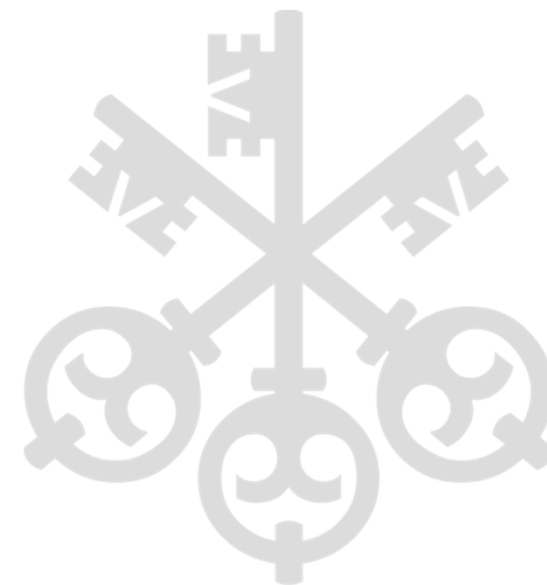




# Morgan Stanley conference

Sergio P. Ermotti  
Group Chief Executive Officer

March 16, 2016



# Cautionary statement regarding forward-looking statements

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These factors include, but are not limited to: (i) the degree to which UBS is successful in executing its announced strategic plans, including its cost reduction and efficiency initiatives and its planned further reduction in its Basel III risk-weighted assets (RWA) and leverage ratio denominator (LRD), and the degree to which UBS is successful in implementing changes to its business to meet changing market, regulatory and other conditions; (ii) developments in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, currency exchange rates and interest rates and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS’s clients and counterparties; (iii) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings, as well as availability and cost of funding to meet requirements for bail-in debt or loss-absorbing capital; (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose, or result in, more stringent capital (including leverage ratio), liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration or other measures; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve reductions to the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA, or will approve a limited reduction of capital requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in implementing 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, implementing a service company model, the transfer of the Asset Management business to a holding company 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 countries for mandatory structural reform of banks, and the extent to which such changes have the intended effects; (vii) changes in UBS’s competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS’s ability to compete in certain lines of business; (viii) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including measures to impose new or enhanced duties when interacting with customers or in the execution and handling of customer transactions; (ix) 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; (x) 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; (xi) 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; (xii) 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; (xiii) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xiv) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xv) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading and systems failures; (xvi) restrictions to the ability of subsidiaries of the Group to make loans or distributions of any kind, directly or indirectly, to UBS Group AG; (xvii) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance; and (xviii) the degree to which changes in regulation, capital or legal structure, financial results or other factors may affect UBS’s ability to maintain its stated capital return objective. 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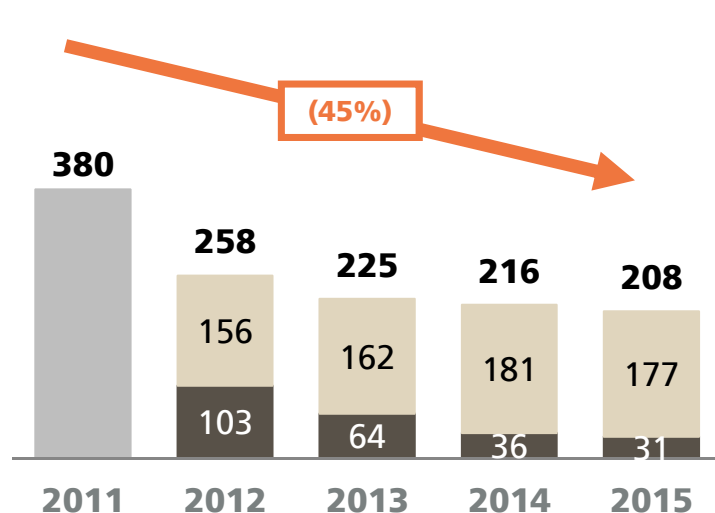


# We have successfully changed our model

Achieved strategic targets announced in 2011/2012

## Reduced risk-weighted assets

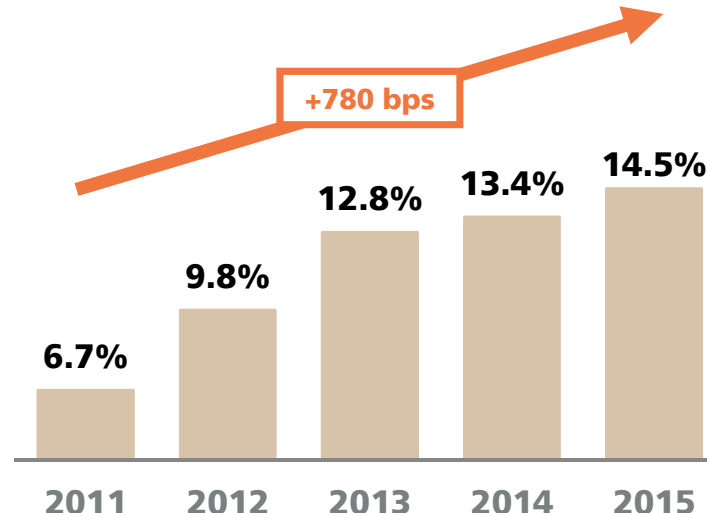
Basel III RWA (fully applied), CHF billion



■ Other  
■ Non-core and Legacy Portfolio

## Achieved our capital targets

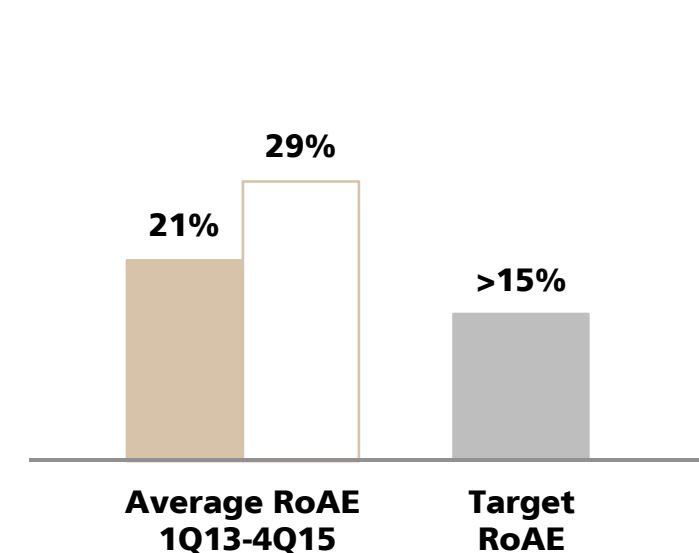
Basel III CET1 ratio (fully applied)



