Achieving sustainable performance

Integrated Reporting 2017
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About this report

Our three keys to success – our Pillars, Principles and Behaviors – help us achieve our vision and execute our strategy, shaping how we work together and influencing everything we do. Consequently, they show how everything we do is connected – from our vision and strategy to our business model, performance and governance. We’ve therefore made them the backbone of this document, thus continuing our journey towards integrated reporting UBS embarked on two years ago.

Our Pillars are the foundation for everything we do.
- Capital strength
- Efficiency and effectiveness
- Risk management

Our Principles are what we stand for as a firm.
- Client focus
- Excellence
- Sustainable performance

Our Behaviors are what we stand for individually.
- Integrity
- Collaboration
- Challenge

This Integrated Report is provided as a convenience to our investors, clients and other stakeholders who would like an integrated overview of our business, strategy and performance in 2017 and how those provide the basis for long-term value creation. It should be read in conjunction with UBS’s Annual Report 2017 (and the UBS GRI Document 2017), which contains more detailed information and disclosure including management discussion and analysis and audited financial statements. The information contained in this report is not to be construed as a solicitation of an offer to buy or sell any securities or other financial instruments in Switzerland, the United States or any other jurisdiction. No investment decision relating to securities, of or relating to UBS Group AG or its affiliates, should be made on the basis of this document. Unless otherwise indicated, figures are as of, or for the year ended, 31 December 2017.
Our approach to long-term value creation

The one thing our investors, clients and employees have in common is they all look for sustainable performance: they want a bank that is stable and secure, they want a bank that acts long-term and helps them come up with new ways of thinking and investing sustainably. UBS can offer all this – and more. As a matter of fact, one of our firm’s three Principles – along with Client Focus and Excellence – is Sustainable Performance, which we define as focusing on the long term and providing consistent returns to our stakeholders.

Today, there is a growing awareness of social and environmental challenges and therefore a company’s stakeholders – among them investors, clients, employees, governments, regulators and civil society – are increasingly expecting and rewarding sustainable behavior. At UBS we have incentivized behaviors that underline the importance not only of what is achieved, but also how it’s achieved. And we have set ourselves targets that drive long-term success.

Our strategy is centered on our leading Global Wealth Management business and our premier universal bank in Switzerland, which are enhanced by Asset Management and the Investment Bank.

Global Wealth Management (GWM) provides comprehensive advice and tailored financial services to wealthy private clients around the world. Our clients benefit from the full spectrum of resources that a global firm can offer, including investment management, wealth planning, banking and lending, and corporate financial advice.

Personal & Corporate Banking (P&C) provides comprehensive financial products and services to private, corporate and institutional clients in Switzerland. We are among the leading players in the private and corporate loan market in Switzerland, with a well-collateralized and conservatively managed lending portfolio.

Asset Management (AM) offers investment capabilities and investment styles across all major traditional and alternative asset classes, as well as platform solutions and advisory support, to institutions, wholesale intermediaries and wealth management clients around the world.

Our Investment Bank (IB) provides investment advice, financial solutions and capital markets access in over 35 countries, with principal offices in all major financial centers. We serve corporate, institutional and wealth management clients across the globe and partner with our wealth management, personal and corporate banking and asset management businesses.

Our Corporate Center (CC) provides services to the Group through the reporting units Corporate Center – Services and Group Asset and Liability Management. Corporate Center also includes the Non-core and Legacy Portfolio unit.

“At UBS performance is not just judged by annual financial results. One of our firm’s three Principles – along with Client Focus and Excellence – is Sustainable Performance, which we define as focusing on the long term and providing consistent returns to our stakeholders.”

Letter to Shareholders, UBS Annual Report 2017
What we put into the equation

We use and protect our capitals … to deliver added value through our business activities based on our three keys.

Financial
- Risk-weighted assets: CHF 237bn (fully applied)
- Leverage ratio denominator: CHF 886bn (fully applied)
- Common equity tier 1 (CET1) capital: CHF 32.7bn (fully applied)
- Total loss-absorbing capacity: CHF 78bn (fully applied)
- Liquidity buffer (high-quality liquid assets, HQLA): CHF 183bn
- We spend over 10% of revenues on technology to enhance our business and accelerate efficiency and effectiveness.

Human
- 61,253 employees worldwide
- 9,581 external candidates at all career stages hired
- 394 university graduates hired into graduate talent programs
- 571 interns hired for various roles
- In Switzerland, we hired 294 apprentices for business and IT roles, and 171 trainees into our bank entry programs for high school graduates.
- Workforce diversity as a business imperative.

Relationships and intellectual
- Over 150 years of experience in banking
- Strong brand
- Global leader in wealth management for private clients
- 3,794 client advisors and a network of 6,822 financial advisors in Global Wealth Management
- 200 CIO analysts, strategists, and investment professionals present in 10 key financial hubs globally
- UBS University
- Robo advisory
- UBS International Center of Economics in Society
- UBS Unique
- UBS Y Think Tank
- The future of finance challenge
- Global Philanthropy community
- UBS Global Visionaries

Social and natural
- CHF 44.5m direct cash contributions to communities
- 168,226 volunteering hours on community projects
- UBS Optimus Foundation: CHF 59.5m raised in donations
- CHF 9.9b spent on products and services
- Climate change strategy
- Environmental management system in accordance with ISO 14001
- We want to be the financial provider of choice for clients wishing to drive capital toward investments that support the UN SDGs and the transition to a low-carbon economy.

Three keys help us achieve our vision and execute our strategy. They epitomize the best of our heritage.

Our Pillars are the foundation for everything we do.
- Capital strength
- Efficiency and effectiveness
- Risk management

Our Principles are what we stand for as a firm.
- Client focus
- Excellence
- Sustainable performance

Our Behaviors are what we stand for individually.
- Integrity
- Collaboration
- Challenge

We actively live these Principles and Behaviors. They determine how we work with our stakeholders and each other, how we recruit and how we make decisions.
to create long-term value for our stakeholders

... balancing opportunities and risks resulting from our environment and our business

... to achieve positive results for our stakeholders

Risks and challenges we face

- Weak global growth
- Low/negative interest rates
- Increasing or changing regulatory requirements
- Changing client needs
- Demographics
- Digitalization and intelligent automation
- Legacy issues and litigation
- Geopolitical uncertainty
- Credit risk
- Market risk
- Country risk
- Liquidity risk
- Funding risk
- Structural foreign exchange risk
- Operational risk
- Pension risk
- Environmental and social risk
- Business risks
- Reputational risk

- Proposed dividend of CHF 0.65 per share
- Dividends paid on UBS shares in 2017 CHF 2,229m
- Net profit attributable to shareholders CHF 1,053m
- Adjusted return on tangible equity (RoTE) 13.8%
- Updated capital returns policy and financial targets; total loss-absorbing capacity increased to almost CHF 80bn
- Credit rating upgrades by Fitch Ratings and Scope Ratings
- UBS confirmed as industry group leader in Dow Jones Sustainability Indices

Invested assets CHF 3,179bn

- Approximately every other billionaire in the world is a UBS client
- In Switzerland, UBS has client relationships with one in three households.
- The leading personal and corporate banking business in Switzerland
- AM is the largest mutual fund manager in Switzerland
- Access to a comprehensive life cycle-based offering and convenient digital banking
- CIO provides clear, independent investment views
- Commitment to attract CHF 50bn of wealth management client assets over the next 5 years to support the 17 UN SDGs
- Named Best Bank in Switzerland by Euromoney for the sixth consecutive year
- Named Institutional Investor magazine’s Top Global Equity Research Firm of the Year
- Named Best Investment Bank and Best Bank for M&A by Global Finance

Providing jobs to over 60,000 employees worldwide

- 765,500 development activities, including mandatory training on compliance, business and other topics
- Master in Wealth Management degree program and a training program for financial advisors in the US
- 43 employee networks globally, with more than 17,000 members
- World’s Most Attractive Employers (Universum): global top 50

Sustainable investments increased to over CHF 1.1tr, representing nearly 35% of total invested assets

- ~126,279 direct beneficiaries as a result of our community investment
- UBS Optimus Foundation’s work helped improve the well-being of 2.1 million children globally
- CHF 72bn, or 2.3% of UBS’s clients’ total invested assets in products supporting a low-carbon economy
- Support of 82% of climate-related shareholder resolutions
- 2,170 referrals assessed by ESR, of which 80 were rejected or not further pursued, 39% approved with qualifications and 18 pending
- Reduced UBS’s GHG emissions by 11%, or 10% per full-time employee, year on year
- One of the top taxpayers in Switzerland
- Aims to achieve 40% of employees volunteering by the end of 2020

Refer to the “Current market climate and industry trends” section of the Annual Report 2017 for more information on our competitors and industry environment

Refer to the “Risk, treasury and capital management” section of the Annual Report 2017 for further information on risks and how we manage them
How do we measure success?

How we measure our performance

The Group and business divisions are managed on the basis of a key performance indicator (KPI) framework, which identifies profit and growth financial measures, in the context of sound risk and capital management objectives. When determining variable compensation, both Group and business division KPIs are taken into account.

We review the KPI framework on a regular basis, considering our strategy and the market environment in which we operate. KPIs are disclosed in our quarterly and annual reporting to allow comparison of our performance over the reporting periods. For certain KPIs we have performance targets in place, which are defined in order to measure our performance against our strategy. Our KPIs are designed to be assessed on an over-the-cycle basis and are subject to seasonal patterns.

Delivering on our promise – reducing costs

We reviewed our performance targets and KPI framework in January 2018, taking into account the developments in the regulatory environment and the achievement of our CHF 2.1 billion net cost reduction target by the fourth quarter of 2017. Cost control will remain in focus through the cost/income ratio, which remains a KPI and performance target for the Group and all business divisions. We have set ambitious return and efficiency targets for the next three years.

