

Say-on-pay

Shareholder information on compensation votes
at the **UBS Group AG Annual General Meeting 2016**



Dear shareholder,



In 2015, we delivered strong results and increased returns for our shareholders, while management continued to emphasize our culture as a key priority. We have embedded our Principles and Behaviors in the way the firm does business, and they are now an integral part of the firm's talent management, including compensation considerations. We are committed to performance with integrity. Our compensation policy is designed to incentivize longer-term profitability, encourage responsible risk-taking, and to ensure compensation is aligned with our shareholders' interests, leading to sustainable performance for our shareholders. For 2015, the overall compensation framework for our Group Executive Board (GEB) remained unchanged, and we continue to focus on rewarding outstanding performance while balancing returns for shareholders within an evolving regulatory environment.

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

At the Annual General Meeting (AGM) 2016, we're asking shareholders to vote on the variable compensation for the GEB for 2015, the fixed compensation for the GEB for 2017, and the compensation for the

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BoD from the AGM 2016 to the AGM 2017. In addition, we are also asking shareholders for an advisory vote on our Compensation Report, which describes our compensation strategy and principles, governance and practice.

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

The specific votes on compensation that we want our shareholders to participate in are outlined in this brochure in greater detail. I trust this additional information is helpful to you. Further information regarding our compensation framework for the GEB and the BoD, including related governance and policy, can also be found in the UBS Group AG Compensation Report 2015 at www.ubs.com/annualreport.

Sincerely,

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



Axel A. Weber
Chairman of the Board of Directors

Say-on-pay at the Annual General Meeting 2016

UBS Group AG shareholders are invited to vote, according to article 43 para. 1 of the Articles of Association of UBS Group AG, which were approved at the AGM 2014, on the following compensation-related agenda items at the AGM 2016 (highlighted in the AGM agenda in blue on the next page).

AGM 2016 agenda

1. Management report, UBS Group AG consolidated and standalone financial statements for the financial year 2015
 - 1.1. Approval of management report and UBS Group AG consolidated and standalone financial statements
 - 1.2. Advisory vote on the UBS Group AG Compensation Report 2015
2. Appropriation of retained earnings and dividend distribution
 - 2.1. Appropriation of retained earnings and distribution of ordinary dividend out of capital contribution reserve
 - 2.2. Special dividend distribution out of capital contribution reserve
3. Discharge of the members of the Board of Directors and the Group Executive Board for the financial year 2015
4. Approval of the aggregate amount of variable compensation for the members of the Group Executive Board for the financial year 2015
5. Approval of the maximum aggregate amount of fixed compensation for the members of the Group Executive Board for the financial year 2017
6. Elections
 - 6.1. Re-election of members of the Board of Directors
 - 6.2. Election of new members for the Board of Directors
 - 6.3. Election of the members of the Compensation Committee
7. Approval of the maximum aggregate amount of compensation for the members of the Board of Directors from the Annual General Meeting 2016 to the Annual General Meeting 2017
8. Re-elections
 - 8.1. Re-election of the independent proxy, ADB Altorfer Duss & Beilstein AG, Zurich
 - 8.2. Re-election of the auditors, Ernst & Young Ltd, Basel

-  Advisory vote on compensation-related item
-  Binding vote on compensation-related item

Agenda item 1.2: Advisory vote on the UBS Group AG Compensation Report 2015

The Board of Directors proposes that the UBS Group AG Compensation Report 2015 be ratified in an advisory vote.

2015 compensation principles and framework

The Board of Directors (BoD) encourages shareholders to continue to support the 2015 compensation framework, which remains largely unchanged from 2014, through the advisory vote on the UBS Group AG Compensation Report 2015. The Compensation Report 2015 includes details on the firm's compensation policy, framework and governance, with specific focus on the policies and practices applicable to the GEB and the BoD. The report is available electronically under: www.ubs.com/annualreport.

Compensation governance framework

The BoD's Compensation Committee is responsible for ensuring strong governance and oversight of our compensation process. It comprises independent BoD members elected annually at the UBS Group AG AGM.

Total Reward Principles

Our compensation philosophy is to align the interests of our employees with those of our clients and investors. Our Total Reward Principles underpin our approach to compensation by establishing a framework that balances performance with prudent risk-taking. Further, our framework builds on our guiding principles of client focus, excellence and sustainable performance.

GEB compensation

Each GEB member receives a fixed base salary and may be considered for an annual performance award. The GEB's compensation framework contains a number of features to encourage appropriate risk-taking and behaviors that lead to sustainable performance and results.

