



UBS Group AG

Compensation Report 2016

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Dear shareholders

The Board of Directors and I wish to thank you for your support at last year's Annual General Meeting and for sharing your views on our compensation practices over the course of the past year. I am pleased to present our Compensation Report for 2016.

2016 performance

Despite continued strong industry-wide headwinds in 2016, including a challenging market environment and negative investor sentiment, we delivered solid results while prudently managing resources and risk. We also increased our cost savings run rate by around CHF 0.5 billion to CHF 1.6 billion.

UBS's net profit attributable to shareholders was CHF 3.2 billion. UBS's capital position remained strong, with a fully applied CET1 capital ratio of 13.8% and a fully applied CET1 leverage ratio of 3.5%. The Board of Directors (BoD) intends to propose a dividend of CHF 0.60 per share to shareholders for the financial year 2016, which is unchanged from the ordinary dividend for the financial year 2015.

2016 performance award and expenses

In line with the Group and business division performance in 2016, the firm's total performance award management pool for the year was CHF 2.9 billion, down 17% from 2015. As in previous years, the overall performance award pool was determined based on a range of performance considerations, including risk-adjusted profit and capital strength.

The performance award pool for the Group Executive Board (GEB), including the Group CEO, was CHF 71.9 million. On a per capita basis, given the expansion to 12 full-time equivalent members in 2016, the per capita performance award decreased by 16%. As a percentage of the adjusted Group profit before tax, the GEB performance award pool was 1.3%, well below the cap of 2.5%.

2016 compensation framework

Our compensation framework has remained largely unchanged since 2012 with no material changes for 2016. We focused on ensuring stability of our overall framework and reinforcing our principles. The consistency in our approach to compensation over the past five years has strengthened our culture of sustainable performance, accountability and appropriate risk-taking.

Compared with most of our peers' compensation frameworks, we believe our framework ensures a closer alignment of employee and investor interests by linking a greater proportion of variable compensation to the firm's own equity and debt instruments and subjecting awards to longer deferral periods. With this approach, our compensation framework rewards longer-term performance, supports our capital base and allows us to pay competitively. As of 31 December 2016, CHF 2.3 billion of the Deferred Contingent Capital Plan was included in our eligible capital and contributed 1.0% to our loss-absorbing capacity ratio.

New regulatory requirements in 2016 continued to drive local adjustments of our compensation practices. For instance, in the UK, the Prudential Regulation Authority and the Financial Conduct Authority introduced the Senior Managers and Certification Regime, which tightens the requirements for the personal accountability of individuals in certain senior roles. As required, we have implemented specific compensation changes for Senior Management Functions, such as extending the deferral of variable compensation to 7 years and extending the claw-back period to 10 years.

Culture and behaviors

To emphasize our focus on behavior as part of the UBS culture, we reward not only what results were achieved, but also how they were achieved.

Since 2010 we have had a structured Incidents & Consequences process in place which ensures that disciplinary actions and control incidents are reflected

in year-end compensation decisions. Beginning in 2016, the firm has introduced a multi-year review of incidents to ensure a holistic view on reward-related decisions. Our disciplinary approach for violations of our Code of Conduct and Ethics, and the incorporation of conduct risk in our operational risk framework demonstrate our commitment to treat each other as well as our clients and counterparties appropriately and to act with integrity in the financial markets.

Annual General Meeting 2017

The BoD and the Compensation Committee appreciate the opportunity to engage with many of our shareholders on compensation matters.

At the Annual General Meeting (AGM) 2017 on 4 May 2017, we will seek your support on the following compensation-related items:

- the maximum aggregate amount of compensation for the BoD for the period from AGM 2017 to AGM 2018
- the maximum aggregate amount of fixed compensation for the GEB for 2018



Ann F. Godbehere
Chair of the Compensation
Committee of the Board of
Directors

- the aggregate amount of variable compensation for the GEB for 2016
- shareholder endorsement in an advisory vote for the Compensation Report

You will find more information about our 2016 compensation approach on the following pages.



Ann F. Godbehere
Chair of the Compensation Committee of
the Board of Directors

2016 compensation philosophy

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.

Our compensation structure is aligned with our strategic priorities. It encourages employees to develop a strong client franchise, create sustainable value and achieve the highest standards of performance. Moreover, we reward behavior that helps build and protect the firm's reputation – specifically integrity, collaboration and challenge. We strive for excellence and sustainable performance in everything we do. Compensation for each employee is based on individual, team, business division and Group performance, within the context of the markets in which we operate.

Overview of our Total Reward Principles

Our Total Reward Principles outline how we structure our compensation framework and apply it to all employees globally. They may vary in certain locations due to local laws and regulations. The table below provides a summary of our Total Reward Principles.

Attract and engage a diverse, talented workforce	We provide talented employees with pay that is appropriately balanced between fixed and variable elements, competitive in the market and paid out over an appropriate period
Foster effective individual performance management and communication	Thorough evaluation of individual performance and adherence to our behaviors, combined with effective communication, ensures there is a direct connection between achievement of business objectives and compensation across the firm
Align reward with sustainable performance	We cultivate a culture of integration and collaboration within the firm. Our approach to compensation fosters a sense of engagement among employees and serves to align their long-term interests with those of clients and stakeholders
Support appropriate and controlled risk-taking	Compensation is structured such that employees behave in a manner consistent with the firm's risk framework and tolerance, thereby protecting our capital and reputation, and enhancing the quality of our financial results, in line with what our investors expect from us

Approach to compensation

How are performance awards determined and allocated?



Performance award pool is determined by considering risk-adjusted and sustainable performance, including:

- quality of earnings
- progress on strategic initiatives
- affordability
- market competitiveness / position
- returns to investors

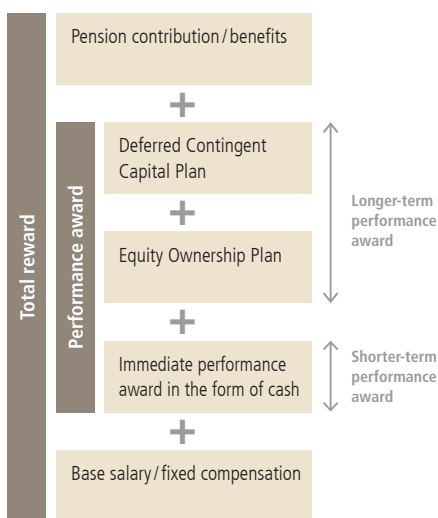


Performance award pool is allocated to employees based on Group, business division, team and individual performance, including:

- client focus
- financial results and capital management
- risk management
- people and talent development
- Principles and Behaviors

How is total reward delivered?

- Substantial amounts of awards deferred and aligned with investors
- At least 50% deferred for Key Risk Takers
- Long-term deferral of up to five years, or longer for certain regulated employees
- Shareholder- and debt holder-aligned vehicles



What are our Group Executive Board pay for performance safeguards?

Pay structure

- At least 80% of awards are at risk of forfeiture
- Cap on individual performance awards and cap on total GEB performance award pool
- No leverage in compensation plans
- Share ownership requirements

Performance award process

- Allocations based on a balanced scorecard with quantitative and qualitative key performance indicators
- Control function evaluation

Employment terms

- Six-month notice period in employment contracts
- No hedging strategies allowed

Shareholder approval

- Binding votes on aggregate GEB compensation
- Advisory vote on the Compensation Report

2016 performance and compensation funding

Our performance in 2016

In 2016, our businesses were exposed to a variety of adverse factors, including low and negative interest rates, geopolitical tensions, divisive politics and persistent regulatory uncertainty, which resulted in a challenging year for the industry. Throughout the year, we remained focused on disciplined strategic execution and on providing advice to our clients to help them navigate through turbulent global markets.

Despite the numerous challenges we faced, we reported a solid financial performance and again demonstrated that our balanced business mix and geographic diversification are important differentiators for UBS. Adjusted¹ profit before tax declined 5% to CHF 5.3 billion and net profit attributable to UBS Group AG shareholders decreased by 48% to CHF 3.2 billion, 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% excluding the effects of deferred tax assets.

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.

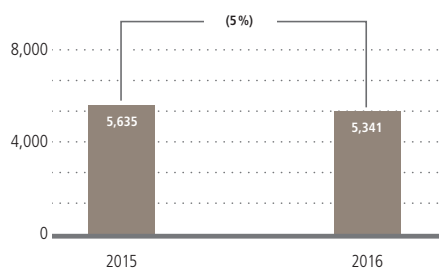
From a capital perspective, we ended 2016 with a strong fully applied common equity tier 1 (CET1) capital ratio of 13.8%, despite an increase in risk-weighted assets (RWA) due to regulatory changes. At the end of 2016, our fully applied CET1 leverage ratio was 3.53%, up from 3.35% at the end of 2015.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

Despite the challenges for UBS and the industry as a whole, our solid results and disciplined execution, together with our strong capital position, have enabled our Board of Directors to propose 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.

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

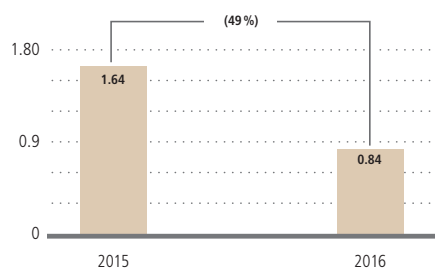
Profit before tax, adjusted

CHF million



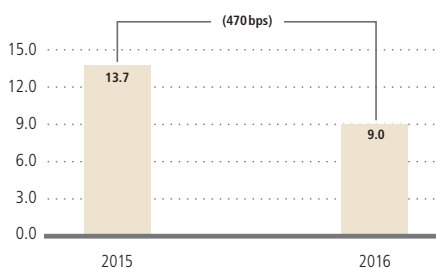
Diluted earnings per share (EPS)

CHF



Return on tangible equity (RoTE), adjusted

in %



Our Wealth Management business reported adjusted pre-tax profit of CHF 2.4 billion, a decrease of 15% compared with 2015, as reduced costs were more than offset by lower revenues due to a variety of factors, including negative client sentiment and cross-border outflows, which drove a 21% decline in transaction revenue and a 7% decline in recurring net fee income. Net new money was CHF 26.8 billion, reflecting an annual growth rate of 2.8%, despite cross-border outflows of CHF 14 billion.

Wealth Management Americas reported record adjusted profit before tax of USD 1.3 billion, up 43% compared with 2015. Operating income increased by 3%, while expenses decreased by 2%. The business division also implemented changes to its operating model to move decision-making closer to clients; better leveraging its capabilities and investing in technology aimed at empowering our people with more effective resources. Net new money was USD 15.4 billion, representing an annual growth rate of 1.5%.

Personal & Corporate Banking reported its best adjusted pre-tax profit since 2008 of CHF 1.8 billion, up 4% compared with 2015. Net new business volume growth for personal banking was 3.1% and the business division also achieved its highest net client acquisition in personal banking.

Our Asset Management business reported adjusted pre-tax profit of CHF 552 million, down 10% compared with 2015. Net new money outflows excluding money market flows totaled CHF 22.5 billion for the year. 2016 was a challenging year for active asset managers, with accelerated shifts out of active into passive investments.

Adjusted pre-tax profit in the Investment Bank decreased 34% to CHF 1.5 billion, as lower revenues were partly offset by lower costs. Market conditions and broader macroeconomic trends over 2016 did not favor our business and geographic mix. Adjusted return on attributed equity of 19.6% for 2016 reflects the business division's early actions on costs and proactive balance sheet management. The business division again maintained strict discipline on resource utilization, reducing its leverage ratio denominator by 14%. Risk-weighted assets increased by 12% to CHF 70 billion, predominantly due to regulatory requirements and changes to our operational risk RWA allocation.

Corporate Center reported an adjusted pre-tax loss of CHF 2.1 billion compared with a loss of CHF 2.6 billion in 2015, mainly reflecting reduced expenses in Services and Non-core and Legacy Portfolio in 2016.

→ Refer to "Group performance" in the "Financial and operating performance" section of the Annual Report 2016 for more information

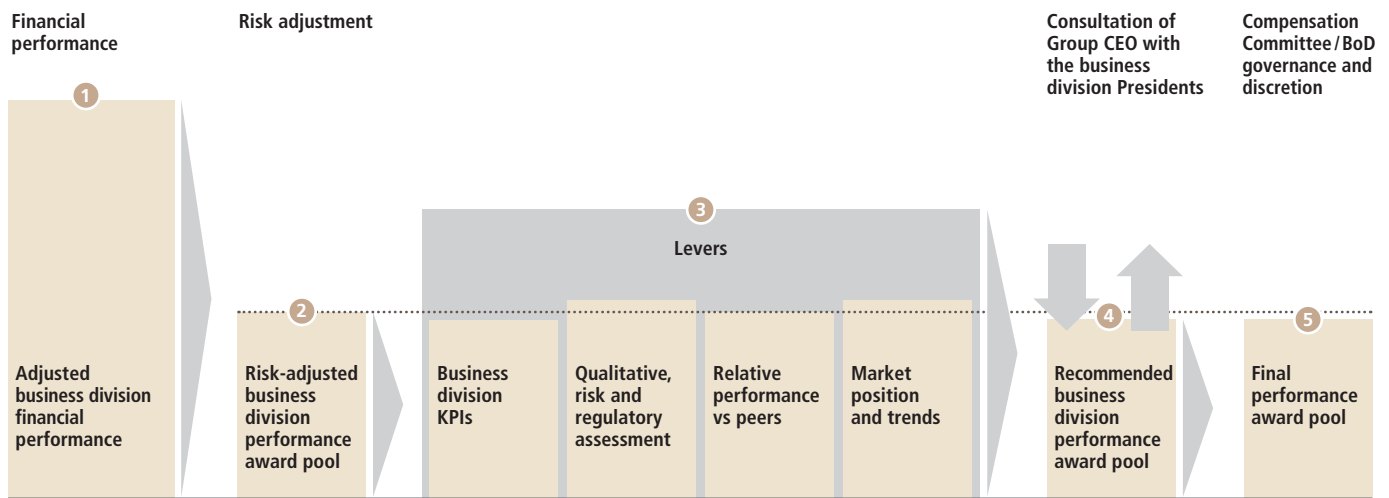
Performance award pool funding

Our performance award pool funding framework is based on business performance, which is measured across multiple dimensions. We assess Group and business division performance, including achievement against a set of performance targets, and we also consider performance relative to industry peers, general market competitiveness and progress against our strategic objectives, including capital growth as well as risk-weighted assets, balance sheet and cost efficiency. We look at the firm's risk profile and culture, the extent to which operational risks and audit issues have been identified and resolved, and the success of risk reduction initiatives. Certain risk-related objectives are the same Group-wide and include adhering to investment risk guidelines, Group risk policies, and avoiding significant operational risks.