All Corporate Center functions are represented in onshore, nearshore and offshore locations that allow us to tap into larger talent pools and realize efficiencies by reducing our footprint in high-cost real estate locations. As of 31 December 2017, 36% of Corporate Center employees and contractors were in offshore or nearshore locations compared with 18% as of 31 December 2013. Efficiency and effectiveness

“2017 was an excellent year for us, with profit before tax up 29% to CHF 5.3 billion. We also delivered on our CHF 2.1 billion net savings program.”

Letter to Shareholders, UBS Annual Report 2017
### 2017 Group and business division key performance indicators

<table>
<thead>
<tr>
<th>Key performance indicators</th>
<th>Definition</th>
<th>Group</th>
<th>Wealth Management</th>
<th>Wealth Management Areas</th>
<th>Personal &amp; Corporate Banking</th>
<th>Asset Management</th>
<th>Investment Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net profit growth (%)</td>
<td>Change in net profit attributable to shareholders from continuing operations between current and comparison periods / net profit attributable to shareholders from continuing operations of comparison period</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Pre-tax profit growth (%)</td>
<td>Change in business division operating profit before tax between current and comparison periods / business division operating profit before tax of comparison period</td>
<td>●</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost / Income ratio (%)</td>
<td>Operating expenses / operating income before credit loss (expense) or recovery</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Return on tangible equity (RoTE) (%)</td>
<td>Net profit attributable to shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable) / average equity attributable to shareholders less average goodwill and intangible assets</td>
<td>●</td>
<td></td>
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</tr>
<tr>
<td>Return on attributed equity (RoAE) (%)</td>
<td>Business division operating profit before tax (annualized as applicable) / average attributed equity</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Going concern leverage ratio (%)</td>
<td>Total going concern capital / leverage ratio denominator as of period end</td>
<td>●</td>
<td></td>
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</tr>
<tr>
<td>Common equity tier 1 capital ratio (%)</td>
<td>Common equity tier 1 capital / risk-weighted assets as of period end</td>
<td>●</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Net new money growth (%)</td>
<td>Net new money for the period (annualized as applicable) / invested assets at the beginning of the period. Group net new money growth is reported as net new money growth for combined wealth management businesses. Asset Management net new money excludes money market flows</td>
<td>●</td>
<td>●</td>
<td></td>
<td>●</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross margin on invested assets (bps)</td>
<td>Operating income before credit loss (expense) or recovery (annualized as applicable) / average invested assets</td>
<td>●</td>
<td>●</td>
<td></td>
<td></td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Net margin on invested assets (bps)</td>
<td>Business division operating profit before tax (annualized as applicable) / average invested assets</td>
<td>●</td>
<td>●</td>
<td></td>
<td></td>
<td>●</td>
<td>●</td>
</tr>
<tr>
<td>Net new business volume growth for personal banking (%)</td>
<td>Net new business volume (i.e., total net inflows and outflows of client assets and loans for the period (annualized as applicable) / business volume (i.e., total of client assets and loans) at the beginning of the period</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Net Interest margin (%)</td>
<td>Net interest income (annualized as applicable) / average loans</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost reduction</td>
<td>Net exit rate cost reduction</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

1 Excluding the impact of business exits, for Asset Management only. 2 Denominator based on a five-point average of quarter-end values with the beginning and end values weighted with a factor of 0.5 for the full-year calculations and based on a simple average for the quarterly calculations. 3 Based on fully applied CET1 capital. 4 Removed from the key performance indicator framework in 2018.

### New key performance indicators in 2018

<table>
<thead>
<tr>
<th>Key performance indicators</th>
<th>Definition</th>
<th>Group</th>
<th>Global Wealth Management</th>
<th>Personal &amp; Corporate Banking</th>
<th>Asset Management</th>
<th>Investment Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on tangible equity excluding deferred tax assets (RoTE ex DTAs) (%)</td>
<td>Adjusted net profit attributable to shareholders before amortization and impairment of goodwill and intangible assets and before deferred tax expense / benefit (annualized as applicable) / average equity attributable to shareholders less average goodwill and intangible assets and less average deferred tax assets that do not qualify as fully applied CET1 capital</td>
<td>●</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common equity tier 1 leverage ratio (%)</td>
<td>Common equity tier 1 capital / leverage ratio denominator as of period end</td>
<td>●</td>
<td>●</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1 Excluding deferred tax expense / benefit such as the net write-down due to the Tax Cuts and Jobs Act enacted in the fourth quarter of 2017. 2 Denominator based on a five-point average of quarter-end values with the beginning and end values weighted with a factor of 0.5 for the full-year calculations and based on a simple average for the quarterly calculations. 3 Based on fully applied CET1 capital.
## Our performance 2017

### CHF million, except where indicated

<table>
<thead>
<tr>
<th></th>
<th>As of or for the year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31.12.17</td>
</tr>
<tr>
<td><strong>Group results</strong></td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>29,067</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>23,800</td>
</tr>
<tr>
<td>Operating profit / (loss) before tax</td>
<td>5,268</td>
</tr>
<tr>
<td>Net profit / (loss) attributable to shareholders</td>
<td>1,053</td>
</tr>
<tr>
<td>Diluted earnings per share (CHF)</td>
<td>0.27</td>
</tr>
</tbody>
</table>

### Key performance indicators

#### Profitability

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on tangible equity (%)</td>
<td>7.4</td>
<td>6.9</td>
<td>13.7</td>
</tr>
<tr>
<td>Cost / income ratio (%)</td>
<td>81.5</td>
<td>85.4</td>
<td>81.8</td>
</tr>
<tr>
<td>Non-diluted earnings per share (CHF)</td>
<td>(0.7)</td>
<td>(4.8)</td>
<td>22.0</td>
</tr>
<tr>
<td>Return on risk-weighted assets, gross (%)</td>
<td>2.1</td>
<td>2.1</td>
<td>2.2</td>
</tr>
</tbody>
</table>

#### Resources

| Common equity tier 1 capital ratio (fully applied, %) | 13.8      | 13.8     | 14.5      |
| Common equity tier 1 leverage ratio (fully applied, %) | 3.7       | 3.5      | 3.3       |
| Going concern leverage ratio (fully applied, %) | 4.7       | 4.6      |          |

### Additional information

#### Profitability

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on equity (%)</td>
<td>2.0</td>
<td>5.9</td>
<td>11.8</td>
</tr>
<tr>
<td>Return on risk-weighted assets, gross (%)</td>
<td>12.6</td>
<td>13.2</td>
<td>14.4</td>
</tr>
<tr>
<td>Return on leverage ratio denominator, gross (%)</td>
<td>3.3</td>
<td>3.2</td>
<td></td>
</tr>
</tbody>
</table>

#### Resources

| Total assets                  | 915,642   | 935,016   | 942,819   |
| Equity attributable to shareholders | 51,214   | 53,621    | 55,313    |
| Common equity tier 1 capital (fully applied) | 32,671   | 30,693    | 30,044    |
| Common equity tier 1 capital (phase-in) | 35,494   | 32,788    | 40,378    |
| Risk-weighted assets (fully applied) | 237,494  | 222,677   | 207,530   |
| Common equity tier 1 capital ratio (phase-in, %) | 14.9     | 16.8      | 19.0      |
| Going concern capital ratio (fully applied, %) | 17.6     | 17.9      |          |
| Going concern capital ratio (phase-in, %) | 21.7     | 24.7      |          |
| Going concern loss-absorbing capacity ratio (fully applied, %) | 15.3    | 13.2      |          |
| Leverage ratio denominator (fully applied) | 886,116  | 870,470   | 897,607   |
| Going concern leverage ratio (phase-in, %) | 5.8      | 6.4       |          |
| Going concern leverage ratio (fully applied, %) | 4.1      | 3.4       |          |
| Liquidity coverage ratio (%)  | 14.5      | 13.2      | 12.4      |

#### Other

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested assets (CHF billion)</td>
<td>3,179</td>
<td>2,810</td>
<td>2,678</td>
</tr>
<tr>
<td>Personnel (full-time equivalents)</td>
<td>61,253</td>
<td>59,387</td>
<td>60,099</td>
</tr>
<tr>
<td>Market capitalization (CHF)</td>
<td>69,125</td>
<td>61,420</td>
<td>75,147</td>
</tr>
<tr>
<td>Total book value per share (CHF)</td>
<td>13,76</td>
<td>14,44</td>
<td>14,75</td>
</tr>
<tr>
<td>Tangible book value per share (CHF)</td>
<td>12,04</td>
<td>12,68</td>
<td>13,00</td>
</tr>
</tbody>
</table>

1 Refer to “Note 9 Earnings per share (EPS) and shares outstanding” in the “Consolidated financial statements” section of the Annual Report 2017 for more information. 2 Refer to the “Measurement of performance” section of the Annual Report 2017 for the definitions of our key performance indicators. 3 Based on adjusted net new money, which excludes the negative effect on net new money in 2015 of CHF 9.9 billion from our balance sheet and capital optimization program. 4 Based on the Swiss systemically relevant bank (SRB) framework. Refer to the “Capital management” section of the Annual Report 2017 for more information. 5 Based on the revised Swiss SRB framework that became effective on 1 July 2016. Refer to the “Capital management” section of the Annual Report 2017 for more information. 6 Calculated as operating income before credit loss / average fully applied risk-weighted assets and average fully applied leverage ratio denominator, respectively. 7 Refer to the “Balance sheet, liquidity and funding management” section of the Annual Report 2017 for more information. 8 Includes invested assets for Personal & Corporate Banking. 9 Certain account types were corrected during 2017. As a result, invested assets as of 31 December 2016 and 31 December 2015 were corrected by CHF 12 billion and CHF 11 billion, respectively. 10 Refer to “UBS shares” in the “Capital management” section of the Annual Report 2017 for more information.
What we are aiming for – today and beyond

**Our vision:** We want to be recognized for creating long-term positive impact for our clients, employees, investors and society. Our ambition is to stand out as a winner in our industry: for our expertise, advice and execution, our contribution to society, our work environment and our business success.

