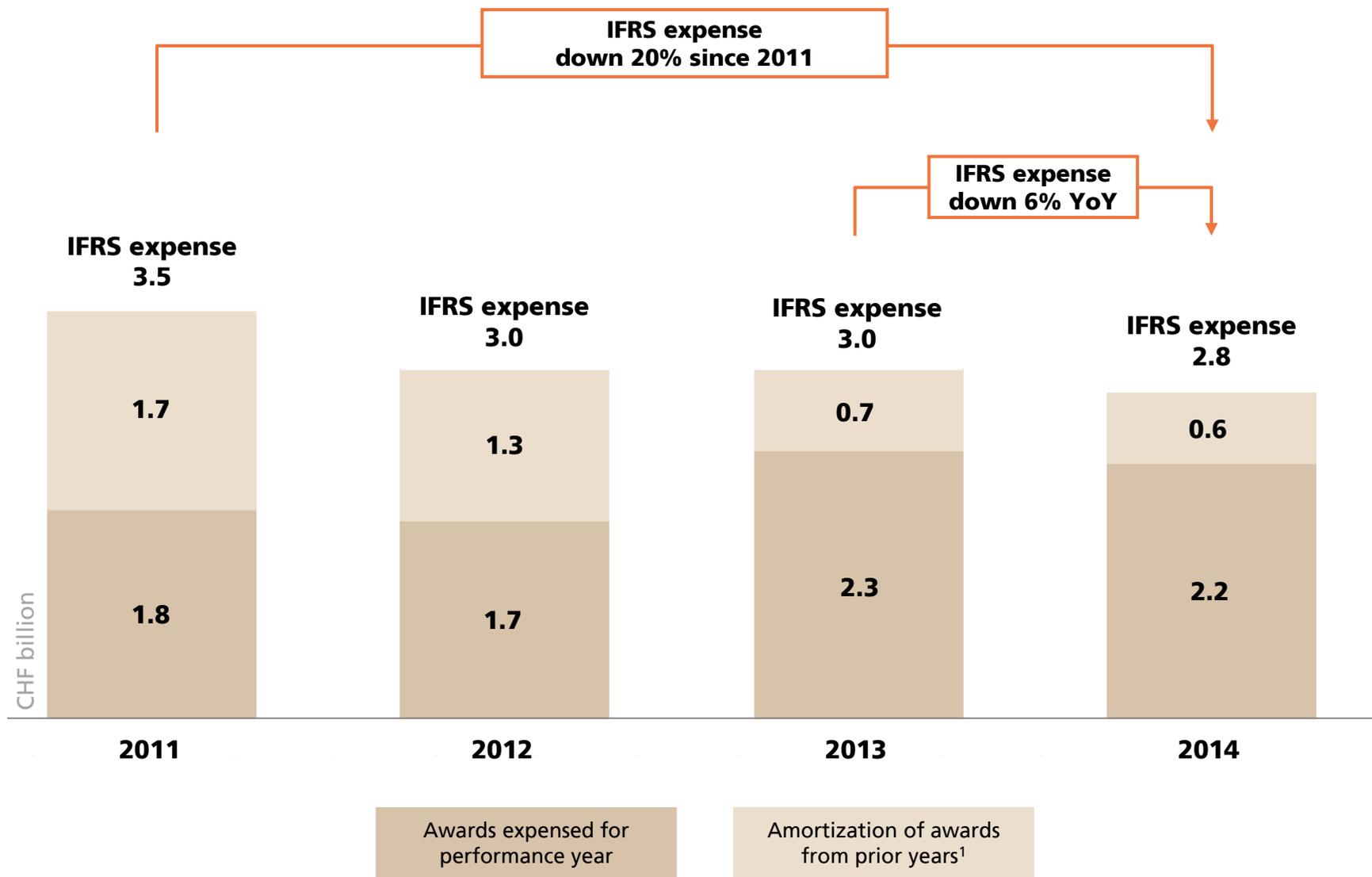
## Supporting materials

# Our compensation framework

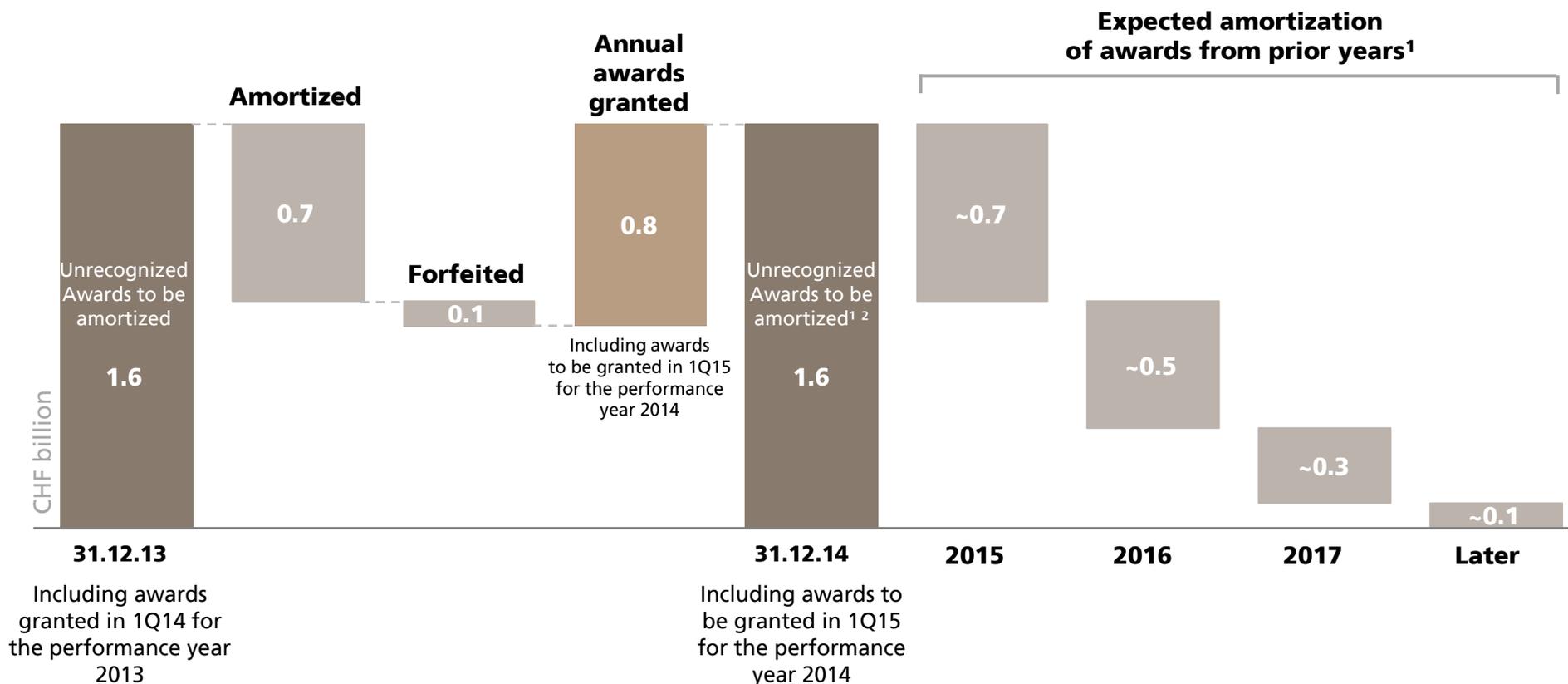
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- UBS has **one of the most stringent performance award frameworks**, relative to its peers and this framework has remained broadly unchanged in 2014
- We have built a **robust compensation model fostering accountability for achieving medium- and long-term goals and premised on generating attractive and sustainable returns** for shareholders
- Our compensation model is founded on **disciplined capital management** and characterized by **performance awards based on risk-adjusted profitability**
- We intend to strike and maintain a balance whereby we **reward employees effectively and responsibly**
- We will **continue to assess and refine our compensation framework** to promote stable performance, risk alignment and competitive pay positioning against the backdrop of increasing regulation and a changing business environment
- We will **remain responsive to our shareholders** and seek out opportunities to engage with them on compensation matters