Each business division's performance award pool is initially accrued as a percentage of profit before performance award, which is risk-adjusted by factoring in a capital charge. In determining the final pool, we also consider progress on our strategic objectives, quality of earnings, affordability, returns to investors and market competitiveness. Business division performance is adjusted for items that do not represent underlying performance, primarily restructuring expenses, litigation and regulatory costs arising from matters that predate current management, and gains or losses related to divestments or sales of real estate.

Our compensation philosophy focuses on balancing performance with prudent risk-taking and retaining talented employees. To achieve this, as performance improves, we reduce our overall performance award funding percentage. In strong years, this prevents excessive compensation, resulting in an increased proportion of contribution before compensation being available for distribution to shareholders or being added to the Group's capital. In contrast, when performance declines, the performance award pool will generally decrease, but, we may increase the funding rate to remain flexible enough to make adequate provisions to ensure our compensation practices remain competitive.

Performance award funding process – illustrative overview



- 1 Adjusted business division financial performance** The preliminary business division performance award pool amounts are driven and assessed by financial performance. The adjusted business division performance excludes items that are not reflective of the underlying performance

- 2 Risk-adjusted business division performance award pool** Predetermined business division-specific performance award pool funding rates are applied to risk-adjusted performance. In addition, credit risk, market risk and operational risk (including conduct) are taken into account

- 3 Levers**

 - Business division KPIs** Each division is assessed based on specific KPIs (e.g., net new money growth rate, return on attributed equity)
 - Qualitative, risk and regulatory assessment** Qualitative assessment (e.g., quality of earnings, industry awards), assessment of regulatory compliance and risk assessment (such as legal, compliance, reputational and operational risk). Qualitative assessment also ensures full alignment to our Total Reward Principles
 - Relative performance vs peers** Performance is also assessed relative to our peers
 - Market position and trends** Market intelligence based on external advisors helps assess the competitiveness of our pay levels and compensation structure. It also provides a prospective view of market trends in terms of absolute compensation levels, compensation framework and industry practice

- 4 Recommended business division performance award pool** The business division performance award pool determination process results in a performance award pool recommendation from the Group CEO (after consultation with the business division Presidents), which is submitted to the Compensation Committee for consideration

- 5 Final performance award pool** The Compensation Committee considers the recommendation in the context of our overall performance, capital strength, risk profile, affordability, returns to investors, progress on strategic initiatives, market competitiveness/ position, as well as business and geographic trends. The committee ensures it is in line with our strategy embodied in our Total Reward Principles to create sustainable shareholder value and may alter the recommendations of the Group CEO (upward or downward, including recommending a zero award) before making its final recommendation to the BoD

2016 performance award pool and expenses

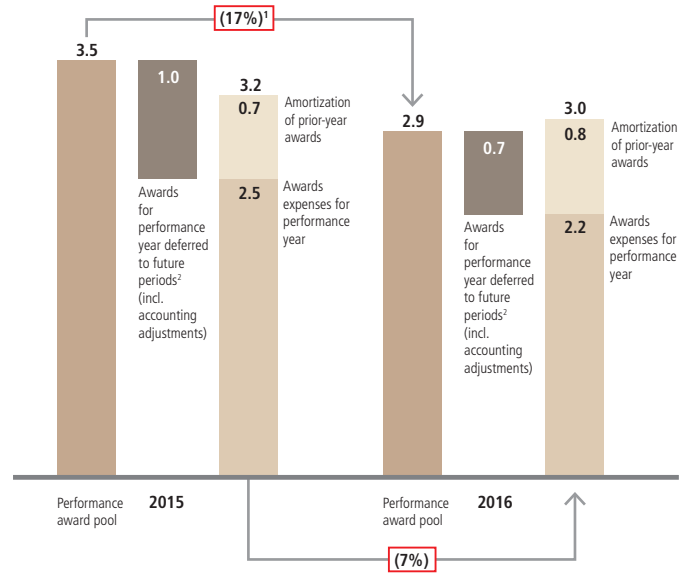
The performance award pool, which includes all discretionary performance-based variable awards for 2016, was CHF 2.9 billion, reflecting a decrease of 17% compared with 2015.

Performance award expenses for 2016 decreased by 7% to CHF 3.0 billion. This reflects the decrease in the performance award pool for 2016, partly offset by higher expenses related to the amortization of awards from prior years. The “Performance award expenses” chart on this page compares the performance award pool with performance award expenses.

→ Refer to the “Our deferred variable compensation plans for 2016” section of this report for more information

Performance award expenses

CHF billion



¹ Excluding employer-paid taxes and social security. ² Estimate. The actual amount to be expensed in future periods may vary, e.g., due to forfeitures.

2016 compensation for the Group CEO and the other GEB members

Base salary, role-based allowance, pensions and benefits

Each GEB member receives a fixed base salary, which is reviewed annually by the Compensation Committee. 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 received a salary of CHF 1.5 million (or local currency equivalent). This level has also remained unchanged since 2011.

One GEB member is considered a Material Risk Taker (MRT) in the UK and is in a UK Senior Management Function (SMF). Therefore, he receives a role-based allowance in addition to his base salary. This allowance reflects the market value of this specific role and is only paid while the GEB member is considered an MRT. Such an allowance represents a shift in the compensation mix between fixed and variable compensation and not an increase in total compensation. The allowance consists of a cash portion and a blocked UBS share award, which is granted annually.

Pension contributions and benefits for GEB members are in line with local practices for other employees. No enhanced or supplementary pension contributions are made for the GEB.

At the Annual General Meeting (AGM), shareholders are asked to approve the maximum aggregate amount of fixed compensation for the members of the GEB for the following financial year.

→ Refer to the "Our compensation model for employees other than GEB members" section of this report for more information on MRTs and SMFs

→ Refer to the "Our compensation governance framework" section of this report for more information on the shareholders' vote on the GEB compensation

Performance assessment

Annual performance awards for the Group CEO and other GEB members are at the full discretion of the Board of Directors (BoD) and, in aggregate, subject to shareholder approval at the AGM.

We use individual balanced scorecards to assess the GEB members' performance against a number of quantitative and qualitative key performance indicators (KPIs).

The quantitative measures for the Group CEO are based on overall Group performance. For other GEB members, they are based on both Group performance and the performance of the relevant business division and/or region; for those who lead Group control functions, or who are solely regional Presidents, are assessed on the performance of the Group and the function or region they oversee. Quantitative measures account for 65% of the assessment.

Qualitative measures, which relate to our Pillars, Principles and Behaviors, account for 35% of the assessment and are the same for all GEB members, including the Group CEO. The second table below provides an overview of the quantitative and qualitative KPIs, which the balanced scorecard is based on.

The weighting between Group, business division, regional and functional KPIs varies depending on a GEB member's role. A significant weight is given to Group KPIs for all GEB members.

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. This approach is not mechanical, as the Compensation Committee can exercise its judgment with respect to the performance achieved relative to the prior year, the strategic plan, and competitors, and considers the Group CEO's recommendation.

The Compensation Committee's recommendations are then reviewed and must be approved by the BoD. The Compensation Committee, and then the full BoD, follow a similar process in setting the compensation for the Group CEO, except that the Group CEO gives no recommendation on his own award.

While the BoD retains full discretion in determining variable compensation for the Group CEO and the other GEB members, the total amount of the awards may not exceed 2.5% of adjusted Group profit before tax. Additionally, variable compensation for individual GEB members and the Group CEO may not exceed the specified individual compensation caps, as described later in this section.

The final aggregate performance award for the GEB, including the Group CEO, for a financial year is subject to shareholder approval at the following AGM. The individual variable performance awards for each GEB member will only be confirmed upon shareholder approval at the AGM.

Overview of the GEB compensation determination process

The compensation for the Group CEO and the other GEB members is governed by a rigorous process under Compensation Committee and BoD oversight. The illustration below shows how compensation for all GEB members is determined.

The Compensation Committee is involved at all stages of the performance and total compensation decision-making process for the Group CEO and the other GEB members, for review and approval by the BoD

Objective setting	Weighting	Performance assessment	Compensation decisions	Delivery
<p>Quantitative measures</p> <p>The quantitative measures are based on Group, business division, regional and/or functional performance, depending on the role of the GEB member</p> <p>Targets for quantitative measures are based on the strategic plan</p>	65%	<p>Quantitative measures</p> <p>The quantitative measures are assessed based on actual results</p>	<p>When determining actual pay levels, the Compensation Committee factors in:</p> <ul style="list-style-type: none"> – performance and affordability – balanced scorecard assessment – relative performance vs peers – compensation market value and trends – other parameters deemed relevant <p>Compensation considers competitive market position, and the Compensation Committee's final compensation recommendations for GEB members are based on the scorecards, the assessment against the market value for the role and the Group CEO's recommendation (the Group CEO gives no recommendation on his own awards)</p>	<p>The performance award is paid in a shorter-term, immediate cash performance award and in a longer-term deferred performance award, which is deferred up to five years¹</p>
<p>Qualitative measures</p> <p>The qualitative measures assess how the executive achieved the financial results</p>	35%	<p>Qualitative measures</p> <p>The Compensation Committee determines to what extent the GEB member has met the qualitative measures relating to Pillars, Principles, Behaviors</p>	<p>The final decision is at the discretion of the BoD and subject to shareholder approval</p>	
		<p>The Compensation Committee determines the overall rating</p>		

¹ Senior Management Functions have extended deferral periods, with the deferred performance awards vesting in equal installments between years 3 and 7.

Overview of the quantitative and qualitative measures – balanced scorecard

Quantitative and qualitative measures consider performance versus plan as well as year-on-year performance and other factors including relative performance and market conditions.

Quantitative / qualitative measures		
Group		A range of financial metrics including adjusted Group return on tangible equity, adjusted Group profit before tax, CET1 capital ratio (fully applied)
Business division, regional and or functional KPIs (if applicable)¹		Business division and/or regional KPIs vary but may include: net new money growth rate, adjusted divisional/regional profit before tax, adjusted cost/income ratio, net new business volume growth rate, net interest margin, adjusted RoAE, Basel III RWA and LRD expectations Specific functional KPIs for Corporate Center GEB members
Pillars	Capital management	Establishes and maintains capital strength and CET1 capital ratio. Generates efficiencies and deploys our capital more efficiently and effectively
	Efficiency and effectiveness	Contributes to the development and execution of our strategy. The measure also looks to ensure that there is success across all business lines, functions and regions
	Risk management	Ensures risk management through an effective control framework. Captures the degree to which risks are self-identified and focuses on the individual's success in ensuring compliance with all the various regulatory frameworks. Helps shape the firm's relationship with regulators through ongoing dialog
Principles²	Client focus	Increases client satisfaction and maintains high levels of satisfaction over the long term. This includes promoting collaboration across business divisions and fostering the delivery of the whole firm to our clients
	Excellence	Human Capital Management – develops successors for the most senior positions, facilitates talent mobility within the firm and promotes a diverse and inclusive workforce Product and Service Quality – strives for excellence in the products and services we offer to our clients
	Sustainable performance	Brand and Reputation – protects the Group's reputation and ensures full compliance with our standards and principles Culture – takes a personal role in making Principles and Behaviors front and center of the business requirements. Furthermore, this measure evaluates the individual's ability to reinforce a culture of accountability and responsibility, demonstrating our commitment to be a responsible corporate citizen and to act with integrity in all our interactions with stakeholders
Behaviors	Integrity	Is responsible and accountable for what they say and do; cares about clients, investors and colleagues; acts as a role model
	Collaboration	Places the interests of clients and the firm before their own and those of their business; works across the firm; respects and values diverse perspectives
	Challenge	Encourages self and others to constructively challenge the status quo; learns from mistakes and experiences

¹ Both regional and functional KPIs may include qualitative measures. ² Overall results may also consider strategic progress and result relative to market environment.

Benchmarking against peers

When recommending performance awards for the Group CEO and the other GEB members, the Compensation Committee reviews the respective total compensation for each role against the broader market as well as a group of peer companies selected for the comparability of their size, business mix, geographic presence and the extent to which they compete against us for talent. The Compensation Committee also considers our peers' strategies, practices, pay levels and regulatory environment. Overall, the total compensation for a GEB member's specific role considers the compensation paid by our primary peer group for a comparable role and performance.

The Compensation Committee periodically reviews and approves the primary peer group for executive compensation. For 2016, the primary peer group remained unchanged and consisted of:

Bank of America	Credit Suisse	Julius Baer
Barclays	Deutsche Bank	Morgan Stanley
BlackRock	Goldman Sachs	Standard Chartered
BNP Paribas	HSBC	
Citigroup	JPMorgan Chase	

This group is broadened for the purposes of business division benchmarking and for the review of specific roles, as appropriate.

2016 deferred performance awards

For each GEB member, at least 80% of the 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 shares under the Equity Ownership Plan (EOP).

For the performance year 2016, 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 five years with discretionary annual interest payments.

The DCCP contributes to the Group's total loss-absorbing capital, and the awards granted to GEB members are subject 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. Moreover, GEB members forfeit 20% of the granted DCCP award for each loss-making year during the vesting period. This means that 100% of the award is subject to risk of forfeiture in addition to the capital ratio trigger.

For the GEB member whose role is considered an SMF, the overall deferral period is seven years, and the awards are subject to the applicable claw-back provisions. Given that an SMF is also a UK MRT, 50% of any immediate cash is delivered in vested 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.

For GEB members, the average deferral period is 4.4 years. Our compensation plans have no upward leverage, such as multiplier factors, and therefore do not encourage excessive risk-taking.

The Compensation Committee has determined that performance conditions for all GEB members' awards due to vest in March 2017 have been satisfied and thus the awards will vest in full.

- Refer to the "Our deferred variable compensation plans for 2016" section of this report for more information
- Refer to the "Our compensation model for employees other than GEB members" section of this report for more information on MRTs and SMFs
- Refer to "Vesting of outstanding awards granted in prior years subject to performance conditions" under "Supplemental information" in this section of this report for more information

Share ownership requirements: aligning GEB members' interests with those of our shareholders

In addition to our compensation framework, our share ownership policy requires the Group CEO to hold a minimum of 500,000 UBS shares and other GEB members to hold a minimum of 350,000 UBS shares. GEB members must build up their minimum shareholding within five years from their appointment and retain it throughout their tenure. The total number of UBS shares held by a GEB member consists of any vested or unvested shares and any privately held shares. GEB members may not sell any UBS shares before they reach the aforementioned minimum ownership thresholds. At the end of 2016, the GEB members met the required share ownership level, except for those newly appointed during 2016, who will have five years to build up and meet the required share ownership level.

Caps on the GEB performance award pool

The size of the GEB performance award pool may not exceed 2.5% of the adjusted Group profit before tax. This links overall GEB compensation to the firm's profitability.

For 2016, the Group's adjusted profit before tax was CHF 5.3 billion and the total GEB performance award pool was CHF 71.9 million (CHF 71.3 million in 2015). The performance award pool as a percentage of adjusted Group profit before tax was 1.3%, which is well below the cap of 2.5%.