■ Basel III CET1 ratio (fully applied)

## Transformed our Investment Bank

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



■ Adjusted  
□ Adjusted, excluding charges for provisions for litigation, regulatory and similar matters



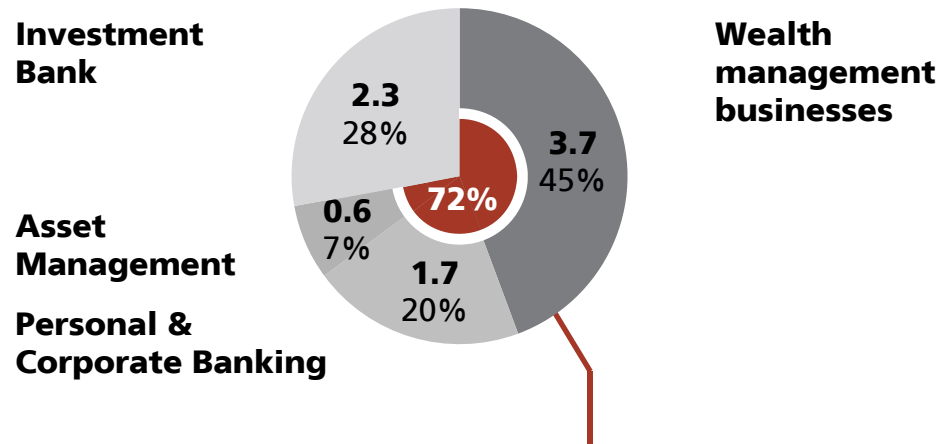
Refer to slide 18 for details about adjusted numbers, Basel III numbers and FX rates in this presentation  
1 Adjusted pre-tax return on attributed equity

# Balanced businesses and global diversification

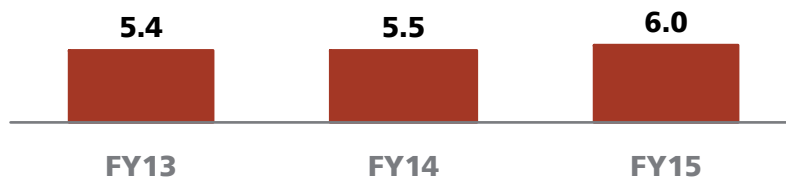
## Leading wealth management businesses and Swiss universal bank

### PBT by business division

FY15 PBT, excluding Corporate Center, CHF billion

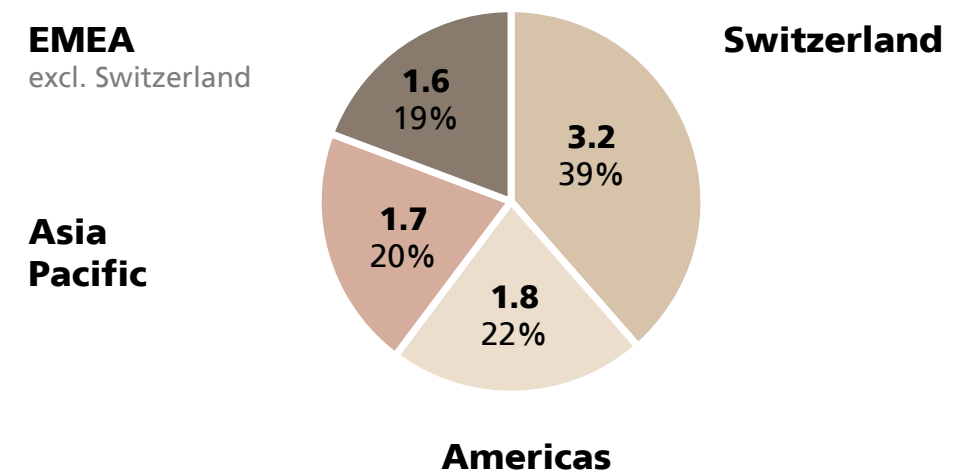


WM, WMA, P&C and AM (72% of FY15 Group PBT<sup>1</sup>)



### PBT by region

FY15 PBT, excluding items managed globally, CHF billion



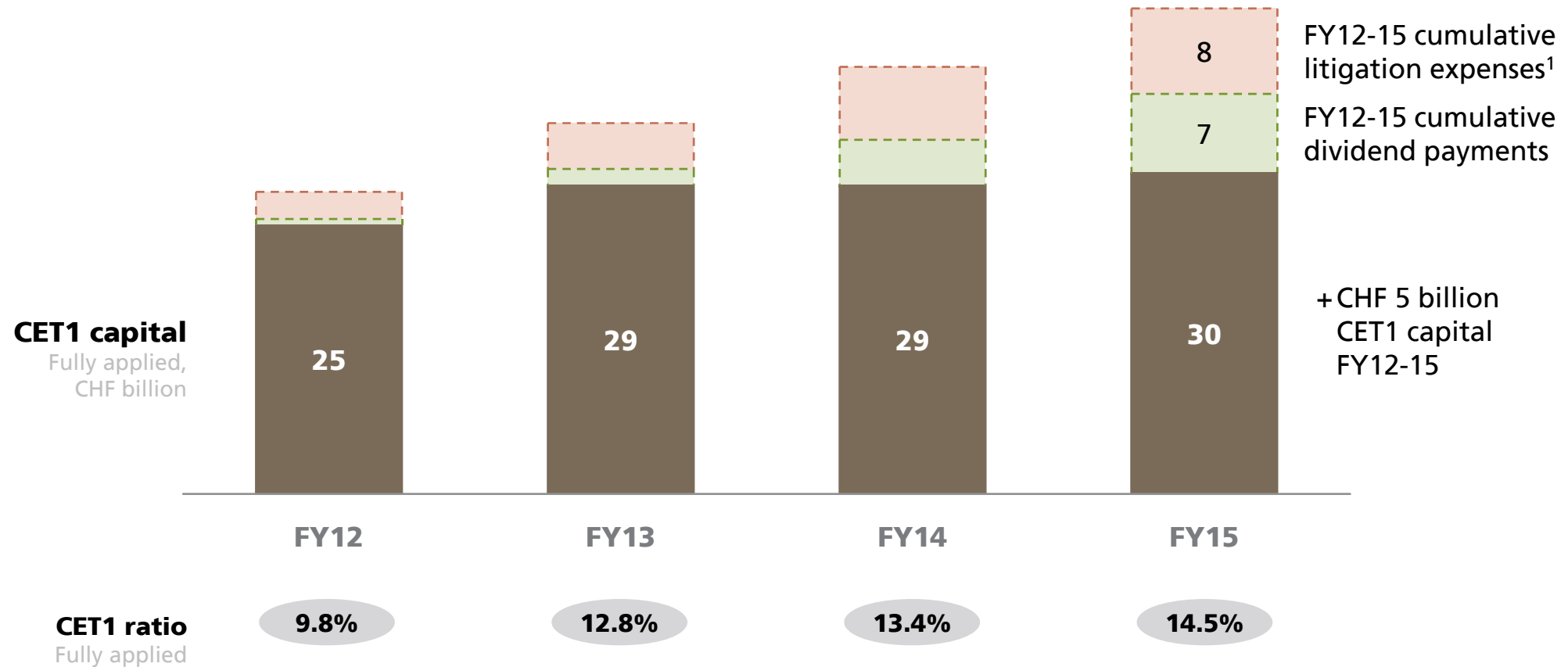
Our leading franchises generate globally diversified earnings



