

Say-on-pay

Shareholder information on compensation votes
at the **UBS Group AG Annual General Meeting 2017**



Dear shareholder,



In 2016, we continued to execute our strategy with discipline and delivered solid results while prudently managing resources and risk. Management made further significant progress in the organization's cultural transformation, which remains a key priority and is embedded in our talent management approach, including our compensation framework. For 2016, the overall compensation framework remained unchanged and we continue to focus on rewarding performance, while balancing returns for our shareholders. The consistency in our approach to compensation over the past five years has strengthened our culture of sustainable performance, accountability and appropriate risk-taking.

In this publication, we provide information and background on compensation proposals with regard to the Group Executive Board (GEB) and the Board of Directors (BoD). Similar to last year, these are subject to approval from our shareholders in line with the Swiss Ordinance against Excessive Compensation and our Articles of Association.

At the Annual General Meeting (AGM) 2017, we ask our shareholders to vote on the variable compensation for the GEB for 2016, the fixed compensation for the GEB for 2018, and the compensation for the BoD from the AGM 2017 to the AGM 2018. In addition, we also ask our


This document and the information contained herein are provided solely for information purposes, and are not to be construed as a solicitation of an offer to buy or sell any securities or other financial instruments in Switzerland, the United States or any other jurisdiction. No investment decision relating to securities of or relating to UBS Group AG or its affiliates should be made on the basis of this document. Refer to the management report for the year ended 31 December 2016 for additional information. This report is available at www.ubs.com/annualreport. UBS undertakes no obligation to update the information contained herein.

shareholders for an advisory vote on our Compensation Report, which describes our strategy to compensation, including our principles, governance and practices.

Both the advisory vote and the binding votes on compensation provide us with valuable feedback on our compensation policy and reflect our commitment to transparent say-on-pay for our shareholders. We are grateful for your participation.

The specific votes on compensation that we will submit to our shareholders are outlined in this brochure in greater detail. More information regarding our compensation framework for the GEB and the BoD, including related governance and policy, is provided in the UBS Group AG Compensation Report 2016 at www.ubs.com/annualreport.

Sincerely,

A handwritten signature in black ink, appearing to read 'Axel Weber', with a long, sweeping flourish extending to the right.

Axel A. Weber
Chairman of the Board of Directors

Say-on-pay at the Annual General Meeting 2017

At the AGM 2017, UBS Group AG shareholders are invited to vote on the compensation-related items highlighted below. This is in line with article 43 para. 1 of the Articles of Association of UBS Group AG.

AGM 2017 agenda

1. UBS Group AG management report and consolidated and standalone financial statements for the financial year 2016
 - 1.1. Approval of the UBS Group AG management report and consolidated and standalone financial statements
 - 1.2. Advisory vote on the UBS Group AG Compensation Report 2016
2. Appropriation of retained earnings and distribution of ordinary dividend out of capital contribution reserve
3. Discharge of the members of the Board of Directors and the Group Executive Board for the financial year 2016
4. Approval of the aggregate amount of variable compensation for the members of the Group Executive Board for the financial year 2016
5. Approval of the maximum aggregate amount of fixed compensation for the members of the Group Executive Board for the financial year 2018
6. Elections
 - 6.1. Re-election of members of the Board of Directors
 - 6.2. Election of a new member to the Board of Directors
 - 6.3. Re-election of the members of the Compensation Committee
7. Approval of the maximum aggregate amount of compensation for the members of the Board of Directors from the Annual General Meeting 2017 to the Annual General Meeting 2018
8. Re-elections
 - 8.1. Re-election of the independent proxy, ADB Altorfer Duss & Beilstein AG, Zurich
 - 8.2. Re-election of the auditors, Ernst & Young Ltd, Basel

■ Advisory vote on compensation-related item

■ Binding vote on compensation-related item

Agenda item 1.2: Advisory vote on the UBS Group AG Compensation Report 2016

The Board of Directors proposes that the UBS Group AG Compensation Report 2016 be ratified in an advisory vote.