In line with the individual compensation caps introduced in 2013 on the proportion of fixed pay to variable pay for all GEB members, the Group CEO's performance award is capped at five times his fixed compensation. Performance awards of other GEB members are capped at seven times their fixed compensation. For 2016, performance awards for GEB members and the Group CEO were, on average, 3.3 times their fixed compensation (excluding benefits and contributions to retirement benefit plans).

Employment contracts

The employment contracts of the GEB members do not include severance terms, sometimes referred to as golden parachutes, or supplementary pension plan contributions. All employment contracts for GEB members are subject to a notice period of six months. A GEB member leaving the firm before the end of a performance year may be considered for a discretionary performance award based on their contribution during that performance year and in line with the approach described in this report. Such awards are at the full discretion of the BoD, which may decide not to grant any awards.

2016 compensation framework for GEB members

Up to 20% of the annual performance award is paid in the form of immediate cash and at least 80% will be deferred for up to five years¹, with at least 50% granted under the Equity Ownership Plan (EOP) and the remaining 30% under the Deferred Contingent Capital Plan (DCCP). The compensation framework for 2016 remains the same as for 2015. The chart below is an illustrative example.

Payout of performance award ¹		Key features	Pay for performance and safeguards			
DCCP 30%		<p>Notional additional tier 1 (AT1) instruments</p> <p>30% of the performance award is granted under the Deferred Contingent Capital Plan (DCCP). The award vests after 5 years, subject to write-down if a trigger or viability event occurs. The award is subject to 20% forfeiture for each financial year if UBS does not achieve an adjusted Group profit before tax</p> <p>Notional interest payments will be made annually, subject to review and confirmation by the firm</p> <p>The award is subject to continued employment and harmful acts provisions</p>	<p>Our compensation framework is designed to pay for performance. A performance award is based on a balanced scorecard assessing the individual's performance against a number of quantitative and qualitative key performance indicators</p> <p>At least 80% of the performance award is at risk of forfeiture</p> <p>Compensation plan forfeiture provisions enable the firm to reduce the unvested deferred portion if the compensation plans' relevant performance conditions are not met</p>			
EOP at least 50%		<p>Notional shares</p> <p>At least 50% of the performance award is granted under the Equity Ownership Plan (EOP). The award vests in equal installments after years 3, 4 and 5, subject to both Group and business division performance. Up to 100% of the installment due to vest may be forfeited</p> <p>The award is subject to continued employment and harmful acts provisions</p>	<p>Our compensation framework contains a number of features designed to ensure that risk is appropriately managed with safeguards to discourage inappropriate risk-taking:</p> <ul style="list-style-type: none"> – no upward leverage, such as multiplier factors. Potential realized pay cannot exceed the award granted (excluding potential share price appreciation, dividends and interest payments). The final deferred payout can be forfeited up to 100% in cases where performance conditions are not met or harmful acts provisions apply – 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 of 2.5% of adjusted Group profit before tax – individual caps on the proportion of fixed to variable pay for the Group CEO and other GEB members – six-month notice period included in the employment contracts – an evaluation of each GEB member's risk control effectiveness and adherence to risk-related policies and guidelines as part of their individual qualitative assessment – 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 			
Cash up to 20%	20%	<p>Up to 20% of the performance award is paid out in cash² immediately, subject to a cash cap of CHF/USD 1 million. Any amount above the cash cap is granted under the EOP</p>				
Base salary ³						
2016	2017	2018	2019	2020	2021	2022
Share retention	500,000 shares for the Group CEO 350,000 shares for other GEB members					
<p>GEB members are required to hold a certain number of UBS shares as long as they are in office. This holding has to be built up within a maximum of five years from the date of their appointment to the GEB</p>						

¹ Senior Management Functions have extended deferral periods, with the deferred performance awards vesting in equal installments between years 3 and 7. ² UK Material Risk Takers receive 50% in form of blocked shares. ³ May include role-based allowances that have been made in line with market practice in response to regulatory requirements.

2016 compensation for the Group Chief Executive Officer

The performance award for the Group CEO, Sergio Ermotti, is based on the achievement of both quantitative and qualitative performance targets as described earlier in this section. These targets were set to reflect the strategic priorities determined by the Chairman and the BoD, including risk-adjusted profitability, our capital position and adjusted return on tangible equity, as well as a range of qualitative measures to assess the quality and sustainability of the performance. Mr. Ermotti's performance assessment was also based on behavioral measures. The table on the following page summarizes the metrics used to assess Mr. Ermotti's performance as Group CEO for 2016.

The BoD recognized Mr. Ermotti's strong leadership in a year in which the Group achieved solid financial performance despite a challenging business environment. He successfully managed the capital position of the bank and achieved strong capital ratios.

Adjusted profit before tax declined by 5% to CHF 5.3 billion, and net profit attributable to UBS Group AG shareholders was down 48% to CHF 3.2 billion, mainly due to a significant net upward revaluation of deferred tax assets in 2015, which was not repeated in 2016. UBS's adjusted return on tangible equity for 2016 was 9.0% and 11.1% excluding the effects of deferred tax assets.

UBS made good progress on achieving its ambitious CHF 2.1 billion net cost reduction target; increasing net cost savings by CHF 0.5 billion to CHF 1.6 billion despite elevated regulatory costs, while also investing to strengthen its competitive position.

The BoD also considered Mr. Ermotti's focus on maintaining UBS's capital strength, which is the foundation of our success. UBS ended 2016 with a strong fully applied CET1 capital ratio of 13.8%; above our 13% target, and a fully applied CET1 leverage ratio of 3.53%, which is already above the 2020 minimum. The firm also issued over CHF 14 billion in AT1 capital instruments and TLAC-eligible senior unsecured notes, bringing its total loss-absorbing capacity to over CHF 73 billion.

The firm ended the year with a strong financial position under Mr. Ermotti's leadership and, as a result, the BoD intends to pro-

pose to the shareholders an ordinary dividend of CHF 0.60 in line with the ordinary dividend for 2015.

In 2016, under Mr. Ermotti's oversight, the firm successfully executed a series of measures to improve the resolvability of the Group in response to too big to fail requirements in Switzerland and other countries. The establishment of UBS Americas Holding LLC as our US intermediate holding company was completed, and our Group service company implemented.

The BoD also acknowledged the strong performance relative to qualitative goals in 2016. Mr. Ermotti remained committed to our strategy, focused on disciplined execution and continued to drive cost reduction programs while maintaining a clear tone from the top regarding the risk and control environment.

Mr. Ermotti demonstrated his strong commitment to clients, to steer the development and implementation of client-centric products and to deliver services of high quality. One of Mr. Ermotti's significant achievements in 2016 was the successful recomposition of the Group Executive Board (GEB). As part of his continued commitment to talent retention and development, he spearheaded initiatives to improve diversity at senior levels, to strengthen internal mobility and to ensure succession planning.

Mr. Ermotti set a clear and consistent expectation with regard to Behaviors. The BoD considered the further significant progress made in the organization's cultural transformation, which remains a key priority under Mr. Ermotti's leadership.

Reflecting his achievements in 2016, the BoD approved the proposal by the Compensation Committee to grant Mr. Ermotti a performance award of CHF 10.9 million, bringing his total compensation for the year (excluding benefits and contributions to his retirement benefit plan) to CHF 13.4 million. The performance award is subject to shareholder approval as part of the aggregate GEB 2016 variable compensation and will be delivered with 61% deferred in EOP over years 3 to 5 and 30% in DCCP after 5 years, subject to the achievement of certain performance and other forfeiture conditions. The remaining 9% (CHF 1 million) will be delivered in immediate cash.

→ Refer to the "Our deferred variable compensation plans for 2016" section of this report for more information

Balanced scorecard for the Group CEO

Quantitative ¹ measures (65%)		Weighting	2016 results	2016 assessment	
					100%
Adjusted Group profit before tax		25%	CHF 5,341 million	2016 vs plan 2016 vs 2015	
Adjusted Group RoTE		25%	9.0%	2016 vs plan 2016 vs 2015	
Capital management ²		15%	13.8%	2016 vs plan 2016 vs 2015	
CET1 capital ratio, fully applied			>10%		
Post-stress CET1 ratio, fully applied			3.53%		
CET1 leverage ratio, fully applied					
Qualitative ³ measures (35%)		Weighting	Measures	2016 assessment	
					100%
Pillars	Capital management	35%	Optimizes usage of resources across business and legal entities. Generates efficiencies and deploys our capital efficiently and effectively across business units	vs goals	
	Efficiency and effectiveness		Effective management of the organization's cost basis while maintaining proper risk controls and service quality to clients as well as ensuring appropriate reinvestment in our businesses		
	Risk management		Ensures risk management through an effective control framework. Captures the degree to which risks are self-identified and focuses on the individual's success in ensuring compliance with the Group and all various regulatory frameworks		
Principles ⁴	Client focus	35%	Focus on unrivaled client focus at every level of our business, building relationships that make us stand out from our peers. Promotes collaboration across business divisions and fosters the delivery of the whole firm to our clients to ensure continued and growing levels of satisfaction over the long term	vs goals	
	Excellence		Drives an organization that strives for excellence in everything we do, from the people we employ to the products and services we offer to our clients		
	Sustainable performance		Maintains focus on the long term and works continuously to strengthen our reputation as a rock-solid firm providing consistent returns to our stakeholders. Protects the Group's reputation and ensures full compliance with our standards and principles across all stakeholders		
Behaviors	Integrity	35%	Ensures the organization is creating an environment where employees are responsible and accountable for what they say and do, that they care about clients, investors and colleagues, and acts as a role model	vs goals	
	Collaboration		Drives the organization to place the interests of clients and the firm before the employees' own and those of their business, to work across the firm and to respect and value diverse perspectives		
	Challenge		Supports and encourages self and others to constructively challenge the status quo; learns from mistakes and experiences		

¹ Quantitative measures and target levels were based on internal performance objectives in our 2016 Operating Plan. ² CET1 capital ratio and post-stress CET1 ratio exceeded plan and required capital thresholds. Overall assessment was driven by CET1 leverage ratio. ³ The qualitative measures used to assess the effectiveness of the Group CEO are outlined in detail in the table "Overview of the quantitative and qualitative measures – balanced scorecard" in this report. ⁴ Overall results also consider strategic progress and result relative to market environment.

Total compensation for GEB members for the performance year 2016

The GEB performance awards are at the discretion of the Board of Directors (BoD) based on the assessment of quantitative and qualitative performance measures and, in aggregate, subject to share-

holder approval. The aggregate performance award pool for the GEB, which increased from 10 to 12 full-time equivalent members, was CHF 71.9 million for 2016. On a per capita basis, the performance award decreased by 16% compared with 2015.

At the AGM 2017, shareholders will vote on the aggregate 2016 total variable compensation for the GEB.

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Total compensation for GEB members

CHF, except where indicated¹

Name, function	For the year	Base salary ²	Contribution to retirement benefit plans ³	Benefits ⁴	Total fixed compensation	Immediate cash ⁵	Annual performance award under EOP ⁶	Annual performance award under DCCP ⁷	Total variable compensation	Total fixed and variable compensation ⁸
Sergio P. Ermotti, Group CEO (highest-paid)	2016	2,500,000	261,181	42,577	2,803,758	1,000,000	6,630,000	3,270,000	10,900,000	13,703,758
Sergio P. Ermotti, Group CEO (highest-paid)	2015	2,500,000	261,181	50,080	2,811,261	1,000,000	7,050,000	3,450,000	11,500,000	14,311,261
Aggregate of all GEB members ^{9,10,11}	2016	21,601,925	2,387,649	1,977,703	25,967,277	11,289,350	39,040,650	21,570,000	71,900,000	97,867,277
	2015	19,138,288	1,407,042	1,614,998	22,160,327	9,745,110	40,129,890	21,375,000	71,250,000	93,410,328

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 Includes role-based allowances that have been made in line with market practice in response to the EU Capital Requirements Directive of 2013 (CRD IV). ³ Includes the portion related to the employer's contribution to the statutory pension scheme. ⁴ All benefits are valued at market price. ⁵ In accordance with the remuneration section of the UK Prudential Regulation Rulebook, the immediate cash includes blocked shares for one GEB member. ⁶ For EOP awards for the performance year 2016, the number of shares has been determined by dividing the amount by CHF 15.75 or USD 15.67, the average closing share price of UBS shares over the last ten trading days in February 2017. For EOP awards for the performance year 2015, the number of shares was determined by dividing the amount by CHF 14.98 and USD 15.09, the average closing share price of UBS shares over the last ten trading days in February 2016. ⁷ The amounts reflect the amount of the notional additional tier 1 instrument excluding future notional interest. For DCCP awards for the performance year 2016, the notional interest rate is set at 5.95% for awards denominated in US dollars and 2.55% for awards denominated in Swiss francs. For DCCP awards for the performance year 2015, the notional interest rate is set at 7.35% for awards denominated in US dollars and 4.15% for awards denominated in Swiss francs. ⁸ Excludes the portion related to the legally required employer's social security contributions for 2016 and 2015, which are estimated at grant at CHF 5,131,867 and CHF 4,132,667, respectively, of which CHF 856,796 and CHF 898,596, respectively, for the highest-paid GEB member. The legally required employees' social security contributions are included in the amounts shown in the table above, as appropriate. ⁹ Twelve GEB members were in office on 31 December 2016 and 10 members were in office on 31 December 2015. ¹⁰ 2016 includes compensation for Lukas Gähwiler for eight months in office as a GEB member. ¹¹ Excludes salaries and employer's contribution to the statutory pension scheme and benefits as part of the employment contract during the notice period of CHF 1,753,997 for two GEB members who stepped down on 31 December 2015. No such payments were made in 2015. ▲

Fixed and variable compensation for GEB members¹

CHF in million, except where indicated	Total for the year ended 2016		Not deferred		Deferred ²		Total for the year ended 2015
	Amount	%	Amount	%	Amount	%	Amount
Total compensation							
Amount ³	94	100	33	35	61	65	90
Number of beneficiaries	13						10
Fixed compensation^{3,4}	22	23	22	100	0	0	19
Cash-based	20	21	20		0		17
Equity-based	2	2	2		0		3
Variable compensation	72	77	11	16	61	84	71
Immediate cash ⁵	11	12	11		0		10
Equity Ownership Plan (EOP)	39	42	0		39		40
Deferred Contingent Capital Plan (DCCP)	22	23	0		22		21

¹ The figures relate to all GEB members in office in 2016, including compensation for Lukas Gähwiler for eight months in office as a GEB member. ² Based on the specific plan vesting and reflecting the total award value at grant, which may differ from the accounting expenses. ³ Excludes benefits and employer's contribution to retirement benefit plans. ⁴ Includes base salary and role-based allowances, rounded to the nearest million. ⁵ Includes allocation of vested but blocked shares, in line with the remuneration section of the UK Prudential Regulation Rulebook.