**Our strategy:** Our strategy is centered on our leading Global Wealth Management business and our premier universal bank in Switzerland, which are enhanced by Asset Management and the Investment Bank. We focus on businesses that have a strong competitive position in their targeted markets, are capital efficient and have an attractive long-term structural growth or profitability outlook. We are the world’s largest and only truly global wealth manager. We have a strong presence in the largest market, the United States, and a leading position in the fastest-growing regions, including Asia Pacific and the other emerging markets.

Our wealth management business benefits from significant scale in an industry with attractive growth prospects and increasingly high barriers to entry, and from its leading position across the attractive high net worth and ultra high net worth client segments. We are the preeminent universal bank in Switzerland, the only country where we operate in all of our business lines: wealth management, personal & corporate banking, asset management and investment banking. Our leading position in our home market is central to UBS’s global brand and profit stability. The partnership between our wealth management business and our other business divisions is a key differentiating factor and a source of competitive advantage.

**We have defined four strategic priorities for the Group**

1. Drive profitable growth in Global Wealth Management
   In Global Wealth Management, we target 10–15% adjusted profit before tax growth annually over the cycle, while growing net new money at 2–4% per annum and aiming to operate within an adjusted cost/income ratio range of 65–75%. The creation of the integrated business division on 1 February 2018 aims to further enhance the client experience and our product offering in line with an increasingly global client base. We expect to more effectively capture the purchasing power of Global Wealth Management’s CHF 2.3 trillion invested asset base and generate greater synergies across technology, innovation and other areas of investment. Regional variations in the client service model will be maintained, while middle- and back-office functions will be more closely aligned and integrated.

2. Maintain focused leadership and grow profits in Asset Management, Investment Bank and Personal & Corporate Banking
   Our strength in Global Wealth Management also relies on the stand-alone strength of our other businesses. Together, they make a significant contribution to earnings, diversify revenues and generate high-quality returns.

3. Enhance diversification by capturing superior growth in Asia Pacific and the Americas, leverage our Europe, Middle East and Africa capabilities and reinforce our leadership position in Switzerland
   From a geographic standpoint, we aim to grow in the Americas and to reinforce leadership in our home market in Switzerland. In Europe, Middle East and Africa, we want to leverage our capabilities to grow our market share during likely consolidation. Asia Pacific, and particularly China, presents a significant growth opportunity, given the economic expansion and rate of increase in the number of billionaires. UBS’s competitive position in Asia Pacific is strong and we are well positioned to capture opportunities in the region across our businesses.

4. Invest in technology with a focus on superior client experience, product capabilities, efficiency and effectiveness
   We will continue to invest in technology to drive growth, better serve our clients and improve efficiency and effectiveness. We intend to secure our position as a leader in the digital age by maintaining expenditure on technology of at least 10% of the Group’s revenues for the foreseeable future.

“Sustainable performance is only possible with a long-term strategy. We’re the clear leader in global wealth management and in Switzerland, with the most sophisticated capabilities. The global wealth management market is forecast to grow at twice GDP and as the firm with the most diversified geographic footprint, we are in the best position to benefit from this development.”

Letter to Shareholders, UBS Annual Report 2017
Did you know that

– our fully applied CET1 ratios are comfortably above the 2020 requirements?
– we have increased our loss-absorbing capacity by around CHF 50 billion to almost CHF 80 billion since 2012?
– we are the world’s largest wealth manager with invested assets of ~CHF 2000bn?

The three keys to UBS’s success

Our three keys to success provide the signposts toward making our vision a reality. That is why superior value creation for clients, shareholders and employees at UBS is closely connected to our three keys – our Pillars, Principles and Behaviors.

Key 1 – the Pillars underpin our strategy. They are the foundation for everything we do. Here is what they are – and why they are important.

Pillars

Capital strength
Capital strength is the foundation of our strategy and provides another competitive advantage. Our capital-accretive and capital-efficient business model helps us adapt to changes in regulatory requirements, while pursuing growth opportunities without the need for significant earnings retention. We believe that our business model can generate an adjusted return on tangible equity (excluding deferred tax expense / benefit and deferred tax assets) of around 15% in normal market conditions.

Efficiency and effectiveness
Despite having completed our cost savings program delivering CHF 2.1 billion in net savings, efficiency remains high on the agenda. We have set quite demanding internal targets for our business divisions and Corporate Center to drive positive operating leverage – so to increase revenues while reducing costs. We are also targeting a cost/income ratio of below 75% for the Group.

Risks are part of our business, so risk management is about striking the right balance between risk and reward. We promote risk awareness and appropriate behavior by aligning every decision we make with UBS’s strategy, Principles and risk appetite. This includes everything from business planning and execution to performance measurement and compensation.

➔ Refer to the “Risk factors” and “Risk, treasury and capital management” sections of the Annual Report 2017 for detailed information on the risks we face and how we manage them.
What do we want to be recognized for?

Each of our following objectives is closely linked to at least one or several of the three most material topics presented on page 17.

<table>
<thead>
<tr>
<th>Objective</th>
<th>Superior value creation basis</th>
<th>Superior value creation commitments</th>
<th>Superior value creation proof points</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Superior value for clients</strong></td>
<td>The way we work with each other, our clients and society, is what shapes the UBS brand. Always acting in the spirit of partnership with our clients’ best interest at heart – we embrace clients’ goals as our own</td>
<td>We are working to intensify close collaboration across the firm to bring the best of UBS to our clients, while avoiding conflicts of interest internally and externally</td>
<td>We are the world’s largest wealth manager. In 2017, wealth and asset management businesses attracted more than CHF 100bn in client assets and we saw record net new client acquisition in Personal Banking</td>
</tr>
<tr>
<td><strong>Superior value for shareholders</strong></td>
<td>Our earnings capacity and capital efficiency support our objective to deliver sustainable and growing returns to shareholders</td>
<td>We aim to increase our ordinary dividend per share at a mid-to-high single-digit percent per annum. We may also return excess capital, most likely in the form of share repurchases</td>
<td>We intend to propose a dividend of CHF 0.65 per share, an 8% increase on the prior year, and initiated a 3-year share buyback program of up to CHF 2 billion. We completed a cost savings program delivering CHF 2.1 billion in net savings</td>
</tr>
<tr>
<td><strong>Superior value for employees</strong></td>
<td>We see our employees not just as stakeholders, but as key contributors to long-term value creation for all our stakeholder groups</td>
<td>Our three keys to success are embed-ded in every HR process in the firm, aligning the way we manage people with the culture we want to have</td>
<td>In Switzerland, we are the second most popular employer among business students, more than 50% of our Switzerland-based employees have worked at UBS for more than 10 years</td>
</tr>
</tbody>
</table>

**Key 2** – the Principles define what we stand for as a firm and help us prioritize when making decisions. Here is what they are – and what they mean: *Principles*

**Client focus**
We demonstrate an unrivaled client focus at every level of our business, building relationships that make us stand out from our peers.

**Excellence**
We strive for excellence in everything we do, from the people we employ, to the products and services we offer to our clients.

**Sustainable performance**
We focus on the long term and work continuously to strengthen our reputation as a rock-solid firm providing consistent returns to our stakeholders.

**Key 3** – the Behaviors define what we stand for individually and bring our Principles to life every day. This is the kind of behavior we want to see – and will reward – in our employees: *Behaviors*

**Integrity**
– I am responsible and accountable for what I say and do and for UBS’s reputation
– I care about our clients, our investors and my colleagues
– I act as a role model by treating others the way I would like to be treated

**Collaboration**
– I put the benefits of our clients and the firm before my own or those of my business
– I work across the firm
– I respect and value diverse perspectives

**Challenge**
– I encourage myself and others to constructively question the status quo
– I learn from past mistakes and experiences
– I speak up if I see something that does not exemplify our high standards
Our performance targets, expectations and ambitions

The table below shows our performance targets and capital guidance for the Group and the business divisions for the 2018–2020 period. The targets and guidance reflect what we believe can be achieved in normal market conditions. All targets are measured on an annual basis, except our adjusted profit before tax growth targets for Global Wealth Management and Asset Management, which represent the average annual growth we aim to deliver over the cycle.

Performance targets and capital guidance for the Group and the business divisions for the 2018–2020 period

<table>
<thead>
<tr>
<th></th>
<th>Cost / Income ratio</th>
<th>Profitability and growth</th>
<th>Capital and resource guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group</td>
<td>&lt;75%</td>
<td>~15% RoTE excluding DTAs</td>
<td>~13% common equity tier 1 capital ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>~3.7% common equity tier 1 leverage ratio</td>
</tr>
<tr>
<td>Global Wealth Management</td>
<td>65–75%</td>
<td>10–15% pre-tax profit growth 4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>2–4% net new money growth</td>
<td></td>
</tr>
<tr>
<td>Personal &amp; Corporate Banking</td>
<td>50–60%</td>
<td>1–4% net new business volume (personal banking)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>150–165 bps net interest margin</td>
<td></td>
</tr>
<tr>
<td>Asset Management</td>
<td>60–70%</td>
<td>~10% pre-tax profit growth 4 5</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3–5% net new money growth, excluding money market flows</td>
<td></td>
</tr>
<tr>
<td>Investment Bank</td>
<td>70–80%</td>
<td>&gt;15% RoAE 6</td>
<td>RWA and LRD around one-third of the Group total</td>
</tr>
</tbody>
</table>

1 Annual targets; cost / income ratio, pre-tax profit growth and return targets are on an adjusted basis. 2 Return on tangible equity (RoTE) excluding deferred tax expense / benefit and deferred tax assets (DTAs); calculated as adjusted net profit / loss attributable to shareholders excluding deferred tax expense / benefit, such as the net write-down due to the Tax Cuts and Jobs Act (TCJA) enacted in the fourth quarter of 2017, divided by average tangible equity attributable to shareholders excluding any DTAs that do not qualify as fully applied CET1 capital. 3 Based on fully applied CET1 capital. 4 Over the cycle. 5 Excluding the impact of business exits. 6 Return on attributed equity. 7 Including risk-weighted assets (RWA) and leverage ratio denominator (LRD) directly associated with activity that Corporate Center – Group ALM manages centrally on the Investment Bank’s behalf; proportion may fluctuate around this level due to factors such as equity market levels and FX rates.