# Variable compensation expenses



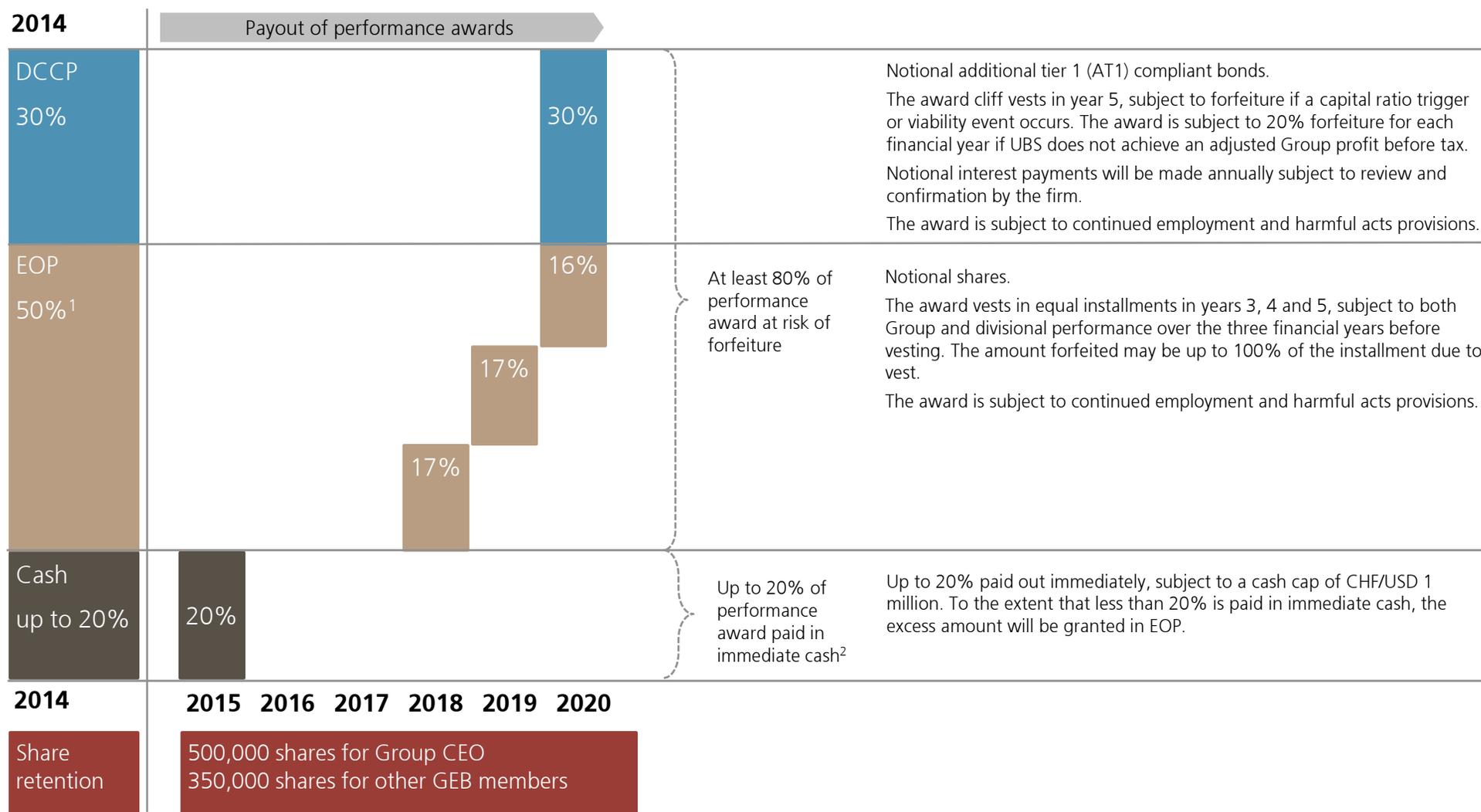
# Deferred compensation



# 2014 Compensation framework for GEB members

Of the annual performance award, up to 20% is paid in the form of immediate cash, and 80% is paid as a longer-term performance award, with 50% paid in deferred equity and the remaining 30% in deferred notional bonds.