2016 compensation for the Board of Directors

Chairman of the BoD

Under the leadership of the Chairman, Axel A. Weber, the BoD determines, among other things, the strategy for the Group based 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. Together with the Group CEO, the Chairman is responsible for ensuring effective communication with shareholders and other stakeholders, including government officials, regulators and public organizations. This is in addition to establishing and maintaining a close working relationship with the Group CEO and other GEB members, and providing advice and support when appropriate, as well as continuing to support the firm's cultural change as a key priority on the basis of our Principles and Behaviors.

The Chairman's total compensation is contractually capped at CHF 5.7 million, excluding benefits and pension fund contributions. His total compensation for 2016 consisted of a cash payment of CHF 3.5 million and a share component of CHF 2.2 million delivered in 139,682 UBS shares at CHF 15.75 per share. The shares are blocked from distribution for four years. Accordingly, his total reward, including benefits and pension fund contributions for his service as Chairman for the full year 2016, was CHF 6,069,569.

→ Refer to "Board of Directors" in the "Corporate governance" section of the Annual Report 2016 for more information on the responsibilities of the Chairman

The share component ensures that the Chairman's pay is aligned with the Group's long-term performance. The Chairman's employment agreement does not provide for severance terms or supplementary contributions to pension plans. Benefits for the Chairman are in line with local practices for UBS employees. The Compensation Committee approves the Chairman's compensation annually, taking into consideration fee or compensation levels for comparable roles outside the firm.

Independent BoD members

All BoD members except the Chairman are deemed independent directors and receive a fixed base fee of CHF 325,000 per annum. In addition to the base fee, independent BoD members receive committee retainers for their services on the firm's various board committees. The Senior Independent Director and the Vice Chairman of the BoD each receive an additional retainer of CHF 250,000. Independent BoD members must use a minimum of 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 all cases, the number of shares that independent BoD members are entitled to purchase is calculated at a discount of 15% below the average market price over the last 10 trading days in February. Independent BoD members do not receive performance awards, severance payments or benefits. The chart on the following page provides details and additional information on the remuneration framework for independent BoD members.

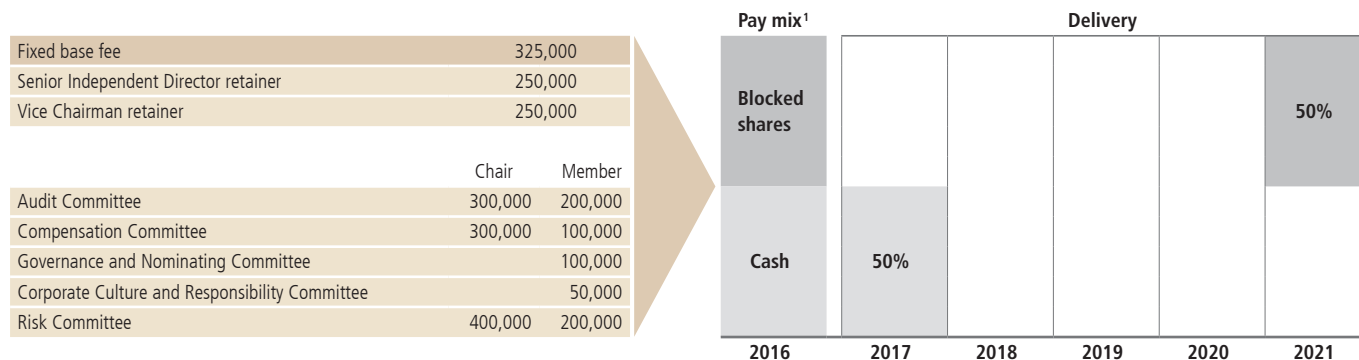
Base fees, committee retainers and any other payments to be received by independent BoD members are subject to an annual review based on a proposal submitted by the Chairman of the BoD to the Compensation Committee, which in turn submits a recommendation to the BoD for approval. The BoD proposes at each AGM for shareholder approval the aggregate amount of BoD remuneration, including compensation of the Chairman, which applies until the subsequent AGM.

The "Remuneration details and additional information for independent BoD members" table shows the remuneration for each independent BoD member for the period from AGM 2016 to AGM 2017. The fixed base fees are unchanged from the 2015/16 period and have been broadly flat since 1998.

2016/2017 remuneration framework for independent BoD members

CHF, except where indicated

Fees include retainers for Committee chair or membership and/or specific roles that are paid per annum. At least 50% of the total amounts must be used to purchase shares that are blocked for four years.



¹ Independent BoD members can elect to use 100% of their remuneration to purchase blocked UBS shares. UBS blocked shares are granted with a price discount of 15% and are blocked for four years.

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Total payments to BoD members

CHF, except where indicated

	For the year	Total ¹
	2016	13,219,569
Aggregate of all BoD members	2015	12,778,308

¹ Includes social security contributions paid by the BoD members but excludes the portion related to the legally required social security contributions paid by UBS, which for 2016 are estimated at grant at CHF 662,740 and for 2015 at CHF 653,272. ▲

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Compensation details and additional information for non-independent BoD members

CHF, except where indicated

Name, function ¹	For the year	Base salary	Annual share award ²	Benefits ³	Contributions to retirement benefit plans ⁴	Total ⁵
	2016	3,500,000	2,200,000	108,388	261,181	6,069,569
Axel A. Weber, Chairman	2015	3,500,000	2,200,000	72,959	261,181	6,034,141

¹ Axel A. Weber was the only non-independent member in office on both 31 December 2016 and 31 December 2015. ² These shares are blocked for four years. ³ Benefits are all valued at market price. ⁴ Includes the portion related to UBS's contribution to the statutory pension scheme. ⁵ Excludes the portion related to the legally required social security contributions paid by UBS, which for 2016 are estimated at grant at CHF 368,695 and for 2015 at CHF 368,257. The legally required social security contributions paid by the non-independent BoD members are included in the amounts shown in this table, as appropriate. ▲

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Remuneration details and additional information for independent BoD members

CHF, except where indicated

Name, function ¹	Audit Committee	Compensation Committee	Corporate Culture and Responsibility Committee	Governance and Nominating Committee	Risk Committee	For the period	Base fee	Committee retainer(s)	Additional payments ²	Total ³	Share percentage ⁴	Number of shares ^{5,6}
						AGM to AGM						
Michel Demaré, Vice Chairman	M	M		M		2016/2017	325,000	400,000	250,000	975,000	50	36,407
	M	M		M		2015/2016	325,000	400,000	250,000	975,000	50	38,295
David Sidwell, Senior Independent Director				M	C	2016/2017	325,000	500,000	250,000	1,075,000	50	40,141
				M	C	2015/2016	325,000	500,000	250,000	1,075,000	50	42,223
Reto Francioni, member		M	M		M	2016/2017	325,000	350,000		675,000	50	25,205
		M	M		M	2015/2016	325,000	255,000		580,000	50	22,780
Ann F. Godbehere, member	M	C				2016/2017	325,000	500,000		825,000	50	30,806
	M	C				2015/2016	325,000	500,000		825,000	50	32,403
Axel P. Lehmann, former member					M	2016/2017	–	–		–	–	–
					M	2015/2016	210,347	129,444		339,792	100	25,217
William G. Parrett, member	C	M	M			2016/2017	325,000	450,000		775,000	50	28,939
	C	M	M			2015/2016	325,000	402,500		727,500	50	28,574
Isabelle Romy, member	M			M		2016/2017	325,000	300,000		625,000	50	23,338
	M			M		2015/2016	325,000	300,000		625,000	50	24,548
Robert W. Scully, member					M	2016/2017	325,000	200,000		525,000	100	29,917
					M	2015/2016	–	–		–	–	–
Jes Staley, former member					M	2016/2017	–	–		–	–	–
		M			M	2015/2016	154,375	142,500		296,875	0	0
Beatrice Weder di Mauro, member	M				M	2016/2017	325,000	400,000		725,000	50	27,072
	M				M	2015/2016	325,000	400,000		725,000	50	28,476
Dieter Wemmer, member					M	2016/2017	215,000	160,000		375,000	50	14,002
					M	2015/2016	–	–		–	–	–
Joseph Yam, member			M	M		2016/2017	325,000	250,000		575,000	50	21,471
			M	M		2015/2016	325,000	250,000		575,000	50	22,584
Total 2016/2017										7,150,000		
Total 2015/2016										6,744,167		

Legend: C = Chairperson of the respective Committee, M = Member of the respective Committee

¹ 10 independent BoD members were in office on 31 December 2016. Robert W. Scully and Dieter Wemmer were elected at the AGM on 10 May 2016. Nine independent BoD members were in office on 31 December 2015. Jes Staley was elected at the AGM on 7 May 2015 and stepped down on 28 October 2015. Reto Francioni was appointed as a Risk Committee member on 29 October 2015 and William G. Parrett was appointed as a Compensation Committee member on 29 October 2015, both succeeding Jes Staley. Axel P. Lehmann stepped down as BoD member on 31 December 2015. Jes Staley, Reto Francioni, William G. Parrett and Axel P. Lehmann were remunerated pro rata temporis for 2015. On Dieter Wemmer's request, his remuneration has been reduced to account for his meeting attendance as he faced a number of scheduling conflicts in 2016. ² These payments are associated with the Vice Chairman or the Senior Independent Director function. ³ Excludes UBS's portion related to the legally required social security contributions, which for the period from the AGM 2016 to the AGM 2017 are estimated at grant at CHF 294,045 and which for the period from the AGM 2015 to the AGM 2016 were estimated at grant at CHF 285,015. The legally required social security contributions paid by the independent BoD members are included in the amounts shown in this table, as appropriate. ⁴ Fees are paid 50% in cash and 50% in blocked UBS shares. However, independent BoD members may elect to have 100% of their remuneration paid in blocked UBS shares. ⁵ For 2016, UBS shares, valued at CHF 15.75 (average price of UBS shares at the SIX Swiss Exchange over the last 10 trading days of February 2017), were granted with a price discount of 15%. These shares are blocked for four years. For 2015, UBS shares, valued at CHF 14.98 (average price of UBS shares at the SIX Swiss Exchange over the last 10 trading days of February 2016), were granted with a price discount of 15%. These shares are blocked for four years. ⁶ Number of shares is reduced in case of the 100% election to deduct legally required contributions. All remuneration payments are, where applicable, subject to social security contributions and/or withholding tax. ▲

Our compensation governance framework

Board of Directors and Compensation Committee

The Board of Directors (BoD) is ultimately responsible for approving and overseeing the compensation strategy proposed by the Compensation Committee, which determines compensation-related matters in line with the principles set forth in the Articles of Association.

As determined in the Articles of Association and the firm's Organization Regulations, the Compensation Committee is the supervisory body for our human resources and compensation policies. It ensures that we have appropriate governance and oversight of our compensation process and practices, that we have strong alignment between pay and performance, and that our compensation system does not encourage inappropriate risk-taking. Our Compensation Committee consists of four independent BoD members who are elected annually by the shareholders at the Annual General Meeting (AGM).

Among other responsibilities, the Compensation Committee, on behalf of the BoD:

- reviews our Total Reward Principles
- reviews and approves the design of the compensation framework
- reviews performance award funding throughout the year and proposes the final performance award pool to the BoD for approval
- together with the Group CEO, reviews performance targets and performance assessments and proposes base salaries and annual performance awards for the other GEB members to the BoD, which approves the total compensation of each GEB member
- together with the Chairman of the BoD, establishes performance targets, evaluates performance and proposes the compensation for the Group CEO to the BoD
- approves the total compensation for the Chairman of the BoD
- together with the Chairman, proposes the total individual compensation for independent BoD members for approval by the BoD
- together with the BoD, proposes the maximum aggregate amounts of compensation for the BoD and for the GEB, to be submitted for approval by shareholders at the AGM
- reviews the Compensation Report and approves any material public disclosures on compensation matters

The Compensation Committee meets at least four times a year. In 2016, the Compensation Committee held seven meetings and two conference calls. All meetings were fully attended. The Chairman of the BoD attended all meetings and the Group CEO all but one meeting. The Chairman of the BoD and the Group CEO were not present during discussions related to their own compensation or performance evaluations. The Chairperson of the Compensation Committee may also invite other executives to join the meeting in an advisory capacity. No individual whose compensation is reviewed is allowed to attend meetings during which specific decisions are made about their compensation. Such decisions are at the discretion of the Compensation Committee and the BoD.

After the meetings, the Chairperson of the Compensation Committee reports to the BoD on the activities of the Compensation Committee and the matters discussed. In addition, where necessary, the Chairperson submits proposals for approval by the full BoD. The minutes of Compensation Committee meetings are sent to all members of the BoD.

On 31 December 2016, the Compensation Committee members were Ann F. Godbehere, who chairs the committee, Michel Demaré, Reto Francioni and William G. Parrett.

External advisors

The Compensation Committee may retain external advisors to support it in fulfilling its duties. In 2016, HCM International Ltd. provided independent advice on compensation matters. HCM International Ltd. holds no other mandates with UBS. The compensation consulting firm Willis Towers Watson provided the Compensation Committee with data on market trends and benchmarks, including in relation to GEB and BoD compensation. Various subsidiaries of Willis Towers Watson provide similar data to Human Resources in relation to compensation for employees below the BoD and GEB level. Willis Towers Watson holds no other compensation-related mandates with UBS.

The Risk Committee's role in compensation

The Risk Committee, a committee of the BoD, works closely with the Compensation Committee to ensure that our approach to compensation reflects proper risk management and control. The Risk Committee supervises and sets appropriate risk management and risk control principles and receives regular briefings on how risk is factored into the compensation process. It also monitors Group Risk Control's involvement in compensation and reviews risk-related aspects of the compensation process.

→ Refer to www.ubs.com/governance for more information

Compensation Committee 2016/2017 key activities and timeline

This table provides an overview of the Compensation Committee's key scheduled activities from AGM 2016 to AGM 2017.

	June	July	Sept	Oct	Nov	Dec	Jan	Mar
Strategy, policy and governance								
Revised Total Reward Principles	●							
3-year strategic plan on variable compensation					●			
Compensation disclosure and stakeholder communication matters		●					●	●
AGM reward-related items	●							●
Compensation Committee governance				●				●
Annual compensation review								
Accruals and full-year forecast of the performance award pool funding	●	●	●	●	●	●	●	
Performance targets and performance assessment of the Group CEO and GEB members						●	●	
Group CEO and GEB members salaries and individual performance awards							●	
Update on market practice, trends and peer group matters	●		●		●			
Pay for performance, including governance on certain higher-paid employees, and non-standard compensation arrangements	●						●	●
Board of Directors remuneration								●
Compensation framework								
Compensation framework and deferred compensation matters			●				●	
Risk and regulatory								
Risk management in the compensation approach and joint meeting with BoD Risk Committee			●					
Regulatory activities impacting employees and engagement with regulators	●	●		●	●			●

Compensation governance

The table below provides an overview of compensation governance by specific role.