GEB members' performance assessment is based on a balanced scorecard, which allows the BoD to assess an individual's performance against a number of quantitative and qualitative key performance indicators. The degree to which an individual GEB member has achieved these quantitative measures, coupled with an assessment of performance against qualitative measures, is the starting point for determining a GEB member's annual performance award. When recommending performance awards for the Group Chief Executive Officer (Group CEO) and each individual GEB member, the respective total compensation for each role is reviewed against the broader market and also a group of peer companies selected for the comparability of their size, business and geographic mix, and the extent to which they compete against us for talent.

Performance awards are delivered in a shorter-term, immediate cash performance award and in a longer-term deferred

performance award, which is deferred for up to five years. As outlined in our UBS Group AG Compensation Report 2015, at least 80% of a GEB member's performance award is deferred, meaning a maximum of 20% of the GEB member's overall performance award can be paid out in the form of immediate cash, subject to a cap of CHF/USD 1 million (or local currency equivalent). Any amount above this cap is granted in notional UBS shares under the Equity Ownership Plan (EOP).

A minimum of 50% of the overall performance award is granted under the EOP, which vests in three equal installments from year 3 to 5, subject to performance conditions being 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 (AT1) instruments that vest in year 5, with discretionary annual interest payments. In addition to a phase-in common equity tier 1 capital ratio trigger of 10%, DCCP awards are subject to a further performance condition. If UBS does not achieve an adjusted Group profit before tax for any year during the vesting period, GEB members forfeit 20% of the award for each loss-making year. This means that 100% of the award is subject to risk of forfeiture in addition to the capital ratio trigger.

Overall, the total potential GEB performance award pool is capped at 2.5% of the adjusted Group profit before tax. This links the overall GEB compensation to the firm's profitability. As the Group's adjusted profit before tax for 2015 was CHF 5.6 billion, the GEB 2015 performance award pool was capped at CHF 141 million. The actual total

GEB performance award pool for 2015 was CHF 71.3 million, or 1.3% of the Group's adjusted profit before tax. Additionally, the Group CEO's performance award is capped at five times his base salary. Performance awards for other GEB members are capped at seven times their base salaries.

A graphical overview of the compensation framework is provided on the following pages.

BoD compensation

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

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

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

2015 compensation framework for the GEB

Fixed compensation and benefits		
	Base salary	Retirement benefits plan and other benefits
Description	Reflects responsibilities, job characteristics, experience and skill set	Provides a level of retirement benefits and other relevant coverages based on local market practice and regulations
Vesting schedule	–	–
Performance conditions	–	–
Delivery	Cash	Country specific
Caps on compensation	–	–
Shareholding requirement	–	–

¹ Performance award paid out in cash is subject to a cap of CHF / USD 1 million (or local currency equivalent).

Variable compensation

Performance award based on a balanced scorecard assessing the individual's performance against a number of quantitative and qualitative key performance indicators

Cash (up to 20% of the performance award)¹

Rewards performance against objectives, values and behaviors

Immediate (2016)

–

Cash

EOP (at least 50% of the performance award)

Rewards long-term shareholder value creation and sustainable growth

Provides alignment to shareholders

3–5 years (2019–2021)

Vesting based on achieving Group RoTE and divisional RoAE targets over the three financial years before vesting

UBS equity

DCCP (30% of the performance award)

Rewards long-term prudent risk-taking and capital strength

Provides alignment to debtholders

5 years (2021)

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

Settlement in either cash or a marketable AT1 instrument

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

Share ownership policy under which each GEB member must build up and hold a minimum of **350,000** UBS shares. The Group CEO must build up and hold a minimum of **500,000** UBS shares. This holding has to be built up within a maximum period of five years from the date of their appointment to the GEB.

Agenda item 4: Approval of the aggregate amount of variable compensation for the members of the Group Executive Board for the financial year 2015

The Board of Directors proposes that the aggregate amount of variable compensation of CHF 71,250,000 for the members of the Group Executive Board for the financial year 2015 be approved.