Illustrative example:



<sup>1</sup> At least 50% of the performance award is granted under the Equity Ownership Plan (EOP); <sup>2</sup> UK Code Staff receive 50% in the form of blocked shares

# Scorecard for Group CEO

Financial factors <sup>1</sup>		2014 results	Weighting	Assessment relative to plan	
				Target	
Group (65%)	Group RoE	7.0%	20%	●	
	Adjusted Group profit before tax <sup>2</sup>	CHF 5 billion	25%	●	
	Basel III CET1 capital ratio (fully applied)	13.4% <sup>3</sup>	20%	●	
Qualitative factors		Weighting		Assessment	
				Target	
Capital management, efficiency and effectiveness, risk management, client focus, sustainable performance, excellence, integrity, collaboration, challenge		35%		●	

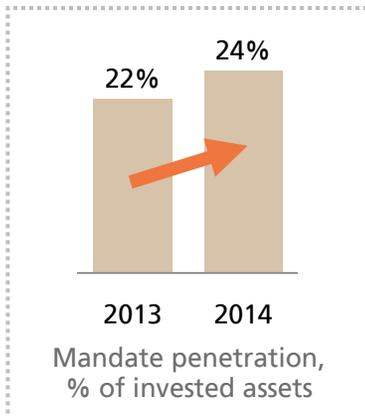
- Group CEO's total fixed and variable compensation increased from CHF 10.7 million in 2013 to CHF 11.2 million for 2014
- Mr. Ermotti successfully steered the firm through turbulent market conditions, demonstrating the strength and resilience of the firm's strategy and operating model as well as the value of continued de-risking of businesses and the emphasis on our wealth management capabilities globally

# FY14 – strong net profit growth

Net profit attributable to UBS Group AG shareholders up 9% to CHF 3.5 billion

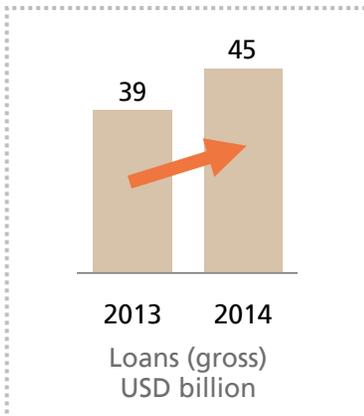
## Wealth Management

- Profit before tax +4%
- Continued growth in recurring income on increased lending balances and successful book transformation initiatives



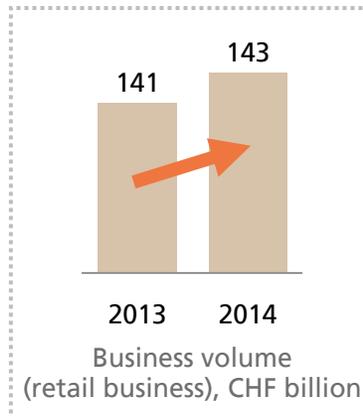
## Wealth Management Americas

- Achieved more than USD 1 billion in PBT
- Record performance including PBT, revenue, gross loans, invested assets and FA productivity



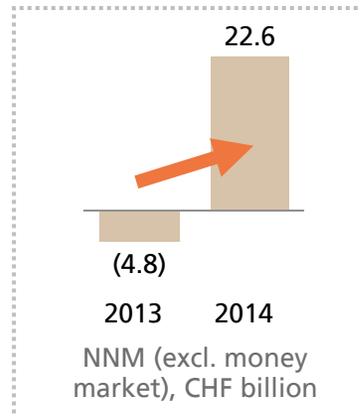
## Retail & Corporate

- Profit before tax +4%
- All KPIs within target range
- CHF 4.4 billion gross shift volumes to Wealth Management, up 7% YoY



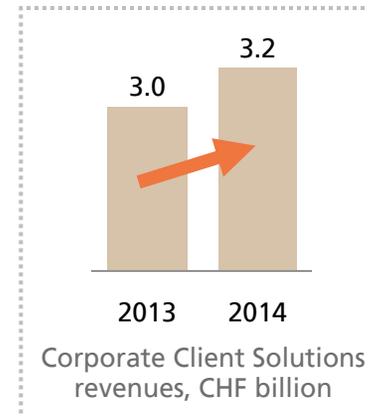
## Global Asset Management

- Turnaround in NNM
- Completed strategic review and commenced implementation of strategic initiatives



