

## **UBS First Quarter 2015 Earnings Call Remarks**

May 5, 2015

### **Sergio P. Ermotti (Group CEO): Opening remarks**

#### SLIDE 2 – 1Q15 highlights

While the first quarter is typically the strongest of the year, our results this quarter are exceptionally good. We reported adjusted pre-tax profit of almost 2.3 billion francs, and net profit was almost 2.0 billion francs. And the results were strong across the board, with all of our business divisions performing well. Our Basel 3 fully applied CET1 ratio also rose to 13.7%, so we remain the best capitalized bank in our peer group.

The results underline that our business model works and our approach to thinking long-term and acting early is paying off. From a macroeconomic and market point of view, the first quarter was more demanding than a typical year, but we were prepared.

So while our results for the quarter are very good and I am confident about our momentum, like we said at Q4, we wouldn't multiply any quarterly result by four.

Turning to the business divisions -

Together our wealth management businesses delivered the highest profits since 2008 and made solid progress with their strategic initiatives to grow lending and increase mandate penetration.

Wealth Management had its best quarter since 2008 in terms of profitability. Net new money was very strong, even for a first quarter, and was achieved without compromising our profitability standards.

Wealth Management Americas delivered another record profit before tax on its highest ever invested asset base, and attracted solid net new money.

Despite a very challenging macroeconomic environment, Retail and Corporate delivered its best first quarter in five years.

Global Asset Management also posted strong results and robust net new money.

The Investment Bank deserves applause not only for its excellent performance with pre-tax profit of 844 million francs, but also because the results were delivered without increasing our risk profile, and while remaining within allocated resource limits. This is a very important point to consider when assessing our results. Our strategy focusses on areas where we excel, and it is well-suited to the high volume and volatility environment we saw in Q1.

Our strategic cost reduction program is ambitious, and I am pleased with the progress we are making in its implementation. While improving our efficiency and effectiveness is a top priority, short-term dynamics will not change our plans, as this would impact our ability to deliver long-term sustainable growth.

Tom will now take you through the details of the quarter.

## **Tom Naratil (Group CFO & Group COO): Walk-through of the quarter**

### SLIDE 3 – UBS Group AG results (consolidated)

As usual, my commentary will reference adjusted results unless otherwise stated.

This quarter, we excluded net restructuring charges of 305 million Swiss francs, an own credit gain of 226 million, gains on sales of real estate of 378 million and a gain of 141 million on the sale of a subsidiary in Wealth Management. The net effect of these adjustment items is an accretion to capital of around 150 million in the quarter. An overview of these adjustments can be found on page 15 of our first quarter report.

Profit before tax was 2.3 billion, up from 514 million in the prior quarter.

IFRS net profit attributable to shareholders was nearly 2 billion, and adjusted return on tangible equity was seasonally high at 14.4%, ahead of our full-year target of around 10%.

Net profit attributable to non-controlling interests was 61 million. This primarily related to net profit attributable to non-controlling interests in UBS AG reflecting the non-exchanged UBS AG shares. We also expect to attribute net profit of approximately 80 million to non-controlling interests related to the preferred notes issued by UBS AG, all of which will be booked in the second quarter of 2015.

#### SLIDE 4 – Wealth Management

Wealth Management delivered a strong performance, with profit before tax of 856 million, up 23% to its highest level since the third quarter of 2008.

Operating income increased 5% to 2.1 billion, as transaction-based income rose in all regions, but most notably in APAC and Switzerland. While transaction-based income was up across nearly all products, the increase was largely driven by seasonal effects, portfolio rebalancing and higher volumes in FX as a consequence of the SNB's actions in January.

Both net interest income and recurring net fees were down due to the stronger Swiss Franc. Excluding the effect of currency movements, recurring income increased on a continued rise in recurring net fees. This underlying trend gives us even more confidence in our ability to deliver on our key initiatives, as net mandate sales were strongly positive in all regions.

Expenses decreased 5%, mainly due to lower marketing expenses and Corporate Center costs, as well as favorable currency effects. This brought the cost/income ratio to 59%, within our target range of 55 to 65%.

## SLIDE 5 – Wealth Management

Net new money was a strong 14.4 billion, the highest it's been in eight quarters.

Mandate penetration increased 110 basis points to 25.5% of invested assets, as the business delivered 15 billion in net mandate sales.

Both gross and net margin were up on higher revenues and profit before tax, and on a lower average invested asset base. Gross margin increased 4 basis points to 86 basis points, and net margin increased 7 basis points to 35 basis points, its highest level in over five years.

Marginal transactional activity continues to cause significant swings in trading and commission revenues, resulting in large month-to-month swings in our gross margin, which was 91 basis points in January, 82 basis points in February and 92 basis points in March. What we've seen in two out of three months in the first quarter shows the potential upside in a more normalized environment.