Recipients	Compensation recommendations developed by	Approved by	Communicated by
Chairman of the BoD	Chairperson of the Compensation Committee	Compensation Committee ¹	Compensation Committee
Independent BoD members (remuneration system and fees)	Compensation Committee and Chairman of the BoD	BoD ¹	Chairman of the BoD
Group CEO	Compensation Committee and Chairman of the BoD	BoD ¹	Chairman of the BoD
Other GEB members	Compensation Committee and Group CEO	BoD ¹	Group CEO
Key Risk Takers (KRTs) / (senior) employees	Respective GEB member together with functional management team	Individual compensation for KRTs and senior employees: Group CEO	Line manager
		Performance award pool for all employees: BoD	

¹ Aggregate compensation for the GEB and aggregate remuneration for the BoD are subject to shareholder approval.

Shareholder engagement and say-on-pay votes at the AGM

UBS is committed to an ongoing dialog with our shareholders to ascertain their perspectives on developments and trends in compensation and corporate governance matters. In line with the Swiss Ordinance against Excessive Compensation in Listed Stock Corporations, we seek binding shareholder approval for the aggregate compensation for the GEB and for the BoD. The BoD believes that prospective approval for the fixed remuneration for the BoD and the GEB provides the firm and its governing bodies with the certainty necessary to operate effectively. Furthermore, retrospective approval for the GEB's variable compensation awards aligns total compensation for the GEB to performance and contribution and to developments in the market place and across peers. The combination of the binding votes on compensation and the advisory vote on the compensation framework reflects our commitment to our shareholders to having their say-on-pay.

→ Refer to "Provisions of the Articles of Association related to compensation" at the end of this section for more information

Approved compensation

For the performance year 2016, shareholders approved at the AGM 2015 a maximum aggregate fixed compensation amount of CHF 25,000,000 for the members of the GEB, including base salaries, role-based allowances in response to CRD IV, estimated standard contribution to retirement benefit plans, other benefits and a buffer. Following the increase in the number of GEB members from 10 to 12 as of January 2016, the aggregate fixed compensation paid in 2016 to current and former¹ GEB members exceeded the approved amount for 2016. Funded from the available statutory supplementary amount², as approved by shareholders in 2014, an additional amount of CHF 2,721,274 was used to pay a portion of the fixed compensation of the new GEB members.

¹ Includes salaries and employer's contribution to the statutory pension scheme and benefits as part of the employment contract during the notice period for two GEB members who stepped down on 31 December 2015. No such payments were made in 2015. ² The additional amount was used to equally fund the increase of the Group Executive Board, with Sabine Keller-Busse as Group Head Human Resources and Axel P. Lehmann as Group Chief Operating Officer (Group COO). The Group COO role was held by the Group CFO in prior years and was split in 2016; the Group Head Human Resources role has been a GEB level role since 2016.

Say-on-pay – compensation-related votes at the AGM 2016

2016 AGM say-on-pay voting schemes		2016 actual shareholder votes	Vote "for"	Compensation granted
Binding vote on GEB variable compensation	Proposal on the aggregate amount of variable compensation for the GEB for the past performance year	Shareholders approved CHF 71,250,000 for the financial year 2015 ^{1,2,3}	85.9%	CHF 71,250,000
Binding vote on GEB fixed compensation	Proposal on the maximum amount of fixed compensation for the GEB for the following financial year	Shareholders approved CHF 28,500,000 for the financial year 2017	95.1%	To be disclosed in the 2017 Compensation Report
Binding vote on BoD remuneration	Proposal on the maximum aggregate amount of remuneration for the BoD for the period from AGM to AGM. This ensures that the term of office and the compensation period are aligned	Shareholders approved CHF 14,000,000 for the period from the 2016 AGM to 2017 AGM ^{1,2}	91.8%	CHF 13,219,569
Advisory vote on Compensation Report	Proposal on the prior-year Compensation Report, which provides valuable feedback on compensation practice in relation to UBS's compensation framework, governance and policy	Shareholders approved the UBS Group AG Compensation Report 2015 in an advisory vote	84.8%	

¹ Local currencies are translated into Swiss francs at the exchange rates stated in "Note 36 Currency translation rates" in the "Consolidated financial statements" section of the Annual Report 2015. ² Excludes the portion related to the legally required employer's social security contributions. ³ Ten GEB members were in office on 31 December 2015.

Our compensation model for employees other than GEB members

Base salary

Employees' fixed compensation reflects their level of skills, role and experience, as well as local market practices. Fixed compensation generally consists of a base salary and, if applicable, a role-based allowance. Base salaries are usually paid monthly or fortnightly. We offer our employees competitive base salaries, although salary levels vary between functions and locations. Since 2011, salary increases have been limited. With effect from March 2017, total base salaries increased by CHF 80 million or 1.4%. Such increases will continue to be granted to employees who were promoted, have scarce or in-demand skillsets, delivered a very strong performance or took on increased responsibilities.

Overall, we focus on total compensation. For example, 2016 performance award pools take into account salary increases granted earlier in the year. We will continue to review salaries and performance awards in light of market developments, affordability, our performance and our commitment to deliver sustainable returns to our shareholders.

In addition to a base salary and as part of fixed compensation, some regulated employees may receive a role-based allowance as described in the "Material Risk Takers" section of this report. Such allowance represents a shift in the compensation mix between fixed and variable compensation and not an increase in total compensation.

Pensions, benefits, and employee share purchase program

We offer certain benefits to our employees such as health insurance and retirement benefits. These benefits may vary depending on the employee's location and are intended to be competitive in each of the markets in which we operate. Pension contributions and pension plans also vary across locations and countries in accordance with local requirements and market practice. However, pension plan rules in any one location are generally the same for all employees, including management.

The Equity Plus Plan is our employee share purchase program. It allows employees below the rank of managing director to contribute up to 30% of their base salary and/or up to 35% of their performance award (up to CHF/USD 20,000 annually) for the purchase of UBS shares. Eligible employees may buy UBS shares at market price and receive one matching share for every three shares purchased through the program. The matching shares vest after three years, provided the employee remains employed with the firm and has retained the purchased shares throughout the holding period.

→ Refer to "Note 26 Pension and other post-employment benefit plans" in the "Consolidated financial statements" section of the Annual Report 2016 for more information

Performance award

Most of our employees are eligible for an annual discretionary performance award. The level of the award depends on the firm's overall performance, the employee's business division performance, as well as individual performance and behavior, reflecting their overall contribution to the firm's success. The award is at the complete discretion of the firm. To link pay with performance, the key performance indicators (KPIs) used to measure our progress in executing our strategy are taken into account when determining the size of each business division's performance award pool. The KPIs also serve as a basis for setting specific performance conditions for vesting of certain deferred compensation plan grants.

In addition to the firm's principles around Client focus, Excellence and Sustainable performance, on an individual level, behaviors related to Integrity, Collaboration and Challenge are part of the performance management approach. Therefore, when assessing performance, we not only take into account what was achieved, but also how those results were achieved.

Benchmarking

Because of the diversity of our businesses, our choice of benchmark companies focuses on the comparability of business division, location and scope of role. For certain businesses or roles, we may take into account practices at other major international banks, other large Swiss private banks, private equity firms, hedge funds and non-financial firms. Furthermore, we also benchmark employee compensation internally for comparable roles within and across business divisions and locations.

Deferral of performance awards

We encourage our employees to deliver sustainable performance. In practice, this means that employees with the highest levels of compensation have a higher effective deferral rate of their performance awards. If an employee's total compensation exceeds 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.

The deferred amount increases at higher marginal rates in line with the value of the performance award. The portion of the performance award paid out in immediate cash is capped at CHF/USD 1 million (or the equivalent in other currencies). Amounts in excess of the cash cap are deferred in notional shares under the Equity Ownership Plan (EOP). The effective deferral rate therefore depends on the amount of the performance award and the amount of total compensation.

Of the deferred annual performance award, at least 60% is deferred in UBS notional shares under the EOP and up to 40% is deferred in notional instruments under the Deferred Contingent Capital Plan (DCCP). Asset Management employees receive at least 75% of their deferred performance awards in notional funds under the EOP and up to 25% under the DCCP. The average deferral period for deferred performance awards for employees below GEB level is 3.5 years.

- Refer to the **"Our deferred variable compensation plans for 2016"** section of this report for more information
- Refer to **"Note 27 Equity participation and other compensation plans"** in the **"Consolidated financial statements"** section of the **Annual Report 2016** for more information on local plans

Other variable compensation components

To support hiring and retention, particularly at senior levels, we may offer certain other compensation components. These include:

- Replacement payments to compensate employees for deferred awards forfeited as a result of joining the firm. Such payments are industry practice and are often necessary to attract senior candidates, who generally have a significant portion of their awards deferred at their current employer, where continued employment is required to avoid forfeiture.
- Retention payments made to key employees to induce them to stay, particularly during critical periods for the firm.
- On a very limited basis, guarantees may be required to attract individuals with certain skills and experience. These awards are fixed incentives subject to our standard deferral rules and are limited to the first full year of employment.
- Award grants to employees hired late in the year to replace performance awards that they would have earned at their previous employer, but have foregone by joining the firm. These awards are structured with the same level of deferral as for employees at a similar level at UBS. In exceptional cases, candidates may be offered a sign-on award to increase the chances of them accepting our offer.

These other variable compensation components are subject to a comprehensive governance process. Authorization and responsibility may go up to the BoD Compensation Committee, depending on the amount or type of such payments.

Employees who are made redundant may receive severance payments. Our severance terms comply with the applicable local laws (legally obligated severance). In certain locations, we may provide severance packages that are negotiated with our local social partners and may go beyond the applicable minimum legal requirements (standard severance). Such payments are governed by location-specific severance policies. In addition, we may make severance payments that exceed legally obligated or standard severance payments (supplemental severance) where we believe that they are aligned with market practice and appropriate under the circumstances. No severance payments are made to members of the GEB.

Sign-on payments, replacement payments, guarantees and severance payments

CHF million, except where indicated	Total 2016	of which: expenses recognized in 2016 ⁵	of which: expenses to be recognized in 2017 and later	Total 2015	Number of beneficiaries	
					2016	2015
Total sign-on payments¹	43	27	16	21	145	114
of which: Key Risk Takers ²	19	12	8	11	10	14
Total replacement payments³	65	24	41	85	221	252
of which: Key Risk Takers ²	26	17	9	44	14	27
Total guarantees³	13	6	7	44	17	35
of which: Key Risk Takers ²	0	0	0	29	0	13
Total severance payments^{1,4}	271	271	0	166	2,637	1,850
of which: Key Risk Takers ²	4	4	0	2	17	6

¹ GEB members are not eligible for sign-on or severance payments. ² Expenses for Key Risk Takers are full-year amounts for individuals in office on 31 December 2016. Key Risk Takers include employees with a total compensation exceeding CHF/USD 2.5 million (Highly Paid Employees). ³ No GEB member received replacement payments or guarantees for 2016 or 2015. ⁴ Severance payments include legally obligated and standard severance. ⁵ Expenses before post-vesting transfer restrictions.

Compensation for financial advisors in Wealth Management Americas

In line with market practice for US wealth management businesses, the compensation for financial advisors in Wealth Management Americas is based on production payout and awards. Production payout, paid monthly, is primarily based on compensable revenue. Financial advisors may also qualify for deferred awards, which vest over various time periods of up to 10 years depending on the type of award. The awards are based on strategic performance measures, including production, length of service with the firm and net new business. Production payout rates and awards may be reduced for, among other things, errors, negligence or carelessness, or a failure to comply with the firm's rules, standards, practices and policies or applicable laws and regulations.

Key Risk Takers

Key Risk Takers (KRTs) are globally defined as those employees who, by the nature of their roles, have been determined to materially set, commit or control significant amounts of the firm's

resources and/or exert significant influence over its risk profile. This includes employees who work in front-office roles, logistics and control functions. Identifying KRTs is part of our risk control framework and an important element in ensuring we incentivize only appropriate risk-taking. For 2016, 661 employees were classified as KRTs, including all 12 GEB members. This group also includes all employees with a total compensation exceeding CHF/USD 2.5 million (Highly Paid Employees) who may not have been identified as KRTs during the performance year.

The performance of employees identified as KRTs during the performance year is evaluated by the control functions.

In line with regulatory requirements, KRTs' performance awards are subject to a mandatory deferral of at least 50%, regardless of whether the deferral threshold has been met. A KRT's deferred compensation award will only vest if the relevant Group and/or business division performance conditions are met. Like for all other employees, the deferred portion of KRTs' compensation is also subject to forfeiture or reduction if the KRT commits harmful acts.

Group Managing Directors (GMDs) receive part of their annual performance award under the DCCP and EOP with the same vesting conditions as for KRTs.

Fixed and variable compensation for Key Risk Takers¹

CHF million, except where indicated	Total for the year ended 2016		Not deferred		Deferred ²		Total for the year ended 2015 ³
	Amount	%	Amount	%	Amount	%	Amount
Total compensation							
Amount ⁴	1,138	100	619	54	519	46	1,413
Number of beneficiaries	649						659
Fixed compensation^{4,5}	386	34	386	100	0	0	398
Cash-based	357	31	357		0		376
Equity-based	29	3	29		0		22
Variable compensation	752	66	233	31	519	69	1,015
Immediate cash ⁶	233	21	233		0		280
Equity Ownership Plan (EOP)	322	28	0		322		462
Deferred Contingent Capital Plan (DCCP)	197	17	0		197		273

¹ Includes employees with a total compensation exceeding CHF/USD 2.5 million (Highly Paid Employees), excluding GEB members who were in office on 31 December 2016. ² Based on the specific plan vesting and reflecting the total value at grant, which may differ from the accounting expenses. ³ Figures for 2015 as reported in our Annual Report 2015. ⁴ Excludes benefits and employer's contribution to retirement benefit plans. ⁵ Includes base salary and role-based allowances. ⁶ Includes allocation of vested but blocked shares, in line with the remuneration section of the UK Prudential Regulation Rulebook.

Material Risk Takers

For entities that are regulated in the EU, we have to identify individuals who are deemed to be Material Risk Takers (MRTs) based on the guidelines issued by the European Banking Authority (EBA). In the UK, under the guidance of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA), we identified a group of 640 UK MRTs for 2016. This group consists of senior management, risk takers, staff engaged in control functions and any employee whose total compensation is above a certain threshold. In line with the EBA guidelines, 50% of UK MRTs' performance awards that are paid out immediately are delivered in UBS shares that are blocked for six months. Any notional shares granted to UK MRTs under the EOP for their performance in 2016 are subject to an additional six-month blocking period post vesting. Since 2015, performance awards granted to UK MRTs have also been subject to claw-back provisions for a period of up to seven years from the date of grant. Under these provisions, the firm may claim repayment of both the immediate and the deferred element of any discretionary performance award if an individual is found to have contributed substantially to causing significant financial losses to the Group or a material downward restatement of disclosed results, or engaged in misconduct and/or failed to take expected actions, which contributed to significant harm to the Group's reputation.

In line with market practice, MRTs may receive a role-based allowance in addition to their base salary. This role-based allowance reflects the market value of a specific role and is fixed, non-forfeitable compensation. Unlike salary, a role-based allowance is paid only for as long as the employee is in a specific role. Importantly, the role-based allowance represents a shift in the compensation mix between fixed and variable compensation and not an increase in total compensation.