Adjusted numbers unless otherwise indicated, refer to slide 18 for details about adjusted numbers, Basel III numbers and FX rates in this presentation  
 1 Excluding Corporate Center

# Strong capital generation throughout our transformation

CHF 20 billion capital generation FY12-15 pre dividend payments and litigation expenses<sup>1</sup>



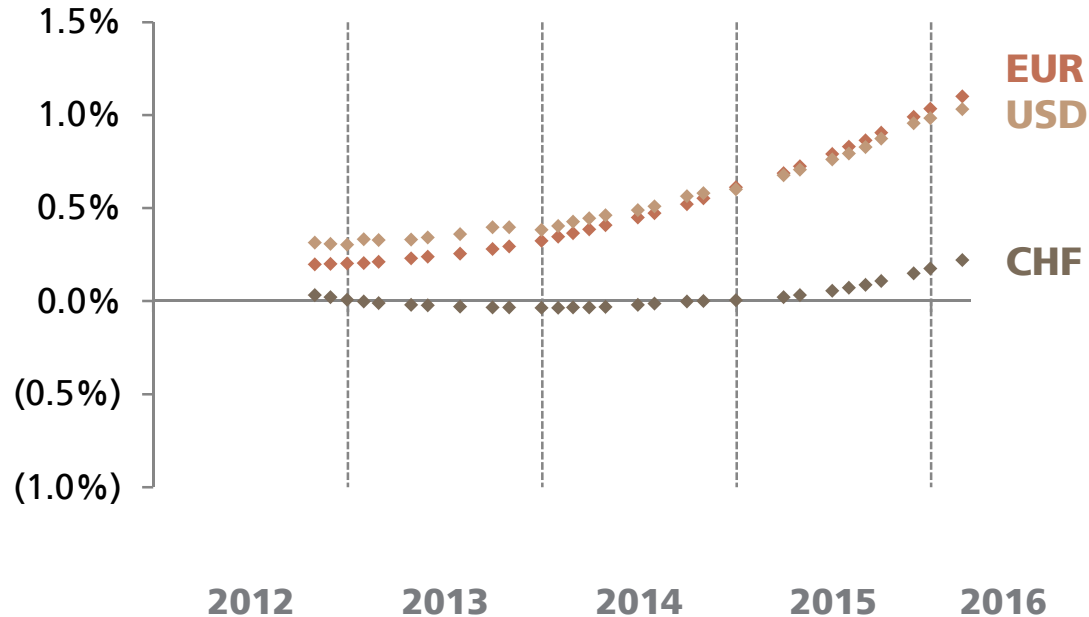
Adjusted numbers unless otherwise indicated, refer to slide 18 for details about adjusted numbers, Basel III numbers and FX rates in this presentation  
<sup>1</sup> Charges for provisions for litigation, regulatory and similar matters

# Challenging conditions have continued into 2016

Divergence between expected and realized rates have reduced our earnings capacity