## SLIDE 6 – Wealth Management

Net new money was positive in all regions, with the largest net inflows in APAC, which delivered 8.2 billion of net new money. Europe delivered net new money of 3 billion, with strong inflows from our domestic business, and positive net inflows from our international business, following seasonally high offshore outflows in the fourth quarter. Net new money was 1.6 billion in Switzerland and 1.5 billion in Emerging Markets.

On a global basis, net new money continued to be strong, with 10.1 billion from our ultra-high net worth clients and a solid contribution from our high net worth clients. Of the 14.4 billion of net new money delivered in the quarter, only 1.8 billion came from increased Lombard lending.

Our net new money is one of many KPIs that we use to monitor our performance, and we don't buy net new money. Surprisingly, we've seen some irrational competition for net new money as some large competitors pay premiums for deposits and these assets.

In contrast to some of these competitors, as we highlighted in our fourth quarter earnings call, we'll be taking action on a number of fronts to optimize our resource utilization, and to ensure that any resource constraints are appropriately priced. Some of these actions may cause affected clients to withdraw some of their cash assets, thus impacting our net new money. These exits would result in net new money outflows, which we'll exclude from our net new money growth KPI calculation. While it's unlikely that all assets will be withdrawn, the assets in scope approach 30 billion francs. We expect the bulk of the liquidity coverage ratio and leverage ratio denominator relief from these actions to come in the second quarter, with a slight benefit to come in the third.

Our net new money growth of 5.8% in the first quarter does not exclude any outflows associated with these assets.

Both APAC and Switzerland saw a sharp rise in revenue, as transaction-based income increased on higher client activity. In APAC, we saw strong demand for structured products, particularly related to equities. In Switzerland, the increase was largely driven by rebalancing and foreign-exchange related revenues triggered by the SNB's actions in January. Revenues were relatively stable in Emerging Markets and down in Europe on a stronger Swiss Franc.

#### SLIDE 7 – Wealth Management Americas

Wealth Management Americas had a record quarter, generating a profit before tax of 293 million dollars, up 26% on lower expenses.

Operating income was 1.9 billion dollars, and decreased from the fourth quarter, mainly as there were fewer calendar and trading days. As a percentage of revenue, recurring income increased to a record 77%.

Expenses were down 5% to 1.6 billion dollars, mainly due to lower FA compensation on lower compensable revenues, and also as charges for litigation, regulatory and similar matters declined from the prior quarter.

Our cost/income ratio was 84.6%, at the top end our target range of 75 to 85%.

## SLIDE 8 – Wealth Management Americas

Wealth Management America's trillion dollar invested asset base continued to grow to record levels, on both positive market performance and solid net new money at 4.8 billion dollars. Net inflows were driven by advisors who've been with the firm for more than one year. For the second quarter, we expect to see the typical trend of increased client withdrawals associated with seasonal income tax payments.

We continued to see positive trends in mandate penetration, which increased 40 basis points to 33.9%.

Net margin increased 2 basis points to 11 basis points on lower expenses, which more than offset the impact of a higher average invested asset base and lower revenues, while gross margin was down 2 basis points to 73 basis points.

## SLIDE 9 – Wealth Management Americas

Invested assets per FA increased to a record 150 million dollars, while our annualized revenue per FA remained industry leading at 1.1 million dollars. The average production of recruits continued to outpace production of FAs leaving, with 77% of our recruits ranked in the first and second industry quintile, compared with 29% of FAs who left. In general, we've continued to see low FA attrition in the industry and at UBS.

Consistent with our strategy, we continued to grow lending balances with total loans growing 2% to 45.5 billion dollars. Average mortgage balances increased 2% to 7.8 billion dollars and securities-backed lending balances were up 3% to 32.1 billion. Although pricing on securities-based lending remains firm, mortgage spreads are under pressure as the industry targets high quality High Net Worth and Ultra High Net Worth mortgage loans.

## SLIDE 10 – Retail & Corporate

Retail and Corporate delivered its best first quarter in five years with a profit before tax of 443 million francs, up 24%. All KPIs were within their target ranges.

Operating income was up 7%, mostly reflecting lower credit loss expenses, but also higher transaction-based income and net interest income.

Transaction-based income was up 4% to 284 million, as the volatility in both interest rates and foreign-exchange after the SNB's actions led to increased client activity in FX hedging and trading, as well as gains from macro fair-value hedge ineffectiveness. This was partly offset by a decline in credit card-related income, which was higher in the fourth quarter reflecting seasonal holiday activity.

Net interest income increased 2% to 568 million with increases in both loans and deposits, as we introduced pricing measures in response to the SNB's policy changes, and as we saw continued benefits from pricing measures we implemented in the prior year. This more than offset the continued effect of persistently low interest rates on our replication portfolios.

On our fourth quarter earnings call, we noted that if the negative interest rate environment in Switzerland continued, our net interest margin would likely be at the lower end of our target range of 140 to 180 basis points. Considering today's environment, in a constant rate scenario and if asset spreads hold firm despite new market entrants in the mortgage market, as we approach year-end, we would expect a net interest margin that is a bit lower than the middle of our target range.