Similar to 2015, the 2016 role-based allowances consisted of an immediate cash portion and, where applicable, a blocked UBS share award. Other EU-based employees who are subject to regulation have similar compensation structures in order to comply with EBA and local requirements.

UK Senior Managers and Certification Regime

In March 2016, the Senior Managers and Certification Regime (SMCR) of the UK PRA and FCA came into effect. Under the SMCR, certain specified responsibilities are allocated to named individuals performing designated Senior Management Functions (SMFs). Individuals in the certification group under SMCR are those performing certain significant functions, MRTs and/or those in certain other identified categories.

SMFs are subject to specific compensation requirements, which we have implemented for the performance year 2016, including longer deferral and claw-back periods. We have extended the deferral period for SMFs to seven years, with the deferred performance awards vesting in equal installments between years 3 and 7. We have also amended the claw-back policy to allow claw-back for up to 10 years from the date of performance award grants (applicable if an individual is subject to an investigation at the end of the initial seven-year claw-back period).

Control functions and Group Internal Audit

Our control functions, Risk Control (including Compliance), Finance and Legal, must be independent in order to monitor risk effectively. Therefore, we determine their compensation independently from the revenue producers that they oversee, supervise or support. Their performance award pool is not based on the performance of these businesses, but on the performance of the Group as a whole. In addition, we consider other factors, such as how effectively the function has performed, and our market position. Decisions on individual compensation for the senior managers of the control functions are made by the function heads and approved by the Group CEO. Decisions on individual compensation for the members of Group Internal Audit (GIA) are made by the Head of GIA and approved by the Chairman of the BoD. Upon proposal by the Chairman, total compensation for the Head of GIA is approved by the Compensation Committee in consultation with the Audit Committee.

Our deferred variable compensation plans for 2016

Deferred compensation

To ensure our employees' and stakeholders' interests are aligned and that compensation is appropriately linked to longer-term sustainable performance, a significant part of performance awards above a total compensation threshold are deferred in UBS notional shares and/or UBS notional instruments for up to five years, or longer for certain regulated employees.

For all employees with a total compensation above CHF/USD 300,000, a specific amount of the overall performance award is deferred. For 2016, 48% of the overall performance award for this group of employees was deferred.

Our current performance award components are not classified as "on-top" long-term incentive awards, because they are not granted in addition to and beyond an annual performance award and they do not include leverage features based on potential future performance. We believe UBS has one of the most rigorous deferral regimes in the industry.

The average deferral period is 4.4 years for GEB members and 3.5 years for employees below GEB level. To promote sustainable performance over the longer-term, our deferred compensation components are kept at risk through a mix of notional equity and capital instruments with long durations and malus conditions. Malus conditions enable the firm to forfeit unvested deferred awards under certain circumstances, including performance and harmful acts provisions. Deferred awards granted to the most senior employees and to Highly Paid Employees (employees with a total compensation exceeding CHF/USD 2.5 million) remain subject to performance conditions. Deferred compensation is delivered through two plans: the Equity Ownership Plan (EOP) primarily aligns employee interest with those of our shareholders and the Deferred Contingent Capital Plan (DCCP) aligns with the interests of bondholders.

Overview of our deferred variable compensation plans

		Equity Ownership Plan	Deferred Contingent Capital Plan
Beneficiaries		GEB members, Key Risk Takers and all employees with total compensation greater than CHF/USD 300,000	GEB members, Key Risk Takers and all employees with total compensation greater than CHF/USD 300,000
Deferral mix (between EOP and DCCP)		GEB members: at least 62.5% Asset Management employees: at least 75% All other employees: at least 60%	GEB members: up to 37.5% Asset Management employees: up to 25% All other employees: up to 40%
Vesting schedule		GEB members/SMFs: vests in three installments after years 3, 4 and 5 Asset Management employees: vests in three installments after years 2, 3 and 5 All other employees: vests in equal installments after years 2 and 3	SMFs: vests in two installments after years 6 and 7 GEB members (who are not SMFs) and all other employees: vests in full after 5 years
Conditions influencing payout	Share price	√	
	Forfeiture clauses	√	√
	Harmful acts	√	√
	Performance conditions	GEB members, GMDs, Key Risk Takers (including Highly Paid Employees) and SMFs: number of UBS shares delivered at vesting depends on the achievement of both Group and respective business division performance conditions ¹	Depends on whether a trigger event or viability event has occurred and, for GEB members, also on profitability
Profitability as funding driver		√	√
Instrument		UBS notional shares ² (eligible for dividend equivalents)	Notional instruments and interest

¹ Includes Asset Management employees who are GMDs or Key Risk Takers (including Highly Paid Employees). ² Notional funds for Asset Management employees.

Equity Ownership Plan

The Equity Ownership Plan (EOP) is a mandatory deferral plan for all employees with total compensation greater than CHF/USD 300,000. These employees receive at least 60% of their deferred performance award under the EOP in notional shares, which are eligible for reinvested dividend equivalents. For 2016, around 4,800 employees received EOP awards. EOP awards are granted annually.

The plan includes provisions that allow the firm to reduce or fully forfeit the unvested deferred portion of the granted EOP award if an employee commits certain harmful acts, and in most cases trigger forfeiture where employment has been terminated.

EOP awards granted to Asset Management employees have a different vesting schedule and deferral mix, as shown in the table "Overview of our deferred variable compensation plans" on the previous page, and are granted as cash-settled notional funds. This aligns Asset Management employee compensation closer with industry standards and thus helps us retain our best talent.

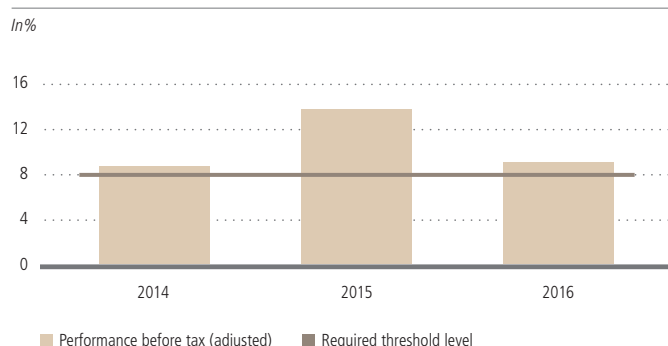
EOP awards granted to GEB members, Group Managing Directors (GMDs), Key Risk Takers (including Highly Paid Employees) and SMFs will only vest if both Group and business division performance requirements are met. Group performance is measured on the basis of average adjusted Group RoTE over the performance period. Business division performance is measured on the basis of the business division's average adjusted RoAE. For Corporate Center employees, it is measured on the basis of the aggregate RoAE of all business divisions. By linking the vesting of EOP awards with minimum return on equity performance over a multi-year time horizon, we encourage our employees to develop and manage the business in a way that delivers sustainable returns.

At Group level, the performance requirement for the award to be able to vest in full is an adjusted RoTE of 8%. The intent is to promote sustained performance by keeping variable compensation of earlier years at a prudently established level of risk.

The primary measure to determine vesting of EOP awards is the average adjusted Group RoTE. If the average adjusted Group RoTE is equal to or above the performance threshold of 8%, the EOP award will vest in full, provided that the relevant business division performance requirement has also been met. If the average adjusted Group RoTE is 0% or negative, the installment will be fully forfeited for the entire firm regardless of any business division's individual performance. If the average adjusted Group RoTE is between 0% and 8%, the award will vest on a linear basis at 0–100%, again provided that the relevant business division performance requirement is met.

The secondary measure to determine vesting of EOP awards is business division RoAE. If the business division RoAE performance threshold (refer to the table on the next page) is met, the EOP award will vest in accordance with the achievement of the primary measure. However, if the RoAE falls below the minimum threshold but is above 0%, the award will be partly forfeited. The extent of the forfeiture depends on how far the actual RoAE falls below the performance threshold for that business division and can be up to 40% of the award that would otherwise vest based on the average adjusted Group RoTE. If the actual RoAE for a business division is 0% or negative, the installment will be fully forfeited for that business division. The Compensation Committee determines whether the performance requirements have been met.

Adjusted Group RoTE performance

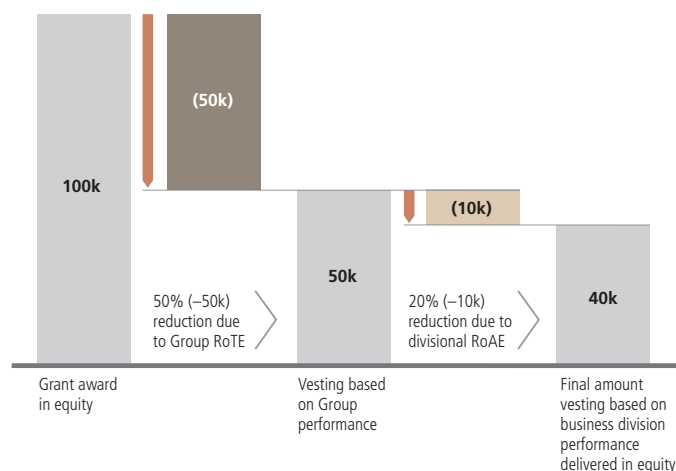


Illustrative example for EOP performance requirements

The amount due to vest under the EOP will depend on the degree to which the RoAE and RoTE performance requirements have been satisfied. Assuming a constant share price, the award may forfeit up to 100% based on the Group RoTE performance. The remaining award is further subject to 100% forfeiture if the business division RoAE is less than 0%, or up to 40% if the business division RoAE is between 0% and the business division performance threshold.

Example:

- EOP award grant: CHF 100,000 in equity
- Adjusted Group RoTE threshold: 8%. 3-year average Group performance: 4%
- Business division RoAE threshold: 20%. 3-year average business division performance: 10%



Performance requirements for EOP awards granted in February 2017

The Compensation Committee annually reviews the Group RoTE and each business division's RoAE performance requirement for the upcoming performance award grants under the EOP. The performance requirements are set in the light of past experience as

well as forward-looking three-year strategic plan considerations. Final performance requirements also reflect changes in the attributed equity framework. Once set, they remain in place for all EOP performance vesting installments for that particular award year.

	Installment vesting after	Applicable performance period
	3 years	2017, 2018 and 2019
	4 years	2018, 2019 and 2020
GEB/SMF	5 years	2019, 2020 and 2021
	2 years	2017 and 2018
GMDs, Key Risk Takers (including Highly Paid Employees)	3 years	2017, 2018 and 2019

Group RoTE performance threshold

Adjusted Group RoTE performance threshold	≥8%
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Business division RoAE performance thresholds

Wealth Management	≥30%
Wealth Management Americas	≥12%
Personal & Corporate Banking	≥12%
Asset Management	≥20%
Investment Bank	≥10%
Corporate Center ¹	≥15%

¹ For Corporate Center employees, operating businesses RoAE performance threshold.

Deferred Contingent Capital Plan

The Deferred Contingent Capital Plan (DCCP) is a mandatory deferral plan for all employees with total compensation greater than CHF/USD 300,000. These employees receive up to 40% of their deferred performance award under the DCCP, with the exception of Asset Management employees, who receive up to 25%, and GEB members, who receive up to 37.5%. DCCP awards are granted annually. For 2016, around 4,800 employees received DCCP awards.

Employees are awarded notional additional tier 1 (AT1) instruments, which can be settled either in the form of a cash payment or a perpetual, marketable AT1 instrument, at the discretion of the firm. Prior to grant, employees can elect to have their DCCP awards denominated in either Swiss francs or US dollars.

DCCP awards vest in full after five years and up to seven years for SMFs, unless there is a trigger event. They are written down if the Group's common equity tier 1 (CET1) capital ratio falls below 10% for GEB members and below 7% for all other employees. Awards are also forfeited if a viability event occurs, that is, if FINMA notifies the firm in writing that the DCCP awards must be written down to prevent an insolvency, bankruptcy or failure of UBS, or if the firm receives a commitment of extraordinary support from the public sector that is necessary to prevent such an event. As an additional performance condition, GEB members

forfeit 20% of their award for each loss-making year during the vesting period. Like the EOP, the DCCP also has provisions that allow the firm to apply malus on some, or all, of the unvested deferred portion of a granted award if an employee commits certain harmful acts, or in most cases trigger forfeiture where employment has been terminated.

Under the DCCP, employees may receive discretionary annual interest payments. The notional interest rate for grants in 2017 was 2.55% for awards denominated in Swiss francs and 5.95% for awards denominated in US dollars. These interest rates are based on the current market rates for such AT1 instruments. Interest will be paid out annually, subject to review and confirmation by the firm.

The DCCP contributes to the Group's total loss-absorbing capital. Therefore, DCCP awards not only support competitive pay, but also provide a loss absorption buffer that protects the firm's capital position. The following table illustrates the impact of the DCCP on our AT1 and tier 2 capital as well as on our total loss-absorbing capacity ratio.

→ Refer to the "Supplemental information" section of this report for more information on performance award- and personnel-related expenses

→ Refer to the "Our compensation model for employees other than GEB members" section of this report for more information on longer vesting and claw-back periods for MRTs and SMFs

Impact of the Deferred Contingent Capital Plan on our loss-absorbing capacity¹

CHF million, except where indicated	31.12.16	31.12.15	31.12.14
Deferred Contingent Capital Plan (DCCP)	2,271	1,903	1,413
of which: high-trigger loss-absorbing additional tier 1 capital	1,380	991	467
of which: high-trigger loss-absorbing tier 2 capital ²	891	912	946
DCCP contribution to the total loss-absorbing capacity ratio (%) ³	1.0	0.9	0.7

¹ Refer to "Bondholder information" at www.ubs.com/investors for more information on the capital instruments of UBS Group AG and of UBS AG both on a consolidated and a standalone basis. ² DCCP awards granted for the performance years 2012 and 2013. Swiss SRB framework including transitional arrangements (phase-in) as of 31 December 2016. Based on the former Swiss SRB framework for 31 December 2015 and 31 December 2014. ³ Impact for periods prior to 31 December 2016 were calculated for the former Swiss SRB total capital ratio.

Supplemental information

Performance awards granted for the 2016 performance year

The "Total variable compensation" table below shows the amount of variable compensation awarded to employees for the performance year 2016, together with the number of beneficiaries for each type of award granted. In the case of deferred awards, the final amount paid to an employee depends on performance conditions and consideration of relevant forfeiture provisions. The deferred share award amount is based on the market value of these awards on the date of grant.

The "Deferred compensation" table on the next page shows the current economic value of unvested outstanding deferred variable compensation awards subject to ex-post adjustments.

For share-based plans, the economic value is determined based on the closing share price on 30 December 2016. For notional funds, it is determined using the latest available market price for the underlying funds at year-end 2016, and for deferred cash plans, it is determined based on the outstanding amount of cash owed to award recipients. All awards made under our deferred variable compensation plans listed in the "Deferred compensation" table on the next page are subject to ex-post adjustments, whether implicitly, through exposure to share price movements, or explicitly, for example, through forfeitures instigated by the firm.