“We are strongly committed to being – and remaining – a leader in the field of sustainability. Our cross-divisional organization UBS and Society focuses the firm on this direction.”

Letter to Shareholders, UBS Annual Report 2017
Beyond financial performance

We intend to make sustainable performance the standard across our firm and part of every client conversation. We work with a long-term focus on providing appropriate returns to all of our stakeholders in a responsible manner.

We provide transparent targets and report on progress made against them wherever possible. To this end, we assess our progress against the following aims.

UBS and Society aims

We aim to be:

A leader in sustainable investing (SI) for private and institutional clients
as demonstrated by size of SI assets under management (AuM) and goals, for which UBS:

- Has set ambitious internal targets to increase AuM for core SI products and mandates
- Has set a target of USD 5 billion of client assets invested into new impact investments by the end of 2021

A recognized innovator and thought leader in philanthropy
as shown by key stakeholder – employees, clients and society – engagement, and work to support positive social impact, for which UBS:

- Aims to achieve 40% of employees volunteering by the end of 2020, of which 40% of volunteer hours will be skills based
- Combines expertise with capital and networks to increase social impact, as the partner of choice for philanthropists
- Pioneers new ways to bring substantial funding to the SDGs

An industry leader in sustainability
by retaining favorable positions in key environmental, social and governance (ESG) ratings and driving optimization in areas that are important to ESG investors, including that UBS:

- Supports the transition to a low-carbon economy as laid out in our climate change strategy

Source: Annual Report 2017, UBS and Society section

Overarching workforce aims and objectives

Build engagement and strengthen our corporate culture

- Invest in large-scale culture programs across the organization
- Measure, foster and recognize culture-building behaviors

Remain an employer of choice for people at all career stages

- Maintain attractiveness to external talent and a highly motivated workforce
- Focus on internal mobility and provide long-term career prospects

Strengthen our diverse and inclusive workplace

- Aspiration to increase the ratio of women in management roles to one-third
- Support activities focused on increasing the inclusiveness of our culture

Effectively develop, manage and retain our talent

- Provide a wide range of learning opportunities to meet the needs of employees at all levels
- Prepare current and future leaders for enhanced responsibilities and leadership excellence

Source: Annual Report 2017, Our employees section
UBS and Society key performance indicators in 2017

How we do business

2,170 new business or client cases referred to environmental and social risk unit

80 rejected

1,677 approved

395 approved with qualifications

18 pending

Remediation measures requested for 23% of suppliers of newly sourced goods and services with potentially high impacts

How we support our clients

3,179 UBS total invested assets (in CHF billion)

1,104 = 35% Total sustainable investments

927 Norms-based screening

176 Core SI products and mandates

How we support our communities

CHF 44.5 million direct cash contributions, including support through its affiliated foundations in Switzerland and the UBS Anniversary Education Initiative, and funds to the UBS Optimus Foundation.

126,279 beneficiaries reached globally, from 134 community partners

20,140 employees volunteered

168,226 hours on community projects

UBS Optimus Foundation

CHF 59.5 million raised in donations

CHF 58.5 million grants to partners approved

2.1 million children reached
Our workforce at a glance

- **34%** in the Americas
  - 7,970 employees (by headcount)
  - 13,062 FTEs
- **34%** in Switzerland
  - 7,648 employees (by headcount)
  - 13,399 FTEs
- **18%** in EMEA
  - 4,572 employees (by headcount)
  - 6,862 FTEs
- **14%** in Asia Pacific
  - 4,207 employees (by headcount)
  - 4,838 FTEs
- **150** languages spoken
- **41** is the average age
- **9** is the average years of service

- **61%** are men
- **39%** are women

- **39%** of employees are women
- **61%** of employees are men

- **1,866** more than a year ago (FTE)
- **62,558** employees (by headcount)

**Citizens of 134 countries**

**Office locations in 51 countries worldwide**

**More than 50%** in Switzerland have worked here 10+ years

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1. Calculated as of 31.12.17 on a headcount basis of 62,558 unless specified to be on a full-time equivalent (FTE) basis, where we include proportionate numbers of part-time employees.
2. Employees only. In addition, 32,140 external staff (by headcount) were active at the end of 2017 and 2,774 FTEs were employed through third parties on short-term contracts to fill positions on an interim basis.
Bringing out the best – from resources to results

On the face of it, banking is about banking products, services and transactions. But there is more to it than that. Our aim is to make sure our stakeholders – be they investors, clients or employees – get positive long-term results out of their relationship with UBS. Ultimately, it is about making a difference by what we do – and how we do it.

Assessing our stakeholders’ needs

One of the ways to understand if we are on the right track on our value-creation journey is through an annual materiality assessment, which is based on the Global Reporting Initiative (GRI). We reflect its results in a GRI-based materiality matrix.

We evaluate which topics are relevant for our stakeholders, and we make an assessment of their topics’ impact on our firm’s performance and development. As in previous years, the Corporate Culture and Responsibility Committee (CCRC) of our Board of Directors carefully reviewed this assessment in 2017.

So how does this process work? A group of experts collates stakeholder views on key topics pertaining to our firm’s financial, economic, social and environmental performance and feeds it into the materiality assessment. Participating experts form a Group-wide, cross-regional and cross-functional team and interact with various stakeholders every day. Key stakeholder groups are:

- Shareholders
- Clients
- Employees
- Governments and regulators
- Society as a whole

In 2017, this process was supported by a major online survey, which was completed by nearly 1,600 stakeholders (with clients making up nearly half of this amount).

Once the topics that matter most are identified (as well as those that are perceived to be less significant), we summarize the results in our materiality matrix. The matrix shows the current state of play, and also indicates how the topics and stakeholder priorities may develop in the future.

➔ Refer to “Who do we create value for?” section in this report for more details on how we build and maintain relationships with stakeholders

The things that matter

This year’s most material topics were fairly consistent with last year’s, which shows that we have a robust method for identifying the right topics, in other words, those that have an impact on long-term value creation. Several topics are considered material, the top five being:

- Client protection
- Combating financial crime
- Conduct and culture
- Financial stability and resilience
- Digital innovation and cyber security

Our goal of seeking out the views of stakeholders on what they regard as relevant in the long term was also evidenced by their responses to a question on the United Nations’ (UN) Sustainable Development Goals (SDGs) that we included in the survey for the first time. The stakeholders showed a particular interest in UBS working for quality education (SDG 4), climate action (SDG 13), and clean water and sanitation (SDG 6).

The SDGs are a set of 17 non-legally binding goals, which aim to end poverty, protect the planet, and ensure prosperity for all by 2030, as part of a global sustainable development agenda. Stakeholders were asked which SDGs UBS should contribute most to.

“Over the past six years we’ve brought a more traditional banking mentality to UBS, really focused on our clients, sustainable performance and excellence in everything we do. We’ve incentivized behaviors that underline the importance not only of what is achieved, but also how it’s achieved. And we’ve set targets that drive long-term success. To capture the opportunities ahead, we’ll continue to do just that.”

Letter to Shareholders, UBS Annual Report 2017
Most material topics in UBS’s environment

We talk regularly to our stakeholders to find out what matters most to them.

<table>
<thead>
<tr>
<th>Topic</th>
<th>What is it about?</th>
<th>What are the risks and opportunities?</th>
<th>What is UBS doing?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client protection</td>
<td>Client protection at UBS means acting in the best interest of clients: client focus, excellence and sustainable performance will make UBS stand out from its peers</td>
<td>Clients are becoming more demanding and may look to other providers for banking-like services, but their entry barriers are high and UBS has client need insights and expertise as well as an unrivaled franchise</td>
<td>We have established comprehensive rules for the suitability of products and services to ensure that clients’ assets are aligned with the defined risk profile, and that clients are advised in line with their needs.</td>
</tr>
<tr>
<td>Digital innovation and cyber security</td>
<td>Technology is transforming the way banks operate and is expected to remain the key change driver for the financial industry in the years to come</td>
<td>We are increasingly leveraging digital technology to provide a more compelling client experience, while setting cyber security objectives in line with prevailing international standards</td>
<td>Our investments in digitalization are designed to enhance and differentiate the client experience and product excellence our firm offers. We also continue to invest in preemptive and detective measures to defend against evolving and highly sophisticated cyber attacks</td>
</tr>
<tr>
<td>Combating financial crime</td>
<td>Financial crime includes money laundering, terrorist financing, sanctions violation, fraud, bribery and corruption. Maintaining effective programs for prevention and detection of money laundering and for sanctions compliance is a high priority</td>
<td>Regulators and other governmental authorities have heightened expectations for financial crime compliance programs. Money laundering and fraud techniques are becoming increasingly sophisticated, while geopolitical volatility makes the sanctions landscape more complex</td>
<td>Our extensive policies, processes and tools intended to prevent, detect and report money laundering, corruption and terrorist financing and seek to protect the firm and our reputation from those who may be intending to use UBS to legitimize illicit assets</td>
</tr>
<tr>
<td>Financial stability and resilience</td>
<td>The ability to absorb market shocks and stress scenarios, i.e., demonstrating financial resilience, is a key concern for clients, investors and regulators, especially with systemically relevant banks</td>
<td>Financial solidity is a competitive advantage, but regulation will increasingly impact how we calculate and manage risk or how we structure UBS and ultimately, how we price our products</td>
<td>Capital strength continues to be a key pillar of our strategy. Our fully applied CET1 capital ratio of 13.8% and CET1 leverage ratio of 3.7% are comfortably above the 2020 requirements</td>
</tr>
<tr>
<td>Conduct and culture</td>
<td>Achieving fair outcomes for our clients, upholding market integrity and cultivating the highest standards of employee conduct are of critical importance</td>
<td>A strong corporate culture has become a competitive advantage, but failure to display exemplary corporate and employee behavior can seriously damage the firm’s assets and reputation</td>
<td>We put strong emphasis on our Principles and Behaviors, including the need to manage potential conduct risks, as well as promoting awareness and mandatory conduct and culture training. Staff are assessed not only on what they achieve, but how they achieve it</td>
</tr>
</tbody>
</table>
Capital strength

Financial stability and resilience continues to retain a high position on the agenda across the entire range of stakeholders, not only our clients. We view this as a confirmation that our strategy is giving our stakeholders, notably our clients and shareholders, the confidence that our strategy is working under a variety of market conditions.