2015 performance assessment for the GEB members and proposed 2015 performance awards

For 2015, we delivered a net profit attributable to shareholders of CHF 6.2 billion, a 79% increase compared with 2014. We generated an adjusted Group return on tangible equity of 13.7%, above our target of approximately 10%. We continued to further strengthen our capital position and ended the year with a fully applied common equity tier 1 (CET1) capital ratio of 14.5%, up 110 basis points from year-end 2014 and the highest in our peer group of large global banks. We further reduced risk-weighted assets and improved our leverage ratio. The firm's fully applied Swiss systemically relevant banks' (SRB) leverage ratio increased to 5.3% in 2015. The BoD recognizes that the Group's financial performance was excellent and all business divisions delivered good results in 2015, despite a challenging market environment. The BoD is proposing an ordinary dividend of CHF 0.60 per share, up 20% compared with 2014, reflecting our strong operating performance, plus a special dividend of CHF 0.25 per share, to reflect a significant net upward revaluation of deferred tax

assets in 2015. The total dividend is in line with our commitment to pay out at least 50% of net profit attributable to UBS Group AG shareholders.

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

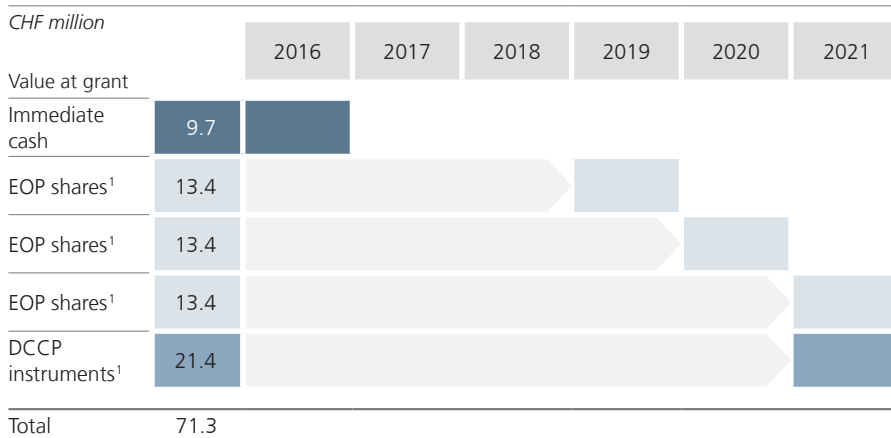
Given the overall accomplishments of the GEB members, including the Group CEO, both individually and collectively, in the context of excellent overall Group performance and our ambition to align our compensation to appropriate external performance benchmarks, the BoD proposes that shareholders approve the aggregate 2015 variable compensation for the members of the GEB of CHF 71,250,000 as set out in the table on the next page. This amount excludes legally required employer's contributions to social security, as such contributions are not considered compensation and can only be estimated at this point in time.

Aggregate amount of variable compensation for the GEB

CHF, except where indicated ¹	2015
Annual performance award in immediate cash ²	9,745,110
Annual performance award under EOP ³	40,129,890
Annual performance award under DCCP ⁴	21,375,000
Total amount subject to shareholders' approval^{5,6}	71,250,000

¹ Local currencies are converted into CHF using the exchange rates as detailed in "Note 36 Currency translation rates" in the "Consolidated financial statements" section of the Annual Report 2015 or the performance award currency exchange rate. ² Due to applicable UK Prudential Regulation Authority remuneration code, the immediate cash includes blocked shares for one GEB member. ³ Number of UBS shares is determined by dividing the amount by the average closing share price of UBS shares over the last ten trading days in February 2016. ⁴ DCCP awards reflect the amount of the notional instruments excluding future notional discretionary interest which is set in reference to observed market rates of comparable additional tier 1 instruments. ⁵ This figure excludes the portion related to the legally required employer's social security contributions for 2015, which are estimated at CHF 4.1 million. ⁶ 10 GEB members were in office on 31 December 2015.

Timing of potential delivery of the variable compensation for the GEB 2015^{1,2}

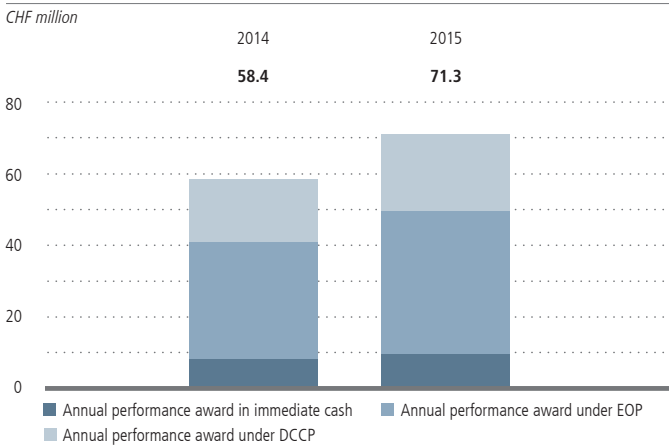


¹ Aggregate amount at grant. ² Deferred awards under EOP and DCCP are subject to forfeiture.