→ Refer to "Note 27 Equity participation and other compensation plans" in the "Consolidated financial statements" section of the Annual Report 2016 for more information

Total variable compensation¹

CHF million, except where indicated	Expenses		Expenses deferred to future periods		Adjustments ²		Total		Number of beneficiaries	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Cash performance awards	1,817	2,073	0	0	0	(1)	1,817	2,072	47,581	46,272
Deferred Contingent Capital Plan	133	172	266	343	0	0	399	514	4,785	5,432
UBS share plans	214	261	372	524	54	63	639	848	4,388	5,036
Equity Ownership Plan – notional funds	26	28	34	34	0	0	60	63	428	438
Total performance award pool	2,191	2,535	671	900	54	62	2,916	3,497	47,603	46,311

CHF million, except where indicated	Expenses		Expenses deferred to future periods		Adjustments ²		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
Total variable compensation – other³	266	184	162	248	(98)⁴	(160)⁴	330	271

CHF million, except where indicated	Expenses		Expenses deferred to future periods		Adjustments ²		Total		Number of beneficiaries	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Total WMA financial advisor compensation⁵	2,695	2,673	804	1,716	0	0	3,499	4,389	7,025	7,038

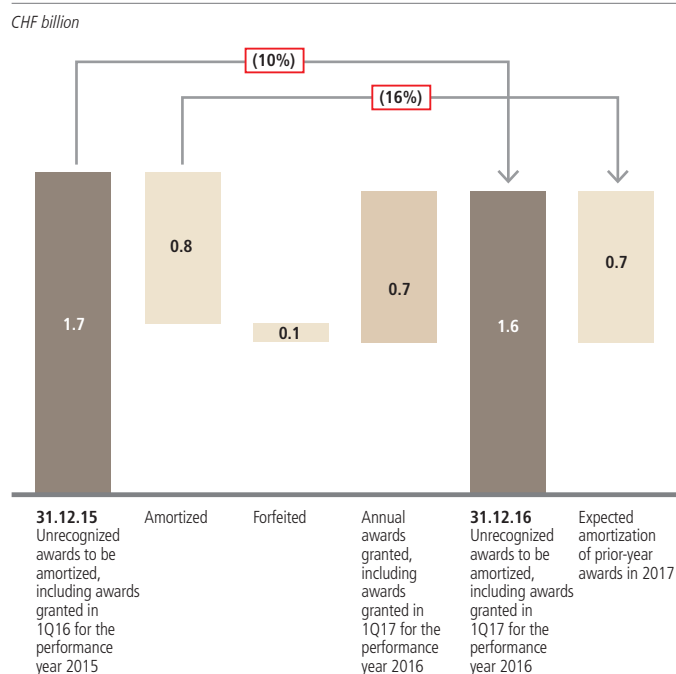
¹ Expenses under "Total variable compensation – other" and "Total WMA financial advisor compensation" are not part of UBS's performance award pool. ² Adjustments relating to post-vesting transfer restrictions and other adjustments. ³ Replacement payments and retention plan payments, including the 2012 Special Plan Award Program. ⁴ Included in expenses deferred to future periods is an amount of CHF 98 million (2015: CHF 160 million) relating to future interest on the DCCP. As the amount recognized as performance award represents the present value of the award at the date it is granted to the employee, this interest amount is adjusted out in the analysis. ⁵ Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment that are subject to vesting requirements.

Performance award expenses in the 2016 performance year

Performance award expenses include all immediate expenses related to 2016 compensation awards and expenses deferred to 2016 related to awards made in prior years. The chart "Amortization of deferred compensation" shows the amount at the end of 2016 of unrecognized awards to be amortized in subsequent years. This was CHF 1.6 billion for 2016 and CHF 1.7 billion for 2015.

The table below shows the value of actual ex-post explicit and implicit adjustments to outstanding deferred compensation in the financial year 2016. Ex-post adjustments occur after an award has been granted. Ex-post explicit adjustments occur when we adjust compensation by forfeiting deferred awards. Ex-post implicit adjustments are unrelated to any action taken by the firm and occur as a result of share price movements that impact the value of an award. The total value of ex-post explicit adjustments made to UBS shares in 2016, based on the approximately 5 million shares forfeited during 2016, is a reduction of CHF 77 million. The total value of ex-post explicit adjustments made to UBS options and share-settled stock appreciation rights (SARs) in 2016, based on the approximately 0.1 million options/SARs forfeited during 2016, is a reduction of CHF 0.5 million. The size of implicit adjustments is mainly due to an increase in the share price. However, the share price as of year-end means that many of the options previously granted remain out of the money. Hence, the majority of outstanding option awards had no intrinsic value at the end of 2016.

Amortization of deferred compensation



Deferred compensation^{1,2}

CHF million, except where indicated	Relating to awards for 2016	Relating to awards for prior years ³	Total	of which: exposed to ex-post adjustments	Total deferred compensation year-end 2015
Deferred Contingent Capital Plan	399	1,890	2,289	100%	1,911
Equity Ownership Plan	639	2,531	3,171	100%	3,520
Equity Ownership Plan – notional funds	60	378	438	100%	455
Discontinued deferred compensation plans ⁴	0	6	6	100%	19
Total	1,098	4,805	5,903		5,905

¹ Based on specific plan vesting and reflecting the economic value of the outstanding awards, which may differ from the accounting expenses. ² Refer to "Note 27 Equity participation and other compensation plans" in the "Consolidated financial statements" section of the Annual Report 2016 for more information. ³ Takes into account the ex-post implicit adjustments, given the share price movements since grant. ⁴ Senior Executive Equity Ownership Plan (SEEO), Incentive Performance Plan (IPP).

Ex-post explicit and implicit adjustments to deferred compensation in 2016¹

CHF million	Ex-post explicit adjustments ⁴		Ex-post implicit adjustments to invested awards ⁵	
	31.12.16	31.12.15	31.12.16	31.12.15
UBS notional bonds (DCCP)	(48)	(53)		
UBS shares (EOP, SEEO) ²	(77)	(146)	107	412
UBS options (KESOP) and SARs (KESAP) ²	0	(1)	0	0
UBS notional funds (EOP) ³	(3)	(6)	11	3

¹ Compensation (performance awards and other variable compensation) relating to awards for previous performance years. ² Senior Executive Equity Ownership Plan (SEEO), Key Employee Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP) are discontinued deferred compensation plans. ³ Awards granted under this plan are cash-settled and 100% susceptible to ex-post implicit adjustments. ⁴ Ex-post explicit adjustments are calculated as units forfeited during the year, valued at the share price on 30 December 2016 (CHF 15.95) and on 30 December 2015 (CHF 19.52) for UBS shares and valued with the fair value at grant for UBS options. For the notional funds awarded to Asset Management employees under the EOP, this represents the forfeiture credits recognized in 2016 and 2015. For the DCCP, the fair value at grant of the forfeited awards during the year is reflected. ⁵ Ex-post implicit adjustments for UBS shares are calculated based on the difference between the weighted average grant date fair value and the share price at year-end. The amount for notional funds is calculated using the mark-to-market change during 2016 and 2015.

Total personnel expenses for 2016

As of 31 December 2016, there were 59,387 employees (on a full-time equivalent basis). The "Personnel expenses" table below shows our total personnel expenses for 2016. It includes salaries, pension contributions and other personnel costs, social security contributions and variable compensation. Variable compensation includes discretionary cash performance awards paid in 2017 for the 2016 performance year, the amortization of unvested deferred awards granted in previous years and the cost of deferred awards granted to employees who are eligible for retirement in the context of the compensation framework at the date of grant.

The performance award pool reflects the value of discretionary performance awards granted relating to the 2016 performance year, including awards that are paid out immediately and those that are deferred. To determine our variable compensation expenses, the following adjustments are required in order to rec-

oncile the performance award pool to the accounting expenses recognized in the Group's financial statements prepared in accordance with IFRS:

- reduction for the unrecognized future amortization (including accounting adjustments) of unvested deferred awards granted in 2017 for the performance year 2016
- addition for the 2016 amortization of unvested deferred awards granted in prior years

As a large part of compensation consists of deferred awards, the amortization of unvested deferred awards granted in prior years forms a significant part of the IFRS accounting expenses in both 2015 and 2016.

→ Refer to "Note 27 Equity participation and other compensation plans" in the "Consolidated financial statements" section of the Annual Report 2016 for more information

Personnel expenses

CHF million	Expenses				
	Relating to awards for 2016	Relating to awards for prior years	Total 2016	2015	2014
Salaries¹	6,230	0	6,230	6,282	6,269
Cash performance awards	1,817	(42)	1,775	1,980	1,714
Deferred Contingent Capital Plan	133	295	428	429	349
Deferred cash plans	0	6	6	12	12
UBS share plans	214	485	699	722	680
UBS share option plans	0	0	0	0	0
Equity Ownership Plan – notional funds	26	39	65	67	65
Total variable compensation – performance awards²	2,191	781	2,972	3,210	2,820
<i>of which: guarantees for new hire</i>	6	23	30	38	48
Variable compensation – other²	266	151	418	346	466
<i>of which: replacement payments³</i>	24	62	86	76	81
<i>of which: forfeiture credits</i>	0	(73)	(73)	(86)	(70)
<i>of which: severance payments⁴</i>	217	0	217	157	162
<i>of which: retention plan and other payments</i>	26	163	188	198	292
Contractors	420	0	420	365	234
Social security	723	24	747	820	791
Pension and other post-employment benefit plans⁵	670	0	670	808	711
Wealth Management Americas: financial advisor compensation^{2,6}	2,695	1,002	3,697	3,552	3,385
Other personnel expenses	541	24	565	600	605
Total personnel expenses⁷	13,737	1,983	15,720	15,981	15,280

¹ Includes role-based allowances. ² Refer to "Note 27 Equity participation and other compensation plans" in the "Consolidated financial statements" section of the Annual Report 2016 for more information. ³ Payments made to compensate employees for deferred awards forfeited as a result of joining UBS. Includes the expenses recognized in the financial year (mainly the amortization of the award). ⁴ Includes legally obligated and standard severance payments. ⁵ Includes credits related to changes to retiree benefit plans in the US of CHF 24 million, CHF 41 million for the years ended 31 December 2015 and 31 December 2014, respectively. Refer to "Note 26 Pension and other post-employment benefit plans" in the "Consolidated financial statements" section of the Annual Report 2016 for more information. ⁶ Consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment, which are subject to vesting requirements. ⁷ Includes net restructuring expenses of CHF 751 million, CHF 460 million and CHF 327 million for the years ended 31 December 2016, 31 December 2015 and 31 December 2014, respectively. Refer to "Note 30 Changes in organization and disposals" in the "Consolidated financial statements" section of the Annual Report 2016 for more information.

Vesting of outstanding awards granted in prior years subject to performance conditions

The tables below show the extent to which the performance conditions for awards granted in prior years have been met and the percentage of the awards that vest in 2017.

Senior Executive Equity Ownership Plan (SEEOP) 2011/2012		
Performance requirement	Performance achieved	% of installment vesting
Adjusted operating profit before tax for the business division or, for Corporate Center, adjusted Group operating profit before tax	As the Group and the business divisions reported an operating profit for 2016, the profitability performance condition has been satisfied, hence the fifth installment of the SEEOP 2011/2012 awards vests in full	100%

Equity Ownership Plan (EOP) 2012/2013, EOP 2013/2014 and EOP 2014/2015		
Performance requirement	Performance achieved	% of installment vesting
Group return on tangible equity and the divisional return on attributed equity	The Group and divisional performance conditions have been satisfied. For the EOP 2012/2013, the second installment for the GEB members vests in full. For the EOP 2013/2014, the first installment for the GEB members and the second installment for all other employees, covered under the plan, vest in full. For the EOP 2014/2015, the first installment for all other employees covered under the plan vests in full	100%

Discontinued deferred compensation plans

The table below lists discontinued compensation plans that had outstanding balances as of 31 December 2016 or that were retired in 2016. The firm has not granted any options since 2009. The strike price for stock options awarded under prior compensation plans has not been reset.

→ Refer to “Note 27 Equity participation and other compensation plans” in the “Consolidated financial statements” section of the Annual Report 2016 for more information

Plan	Years granted	Eligible employees	Instrument	Performance conditions	Vesting period and other conditions	Status as of March 2017
Senior Executive Equity Ownership Plan (SEEOP)	2010–2012	GEB members and GMDs	Shares	Depends on whether the business division makes a loss (the amount forfeited depends on the extent of the loss and generally ranges from 10% to 50% of the award portion due to vest)	Vests in equal installments over a five-year period, subject to continued employment and harmful act provisions	Expired
Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP)	2002–2009	Selected employees (approximately 17,000 employees between 2002 and 2009)	Share-settled stock appreciation rights (SARs) or stock options	None	Vests in full three years after grant, subject to continued employment, non-solicitation of clients and employees and non-disclosure of proprietary information	Expired (some options/SARs remain exercisable)
Senior Executive Stock Appreciation Rights Plan (SESAP) and Senior Executive Stock Option Plan (SESOP)	2002–2009	GEB members and members of the Group Managing Board	Share-settled SARs or stock options	None	Vests in full three years after grant, subject to continued employment, non-solicitation of clients and employees and non-disclosure of proprietary information	Expired (some options/SARs remain exercisable)

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Share and option ownership/entitlements of GEB members¹

Name, function	on 31 December	Number of unvested shares/at risk ²	Number of vested shares	Total number of shares	Potentially conferred voting rights in %	Number of options ³	Potentially conferred voting rights in % ⁴
Sergio P. Ermotti, Group Chief Executive Officer	2016	1,365,537	265,515	1,631,052	0.097	0	0.000
	2015	947,964	155,736	1,103,700	0.059	0	0.000
Martin Blessing, President Personal & Corporate Banking and President UBS Switzerland	2016	0	0	0	0.000	0	0.000
	2015	–	–	–	–	–	–
Christian Bluhm, Group Chief Risk Officer	2016	0	0	0	0.000	0	0.000
	2015	–	–	–	–	–	–
Markus U. Diethelm, Group General Counsel	2016	538,520	154,820	693,340	0.041	0	0.000
	2015	447,694	61,797	509,491	0.027	0	0.000
Lukas Gähwiler, former President Personal & Corporate Banking and President UBS Switzerland	2016	–	–	–	–	–	–
	2015	558,657	1,515	560,172	0.030	0	0.000
Kirt Gardner, Group Chief Financial Officer	2016	142,646	38,581	181,227	0.011	0	0.000
	2015	–	–	–	–	–	–
Sabine Keller-Busse, Group Head Human Resources	2016	200,272	120,897	321,169	0.019	0	0.000
	2015	–	–	–	–	–	–
Ulrich Körner, President Asset Management and President UBS EMEA	2016	797,165	95,597	892,762	0.053	0	0.000
	2015	642,813	95,597	738,410	0.039	0	0.000
Axel P. Lehmann, Group Chief Operating Officer	2016	0	277,978	277,978	0.017	0	0.000
	2015	–	–	–	–	–	–
Tom Naratil, President Wealth Management Americas and President UBS Americas	2016	838,193	352,634	1,190,827	0.071	412,917	0.025
	2015	598,172	310,054	908,226	0.049	555,115	0.030
Andrea Orcel, President Investment Bank	2016	1,203,535	207,114	1,410,649	0.084	0	0.000
	2015	933,686	117,646	1,051,332	0.056	0	0.000
Kathryn Shih, President UBS Asia Pacific	2016	567,777	0	567,777	0.034	143,869	0.009
	2015	–	–	–	–	–	–
Jürg Zeltner, President Wealth Management	2016	881,976	1,075	883,051	0.053	64,164	0.004
	2015	683,767	3,721	687,488	0.037	86,279	0.005
Total	2016	6,535,621	1,514,211	8,049,832	0.479	620,950	0.037
	2015	6,747,010	1,677,989	8,424,999	0.450	1,401,686	0.075