2016 compensation principles and framework

The Board of Directors (BoD) encourages shareholders to continue to support the 2016 compensation framework through the advisory vote on the UBS Group AG Compensation Report 2016. The compensation framework has remained largely unchanged since 2012. The Compensation Report 2016 includes details on the firm's compensation policy, framework and governance, with specific focus on the policies and practices applicable to the Group Executive Board (GEB) and the BoD. The report is provided at www.ubs.com/annualreport.

Compensation governance framework

The BoD's Compensation Committee is responsible for ensuring strong governance and oversight of our compensation process. Our Compensation Committee consists of four independent BoD members who are elected each year at the AGM.

Total Reward Principles

Our compensation philosophy is to align the interests of our employees with those of our clients and investors, building on our guiding principles of client focus, excellence and sustainable performance. Our Total Reward Principles establish the framework for determining our performance award pool and guide the allocation and delivery mechanisms of compensation to employees, including deferred compensation programs. The principles underpin our approach to compensation by establishing a framework that balances performance and prudent risk-taking with a focus on conduct and sound risk management practices.

GEB compensation

Each GEB member receives a fixed base salary and may be considered for an annual performance award. One GEB member is considered a Material Risk Taker (MRT) in the UK and is in a UK Senior Management Function (SMF) and therefore receives a role-based allowance in addition to the base salary.

We use individual balanced scorecards that allow the BoD to assess the GEB members' performance against a number of quantitative and qualitative key performance indicators. The performance assessment on the basis of the quantitative and qualitative measures results in an overall rating, which is the starting point for determining a GEB member's annual performance award. When recommending performance awards for the Group Chief Executive Officer (Group CEO) and each individual GEB member, the respective total compensation for each role is reviewed against the broader market as well as a group of peer companies.

The GEB's compensation framework focuses on balancing performance with prudent risk-taking and encourages behaviors that lead to sustainable performance and results. Performance awards are delivered in an immediate cash performance award and in a longer-term deferred performance award. As outlined in the UBS Group AG Compensation Report 2016, at least 80% of a GEB member's performance award is deferred, while a maximum of 20% can be paid out in the form of immediate cash, subject to a cap of CHF/USD 1 million (or local currency equivalent). Any amount above this cap is granted in notional UBS shares under the Equity Ownership Plan (EOP).

A minimum of 50% of the overall performance award is granted under the EOP, which vests in three equal installments in years 3 to 5, provided that performance conditions are met. The remaining 30% of the overall performance award is granted under the Deferred Contingent Capital Plan (DCCP). Under the DCCP, GEB members are awarded notional additional tier 1 instruments that vest after 5 years, with discretionary annual interest payments. In addition to a common equity tier 1 capital ratio write-down trigger of 10%, which is higher than the trigger for other employees and holders of similar debt issued by the UBS Group, DCCP awards are subject to an additional performance condition. GEB members forfeit 20% of the granted DCCP award for each loss-making year during the vesting period. This means that 100% of the GEB DCCP award is subject to risk of forfeiture in addition to the more onerous capital ratio trigger.

For the GEB member whose role is considered an SMF, the overall deferred amount vests in equal installments between years 3 and 7, subject to the applicable claw-back provisions. Given that an SMF is also an MRT, 50% of any immediate cash is delivered in vested UBS shares that are blocked for six months, as required by regulators. Additionally, EOP installments are required to be blocked for an additional six months upon vesting.

Overall, the total potential GEB performance award pool is capped at 2.5% of the adjusted Group profit before tax. This links the overall GEB compensation to the firm's profitability. The Group's adjusted profit before tax for 2016 was CHF 5.3 billion. The total GEB performance award pool proposed for 2016 is CHF 71.9 million. The proposed performance award pool as a percentage of adjusted Group profit before tax is therefore 1.3%, which is well below the cap of 2.5%. Additionally, the Group CEO's performance award is capped at five times his fixed compensation and performance awards for other GEB members are capped at seven times their fixed compensation.

BoD compensation

Independent BoD members receive fixed fees for their services, 50% of which must be used to purchase blocked UBS shares. The members may elect to purchase blocked UBS shares using up to 100% of their fees. This preserves BoD members' independence from senior management and reinforces their focus on long-term strategic planning, supervision and governance. As a non-independent BoD member, the Chairman receives a cash payment, blocked UBS shares and benefits as well as contributions to the retirement benefit plan in line with local practices for other employees.