Capital strength is the foundation of our strategy. We are well positioned to meet the fully applied Swiss too big to fail capital and total loss-absorbing capacity requirements when they become effective on 1 January 2020.

The right kind of behavior

As a global bank we are responsible to our clients: we must treat them fairly, always act with integrity and earn and retain their trust. Conduct risk is the risk that the firm’s or employees’ conduct could unfairly affect clients and distort competition and the integrity of the markets.

We have therefore strengthened conduct risk management throughout the organization to continuously improve our understanding of how our activities can affect our clients and integrate these factors into our day-to-day decision-making.

Risk management Integrity

One example of how we combine our three keys to success to achieve a good risk culture is our Wealth Management Risk Culture program. Training events are organized across the division to discuss real-life situations and best practices. We also created a risk culture award competition for individuals and for teams to highlight the right behavior and show what is expected.

The program also includes temporary job rotations allowing risk managers to put themselves into the shoes of a client advisor and vice versa. This improves our employees’ understanding of the challenges other businesses face and results in better cross-sector communication and collaboration.

Collaboration

The right kind of product and people

A key component of our client focus Principle is the question of product suitability. This is about clients’ quite natural expectation to be offered only products that are appropriate and that they understand.

Client focus

That’s why our wealth management business and Personal & Corporate Banking have put in place a suitability framework. This allows us to develop an investor profile for mandate and advisory clients from which we create a corresponding investment strategy for the client portfolio. In addition, advisory platforms and tools help define products according to their risk characteristics and support both clients and their advisors in assessing the impact of investment products and services.

A skilled workforce to execute our business strategy is crucial to our success. We provide learning and development opportunities to all our employees to support them in enhancing their knowledge and skills at all ages and career stages.

Our key talent programs prepare high-potential employees for line management or senior leadership roles. Training for client-facing staff in 2017 included a Master in Wealth Management degree program and a rigorous training program for aspiring financial advisors in the US.

Excellence

Money well spent

Innovation and digitalization are key priorities and we invest heavily in those areas. Technology is transforming the way banks operate and is expected to remain the key change driver for the financial industry in the years to come. While IT spend used to be considered a means to make banks more efficient, it has now become an imperative to stay relevant in the face of competition from other banks as well as non-traditional financial services providers. Banks are increasingly leveraging digital technology to provide a more compelling client experience. Additionally, client advisors benefit from integrated IT solutions that reduce the time required for administrative tasks and increase capacity for value-adding activities for clients and for UBS. We believe that technology-driven changes in bank operations will allow efficiency gains through automation. Technologies such as artificial intelligence and robotics can be used to automate selected back- and middle-office processes, thus reducing error rates and increasing efficiency.

To shape our digital future, we intend to keep investing at least 10% of the Group’s revenues in technology, adding around CHF 1 billion in tech spend over the next three years. We’ll focus these investments on enhancing and differentiating the client experience and product excellence UBS offers, while also accelerating effectiveness and efficiency.

Efficiency and effectiveness

“We’re no longer in restructuring mode, so efficiency has moved from being a program to how we run the bank day to day.”

Letter to Shareholders, UBS Annual Report 2017
What our BDs are doing

Global Wealth Management continues to invest in our digital capabilities to offer clients a combination of market-leading investment advice tailored to their personal goals and innovative digital service solutions. With our One Wealth Management Platform (1WMP) we are standardizing our processes and unifying the way we develop new services by integrating our historically fragmented infrastructure onto one platform. The platform enables us to provide a better, more consistent client experience and delivery of our investment products and services to better assist our clients to protect and grow their wealth.

The strategy of Personal & Corporate focuses on promoting profitable growth while continuously improving our banking services for clients within Switzerland. To achieve this, we have launched Client Experience 2020, our strategic digitalization program, which aims to strengthen our position as the leading universal bank in Switzerland and enhance our digital leadership position.

Our IB Research offers clients key insights on securities in major financial markets around the globe. Together with UBS Evidence Lab, UBS research analysts refine investor questions into testable propositions and apply various primary research methods, such as quantitative market research, digital footprint analysis, geospatial analysis or data science.

In Asset Management we are expanding our B2B fund platform solutions offering for wholesale clients, including UBS Partner, a new and innovative technology solution set to transform bank advisory services.

In our Corporate Center, we seek to increase value by leveraging common capabilities and creating centralized functions. In 2017, we successfully completed the transfer of substantially all shared services functions to our separate Group service companies, which, in addition to meeting regulatory requirements, allows us to further strengthen our approach to service management while remaining efficient in the way we operate. In our technology landscape, we continue to upgrade our infrastructure, simplify our portfolio of applications and deliver digital innovation, such as artificial intelligence.

Cyber security is at the forefront of operational resilience, and we continue to invest in preemptive and detective measures to defend against evolving and highly sophisticated attacks. We have set our cyber security objectives in line with prevailing international standards and our investment priorities focus on behaviors, readiness to address a cyberattack, data protection, and application and infrastructure security. We have implemented cyber recovery playbooks for various scenarios, as well as regular cyber crisis exercises up to the Group Executive Board and Board of Directors level.

Investing to win in the digital age

Enhancing and differentiating our business while accelerating efficiency and effectiveness

<table>
<thead>
<tr>
<th>Strategic priorities</th>
<th>Key investment areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ultimate Client Experience</td>
<td>GWM</td>
</tr>
</tbody>
</table>
| • Personalized and secure end-to-end client journeys yielding increased satisfaction  
  • Digital supports personalized service |
| Superior Product Excellence and Distribution | P&C |
| • Improved products, services and channels  
  • Automated decision making and product profitability growth  
  • Electronic trading for best deal execution |
| Secure Platform and Efficient Processes | AM |
| • Platform consolidation, improved stability  
  • Seamless digital end-user experience  
  • Automated processes and machine learning improving productivity  
  • Enhanced security and lower cost-to-serve |
| | IB |
| | • Content and distribution  
  • Electronic execution  
  • Platform consolidation |
| | CC |
| | • Automation and artificial intelligence  
  • Data and content management  
  • Infrastructure modernization |

Spending >10% of revenues on technology; incremental cumulative costs of ~1bn¹ by end-2020

¹ Including capitalization and amortization of investments
The logic of the firm – our business model

A winning model: We are a leader in wealth management. But at the same time our business model is not just about wealth management. It is clearly diversified and benefits from Personal & Corporate Banking, the Investment Bank and Asset Management, all supported by our Corporate Center. All are successful businesses in their own right. Together, they make a significant contribution to earnings, diversify revenues and generate high-quality returns.

With our business model we believe that we are well positioned to operate efficiently while absorbing upcoming changes to the regulatory environment. Our capital-accrative and capital-efficient business model helps us adapt to changes in regulatory requirements, while pursuing growth opportunities without the need for significant earnings retention. We believe that our business model can generate an adjusted return on tangible equity (excluding deferred tax expense/benefit and deferred tax assets) of around 15% in normal market conditions.

While firmly anchored in our home market of Switzerland, UBS is a global bank that generates 76% of its revenues outside Switzerland and operates in over 50 countries worldwide, employing over 60,000 people.

The world's largest and only truly global wealth manager

On 1 February 2018, Wealth Management and Wealth Management Americas were combined into the unified business division Global Wealth Management. The creation of the integrated business division aims to further enhance our superior client experience and product offering in line with an increasingly global client base. Global Wealth Management provides our clients with broader access to more diversified global products and services and an integrated multi-shore offering.

The partnership between our wealth management business and our other business divisions is a key differentiating factor for UBS and a competitive advantage. Collaboration

Global Wealth Management (GWM)

We are the global leader in wealth management for private clients, particularly in the ultra high net worth and high net worth segments. We seek to capitalize on our market-leading position in the ultra high net worth business and to increase our market share considerably in this segment. We also invest significantly in growing our high net worth and core affluent businesses.

Global Wealth Management provides comprehensive advice and tailored financial services to wealthy private clients around the world. Our clients benefit from the full spectrum of resources that a global firm can offer, including investment management, wealth planning, banking and lending, and corporate financial advice. Our model gives clients access to a wide range of products from the world's leading third-party institutions that complement our own offerings.

How GWM wants to grow

Industry estimates suggest that global private wealth will grow by 6% per annum until 2021, with the higher wealth segments expected to grow at over 10% per annum during the same period. From a geographical perspective, the strongest growth is expected to come from Asia Pacific, with estimated annual market growth of 9.9%, according to the Boston Consulting Group Global Wealth Report 2017. Developed markets are expected to grow in line with or below the global growth rate (e.g., 5.6% per annum for North America and 3.5% per annum for Western Europe).

We expect this growth profile to be favorable for our strategy focusing on the largest and fastest-growing markets, which informed our early push to build up our capabilities in Asia and the ultra high net worth segments. We are the largest foreign wealth management firm by assets under management in key Asia Pacific markets as a result of our early entry into the region. We are also well positioned in the ultra high net worth segment, where we leverage the capabilities of our wealth management business and the Investment Bank as well as Asset Management.

We expect to more effectively capture the purchasing power of Global Wealth Management’s CHF 2.3 trillion invested asset base and generate greater synergies across technology, innovation and other areas of investment. Regional variations in the client service model will be maintained, while middle- and back-office functions will be more closely aligned and integrated.