¹ Includes all vested and unvested shares and options of GEB members, including those held by related parties. ² Includes shares granted under variable compensation plans with forfeiture provisions. The actual number of shares vesting in the future will be calculated under the terms of the plans. Refer to the "Our deferred variable compensation plans for 2016" section of this report for more information on the plans. ³ Refer to "Note 27 Equity participation and other compensation plans" in the "Consolidated financial statements" section of the Annual Report 2016 for more information. ⁴ No conversion rights outstanding. ▲

Audited |

Total of all vested and unvested shares of GEB members^{1,2}

	Total	of which: vested	of which: vesting				
			2017	2018	2019	2020	2021
Shares on 31 December 2016	8,049,833	1,514,211	1,267,603	1,750,024	1,762,463	1,132,150	623,381
			2016	2017	2018	2019	2020
Shares on 31 December 2015	8,424,999	1,677,989	1,148,988	1,561,296	2,004,014	1,314,398	718,314

¹ Includes shares held by related parties. ² Includes shares granted under variable compensation plans with forfeiture provisions. The actual number of shares vesting in the future will be calculated under the terms of the plans. Refer to the "Our deferred variable compensation plans for 2016" section of this report for more information. ▲

Audited |

Number of shares of BoD members¹

Name, function	on 31 December	Number of shares held	Voting rights in %
Axel A. Weber, Chairman	2016	635,751	0.038
	2015	488,889	0.026
Michel Demaré, Vice Chairman	2016	254,287	0.015
	2015	215,992	0.012
David Sidwell, Senior Independent Director	2016	205,540	0.012
	2015	163,317	0.009
Reto Francioni, member	2016	51,567	0.003
	2015	28,787	0.002
Ann F. Godbehere, member	2016	201,457	0.012
	2015	169,054	0.009
Axel P. Lehmann, former member ²	2016	–	–
	2015	252,761	0.014
William G. Parrett, member	2016	104,385	0.006
	2015	104,271	0.006
Isabelle Romy, member	2016	91,038	0.005
	2015	66,490	0.004
Robert W. Scully, member ²	2016	0	0.000
	2015	–	–
Beatrice Weder di Mauro, member	2016	99,737	0.006
	2015	71,261	0.004
Dieter Wemmer, member ²	2016	0	0.000
	2015	–	–
Joseph Yam, member	2016	109,938	0.007
	2015	87,354	0.005
Total	2016	1,753,700	0.104
	2015	1,648,176	0.088

¹ Includes blocked and unblocked shares held by BoD members, including those held by related parties. No options were granted in 2016 and 2015. ² Dieter Wemmer and Robert W. Scully were newly elected at the AGM on 10 May 2016 and Axel P. Lehmann stepped down from the BoD as of 31 December 2015 and joined the GEB on 1 January 2016. ▲

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Total of all blocked and unblocked shares of BoD members¹

	Total	of which: unblocked	of which: blocked until			
			2017	2018	2019	2020
Shares on 31 December 2016	1,753,700	276,602	337,751	385,005	367,597	386,745
Shares on 31 December 2015	1,648,176	211,748	232,917	384,118	416,408	402,985

¹ Includes shares held by related parties. ▲

Audited |

Vested and unvested options of GEB members¹

on 31 December	Total number of options ²	Number of options ³	Year of grant	Vesting date	Expiry date	Strike price
Tom Naratil, President Wealth Management Americas and President UBS Americas						
2016	412,917	131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
2015	555,115	142,198	2006	01.03.2009	28.02.2016	CHF 72.57
		131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
Kathryn Shih, President UBS Asia Pacific						
2016	143,869	69,270	2007	01.03.2010	28.02.2017	CHF 73.67
		74,599	2008	01.03.2011	28.02.2018	CHF 35.66
2015	–					
Jürg Zeltner, President Wealth Management						
2016	64,164	7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66
2015	86,279	7,106	2006	01.03.2007	28.02.2016	CHF 65.97
		7,103	2006	01.03.2008	28.02.2016	CHF 65.97
		7,103	2006	01.03.2009	28.02.2016	CHF 65.97
		110	2006	03.03.2008	03.03.2016	CHF 65.91
		242	2006	09.06.2008	09.06.2016	CHF 61.84
		230	2006	08.09.2008	08.09.2016	CHF 65.76
		221	2006	08.12.2008	08.12.2016	CHF 67.63
		7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66

¹ Includes all options held by GEB members, including those held by related parties. ² No conversion rights outstanding. ³ Refer to "Note 27 Equity participation and other compensation plans" in the "Consolidated financial statements" section of the Annual Report 2016 for more information. ▲

Audited |

Loans granted to GEB members¹

In line with article 38 of the Articles of Association of UBS Group AG, GEB members may be granted loans. Such loans are made in the ordinary course of business on substantially the same terms as those granted to other employees, including interest rates and

collateral, and neither involve more than the normal risk of collectability nor contain any other unfavorable features for the firm. The total amount of such loans must not exceed CHF 20 million per GEB member.

CHF, except where indicated²

Name, function	on 31 December	Loans ³
Ulrich Körner, President Asset Management and President UBS EMEA (highest loan in 2016)	2016	8,286,193
Ulrich Körner, President Asset Management and President UBS EMEA (highest loan in 2015)	2015	10,621,777
Aggregate of all GEB members	2016	37,137,347 ⁴
	2015	29,032,017

¹ No loans have been granted to related parties of the GEB members at conditions not customary in the market. ² Local currencies are 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. ³ All loans granted are secured loans. ⁴ Excludes an unused uncommitted credit facility of CHF 2,430,050 that had been granted to one GEB member. ▲

Audited |

Loans granted to BoD members¹

In line with article 33 of the Articles of Association of UBS Group AG, loans to independent BoD members are made in the ordinary course of business at general market conditions. The Chairman as a non-independent member may be granted loans in the ordinary course of business on substantially the same terms as those

granted to employees, including interest rates and collateral, neither involving more than the normal risk of collectability nor containing any other unfavorable features for the firm. The total amount of such loans must not exceed CHF 20 million per BoD member.

CHF, except where indicated²

	on 31 December	Loans ^{3,4}
Aggregate of all BoD members	2016	3,653,370 ⁵
	2015	3,604,950

¹ No loans have been granted to related parties of the BoD members at conditions not customary in the market. ² Local currencies are 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. ³ All loans granted are secured loans. ⁴ CHF 600,000 for Reto Francioni and CHF 3,053,370 for William G. Parrett in 2016 and CHF 600,000 for Reto Francioni and CHF 3,004,950 for William G. Parrett in 2015. ⁵ Excludes an unused uncommitted credit facility of CHF 254,448 that had been granted to one BoD member. ▲

Audited |

Compensation paid to former BoD and GEB members¹

CHF, except where indicated²

	For the year	Compensation	Benefits	Total
Former BoD members	2016	0	0	0
	2015	0	0	0
Aggregate of all former GEB members ³	2016	0	44,381	44,381
	2015	435,448	39,999	475,447
Aggregate of all former BoD and GEB members	2016	0	44,381	44,381
	2015	435,448	39,999	475,447

¹ Compensation or remuneration that is related to the former members' activity on the BoD or GEB or that is not at market conditions. ² Local currencies are 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. ³ Includes a payment in 2016 to one former GEB member and payments in 2015 to two former GEB members. ▲

Provisions of the Articles of Association related to compensation

Under the say-on-pay provisions in Switzerland, shareholders of Swiss-listed companies have significant influence over board and management compensation. At UBS, this is achieved by means of an annual binding say-on-pay vote in accordance with the following Articles of Association provisions related to compensation:

Say-on-pay: The AGM shall approve the proposals of the BoD in relation to the maximum aggregate amount of compensation of the BoD for the period until the next AGM, the maximum aggregate amount of fixed compensation of the GEB for the following financial year and the aggregate amount of variable compensation of the GEB for the preceding financial year. The BoD may submit for approval deviating or addi-

tional proposals. In the event the AGM does not approve a proposal, the BoD shall determine, taking into account all relevant factors, an aggregate amount or partial amounts for subsequent approval by shareholders.

Principles of compensation: Compensation of the BoD comprises a base remuneration and may comprise other compensation elements and benefits. Compensation of the GEB consists of fixed and variable compensation elements. Variable compensation elements depend on quantitative and qualitative performance measures as determined by the BoD. Remuneration of the BoD and compensation of the GEB may be paid or granted in the form of cash, shares, financial instruments or units, in kind or in the form of benefits.

The BoD determines the key features such as grant, vesting, exercise and forfeiture conditions and applicable harmful acts provisions.

Additional amount for GEB members hired after the vote on the aggregate amount of compensation by the AGM: For the compensation of GEB members who will be appointed after the approval for compensation by the AGM, and to the extent that the aggregate amount of compensation as approved does not suffice, an amount of up to 40% of the average of total annual compensation paid or granted to the GEB during the previous three years is available without further approval by the AGM.

→ Refer to www.ubs.com/governance for more information



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To the General Meeting of
UBS Group AG, Zurich

Basel, 9 March 2017

Report of the statutory auditor on the compensation report

We have audited the compensation report dated 9 March 2017 of UBS Group AG for the year ended 31 December 2016. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled “audited” on pages 18 to 21 and page 43 of the compensation report.



Board of Directors’ responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.



Auditor’s responsibility

Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Opinion

In our opinion, the compensation report for the year ended 31 December 2016 of UBS Group AG complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young Ltd

Marie-Laure Delarue
Licensed audit expert
(Auditor in charge)

Bruno Patusi
Licensed audit expert

Information sources

Reporting publications

Annual publications: *Annual Report (SAP-No. 80531)*: Published in both English and German, this single-volume report provides a description of our Group strategy and performance; the strategy and performance of the business divisions and Corporate Center; a description of risk, treasury, capital management, corporate governance, responsibility and senior management compensation, including compensation for the Board of Directors and the Group Executive Board members; and financial information, including the financial statements. *Annual Review (SAP-No. 80530)*: The booklet contains key information on our strategy and financials. It is published in English, German, French and Italian. *Compensation Report (SAP-No. 82307)*: The report discusses our compensation framework and provides information on compensation for the Board of Directors and the Group Executive Board members. It is published in English and German.

Quarterly publications: *Financial report (SAP-No. 80834)*: The quarterly financial report provides an update on our strategy and performance for the respective quarter. It is mainly available in English.

How to order reports: The annual and quarterly publications are available in PDF at www.ubs.com/investors in the "UBS Group AG and UBS AG financial information" section. Printed copies can be ordered from the same website in the "Investor services" section, which can be accessed via the link on the left-hand side of the screen. Alternatively, they can be ordered by quoting the SAP number and the language preference, where applicable, from UBS AG, F4UK-AUL, P.O. Box, CH-8098 Zurich, Switzerland.

Other information

Website: The "Investor Relations" website at www.ubs.com/investors provides the following information on UBS: news releases, financial information, including results-related filings with the US Securities and Exchange Commission, information for shareholders, including UBS share price charts as well as data and dividend information, and for bondholders, the UBS corporate calendar and presentations by management for investors and financial analysts. Information on the internet is available in English, with some information also available in German.

Results presentations: Our quarterly results presentations are webcast live. A playback of most presentations is downloadable at www.ubs.com/presentations.

Messaging service/UBS news alert: On the www.ubs.com/newsalerts website, it is possible to subscribe to news alerts about UBS via SMS or email. Messages are sent in English, German, French or Italian, and it is possible to state theme preferences for the alerts received.

Form 20-F and other submissions to the US Securities and Exchange Commission: We file periodic reports and submit other information about UBS to the US Securities and Exchange Commission (SEC). Principal among these filings is the annual report on Form 20-F, filed pursuant to the US Securities Exchange Act of 1934. The filing of Form 20-F is structured as a "wrap-around" document. Most sections of the filing can be satisfied by referring to parts of the annual report. However, there is a small amount of additional information in Form 20-F that is not presented elsewhere and is particularly targeted at readers in the US. Readers are encouraged to refer to this additional disclosure. Any document that we file with the SEC is available to read and copy on the SEC's website, www.sec.gov, or at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC, 20549. Please call the SEC on +1800-SEC-0330 for further information on the operation of its public reference room. Refer to www.ubs.com/investors for more information.

Corporate information

UBS Group AG is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations as an Aktiengesellschaft, a corporation limited by shares. Its registered office is at Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, phone +41-44-234 11 11, 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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Corporate calendar UBS Group AG

Publication of the first quarter 2017 report:	Friday, 28 April 2017
Annual General Meeting 2017:	Thursday, 4 May 2017
Publication of the second quarter 2017 report:	Friday, 28 July 2017
Publication of the third quarter 2017 report:	Friday, 27 October 2017

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These factors include, but are not limited to: (i) the degree to which UBS is successful in the ongoing execution of its strategic plans, including its cost reduction and efficiency initiatives and its ability to manage its levels of risk-weighted assets (RWA) and leverage ratio denominator, liquidity coverage ratio and other financial resources, 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) 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 effects of economic conditions, market developments, and geopolitical tensions on the financial position or creditworthiness of UBS’s clients and counterparties as well as on client sentiment and levels of activity; 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(vi) the degree to which UBS is successful in implementing further 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, completing the implementation of a service company model, 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 jurisdictions for mandatory structural reform of banks or systemically important institutions and the extent to which such changes will have the intended effects; (vii) the uncertainty arising from the timing and nature of the UK exit from the EU and the potential need to make changes in UBS’s legal structure and operations as a result of it; (viii) 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; (ix) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including recently enacted and proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (x) 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, as well as the effect that litigation, regulatory and similar matters have on the operational risk component of our RWA; (xi) 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; (xii) 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; (xiii) 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; (xiv) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xv) whether UBS will be successful in keeping pace with competitors in updating its technology, including by developing digital channels and tools and in our trading businesses; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyberattacks, and systems failures; (xvii) 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 or the regulators of UBS’s operations in other countries of their broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; 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