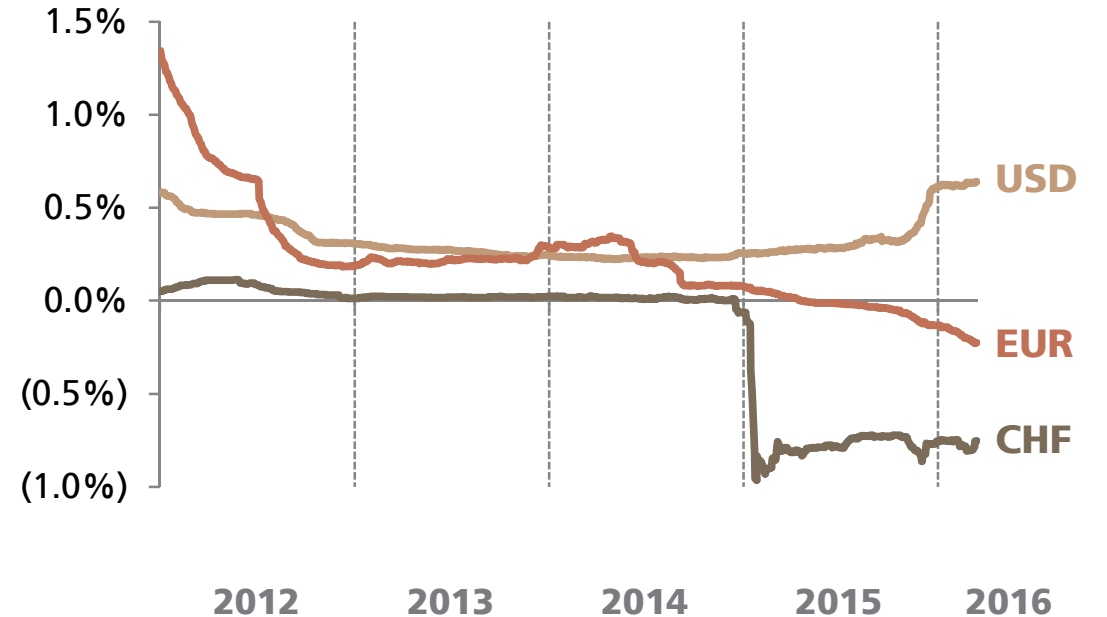
## Expected rates

3M interbank rates, implied forwards as of October 2012



## Realized rates

3M interbank rates

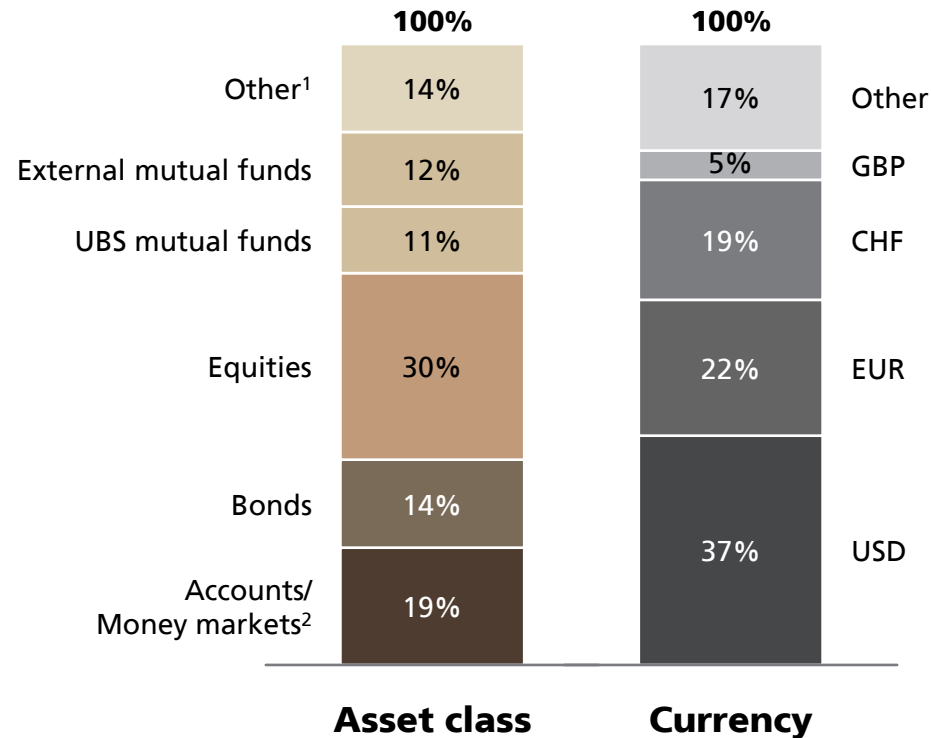


# WM and WMA invested assets composition

Client activity affected by market volatility and invested assets by lower market levels

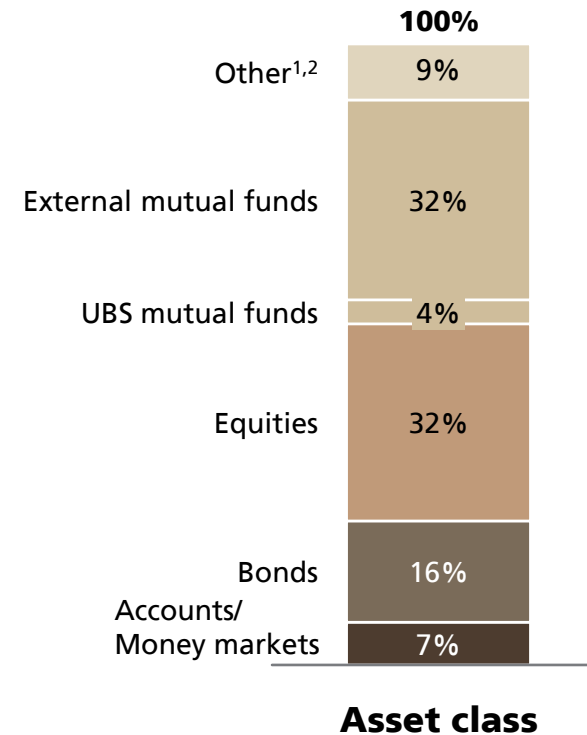
## Wealth Management

% of CHF 947 billion total IA, 31.12.15



## Wealth Management Americas

% of USD 1,033 billion total IA, 31.12.15



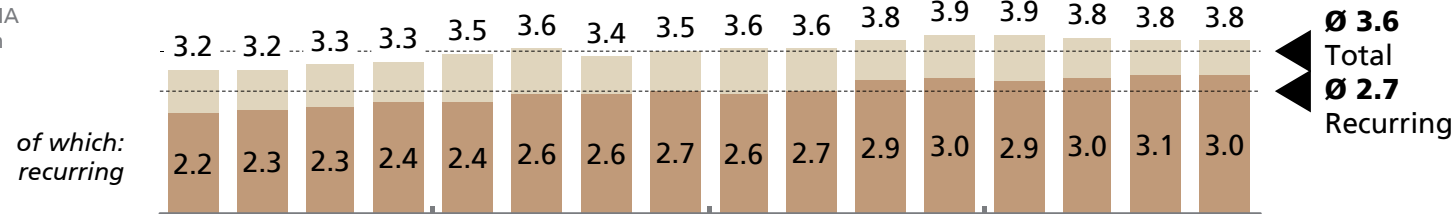
<sup>1</sup> Including structured products and alternative investments; <sup>2</sup> Including fiduciary investments