Deferral of performance awards and UBS compensation plans for all other employees

For all employees with total compensation exceeding CHF/USD 300,000, a significant part of their performance award will be deferred for up to five years, or longer for certain regulated employees. Of the deferred annual performance award, 60% is deferred in UBS notional shares under the EOP and the remaining 40% is deferred in notional instruments under the DCCP. These plans include forfeiture provisions and performance conditions. Our goal is to focus our employees on the longer-term profitability of the firm.

2016 compensation framework for the GEB

Fixed compensation and benefits		
	Fixed compensation¹	Retirement benefit plans and other benefits
Description	Fixed compensation reflects role and market practice	Provides a level of retirement benefits and other relevant coverages based on local market practice and regulations
Vesting schedule	–	–
Performance conditions	–	–
Delivery	Cash	Country specific
Caps on compensation	–	–
Shareholding requirement	–	–

Variable compensation

Individual performance award based on a balanced scorecard assessing the performance against a number of quantitative and qualitative key performance indicators

Cash (up to 20% of the performance award)²

Rewards performance against objectives, values and behaviors

Immediate (2017)

–

Cash

EOP (at least 50% of the performance award)

Rewards long-term shareholder value creation and sustainable growth

Provides alignment with shareholders' interests

3–5 years (2020–2022)³

Vesting based on achieving Group return on tangible equity and the business division return on attributed equity thresholds over the three financial years before vesting

UBS equity

DCCP (30% of the performance award)

Rewards long-term prudent risk-taking and capital strength

Provides alignment with debt holders' interests

5 years (2022)³

Vesting based on the firm being profitable and meeting Group common equity tier 1 capital ratio thresholds

Settlement in either cash or a marketable AT1 instrument

Cap on the total GEB performance award pool of 2.5% of the adjusted Group profit before tax
Individual caps on the proportion of variable to fixed compensation for the GEB members (variable compensation for the Group CEO is capped at five times fixed compensation; variable compensation for the other GEB members is capped at seven times fixed compensation)

Share ownership policy under which each GEB member must build up and hold a minimum of **350,000** UBS shares. The Group CEO must build up and hold a minimum of **500,000** UBS shares.

¹ May include role-based allowances that have been made in line with market practice in response to regulatory requirements, delivered in cash and blocked UBS shares. ² Performance award paid out in cash is subject to a cap of CHF/USD 1 million (or local currency equivalent). The GEB member who is considered a UK Material Risk Taker receives 50% in the form of blocked UBS shares. ³ The performance award for the GEB member who is in a UK Senior Management Function has an extended deferral period, with the deferred performance award vesting in equal installments between years 3 and 7, subject to applicable claw-back provisions.

Agenda item 4: Approval of the aggregate amount of variable compensation for the members of the Group Executive Board for the financial year 2016

The Board of Directors proposes that the aggregate amount of variable compensation of CHF 71,900,000 for the members of the Group Executive Board for the financial year 2016 be approved.

2016 performance assessment for the GEB members and proposed 2016 performance awards

Despite a challenging year for the industry, we reported solid financial performance for 2016 and again demonstrated that our balanced business mix and geographic diversification are important differentiators for UBS. Adjusted profit before tax declined 5% to CHF 5.3 billion. Net profit attributable to UBS Group AG shareholders decreased 48% to CHF 3.2 billion. This was mainly due to a significant net upward revaluation of deferred tax assets in 2015, which was not repeated in 2016. Our adjusted return on tangible equity for 2016 was 9.0%, and 11.1% when the effects of movement in deferred tax assets are excluded.

We made good progress on our ambitious CHF 2.1 billion cost reduction target, increasing our net cost savings run rate by around CHF 0.5 billion to CHF 1.6 billion, despite elevated regulatory costs and while investing for growth.

