UBS

Annual results 2016

10 March 2017

Dear shareholders,

2016 was another challenging year for the industry and UBS, marked by macroeconomic uncertainty, geopolitical tensions and divisive politics, which adversely affected client sentiment. Combined with the implementation of stricter prudential standards and the unclear trajectory of the future regulatory landscape, these factors contributed to headwinds for our businesses.

In particular, economic conditions in the world's major economic centers – the US, the eurozone and China – were mixed. The US grew more slowly than expected, and although consumption remained strong and unemployment fell, the Federal Reserve Board delayed raising interest rates until the end of the year. In the eurozone, exceptionally loose monetary policy, continuing negative interest rates, low oil prices and improving credit conditions supported a modest recovery. Emerging market economies were highly divergent, although the slowdown in China proved milder than anticipated. While the Swiss economy rebounded following the sharp appreciation of the Swiss franc in the prior year, negative interest rates continued to provide challenging conditions with unclear medium- to long-term consequences. The results of the US election and the UK's vote to leave the EU produced the year's biggest political surprises, creating additional volatility and concerns.

Despite these many challenges, which had a particularly strong impact on European banks, our results in 2016 were solid and once again demonstrated the benefits of our balanced business mix and geographic diversification. As the world's largest and only truly global wealth manager, we have a significant presence in both mature and high-growth markets. We are the number one bank in Switzerland and have competitive and specialized Investment Bank and Asset Management businesses. 2016 was another example of the power of our business model, as strong results in the US and Switzerland partly offset headwinds in Asia and the rest of Europe.

For the year, Group net profit attributable to shareholders was CHF 3.2 billion, with profit before tax of CHF 4.1 billion, and adjusted[1] profit before tax was CHF 5.3 billion, down 5% year on year. Our return on equity was 5.9% and our adjusted[1] return on tangible equity was 9.0%. We generated CHF 42 billion of net new money in our wealth management businesses, while absorbing substantial cross-border outflows in Wealth Management.

Wealth Management's adjusted[1] profit before tax was CHF 2.4 billion, down 15% on the prior year as cost reductions only partly offset lower revenues caused by reduced client activity, the effects of cross-border outflows and shifts into retrocession-free products, and changes in clients' asset allocation. Net new money was CHF 27 billion, despite cross-border outflows of CHF 14 billion. **Wealth Management Americas** delivered a record adjusted[1] profit before tax of USD 1.3 billion, a 43% increase year on year, and net new money of USD 15 billion. **Personal & Corporate Banking's** adjusted[1] profit before tax was CHF 1.8 billion, up 4% year on year, and the best result since 2008. **Asset Management** recorded an adjusted[1] profit before tax of CHF 552 million, down 10% year on year. The **Investment Bank** maintained its disciplined resource utilization and delivered an adjusted[1] profit before tax of CHF 1.5 billion, down 34% compared with a strong prior year. With an adjusted[1] return on attributed equity of 19.6%, it continued to more than cover its cost of capital and added significant value to our wealth management, corporate and institutional client bases.

We made good progress toward achieving our ambitious cost targets, increasing our net cost savings by CHF 0.5 billion to CHF 1.6 billion, measured based on our year-end exit rate, and on course to achieve our CHF 2.1 billion net cost reduction target by the end of 2017. We achieved these savings while maintaining our focus on properly managing risk, serving our clients and selectively investing in our businesses. We also continued to absorb costs related to legacy issues and provisions for litigation, regulatory and similar matters, amounting to CHF 0.8 billion, down from CHF 1.1 billion in 2015.

Our capital position at the end of 2016 remains one of the strongest among large global banks, with a fully applied common equity tier 1 (CET1) capital ratio of 13.8%. We also reached the 2020 minimum CET1 leverage ratio of 3.5% in the fourth quarter of 2016. During the year, we issued CHF 14 billion of loss-absorbing debt, bringing our total

1 Refer to "Group performance" in the "Financial and operating performance" section of the Annual Report 2016 for more information on adjusted results.

loss-absorbing capacity to over CHF 73 billion, well ahead of Swiss and, in particular, international regulatory requirements. Our strong capital position and successful execution of our strategy resulted in rating upgrades from the three leading credit rating agencies, placing us among the top-rated global banks.

In addition to the progress made on building our capital, we successfully executed a series of measures to improve the resolvability of the Group in response to regulatory requirements in Switzerland and other countries. In 2016, we completed the establishment of UBS Americas Holding LLC as our US intermediate holding company and implemented our Group service company. The measures taken over the last few years have made our bank stronger and more resolvable.

We continue to support effective and reasonable regulation. However, we believe further regulatory tightening would create additional costs for the financial system and the economy at large, with unclear benefits and a negative impact on the international competitive playing field.

Our solid results and leading capital position have allowed us to maintain our ordinary dividend at 2015 levels and reconfirm our dividend policy. We intend to propose a 2016 dividend of CHF 0.60 per share for approval at our next Annual General Meeting (AGM).

In 2016, we further strengthened our reputation for excellence. This was demonstrated by numerous awards and accolades for our businesses. In March, UBS was named the world's number one investment banking house by *Global Finance* in its annual World's Best Investment Banks Survey. UBS dominated the recently announced 2017 *Euromoney* Private Banking Survey, taking the top spot in over 180 categories, including Best Global Private Bank and in the two "Innovative Technology" categories, Client Experience and Back Office Systems. In October 2016, UBS was named Best Global Private Bank and Best Private Bank in Asia at the *FT*'s PWM/The Banker Awards. In July 2016, wealth management researcher Scorpio Partnership confirmed UBS as the world's largest wealth manager.

UBS confirmed its reputation as a global sustainability leader when it was named Diversified Financials Industry Group leader in the Dow Jones Sustainability Indices for the second year running. As of 31 December 2016, sustainable investments by our clients totaled CHF 976 billion, representing over a third of total invested assets. As one of the first signatories of the UN Global Compact with one of the largest portfolios of sustainable investment products and services, UBS is actively engaged in supporting the UN Sustainable Development Goals (SDGs). The UBS Grand Challenge mobilized over 1,200 employees to develop innovative solutions for five of the SDGs. UBS also announced plans to direct at least USD 5 billion of client assets to support the SDGs over the next five years. UBS's ongoing commitment to sustainable investing found expression in a number of groundbreaking initiatives, most notably the closing of the USD 471 million UBS Oncology Impact Fund. This is the largest amount ever raised for an impact fund dedicated to a single cause.

In 2016, our Community Affairs program benefited over 117,000 young people and entrepreneurs across all of the regions in which we operate. Our local volunteering programs saw over 30% of UBS employees record a total of over 155,000 volunteer hours in community engagement projects.

We would like to take this opportunity to thank both our clients and our shareholders for their continued support and our employees for their dedication and commitment over the year. Our focus remains on the disciplined execution of our strategy, staying close to our clients and delivering sustainable performance, while investing for growth. Our unique business model, successful track record of execution and strategic clarity position us well to deliver for our clients and generate shareholder value in a variety of market conditions.

We look forward to seeing you at this year's AGM.

Yours sincerely,

UBS

Axel A. Weber Chairman of the Board of Directors	Sergio P. Ermotti Group Chief Executive Officer