- Immediate cash to be paid in May 2016
- EOP UBS shares vesting and allocation subject to multi-year profitability performance conditions
- DCCP cash payment subject to solvability and profitability conditions between 2016 and 2020

The BoD approved that the Group CEO and all GEB members would receive their performance awards in immediate cash and deferred awards under EOP and DCCP as outlined in the agenda item 1.2 of this brochure and detailed in the UBS Group AG Compensation Report 2015.

Overview of aggregate GEB variable compensation 2014–2015¹



¹ Please refer to footnotes in the table on the previous page for further details.

Agenda item 5: Approval of the maximum aggregate amount of fixed compensation for the members of the Group Executive Board for the financial year 2017

The Board of Directors proposes that the maximum aggregate amount of fixed compensation of CHF 28,500,000 for the members of the Group Executive Board for the financial year 2017 be approved.

Each GEB member receives a fixed base salary. Since the Group CEO's appointment in 2011, his annual base salary has remained unchanged at CHF 2.5 million. Other GEB members receive a salary of CHF 1.5 million (or local currency equivalent). This level has remained unchanged since 2011.

Currently, one GEB member is considered a UK Material Risk Taker (MRT), a regulated employee in line with the Capital Requirements Directive IV (CRD IV), and receives a role-based allowance (in blocked UBS shares) 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. Compared with other GEB members, this allowance represents a shift in the compensation mix between fixed and variable compensation and not an increase in total compensation.

The proposed maximum aggregate of fixed compensation for all GEB members amounts to CHF 28,500,000. This proposal includes base salaries, role-based allow-

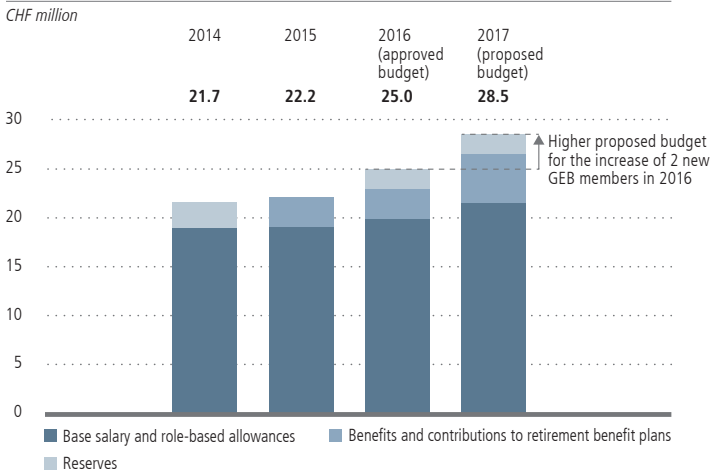
ances estimated standard contribution to retirement benefits plans, other benefits and a reserve of 7%. The reserve is considered as necessary for potential changes, particularly for regulatory requirements. Other fixed compensation (i.e., retirement benefits contributions and other benefits) is a projection and may vary due to labor market conditions and individual circumstances. At the beginning of 2016, the GEB consisted of twelve members (including the Group CEO), compared with ten members as of 31 December 2015. The year-on-year increase of CHF 3,500,000 represents additional fixed compensation of base salary and estimated standard contribution to retirement benefits and other benefits for the additional number of GEB members.

The proposed maximum aggregate amount of fixed compensation for the members of the GEB for the financial year 2017 is calculated on the assumption that the number of GEB members remains unchanged at the current level of twelve GEB members (including the Group CEO). It excludes the portion related to the

legally required employer’s social security contributions estimated for the financial year 2017¹, which is not considered compensation. The proposed amount is based on 2015 year-end foreign exchange rates and excludes future foreign exchange fluctuations.

¹ The amount in relation to legally required employer’s social security contributions is estimated for the financial year 2017 at CHF 1.3 million.

Overview of total fixed compensation for GEB 2014–2017¹



¹ The aggregate amount of fixed compensation for 2016 is expected to exceed the approved budget for 2016, due to the increase in the GEB to twelve members. According to the Articles of Association of UBS Group AG, a supplementary amount can be utilized.