From a capital perspective, we ended 2016 with a strong fully applied common equity tier 1 (CET1) capital ratio of 13.8%, despite an increase in risk-weighted assets due to regulatory changes. At the end of 2016, our fully applied CET1 leverage ratio was 3.53%, up from 3.35% at the end of 2015. We continued to implement measures to improve our resolvability, establishing our US intermediate holding company and implementing our Group service company structure.

Reflecting our solid results and disciplined execution, together with our strong capital position, the BoD proposes a dividend of CHF 0.60 per share. This is unchanged from last year's ordinary dividend and represents a payout ratio of 71% of net profit attributable to shareholders.

In determining the performance awards for GEB members, the Compensation Committee and the full BoD considered factors such as individual performance assessed against a balanced scorecard of quantitative and qualitative measures as well as market position and trends.

Given the overall accomplishments of the GEB members, including the Group CEO, both individually and collectively, in the context of overall Group performance and our ambition to align our compensation to appropriate external performance benchmarks, the BoD proposes that shareholders approve the aggregate 2016 variable compensation for the members of the GEB of CHF 71,900,000 as set out in the table on the next page. On a per

capita basis, given the expansion to 12 full-time equivalent members in 2016, this reflects a decrease of 16% compared with 2015. The BoD approved that the Group CEO and all GEB members would receive their performance awards in immediate cash and deferred awards under EOP and DCCP as outlined in the agenda item 1.2 of this brochure and detailed in the UBS Group AG Compensation Report 2016.

Timing of delivery of the variable compensation for the GEB for 2016^{1,2}

CHF million		2017	2018	2019	2020	2021	2022
Value at grant							
Immediate cash	11.3						
EOP shares	13.0						
EOP shares	13.0						
EOP shares	13.0						
DCCP instruments	21.6						
Total	71.9						

¹ Deferred awards under EOP and DCCP are subject to forfeiture. ² The performance award for the GEB member who is in a UK Senior Management Function has an extended deferral period, with the deferred performance award vesting in equal installments between years 3 and 7, subject to the applicable claw-back provisions.

- Immediate cash to be paid in May 2017
- EOP UBS shares vesting and allocation subject to multi-year profitability performance conditions
- DCCP cash payment subject to resolvability and profitability conditions between 2017 and 2021

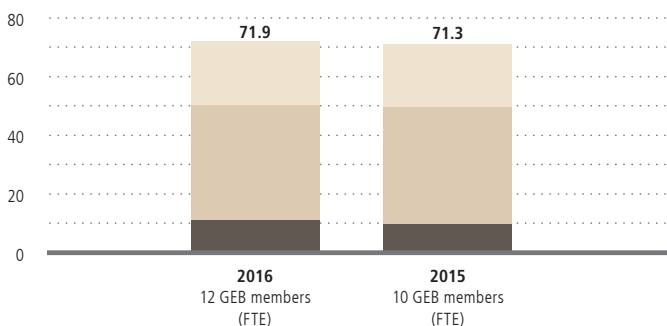
Aggregate amount of variable compensation for the GEB

<i>CHF, except where indicated¹</i>	2016	2015
Annual performance award in immediate cash ²	11,289,350	9,745,110
Annual performance award under EOP ³	39,040,650	40,129,890
Annual performance award under DCCP ⁴	21,570,000	21,375,000
Total amount subject to shareholder approval^{5,6}	71,900,000	71,250,000
Number of GEB members (full-time equivalents)	12	10

¹ Local currencies have been translated into Swiss francs at the exchange rates stated in "Note 34 Currency translation rates" in the "Consolidated financial statements" section of the Annual Report 2016 or at the performance award currency exchange rate. ² In accordance with the remuneration section of the UK Prudential Regulation Rulebook, the immediate cash includes blocked UBS shares for one GEB member. ³ For EOP awards, the number of UBS shares has been determined by dividing the amount by the average closing share price of UBS shares over the last ten trading days in the month of February following the performance year. ⁴ DCCP awards reflect the amount of the notional instruments, excluding future notional discretionary interest, which is set in reference to observed market rates of comparable additional tier 1 instruments. ⁵ Excludes the portion related to the legally required employer's social security contributions for 2016 and 2015, which are estimated at grant at CHF 5.1 million and CHF 4.1 million, respectively. ⁶ 2016 includes compensation for Lukas Gähwiler for eight months in office as a GEB member.