“While we continuously adjust and improve to adapt to a changing environment, our strategic focus on global wealth management and universal banking in Switzerland enhanced by focused and competitive Investment Bank and Asset Management businesses is right for UBS.”

Letter to Shareholders, UBS Annual Report 2017
**Personal & Corporate Banking (P&C)**

As the leading personal & corporate banking business in Switzerland, we provide comprehensive financial products and services to private, corporate and institutional clients in Switzerland. We are among the leading players in the private and corporate loan market in Switzerland, with a well-collateralized and conservatively managed lending portfolio.

**How P&C wants to grow**

Our home market, Switzerland, is an attractive market for personal and corporate banking. Switzerland is one of the wealthiest countries in the world, with average net wealth per person of approximately CHF 185,000 according to our research. However, sustained negative interest rates in Swiss francs have put pressure on banks’ net interest income. From a corporate banking perspective, Switzerland is home to a significant number of large multinational corporations and exporters that have performed well despite pressure related to the strength of the Swiss franc in recent years. UBS has built a leading position with personal as well as corporate and institutional clients in Switzerland. Our objective from here is to strengthen that position through comprehensive digitalization efforts aiming to deliver a superior client experience.

**Asset Management (AM)**

With approximately CHF 776 billion of invested assets and an onshore presence in 23 countries, AM offers investment capabilities and investment styles across all major traditional and alternative asset classes, as well as platform solutions and advisory support, to institutions, wholesale intermediaries and wealth management clients around the world.

**How AM wants to grow**

The asset management industry is forecast to grow by approximately USD 20 trillion over the next four years, primarily driven by increases in private provision for retirement and wealth accumulation in emerging middle classes. The biggest growth is expected to come from passive assets and customized solutions, with only moderate growth in actively managed strategies. Due to our diversified offering, ranging from our passive and differentiated traditional active investment strategies to our industry-leading alternative capabilities, we believe that we are well positioned to benefit from this trend. With a view toward further strengthening our position in the market, we continue to expand initiatives in line with our clients’ needs, such as our Platform Services offering, sustainable and impact investing, and our extensive offering in China.

**Investment Bank (IB)**

The Investment Bank provides investment advice, financial solutions and capital markets access in over 35 countries, with principal offices in all major financial centers. We aspire to provide best-in-class services and solutions to our corporate, institutional and wealth management clients, through an integrated, solutions-led approach, driven by our intellectual capital and leveraging our award-winning electronic platforms. With our client-centric business model, we partner with our wealth management, personal and corporate banking and asset management businesses, and we believe we are well positioned to provide our clients with market insight, global coverage of markets and products, and execution services.

Our IB is capital efficient and client focused. It offers attractive risk-adjusted returns and strives for leadership in areas where we choose to compete. Our focus remains on our traditional strengths in advisory, capital markets, equities and foreign exchange businesses, complemented by a rates and credit platform.

**How the IB wants to grow**

The shift in global revenue pools from investment banks to other capital markets players (i.e., custodians, buy-side firms, information providers and exchanges) observed in recent years is expected to ease. Specifically, an external survey forecasts that investment banks’ market share will stabilize at about 34% of global industry revenues in 2020, corresponding to USD 249 billion, i.e., a 2% compound annual growth rate from 2016 through 2020. M&A will likely be a material revenue driver for investment banks as a consequence of the US’s Tax Cuts and Jobs Act signed in December 2017, which may cause corporations to allocate capital to deal-making. We believe UBS is well positioned to capture the value generated from this expected increase in activity due to its client-centric business model and global M&A infrastructure.

➔ Refer to the “Operating environment and strategy” section of the Annual Report 2017 for further information on our business divisions and their market and competitive environment

**Corporate Center (CC)**

Corporate Center is the engine room of UBS. The CC:
- includes the Group’s control functions (e.g., finance, risk, including compliance, and legal) and logistics and support services such as operations, information technology, human resources, communications and branding, physical security and information security
- provides the Group’s liquidity and funding, balance sheet and capital management services
- manages the wind-down of the non-core businesses and legacy positions

We seek to increase value by leveraging common capabilities and creating centralized functions. In 2017, we successfully completed the transfer of substantially all shared services functions to our separate Group service companies, which, in addition to meeting regulatory requirements, allows us to further strengthen our approach to service management while remaining efficient in the way we operate.

**Thought leadership through innovation and world-class research**

To use the full potential of our business model, it is essential that our clients have access to reliable, high-quality and insightful research that helps them make better decisions. To this end,
a wide range of experts from across our business divisions contribute to our industry-leading research capabilities, targeted at specific audiences.

Our Investment Bank Research offers clients key insights on securities in major financial markets around the globe. Together with UBS Evidence Lab, UBS research analysts refine investor questions into testable propositions and apply various primary research methods, such as quantitative market research, digital footprint analysis, geospatial analysis or data science. In 2017, UBS was named Institutional Investor magazine’s Top Global Equity Research Firm of the Year. The recognition of this award positions us well under the new Markets in Financial Instruments Directive II (MiFID II) environment, where we continue to focus on our clients’ needs with a differentiated approach to question-driven, evidence-based research.

Our global Chief Investment Office (CIO) in Global Wealth Management draws on approximately 200 analysts, strategists, and investment professionals present in 10 key financial hubs globally and leverages access to buy-side partners and client networks. Seeking to add alpha to our clients’ portfolios, the CIO provides clear, independent investment views, known as the UBS House View. The UBS House View identifies and communicates investment opportunities and market risks to help protect and grow our clients’ wealth over generations.

Our Asset Management continues to enhance its proprietary sustainability database and toolkit and has built a dedicated sustainability research team to work with our investment teams across asset classes.

**Incorporating sustainability in products and services**

We want to be the financial provider of choice for clients wishing to drive capital toward investments that support the achievement of the SDGs and the transition to a low-carbon economy. Our cross-divisional organization UBS and Society focuses our firm on this direction. UBS and Society covers our activities and capabilities related to sustainable investing, philanthropy, environmental and human rights policies governing client and supplier relationships, our environmental footprint and community investment. **Client focus Sustainable performance Collaboration**

In 2017, UBS continued to gain industry recognition for its commitment to improving performance under ESG (environmental, social, governance) criteria and for its efforts in offering clients world-class expertise and sustainable products. Our firm maintained its leadership position in the Diversified Financial Services and Capital Markets industry group of the DJSI, the most widely recognized sustainability rating, for the third year running. The DJSI evaluates companies’ sustainability practices and recognizes the best performers. The RobecoSAM Industry Group Leader Report notes that UBS continues to lead in its industry on sustainability efforts, which are directed through UBS and Society.

The Report also highlights the large choice of sustainable investment solutions UBS offers to its clients. This clearly recognizes our goal of systematically incorporating the economic impacts of ESG issues into the products and services we provide to clients.

Asset Management is committed to integrating sustainability into our active investment capabilities, as part of our ambition to become a leading provider of sustainable solutions for sophisticated clients. To meet investors’ financial and sustainability goals, AM offers a wide range of sustainable and impact investing strategies across asset classes, from ESG integration to impact investing including investment themes such as renewable energy, environmental stewardship, social integration, health care, resource efficiency and demographics. In Global Wealth Management we continue to develop innovative solutions to help our clients address the challenges of an increasingly complex financial world and to respond to their evolving needs. We have expanded our discretionary mandate solutions to meet specific client needs and preferences. We are also strongly committed to broadening our sustainable and impact investment offering. Our Investment Bank provides capital-raising and strategic advisory services globally to companies offering products that make a positive contribution to climate change mitigation and adaptation, including those in the solar, wind, hydro, energy efficiency, waste and biofuels, and transport sectors. P&C supports Swiss SMEs in their energy-saving efforts and transition to a low-carbon economy. SMEs benefit from initiatives such as energy check-ups or leasing bonuses (financial contributions toward enhancing environmental performance) for utility vehicles and production machines.

➔ Refer to “Select sustainable investing and philanthropy offerings in 2017” table on page 23 in this report for more details

**Sustainability and innovation**

Thinking sustainably equals thinking innovatively. Having the financial expertise, networks and access to the capital required to build or support innovative financial products we remain committed to introducing and funding innovative financial solutions. An excellent example in 2017 is The Rise Fund, a private equity impact investment vehicle that aims to achieve measurable, positive social and environmental outcomes combined with competitive financial returns. Our Asset Management business launched an innovative Climate Aware rules-based fund for UK investors. The portfolio is oriented towards companies that are better prepared for a low carbon future while reducing exposure to, rather than excluding, companies with higher carbon risk, in order to pursue strategic engagement with these companies.

The UBS Optimus Foundation makes UBS unique in the financial industry. It is an award-winning grant-making foundation that helps our clients use their wealth to drive positive and sustainable social change for children. The foundation connects clients with inspiring entrepreneurs, new technologies and proven models that help improve the lives of children in a variety of ways.