Agenda item 7: Approval of the maximum aggregate amount of compensation for the members of the Board of Directors from the Annual General Meeting 2016 to the Annual General Meeting 2017

The Board of Directors proposes that the maximum aggregate amount of compensation of CHF 14,000,000 for the members of the Board of Directors for the period from the 2016 Annual General Meeting to the 2017 Annual General Meeting be approved.

Compensation of the members of the Board of Directors

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

As a non-independent BoD member, the Chairman's cash and equity-based compensation is capped at CHF 5,700,000, excluding benefits and contribution to retirement benefits plan. Of this amount he receives a cash payment of CHF 3,500,000 with the remaining balance delivered in UBS shares blocked for four years. In addition, he also receives contributions to the retirement benefits plan and other benefits whose value is included in total compensation. For the period from AGM 2016 to AGM 2017, the proposed total compensation for the Chairman including estimated pension and other benefits amounts to a maximum of CHF 6,200,000.

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

When assessing and determining the BoD fee structure, the Compensation Committee considers the level of engagement, effort and personal accountability of UBS BoD members to fulfill their roles.

For the period from the AGM 2015 to the AGM 2016, an aggregate amount of CHF 12,778,308 was paid to the Chairman and all independent BoD members. The difference when compared to the maximum amount of CHF 14,000,000 approved by the shareholders at the AGM 2015 was due to the actual amount of benefits and contributions made to the retirement benefits plan for the Chairman, and also a result of some BoD members having received their fees pro rata after stepping down during the year. The unallocated amount of CHF 700,000 was not utilized.

The proposed maximum aggregate amount of compensation for the BoD for the period from the AGM 2016 to AGM 2017 amounts to CHF 14,000,000 (unchanged to prior year). This proposal includes the compensation for the Chairman and fees for independent BoD members. The proposed budget takes into account the proposed increase of the BoD to eleven members as proposed in AGM agenda item 6.2, and potential changes in BoD committee compositions. The amount proposed excludes UBS's portion related to the legally required social security contributions, which can only be estimated at this point in time.

Independent BoD members are required to use a minimum of 50% of their fees to purchase UBS shares that are blocked for four years. They may elect to use 100% of their fees to purchase blocked UBS shares. The number of UBS shares that independent BoD members are entitled to receive is calculated with a discount of 15% below the market price prevailing at the time of issuance. The value of the discount on the share price is excluded from the total maximum amount subject to shareholders' approval. It is provided in light of the blocking period.

Maximum aggregate amount of compensation for the BoD for the period from the AGM 2016 to the AGM 2017

<i>CHF, except where indicated</i>	For the period from AGM 2015 to AGM 2016 ^{1,2}	For the period from AGM 2016 to AGM 2017 ³
Axel A. Weber, Chairman	6,200,000	6,200,000
Independent members of the BoD (excluding the Chairman)	7,800,000	7,800,000
Total amount (to be) approved by shareholders⁴	14,000,000	14,000,000
Total amount spent for the period from AGM 2015 to AGM 2016⁴	12,778,308	

¹ There were nine independent BoD members in office on 31 December 2015. Jes Staley was elected as a BoD member 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 due to the vacancies opened by Jes Staley's resignation. Axel P. Lehmann stepped down as a BoD member on 31 December 2015. Jes Staley, Reto Francioni, William G. Parrett and Axel P. Lehmann were remunerated pro rata temporis for 2015. ² The budget for the period from AGM 2015 to AGM 2016 included an unallocated amount of CHF 0.7 million. ³ The proposed budget takes into account the proposed increase of the BoD to eleven members and potential changes in BoD committee compositions. ⁴ This figure 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 CHF 0.9 million based on the current tax and employment jurisdictions of the BoD members. The amount for the period from AGM 2015 to AGM 2016 was estimated at CHF 0.7 million.


The cover picture shows Roger Dörig. In 1994 he took over his grandfather's "Sennensattler" traditional crafts workshop in his native Appenzell, a region in eastern Switzerland. He makes belts, belt buckles, cowbells, jewelry and other items by hand for customers around the world. Roger works with UBS and is one of the people featured in UBS's Annual Review 2015 – "Creating value." Our Annual Review 2015 describes who we are and what we stand for – and how we create long-term value by making sustainability our everyday standard. To find out more, you can access a tablet version of UBS's Annual Review 2015 "Creating value" in UBS Newsstand /Annual Review and a PDF version at www.ubs.com/annualreport.



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climate neutral

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Creating value

Annual Review 2015

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