# World's leading wealth management franchise

## Low revenue volatility with profit growth and NNM inflows

### Revenues<sup>1</sup>

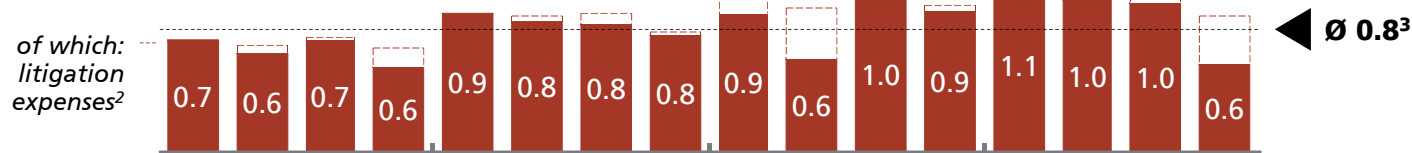
WM + WMA  
CHF billion



- Low revenue volatility
- High and growing recurring share

### PBT

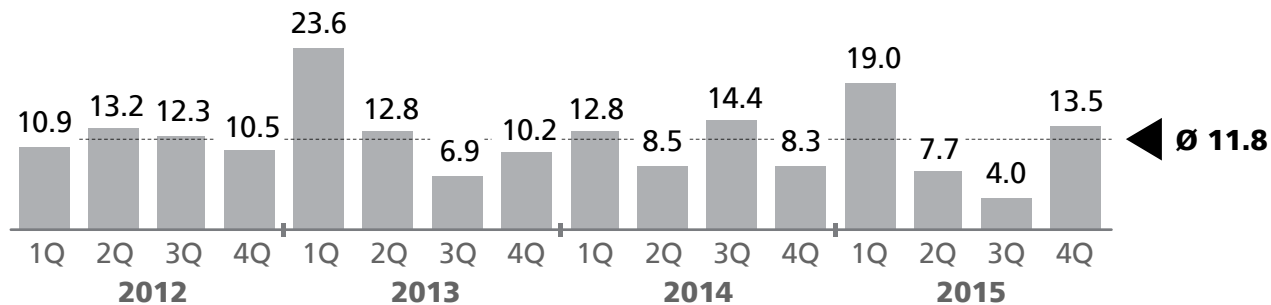
WM + WMA  
CHF billion



- Growing profits
- Target 10-15% annual PBT growth through-the-cycle

### NNM<sup>4</sup>

WM + WMA  
CHF billion



- Continued net inflows
- Focus on quality

Focusing on high quality, sustainable growth



Adjusted numbers unless otherwise indicated, refer to slide 18 for details about adjusted numbers, Basel III numbers and FX rates in this presentation  
 1 Operating income; 2 Charges for provisions for litigation, regulatory and similar matters; 3 Including charges for provisions for litigation, regulatory and similar matters; 4 NNM adjusted for the WM balance sheet and capital optimization program in 2Q15 and 3Q15



# Personal & Corporate Banking

Continued success in Switzerland's leading bank

## Leading coverage with ~300 branches

UBS branch locations



## Award-winning digital offering

UBS e-banking

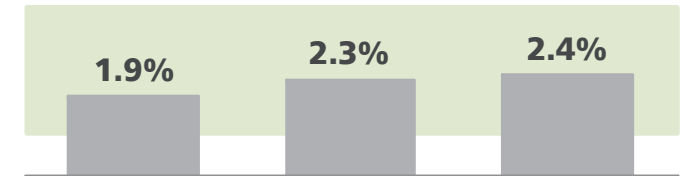


*Best Bank in Switzerland<sup>1</sup>  
for the fourth consecutive year*

## High-quality selective loan growth

Net new business volume growth for personal banking, %

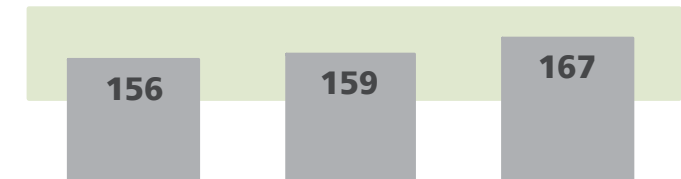
Target range  
1-4%



## Improving net interest margin

Net interest margin, bps

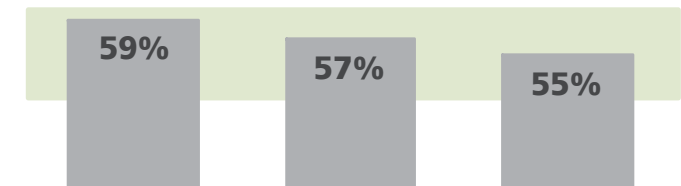
Target range  
140-180bps



## Continued efficiency improvements

Cost/income ratio, %

Target range  
50-60%



FY13

FY14

FY15



Adjusted numbers unless otherwise indicated, refer to slide 18 for details about adjusted numbers, Basel III numbers and FX rates in this presentation  
1 Euromoney 2015

# Investment Bank

Strategic re-alignment completed – focused on excelling in targeted segments

## Investor Client Services – Equities

- **One of the world's leading equities franchises**
- Top tier Cash and Derivatives franchises, with one of the most efficient Financing Services businesses in the industry

## Investor Client Services – FX, Rates & Credit

- **Client-centric with a focus on high-quality execution**
- Capital-efficient model based on intermediating client flows and agency/electronic capabilities

## Corporate Client Solutions

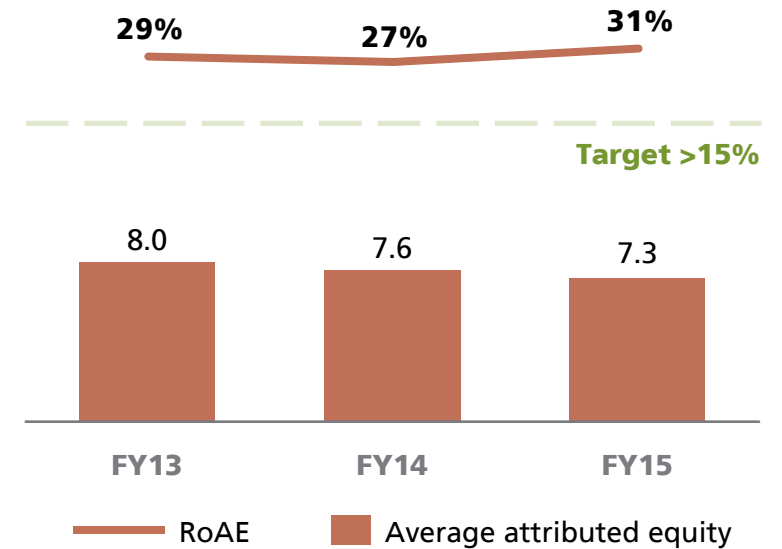
- **The advisor and solutions provider of choice for signature clients on signature deals**
- Global platform with a dominant APAC franchise, established EMEA presence and fast-growing Americas business

## Research

- **Leading European equities house with cross-asset capabilities – focused on distinctive, value-added ideas and targeted delivery**
- Powered by UBS Evidence Lab, the world's largest and most experienced team of sell-side primary research