➔ Refer to the UBS GRI Document 2017 for more details
## Select sustainable investing and philanthropy offerings in 2017

<table>
<thead>
<tr>
<th>Product / service</th>
<th>Business division</th>
<th>Key features</th>
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</table>
| The Rise Fund                                 | Wealth Management (WM), Wealth Management Americas (WMA) | - USD 325 million raised  
- Invests in seven sectors – education, financial services, health care, infrastructure, energy, food and agriculture, and IT – with a dual mandate: generating competitive financial returns and measurable positive societal outcomes |
| Rethink Impact Fund                           | WMA                                                    | - USD 75 million raised  
- Direct-access social impact private equity fund that invests in early- to growth-stage, high-impact companies, primarily in the United States. The fund focuses on four themes: health care, economic opportunity, environmental sustainability, and education |
| OrbMed Asia Partners III                      | WM                                                     | - USD 85 million raised  
- Growth investments in health care companies in China and India, focusing on biopharmaceuticals, medical technology and health care services |
| **UBS Long Term Themes Equity Fund**          | WM, Asset Management (AM)                             | - USD 1.5 billion held in Long Term Themes Fund and mandates  
- Invests in companies that are solution providers for challenges such as water scarcity, emerging market infrastructure and health care, waste management and recycling |
| **Climate Aware**                             | AM                                                     | - Innovative rules-based equities strategy to address carbon risk in portfolios |
| **UBS Clean Energy Infrastructure Switzerland 2** | AM                                                      | - Launched in September 2017, with capital commitments of CHF 200 million as of the end of 2017  
- Solution for institutional investors seeking an exposure to the renewable energy and energy infrastructure space with focus in Switzerland |
| Global Impact Fund                            | AM                                                     | - Exposure to global equity markets in stocks with material exposure to impact categories like climate change or health that are also sustainable stocks, i.e., those selected based on strong ESG analysis and traditional valuation discipline |
| **US Sustainable Equity Fund**               | AM                                                     | - Combines price-to-intrinsic value investment philosophy with careful consideration of companies’ sustainability profiles |
| **S+focused UBS Manage solutions**           | WM                                                     | - Several investment mandate solutions investing in instruments with a high sustainability rating (to the extent possible)  
- Launched for market France |
| ESG Portfolio Analyzer                        | WMA                                                    | - Provides transparency and analysis of ESG topics in client portfolios |
| **UBS Sustainability Analytics**             | WM, Personal & Corporate Banking (P&C)                | - Enables clients to achieve full transparency by screening their portfolio for potentially harmful industry exposure and, if appropriate, to make exclusions to protect it against reputational risks |
| Philanthropy Advisory                         | WM, WMA                                               | - A total of approximately 370 ultra high net worth individuals or philanthropists attended UBS Philanthropy Forums in the Americas, Asia and Switzerland  
- Advisory services for over 400 clients |
| **UBS Optimus Foundation**                   | CC                                                     | - CHF 59.5 million raised in donations / CHF 58.5 million grants to partners approved  
- Pioneering Educate Girls Development Impact Bond (DIB): on track to meet its enrollment and education targets  
- World’s first large-scale DIB launched (Maternal and Newborn DIB) |
| Social Investment Toolkit                     | WM                                                     | - Guide for social entrepreneurs with eight modules ranging from impact story to creating an investor pitch (developed with Ashoka) |
### Select sustainable investing and philanthropy offerings in 2017¹ (continued)

<table>
<thead>
<tr>
<th>Product / service</th>
<th>Business division</th>
<th>Key features</th>
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</thead>
<tbody>
<tr>
<td>Program-related Investment</td>
<td>WM, CC (UBS Optimus Foundation, Community Affairs)</td>
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<tr>
<td></td>
<td></td>
<td>– Investments in the form of a loan, enabling donors to regain the initial investment plus a rate of return and allowing philanthropic capital to be recycled</td>
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<tr>
<td></td>
<td></td>
<td>– Loans for the UBS UK Donor-Advised Foundation and UBS Optimus Foundation UK successfully completed with two charities. Product offering being made available to clients</td>
</tr>
<tr>
<td>UBS Unique ETF</td>
<td>WM</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>– Invests in companies based on 19 equality standards, including gender balance, equal compensation and work–life-balance, policies, transparency and accountability</td>
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<tr>
<td></td>
<td></td>
<td>– Donation of 5% of management fee to a portfolio of SDGS-related projects managed by the UBS Optimus Foundation</td>
</tr>
<tr>
<td>Voting (on behalf of clients)</td>
<td>AM</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>– Provided instructions (based on AM’s corporate governance principles) to vote on 100,069 separate resolutions at 9,877 company meetings</td>
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<tr>
<td>Green and sustainable bonds</td>
<td>Investment Bank (IB)</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>– Seven green and sustainable bond transactions supported</td>
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<tr>
<td>LGBT Career Equality and Military Veterans Indices</td>
<td>IB, WMA</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>– Companies selected include leaders in giving opportunities and support to veterans and have top scores in the Human Rights Campaign Corporate Equality Index</td>
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<tr>
<td>Global Sustainability Leaders Index</td>
<td>IB, WMA</td>
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<tr>
<td></td>
<td></td>
<td>– Companies selected include leaders with regard to the UN Global Compact principles</td>
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<tr>
<td>Renewable energy and cleantech financing</td>
<td>IB</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Participation in significant renewables and cleantech deals globally, for both established utilities clients and innovative growth stage companies</td>
</tr>
<tr>
<td>Energy check-up for SMES²</td>
<td>P&amp;C</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>– UBS SME efficiency bonus for energy reduction plan with overall energy savings of 78,590 MWh/a, equivalent to the annual energy consumption of approximately 4,000 single-family homes</td>
</tr>
<tr>
<td>Preferred strategic partner for advisory and financing transactions related to Switzerland’s Energy Strategy 2050</td>
<td>P&amp;C</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>– Supports energy utilities in raising capital on international capital markets to progress their quest for renewable energy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>– Four strategic transactions executed for Switzerland’s Energy Strategy 2050</td>
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</tbody>
</table>

¹ All information provided is as of 31 December 2017. ² Information provided is as of 31 December 2016.
Who do we create value for?

We attach great importance to finding out how our stakeholders view us and what their values and priorities are. To this end, we initiate regular and productive dialogue across a wide range of topics. This engagement with stakeholders yields important information on their expectations and concerns and offers critical contribution to our understanding and management of issues with potential (positive and negative) relevance to our bank.

Our relationships with stakeholders are multi-faceted and include major stand-alone interactions with large groups (e.g. the employee survey), regular communications throughout the year with representatives from a particular group (e.g. media), as well as dialogue meetings with single individuals (e.g. client enquiries). This engagement is essential for us to understand and address their expectations and concerns in an informed and effective manner and provide long-term value.

Relationships are about mutual interests and also about behavior and trust. That is why UBS’s Principles and Behaviors are the basis for how we build, manage and develop our relationships with our five most important stakeholder groups. A good relationship is the foundation for creating value. Principles and Behaviors

➔ Refer to “Bringing out the best – from resources to results” section in this report for more details on how we create value across different groups of stakeholders

Investors

Our senior management and the Investor Relations team regularly communicate with investors, financial analysts and rating agencies. The Investor Relations and Corporate Responsibility Management teams also interact with shareholders focused on sustainability to discuss topics such as compliance, corporate culture, and climate change. UBS strives to achieve a consistently fair valuation for its shares through best-in-class disclosure, transparency and communication practices.

Contribution to create a sustainable shareholder value

Attractive capital returns
We have an attractive and flexible capital returns policy. Our earnings capacity and capital efficiency support our objective to deliver sustainable and increasing capital returns to our shareholders. We aim to increase our ordinary dividend per share at a mid-to-high single-digit percent per annum. We may also return excess capital, after accruals for ordinary dividends, most likely in the form of share repurchases, after considering our outlook and subject to regulatory approval.

Since 2012, we have substantially reduced risk and balance sheet exposures, while increasing our total loss-absorbing capacity by around CHF 50 billion to almost CHF 80 billion. Our progress and overall resilience is reflected in our valuation compared to peers, our credit ratings and, most importantly, the trust our clients place in us. We plan to operate with a fully applied CET1 capital ratio of around 13% and a fully applied CET1 leverage ratio of around 3.7%. Our fully applied CET1 ratios are comfortably above the 2020 requirements. Capital strength

“Clients, shareholders and employees are the primary stakeholders we create value for. Our role as a bank is to finance economic growth by facilitating investment and credit. And we support people and businesses with the financial services they need to reach their goals. As a firm, we contribute by directly employing over 60,000 people, by consuming products and services and by paying taxes.”

Letter to Shareholders, UBS Annual Report 2017
Financial disclosure

We fully support transparency and consistent and informative disclosure. We aim to communicate our strategy and results in a manner that allows stakeholders to gain a good understanding of how our Group works, what our growth prospects are and the risks our businesses and our strategy entail. We assess feedback from analysts and investors on a regular basis and, where appropriate, reflect this in our disclosures. To continue achieving these goals, we apply the following principles in our financial reporting and disclosure:

- Transparency that enhances the understanding of economic drivers and builds trust and credibility
- Consistency within each reporting period and between reporting periods
- Simplicity that allows readers to gain a good understanding of the performance of our businesses
- Relevance by focusing not only on what is required by regulation or statute but also on what is relevant to our stakeholders and
- Best practice that leads to improved standards

Clients

People who bank with UBS do so because they know we always try to deliver the best of what we can offer as a firm. But we know we must never get complacent, because our clients look for the best, and competition is fierce. **Client focus**

Client focus, therefore, is one of the UBS Principles. Higher levels of client satisfaction tend to correlate with higher net new money, higher net revenues and more referrals.

We learn a lot from our clients just by doing business with them. But we go one step further by taking a more systematic approach to find out how clients see us, what they expect from us and where we can improve.

In our IB, for instance, clients voted for their preferred research analysts and teams in each region, via the Institutional Investor’s ranking. Collectively, this resulted in UBS holding 162 leading positions across the world, ahead of more than 270 other sell-side firms competing in the polls.

In our Swiss business, client satisfaction rose by more than 50% between 2009 and 2015. And in 2017, UBS was named “Best Domestic Cash Manager Switzerland” for its first-class service for the seventh year in succession, on the basis of a customer survey carried out by the international finance magazine Euromoney. In addition, UBS was also named Best Bank in Switzerland for the sixth year running by Euromoney.

Smart solutions, better advice

P&C introduced a number of product and service innovations such as the “Remote Expert,” a video conference tool that gives corporate clients direct access to product specialists. Two more innovations are the improved account opening app and the “liquidity cockpit” that enables corporate clients to see all of their companies’ cash flows at a glance and control them easily. UBS has also introduced the multibank-enabled KeyPort portal for medium-sized and large companies, which allows them to handle all their payment processes via a single channel. UBS Atrium was another innovation in 2017. On this new networking platform, mortgage seekers can meet Swiss institutional investors in search of reliable, long-term financing opportunities in Swiss real estate. **Excellence**

Employees

Our employees’ skills, experience and commitment are key to delivering on our business strategy. Our human resource (HR) strategy therefore seeks to hire, develop and engage talented employees at all levels who have the diverse backgrounds and capabilities to advise our clients, develop new products, manage risk and adapt to evolving regulations. We invest in our employees and promote initiatives that build engagement and a cohesive, collaborative culture.