## Investment Bank

- Highly resilient revenue generation while deploying resources efficiently

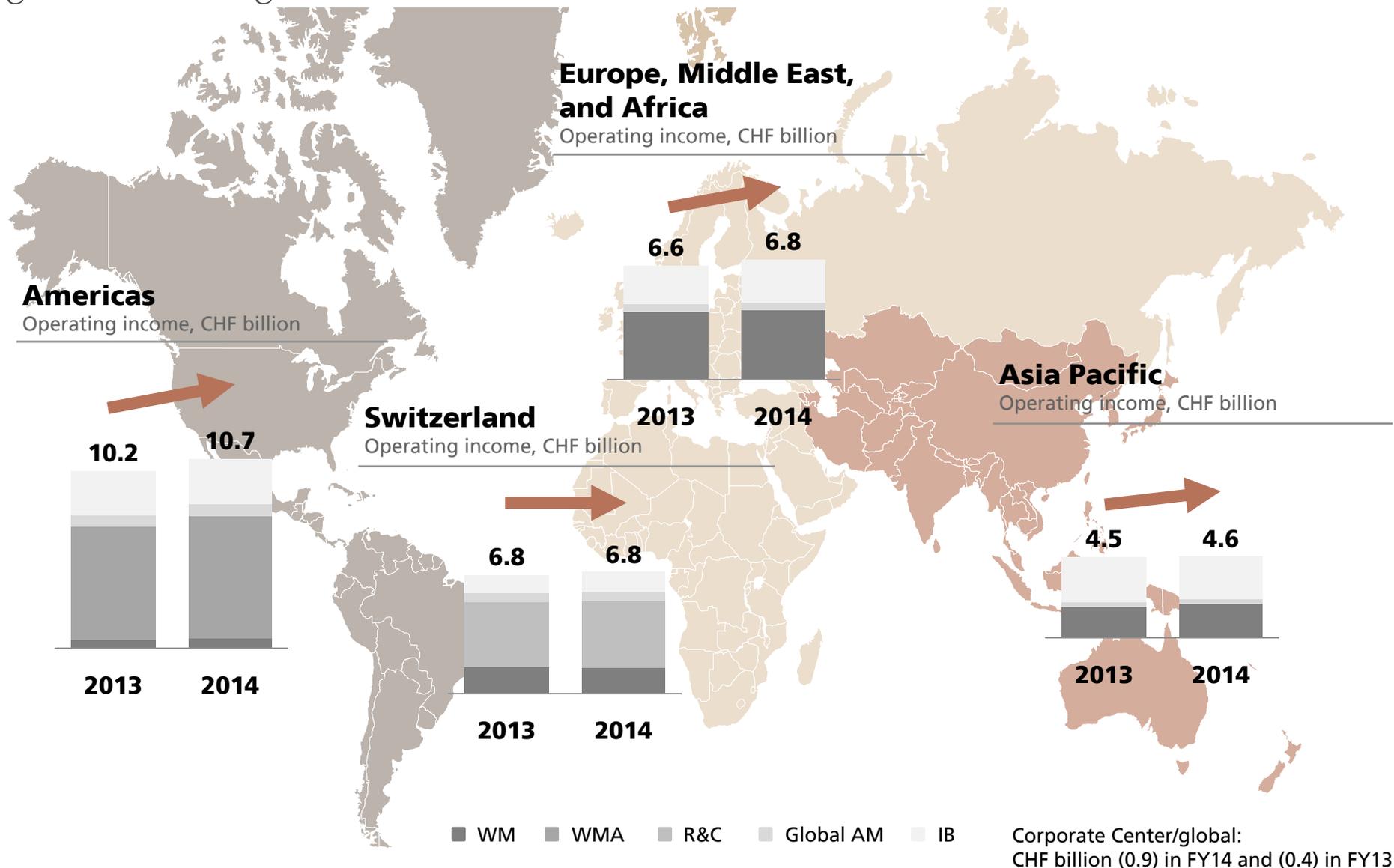


## Group

- Established Group holding company and successfully completed share-for-share exchange offer
- Relentless focus on efficiency; achieved ~CHF 300 million Corporate Center net cost reductions in FY14
- Significant progress in adapting to material regulatory change
- CHF 2.1 billion net upward revaluation of deferred tax assets