## Return on average attributed equity

Excluding charges for provisions for litigation, regulatory, and similar matters, %, CHF billion



*2015 Bank of the Year – International Financing Review*



Adjusted numbers unless otherwise indicated, refer to slide 18 for details about adjusted numbers, Basel III numbers and FX rates in this presentation

# Investments in technology

We invested ~CHF 2 billion in technology FY15<sup>1</sup> to improve effectiveness and efficiency, provide the best offerings to our clients and to safeguard our security

Challenges	Investment projects			
	Infrastructure modernization	Complexity reduction	Business enablement	Innovation
1 <b>Best client experience</b>	<ul style="list-style-type: none"> <li>State of the art technology foundation</li> </ul>	<ul style="list-style-type: none"> <li>Simplified, automated client onboarding processes</li> </ul>	<ul style="list-style-type: none"> <li>Award winning IB online platform (Neo), UBS Paymit, UBS eBanking</li> </ul>	<ul style="list-style-type: none"> <li>Focus on client design interaction and co-creation with clients</li> </ul>
2 <b>Superior products and advice</b>	<ul style="list-style-type: none"> <li>Faster deployment of client solutions</li> </ul>	<ul style="list-style-type: none"> <li>Global standard platforms for core businesses</li> </ul>	<ul style="list-style-type: none"> <li>eWealth Manager and Client Advisor Workbench</li> </ul>	<ul style="list-style-type: none"> <li>Thought leadership on blockchain technology</li> </ul>
3 <b>Maximum efficiency and effectiveness</b>	<ul style="list-style-type: none"> <li>Enhanced mobile technology user experience</li> </ul>	<ul style="list-style-type: none"> <li>Reducing complexity of the application portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Digital client services including chat</li> </ul>	<ul style="list-style-type: none"> <li>Collaboration with FinTech start-ups and partners at London's Level 39</li> </ul>
4 <b>Safeguard security and integrity</b>	<ul style="list-style-type: none"> <li>Virtual desktop technology keeping client data off mobile devices</li> </ul>	<ul style="list-style-type: none"> <li>Continued automation of controls and better risk management</li> </ul>	<ul style="list-style-type: none"> <li>UBS Digital Reasoning</li> </ul>	<ul style="list-style-type: none"> <li>Close alignment with regulators</li> </ul>



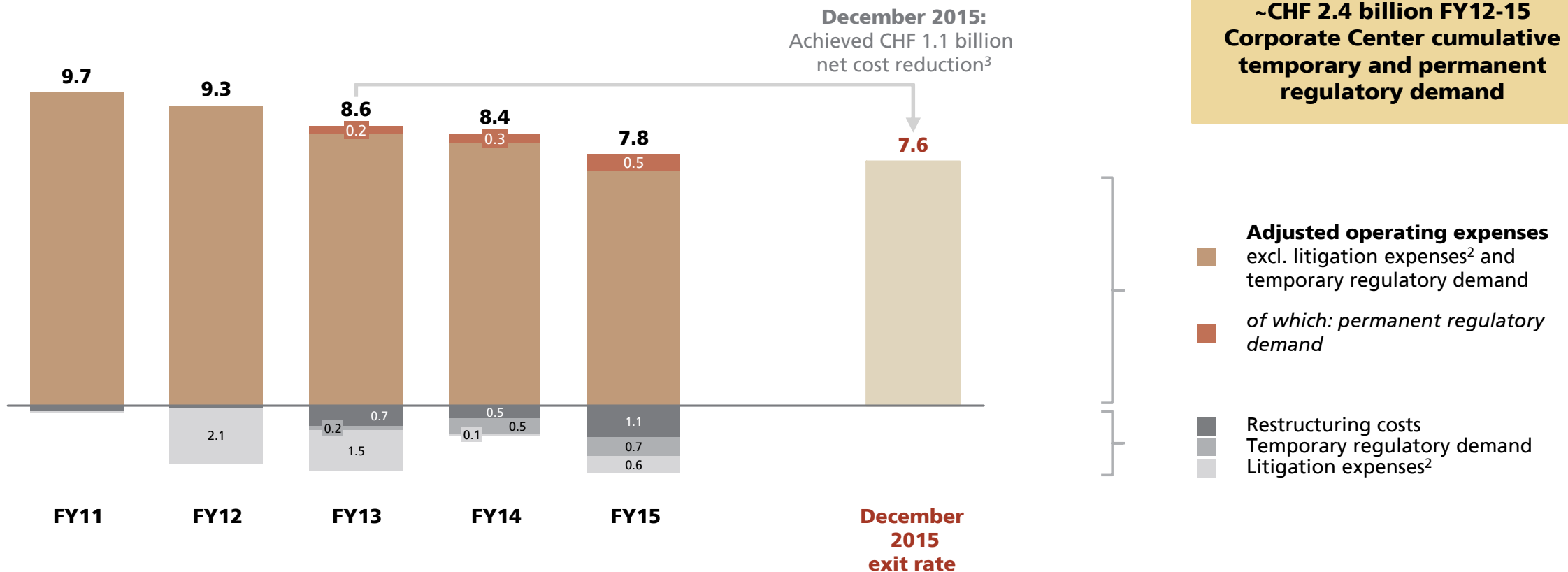
<sup>1</sup> Total operating expenses related to change-the-bank projects in Group Technology, partially classified as restructuring charges

# Corporate center cost reductions

We have reduced expenses by CHF 1.9 billion<sup>1</sup> since FY11 and are executing further reductions

## Corporate Center operating expenses

Corporate Center – Services adjusted operating expenses before allocations to business divisions and Corporate Center – Non-core and Legacy Portfolio, CHF billion