Having a strong culture is vital to our sustained success. In 2013, we introduced the three keys to success – our Pillars, Principles and Behaviors. They help us achieve our vision and execute our strategy, shaping how we work together and influencing everything we do.

A key initiative remains our very successful Group Franchise Awards (GFA) program, which we implemented in 2016 to recognize culture-building behavior. The GFA program allows us to track cross-business collaboration and develop ideas for simplifying our processes. The program has maintained strong momentum in terms of both the number and the quality of submissions from across the entire firm. **Behaviors**

➔ Refer to “Aligning performance with value creation” section in this report for more details on how we align our governance and compensation framework with long-term value creation

Engaged employees

We want our employees to be engaged and to share their views on the status quo and our culture. We also want to give them the opportunity to have an impact on the firm’s future.

Since 2016, we have regularly surveyed all our permanent employees to capture their feedback on how we are doing as a firm. In 2017, we conducted two surveys, in which 74% and 80% of eligible employees, respectively, participated. In both surveys, a significant majority of respondents agreed that they are proud to work at UBS and would recommend...
the firm to family and friends. They think the firm has a positive work environment and the learning and career opportunities offered are continuously improving for employees at all levels.

Our ongoing ambition remains to have a highly motivated workforce that models integrity, collaboration and challenge in their daily work. We also want to be the clear employer of choice in the financial services industry. Our goal is to maintain overall engagement ratings in the top quartile.

Skilled workforce
A skilled workforce to execute our business strategy is crucial to our success. We provide learning and development opportunities to all our employees to support them in enhancing their knowledge and skills at all ages and career stages. For example, we offer development programs, business education and role-specific training. Furthermore, as one of the top educators of entry level talent in Switzerland, we train more than 1,800 young people each year, including apprentices, interns and high school and university graduates. In 2017, our permanent employees participated in approximately 765,500 development activities, including mandatory training on compliance, business and other topics. This was an average of 12.2 training sessions, or 2.3 training days, per employee.

Career Comeback
The UBS Career Comeback Program is an initiative we launched in Switzerland and the US in 2016 and extended to the UK in 2017. The program supports professionals who wish to return to corporate jobs after a career break and features on-the-job experience, classroom learning and mentoring. The program has proven successful: so far, Career Comeback has given 65 women and two men the opportunity to relaunch their careers.

Governments and regulators
Governments and regulators are shaping the world we live in. We expect that regulation will remain a major driver for change in the industry. While UBS is in favor of strong regulation, we believe that new regulation or a further tightening thereof should take into account the impact on consumers of financial services and the economy as a whole. Sufficient collaborative dialogue between regulators, policymakers and the industry is therefore key, and UBS is actively participating in this dialogue.

Collaboration
In 2017, discussions regarding the regulatory framework for financial institutions continued to figure prominently among the major topics of the intense dialogue between UBS senior management and specialized functions, governments, regulators and supervisory bodies. Topics included further changes to the prudential framework for banks, recovery and resolution planning, and market and product reforms including over-the-counter OTC derivative reforms, US FATCA/OECD Exchange of Information and the EU Markets in Financial Instruments Directive and Regulation (MiFID/MiFIR).

With regard to corporate responsibility and sustainability issues, we actively participated in discussions with government bodies and in industry discussions concerning the implementation of the commitments made at the Paris Climate Change Conference and in the SDGs. In addition, we contribute to the Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD). On a regional basis we engaged with the EU High-level Expert Group on Sustainable Finance. In our home country, Switzerland, we continue to actively contribute to pertinent sustainability discussions with various government bodies.

→ Refer to the “Regulation and supervision” and “Regulatory and legal developments” sections of the Annual Report 2017 and the “Our climate change strategy” section of the UBS GRI Document 2017 for more details

Communities
As the largest wealth manager in the world and Switzerland’s leading universal bank, we see it as our duty to be a trusted and reliable corporate citizen.

Our approach is to build sustainable and successful partnerships with non-profit organizations and social enterprises to help our contributions have a lasting impact. Our Community Affairs programs seek to overcome disadvantage through long-term investment in education and entrepreneurship in the communities within which we operate.

We provide focused financial and human support, including through the use of skills-based employee volunteering programs and client participation where appropriate. Our employees are at the heart of the program delivery and act as role models for young people and as mentors for social entrepreneurs. UBS provides employees with up to two days of paid leave for volunteering annually.

In 2017, UBS made direct cash contributions totaling CHF 39 million, including support through its affiliated foundations in Switzerland and the UBS Anniversary Education Initiative. Over 89% of UBS’s Community Affairs grants were made in the areas of education and entrepreneurship. 31% of our employees volunteered in our communities compared with 30% in 2016. Additionally, UBS contributed a total of CHF 5.5 million to the UBS Optimus Foundation.

Our Community Affairs program benefited 126,279 young people and entrepreneurs across all of the regions in which we operate.
Aligning performance with value creation

Our governance framework supports the creation of long-term value by linking to our strategic objectives and the performance of the individuals delivering on these objectives.

➔ For further information please visit www.ubs.com/governance

Aligning performance with value creation through our strategic objectives

Effective people management is key to sustaining a high-performing organization. Our annual performance reviews assess both performance and behavior. Measuring what was achieved and how those results were achieved underscores the importance of the firm’s Behaviors for individual and Group success, and both ratings are considered in development, reward and promotion decisions.

Three keys

Linking reward to our strategic objectives and Behaviors

Our compensation philosophy is to align the interests of our employees with those of our clients and investors, building on our three keys to success – our Pillars, Principles and Behaviors. Our Total Reward Principles establish a framework that balances sustainable performance and prudent risk-taking with a focus on conduct and sound risk management practices.

How do we ensure that our employees contribute to the success of UBS based on our Pillars, Principles and Behaviors?

Our compensation structure is aligned with our strategic priorities. It therefore links the interests of our employees with those of our stakeholders and encourages our employees to focus on our clients, 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.

Our performance award pool funding framework is based on business performance, which we measure across multiple dimensions, as outlined in the graphic “Contribution to create a sustainable shareholder value” on page 24 of this report.

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 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.

Our compensation philosophy focuses on balancing performance with prudent risk-taking and retaining talented employees. To achieve this, as performance increases, we reduce our overall performance award funding percentage. In years of strong performance, this prevents excessive compensation, resulting in an increased proportion of profit before performance award being available for distribution to shareholders or growing the Group’s capital. In years where performance declines, the performance award pool will generally decrease, however funding rates may increase.

Most of our employees are eligible for an annual discretionary performance award. Performance awards, where applicable, are determined based on a number of factors, including Group, business division, team and individual performance, and awarded in line with applicable local employment conditions and at the discretion of the firm. Our Total Reward is structured to support sustainable results. A substantial portion of our performance award is deferred and vests over a period of five years, or longer for certain regulated employees. This deferral regime aligns employee and investor interests, and supports our capital base and the creation of sustainable shareholder value.

Additionally, our employees can purchase shares via our Equity Plus Plan. It allows employees below the rank of managing director to apply 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 a maximum of three years, provided the employee remains employed with the firm and has retained the purchased shares throughout the holding period. **Principles and Behaviors Risk management**

**How we assess the performance of our executives**

We 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 functions, they are assessed on the performance of the Group and the function they oversee. These quantitative measures together with qualitative measures (Pillars and Principles) account for 65% of the assessment. Behaviors account for 35% of the assessment.

→ Refer to the “Overview of the quantitative and qualitative performance assessment measures” table on page 268 of the Annual Report 2017 for detailed information

We believe our governance framework puts a system in place that supports the creation of sustainable value, for all our stakeholders.
Cautionary Statement Regarding Forward-Looking Statements | This report contains statements that constitute "forward-looking statements," including but not limited to management’s outlook for UBS’s financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS’s business and future development. While these forward-looking statements represent UBS’s judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS’s expectations. 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), including to counteract regulatory-driven increases, leverage ratio denominator, liquidity coverage ratio and other financial resources, and the degree to which UBS is successful in implementing changes to its 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; (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 debt eligible for total loss-absorbing capacity (TLAC); (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that have imposed, or resulted in, or may do so in the future, more stringent or entity-specific capital, TLAC, leverage ratio, liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration, constraints on transfers of capital and liquidity and sharing of operational costs across the Group or other measures, and the effect these will or would have on UBS’s business activities; (v) the degree to which UBS is successful in implementing further changes to its legal structure to improve its solvability and meet related regulatory requirements, including changes in legal structure and reporting required to implement US enhanced prudential standards, 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, to proposals in Switzerland and other jurisdictions for mandatory structural reform of banks or systemically important institutions or to other external developments, and the extent to which such changes will have the intended effects; (vi) uncertainty as to the extent to which the Swiss Financial Market Supervisory Authority (FINMA) will confirm limited reductions of gone concern requirements due to measures to reduce solvability risk; (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, including from changes to US taxation under the Tax Cuts and Jobs Act; (xiv) UBS’s ability to implement new technologies and business methods, including digital services and technologies and ability to successfully compete with both existing and new financial service providers, some of which may not be regulated to the same extent; (xv) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (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; (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; and (xix) the effect that these or other unexpected or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS’s Annual Report on Form 20-F for the year ended 31 December 2017. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

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

Tables | Within tables, blank fields generally indicate that the field is not applicable or not meaningful, or that information is not available as of the relevant date or for the relevant period. Zero values generally indicate that the respective figure is zero on an actual or rounded basis. Percentage changes are presented as a mathematical calculation of the change between periods.

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