# UBS is diversified by business and geography

## Regional revenue growth across UBS's businesses in 2014



# Adjusted results

Adjusting items	Business division / Corporate Center	4Q13	3Q14	4Q14	FY13	FY14
CHF million						
<b>Operating income as reported (Group)</b>		<b>6,307</b>	<b>6,876</b>	<b>6,746</b>	<b>27,732</b>	<b>28,027</b>
<i>Of which:</i>						
Own credit on financial liabilities designated at fair value	Corporate Center - Core Functions	(94)	61	70	(283)	292
Gains on sales of real estate	Corporate Center - Core Functions	61	0	20	288	44
Net loss related to the buyback of debt in public tender offer	Corporate Center - Core Functions	(75)	0	0	(194)	0
	Corporate Center - Non-core and Legacy Portfolio	0	0	0	27	0
Gain from the partial sale of our investment in Markit	Investment Bank	0	0	0	0	43
Gain on sale of Global AM's Canadian domestic business	Global Asset Management	0	0	0	34	0
Impairment of financial investments available-for-sale	Investment Bank	0	(48)	0	0	(48)
	Investment Bank	0	0	0	55	0
Net gain on sale of remaining proprietary trading business	Corporate Center - Core Functions	0	0	0	(24)	0
<b>Operating income adjusted (Group)</b>		<b>6,415</b>	<b>6,863</b>	<b>6,656</b>	<b>27,829</b>	<b>27,696</b>
<b>Operating expenses as reported (Group)</b>		<b>5,858</b>	<b>7,430</b>	<b>6,342</b>	<b>24,461</b>	<b>25,567</b>
<i>Of which:</i>						
	Wealth Management	41	60	48	178	185
	Wealth Management Americas	26	15	23	59	55
	Retail & Corporate	12	20	16	54	64
Net restructuring charges	Global Asset Management	13	5	39	43	50
	Investment Bank	89	50	60	210	261
	Corporate Center - Core Functions	(7)	16	8	(6)	30
	Corporate Center - Non-core and Legacy Portfolio	24	10	14	235	31
	Wealth Management Americas	0	(3)	(7)	0	(9)
Credit related to changes to retiree benefit plans in the US	Global Asset Management	0	(8)	0	0	(8)
	Investment Bank	0	(19)	(1)	0	(20)
	Corporate Center - Non-core and Legacy Portfolio	0	(3)	0	0	(3)
<b>Operating expenses adjusted (Group)</b>		<b>5,660</b>	<b>7,287</b>	<b>6,142</b>	<b>23,689</b>	<b>24,931</b>
<b>Operating profit/(loss) before tax as reported</b>		<b>449</b>	<b>(554)</b>	<b>404</b>	<b>3,272</b>	<b>2,461</b>
<b>Operating profit/(loss) before tax adjusted</b>		<b>755</b>	<b>(424)</b>	<b>514</b>	<b>4,141</b>	<b>2,766</b>



Refer to slide 23 for details about adjusted numbers, Basel III numbers and FX rates in this presentation

# Important information related to this presentation

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## **Use of adjusted numbers**

Unless otherwise indicated, “adjusted” figures exclude the adjustment items listed on the previous slide, to the extent applicable, on a Group and business division level. Adjusted results are a non-GAAP financial measure as defined by SEC regulations. Refer to pages 89 and 90 of our 2014 annual report, for an overview of adjusted numbers.

## **Basel III RWA, Basel III capital and Basel III liquidity ratios**

Basel III numbers are based on the BIS Basel III framework, as applicable for Swiss Systemically relevant banks (SRB). Numbers in the presentation are SRB Basel III numbers unless otherwise stated. Our fully applied and phase-in Swiss SRB Basel III and BIS Basel III capital components have the same basis of calculation, except for differences disclosed on page 257 of our 2014 annual report.

Basel III risk-weighted assets in the presentation are calculated on the basis of Basel III fully applied unless otherwise stated. Our RWA under BIS Basel III are the same as under Swiss SRB Basel III.

Leverage ratio and leverage ratio denominator in this presentation are calculated on the basis of fully applied Swiss SRB Basel III, unless otherwise stated.

From 1Q13 Basel III requirements apply. All Basel III numbers prior to 1Q13 are on a pro-forma basis. Some of the models applied when calculating pro-forma information required regulatory approval and included estimates (discussed with our primary regulator) of the effect of these new capital charges.

Refer to the “Capital Management” section in the 2014 annual report for more information.

## **Currency translation**

Monthly income statement items of foreign operations with a functional currency other than Swiss francs are translated with month-end rates into Swiss francs. Refer to “Note 36 Currency translation rates” in the 2014 annual report for more information.

## **Rounding**

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