Overview of aggregate GEB variable compensation 2015–2016¹

CHF million



- Annual performance award under the DCCP
- Annual performance award under the EOP
- Annual performance award in immediate cash

¹ Refer to footnotes in the table above for more information.

Agenda item 5: Approval of the maximum aggregate amount of fixed compensation for the members of the Group Executive Board for the financial year 2018

The Board of Directors proposes that the maximum aggregate amount of fixed compensation of CHF 31,500,000 for the members of the Group Executive Board for the financial year 2018 be approved.

Each GEB member receives a fixed base salary. The Group CEO's annual base salary for 2016 was CHF 2.5 million and has remained unchanged since his appointment in 2011. The other GEB members receive a salary of CHF 1.5 million (or local currency equivalent). This level has also remained unchanged since 2011.

Currently, one GEB member is considered a UK Material Risk Taker (MRT), a regulated employee, in line with the EU Capital Requirements Directive IV (CRD IV), and is in a UK Senior Management Function (SMF) and therefore receives a role-based allowance, which consists of a cash portion and a blocked UBS shares award in addition to the base salary. This allowance reflects the market value of this specific role and is only paid while the GEB member is considered an MRT. Compared with other GEB members, this allowance represents a shift in the compensation mix between fixed and variable compensation and not an increase in total compensation.

The proposed maximum aggregate of fixed compensation for all GEB members amounts to CHF 31,500,000. This proposal includes base salaries, role-based allowances, estimated standard contribution to retirement benefit plans, other benefits and a reserve. Other fixed compensation (i.e., retirement benefit contributions and other benefits) is a projection and may vary due to labor market conditions and individual circumstances. The year-on-year increase of CHF 3,000,000 represents an increase of the reserve in relation to the increased uncertainty in 2018 due to potential geopolitical and regulatory changes and potential market considerations.

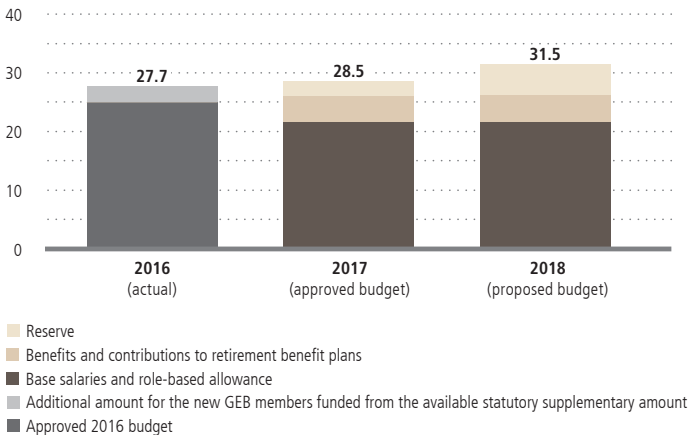
The proposed maximum aggregate amount of fixed compensation for the members of the GEB for the financial year 2018 is calculated on the assumption that the number of GEB members remains unchanged at the current level of 12 GEB members, including the Group CEO.

It excludes the portion related to the legally required employer's social security contributions estimated for the financial year 2018¹, which are not considered compensation. The proposed amount is based on 2016 year-end foreign exchange rates and does not consider future foreign exchange movements.

¹ The amount in relation to legally required employer's social security contributions is estimated for the financial year 2018 at CHF 1.6 million.

Overview of total fixed compensation for GEB 2016–2018

CHF million



Agenda item 7: Approval of the maximum aggregate amount of compensation for the members of the Board of Directors from the Annual General Meeting 2017 to the Annual General Meeting 2018

The Board of Directors proposes that the maximum aggregate amount of compensation of CHF 14,000,000 for the members of the Board of Directors for the period from the Annual General Meeting 2017 to the Annual General Meeting 2018 be approved.

Compensation of the members of the Board of Directors

Independent BoD members receive fixed fees for their services. BoD members do not receive variable compensation.