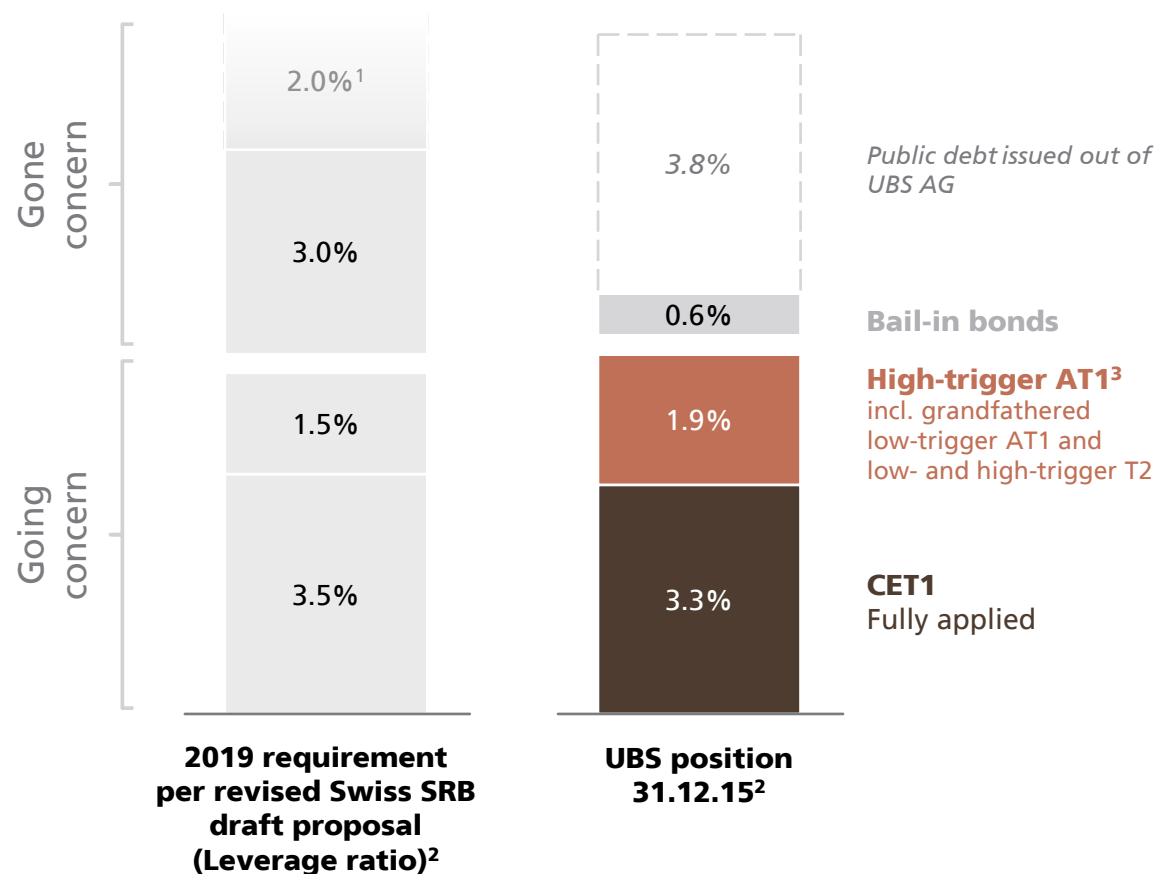


Adjusted numbers unless otherwise indicated, refer to slide 18 for details about adjusted numbers, Basel III numbers and FX rates in this presentation

<sup>1</sup> FY15 vs. FY13 adjusted operating expenses excluding temporary regulatory demand and charges for provisions for litigation, regulatory and similar matters; <sup>2</sup> Charges for provisions for litigation, regulatory and similar matters; <sup>3</sup> Refer to page 20-22 of the fourth quarter 2015 results presentation for details

# Draft proposal for revised Swiss SRB capital requirements

We are well positioned to meet the proposed requirements



- **Bail-in bonds:** We expect to replace maturing UBS AG public debt with TLAC-eligible bonds from UBS Group AG
- **AT1:** We expect to replace maturing T2 with high-trigger AT1 from UBS Group AG and build another ~CHF 1.5 billion employee high-trigger AT1 DCCP capital on top of the ~CHF 1.0 billion we have already issued
  - Successful issuance of USD 1.5 billion high-trigger AT1 this week; pro-forma 31.12.15 Swiss SRB leverage ratio improvement of ~15 bps
- **CET1:** Incremental ~15 bps CET1 to meet 3.5% hurdle



Refer to slide 18 for details about Basel III numbers and FX rates in this presentation; Refer to page 27-28 of the fourth quarter 2015 results presentation for details

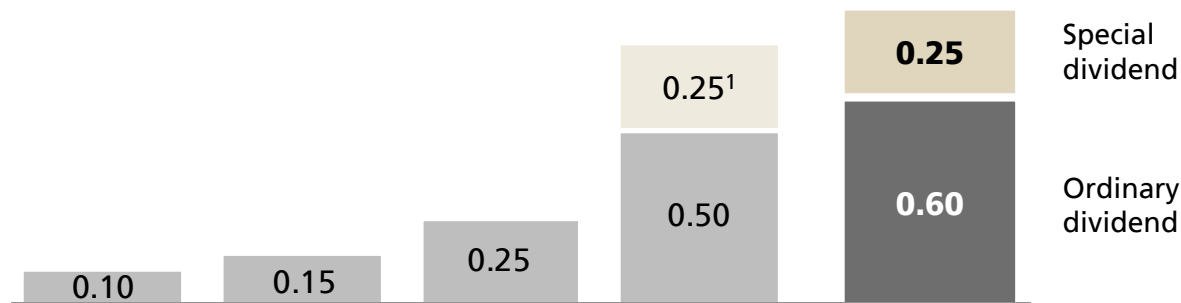
<sup>1</sup> Gone concern capital requirement subject to a potential reduction of up to 2.0%; <sup>2</sup> In % of LRD; <sup>3</sup> Going concern requirement can be met with a maximum of 1.5% high-trigger AT1 capital and any going concern-eligible capital above this limit can be counted towards the gone concern requirement

# Delivering attractive capital returns to our shareholders

Dividend per share to be proposed for FY15: CHF 0.60 ordinary and CHF 0.25 special dividend

## Total capital return per share

CHF per share



Financial year	2011	2012	2013	2014	2015
<b>CET1 ratio</b> <small>(fully applied)</small>	~6.7%	~9.8%	12.8%	13.4%	<b>14.5%</b>
<b>Payout ratio<sup>3</sup></b>	9%	N/M	30%	82%	<b>52%</b>

- We are committed to a total pay-out ratio of at least 50% of net profit<sup>2</sup>
- We intend to grow the ordinary dividend progressively



Refer to slide 18 for details about adjusted numbers, Basel III numbers and FX rates in this presentation

1 One-time supplementary capital return paid out after the completion of the squeeze-out of minority shareholders of UBS AG as part of establishing UBS Group AG in 3Q15; 2 Conditional on maintaining a fully applied Basel III CET1 capital ratio of at least 13% and at least 10% post-stress; 3 Ordinary dividend per share as a % of diluted earnings per share