As a non-independent BoD member, the Chairman receives cash and equity-based compensation capped at CHF 5,700,000, excluding benefits and contribution to the retirement benefit plan. Of this amount he receives a cash payment of CHF 3,500,000 with the balance delivered in UBS shares blocked for four years. In addition, he also receives contributions to the retirement benefit plan and other benefits. This value is included in total compensation. For the period from AGM 2017 to AGM 2018, the proposed total compensation for the Chairman, including the estimated contribution to the retirement benefit plan and other benefits, is unchanged and amounts to a maximum of CHF 6,200,000.

Each independent BoD member receives an annual fixed base fee of CHF 325,000. The fixed base fees have been broadly flat since 1998. In addition to the fixed base fee, independent BoD members receive committee retainers for their engagement and services on the firm's various BoD committees. The Vice Chairman and the Senior Independent Director each receive an additional fee of CHF 250,000.

When assessing and determining the BoD fee structure, the Compensation Committee considers the BoD members' level of engagement, effort and personal accountability in fulfilling their roles.

The proposed maximum aggregate amount of compensation for the BoD for the period from the AGM 2017 to AGM 2018 amounts to CHF 14,000,000. This proposal is unchanged compared with the prior year and includes the compensation for the Chairman and the fees for the

independent BoD members. The amount proposed excludes UBS's portion related to the legally required social security contributions, which can only be estimated at this point in time.

Independent BoD members must use at least 50% of their fees to purchase UBS shares that are blocked for four years. They may elect to use up to 100% of their

fees to purchase blocked UBS shares. In light of the blocking period, the independent BoD members are entitled to purchase such blocked UBS shares at a discount of 15% on the market price per share prevailing at the time of issuance. The value of the discount on the share price is excluded from the total maximum amount that is subject to shareholder approval.

Maximum aggregate amount of compensation for the BoD for the period from AGM 2017 to AGM 2018

<i>CHF, except where indicated</i>	For the period from AGM 2017 to AGM 2018	For the period from AGM 2016 to AGM 2017 ¹
Axel A. Weber, Chairman	6,200,000	6,200,000
Independent members of the BoD (excluding the Chairman)	7,800,000	7,800,000
Total amount (to be) approved by shareholders²	14,000,000	14,000,000
Total amount paid for the period from AGM 2016 to AGM 2017		13,219,569

¹ There were 10 independent BoD members in office on 31 December 2016. Dieter Wemmer and Robert W. Scully were elected at the AGM on 10 May 2016 as new BoD members and also appointed as Risk Committee members. On Dieter Wemmer's request, his remuneration for 2016/2017 has been reduced to account for his meeting attendance as he faced a number of scheduling conflicts in 2016. ² Excludes UBS's portion related to the legally required social security contributions, which for the period from AGM 2017 to AGM 2018 are estimated at CHF 0.9 million, based on the prevailing tax and employment jurisdictions of the BoD members. The corresponding amount for the period from AGM 2016 to AGM 2017 was estimated at CHF 0.9 million.

“It’s more than just giving advice.
I get to contribute my ideas and really
add value to the project.”

Adrian Legis



The cover picture shows Adrian Legis. He advises Wealth Management on creating online content, helping with everything from technical capabilities to user perspective. He thrives on helping people solve problems. And he enjoys being a part of projects that connect with the general public, informing people about UBS and generating leads.

The international, dynamic environment really appeals to Adrian. Having worked in both London and Hong Kong, and also in different functions as a trainee in Switzerland, he thinks the variety of professional development possibilities is key to keeping people over the long term.

In his downtime, Adrian likes watching sports, though he wishes the time difference made it easier for him to watch the NBA since he's a big fan. He plays basketball twice a week – midday Mondays it's with friends from UBS and other firms. He values the collaboration with colleagues on a different playing field – and the cooperation (not to mention competition) with players at competing firms.



Connecting value

Annual Review 2016

The Annual Review 2016 will be available from mid-April 2017 as a tablet publication in UBS Newsstand/Annual Review (AppStore or Google Play Store).



UBS Group AG
P.O. Box
CH-8098 Zurich

ubs.com