# Continued focus on execution ...

## What we have delivered



Successfully executed the transformation of UBS



Made substantial progress in reducing costs and achieving operational efficiency



Solidified position as the world's largest and fastest growing wealth manager<sup>1</sup>



Provided our clients with leading-edge capabilities and advice



Attracted and retained the best talent

## Management priorities

Demonstrate sustainability of our business model

Complete on-going cost reduction programs

Invest for quality and sustainable growth

Stay close to our clients and adapt to their evolving needs

Reinforce a culture of excellence in everything we do

... to drive sustainable returns to our shareholders



<sup>1</sup> Scorpio Partnership Global Private Banking Benchmark 2015, on reporting base currency basis for institutions with AuM >USD 500 billion

# Appendix



# Group and business division targets and expectations

## Ranges for sustainable performance over the cycle<sup>1</sup>

Business divisions and Corporate Center	Wealth Management	Net new money growth rate Adjusted cost/income ratio	3-5% 55-65%	10-15% annual adjusted pre-tax profit growth for combined businesses through the cycle
	Wealth Management Americas	Net new money growth rate Adjusted cost/income ratio	2-4% 75-85%	
	Personal & Corporate Banking	Net new business volume growth rate Net interest margin Adjusted cost/income ratio	1-4% (personal banking) 140-180 bps 50-60%	
	Asset Management	Net new money growth rate Adjusted cost/income ratio Adjusted annual pre-tax profit	3-5% excluding money market flows 60-70% CHF 1 billion in the medium term	
	Investment Bank	Adjusted annual pre-tax RoAE Adjusted cost/income ratio RWA (fully applied) LRD (fully applied)	>15% 70-80% Expectation: around CHF 85 billion short/medium term Expectation: around CHF 325 billion short/medium term	
	Corporate Center	Net cost reduction <sup>2</sup>	CHF 2.1 billion by 2017	
Group	Adjusted cost/income ratio Adjusted return on tangible equity  Basel III CET1 ratio (fully applied) RWA (fully applied) LRD (fully applied)	60-70%, expectation: 65-75% short/medium term >15%, expectation: approximately at 2015 level in 2016, approximately 15% in 2017 and >15% in 2018 at least 13% <sup>3</sup> Expectation: around CHF 250 billion short/medium term Expectation: around CHF 950 billion short/medium term		



Refer to slide 18 for details about adjusted numbers, Basel III numbers and FX rates in this presentation; 1 Refer to page 11 of the 3Q15 financial report for details; 2 Measured by year-end exit rate vs. FY13 adjusted operating expenses, net of changes in charges for provisions for litigation, regulatory and similar matters, FX movements and changes in regulatory demand of temporary nature; 3 Our capital returns policy is also subject to maintaining a post-stress fully applied CET1 capital ratio of at least 10%

# Oil and gas exposures

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**As of 31 December 2015 our total net banking products exposure to the oil and gas sector, mainly in North America, was CHF 6.1 billion, including both funded and unfunded exposures, of which CHF 5.9 billion was recorded within the Investment Bank and the remaining exposure within Corporate Center – Non-core and Legacy Portfolio.**

- **Of this, CHF 2.5 billion was related to the infrastructure-like midstream sub-sector**, which we expect to be less affected by lower energy prices, because revenues for transportation are largely fee or volume based. Less than CHF 0.5 billion of this midstream exposure is to counterparties we rate as sub-investment grade.
- **Exposure to the exploration & production (E&P) sub-sector amounted to CHF 2.0 billion**, almost evenly split between oil and gas. This is one of the sub-sectors we consider to be most directly exposed to prolonged low commodity prices. The largest component of this E&P related exposure is reserve-based lending with counterparties we rate as sub-investment grade, secured by proven reserves, typically revalued on a semi-annual basis.
- **Refining-related** exposure totalled CHF 0.8 billion, predominantly in asset-based lending.
- **Our exposure to the integrated** sub-sector was CHF 0.5 billion, entirely with counterparties we rate as high investment grade.
- **The exposure to the services & supply sub-sector was CHF 0.4 billion.** We also consider this one of the sub-sectors most directly exposed to prolonged low commodity prices, as revenues are driven by the level of exploration and production activity and as security is typically equipment that has low recovery values in distress.
- **Using an assumed average oil price of USD 25 per barrel through the end of 2017, we estimate that we could incur an additional credit loss expense of approximately CHF 100 million.** In arriving at this estimate we have considered, among other things, the estimated effect of the decline in the value of oil and gas reserves pledged in support of reserve-based loans in the exploration and production segment, assumed higher default rates and lower recoveries for the oilfield services segment and made other significant assumptions. We have not taken into account any broader macroeconomic effects of a prolonged period of depressed energy prices, nor have we considered indirect effects. All of these factors may result in actual losses being materially higher or lower than this estimate, and there can be no certainty over the timing of recognition of actual losses.

# Important information related to this presentation

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## **Use of adjusted numbers**

Adjusted results are a non-GAAP financial measure as defined by SEC regulations. Refer to page 6 of the 4Q15 earnings release which is available in the section "Quarterly reporting" at [www.ubs.com/investors](http://www.ubs.com/investors) for an overview of adjusted numbers.

If applicable for a given adjusted KPI (i.e., adjusted return on tangible equity), adjustment items are calculated on an after-tax basis by applying indicative tax rates (i.e., 2% for own credit, 22% for other items, and with certain large items assessed on a case-by-case basis). Refer to page 7 of the 4Q15 financial supplement for more information.

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

Basel III numbers are based on the BIS Basel III framework, as applicable for Swiss Systemically relevant banks (SRB). Numbers in the presentation are Swiss SRB Basel III numbers unless otherwise stated.

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

Leverage ratio and leverage ratio denominator in this presentation are calculated on the basis of fully applied Swiss SRB rules, unless otherwise stated. From 31.12.15 onwards, these are fully aligned with BIS Basel III rules. Prior period figures are calculated in accordance with former Swiss SRB rules and are therefore not comparable.

Refer to the "Capital Management" section in the 4Q15 earnings release for more information.

## **Currency translation**

Monthly income statement items of foreign operations with a functional currency other than Swiss francs are translated with month-end rates into Swiss francs.

## **Rounding**

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