Following a typical seasonal pattern, net new business volume growth for our retail business was solid at 3.1%, within our target range of 1 to 4%. Net new business volume for retail clients stood at 1.1 billion, and was impacted by over half a billion francs of euro-denominated cash withdrawals following the SNB's actions.

Net credit loss expenses were 21 million partly reflecting the strengthening of the Swiss Franc and more challenging economic conditions. At this point in time, we've not yet seen any significant impact on our loan portfolio

from a higher Swiss franc. For the rest of this year, we expect to see more normalized and slightly increased credit loss expense levels compared with 2014. We continue to monitor both the environment and our loan portfolio closely.

Expenses decreased 4%, as lower general and administrative expenses more than offset an increase in personnel expenses. G&A expenses decreased by 48 million, as the prior quarter included higher investments in multichannel offerings, and as marketing expenses and professional fees declined.

### SLIDE 11 – Global Asset Management

In Global Asset Management, the business delivered its strongest performance in over five years, with profit before tax increasing 50% to 186 million.

Operating income was up 3% to 511 million, on strong performance fees, with a notable increase in O'Connor and A&Q. This more than offset lower net management fees, which were impacted by currency moves, with the largest effect on traditional investments. Expenses declined by 13% to 325 million, on lower charges for provisions for litigation, regulatory and similar matters, and lower allocated costs from Corporate Center.

Net new money excluding money markets was 7.5 billion, as we saw strong inflows in alternatives as well as other asset classes. Net new money from our wealth management businesses was 5.1 billion, the highest it's been since the first quarter of 2007.

Investment performance was solid overall, with strong performances in O'Connor and A&Q, where over 90% of assets eligible for performance fees were above high-water marks at quarter-end.



## SLIDE 12 – Investment Bank

The Investment Bank delivered a strong quarter, with a profit before tax of 844 million and an annualized return on attributed equity of 46%, as all regions generated double-digit revenue growth year-over-year.

Investor Client Services delivered its best quarter since the acceleration of our strategy in 2012, on higher volatility, client activity and volumes.

Equities revenues increased 27% versus the prior quarter to 1.2 billion, with stronger performance across all sectors and regions, largely on seasonally higher client activity. On a year-on-year basis, revenues were up 15% with strong performances in financing services and derivatives. Revenues increased year-over-year in all regions, but most notably in APAC, where there was a strong rise in revenues from equity finance on higher client activity levels.

In FX, Rates and Credit, revenues were 701 million, up from 297 million in the prior quarter, and up 71% year-over-year, reflecting increased client flows and volatility levels across FX and Rates, as well as solid results from credit flow on lower risk and resource utilization. In rates and credit, the business maintained high balance sheet velocity in order to meet the needs of our clients.

Corporate Client Solutions revenues were 801 million, up 13% on higher revenues in DCM, ECM, and financing solutions as well as higher risk management revenues, partly offset by lower advisory revenues.

On a year-over-year basis, revenues were up 4% mainly in ECM, on increased participation in public offerings, as well as higher revenues from private transactions. The performance in ECM along with increases in Advisory, Financing Solutions and Risk Management was partly offset by lower revenues in DCM, as the market fee pool was down 29% and as participation in leveraged finance transactions was lower.

Operating expenses were up 11% in the quarter on higher variable compensation expenses, partly offset by lower charges for litigation regulatory and similar matters, and as the prior quarter included a charge of 68 million for the annual UK bank levy. The cost/income ratio was down 17 percentage points to 68%.

### SLIDE 13 – Investment Bank

Once again, we've demonstrated that our business model works with the Investment Bank delivering excellent returns on attributed equity while carefully managing risk and deployment of its resources. As Sergio mentioned, this is a very important point to consider when assessing our results. We've provided this slide to place our results in the appropriate context.

We continue to focus on our traditional strengths in advisory, capital markets, equities and foreign exchange, complemented by a refocused rates and credit platform. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making. Our model is geared towards client facilitation and flow, and volumes explain almost all quarterly fluctuations in revenues.

To support our goal of earning attractive risk-adjusted returns on our allocated capital, we operate within a tightly controlled framework for balance sheet, risk-weighted assets and LRD. This is evidenced by the stability of our resource consumption, despite the demands from seasonal activity.

Revenue per unit of VaR was the highest it's been since the acceleration of our strategy and return on risk weighted assets was the highest in eight quarters, as average VaR remained flat and risk-weighted assets declined by 3 billion to 64 billion.

### SLIDE 14 – Corporate Center

We've increased the level of detail in reporting for Corporate Center and reflected changes in its structure. Corporate Center is now divided into three units: Corporate Center Services, Corporate Center Group Asset and Liability Management, and Non-core and Legacy Portfolio.

Profit before tax in Corporate Center Services was negative 222 million, compared with negative 261 million in the prior quarter. This was driven by reduced operating expenses before allocations on lower G&A and personnel expenses, slightly offset by comparatively lower net allocations.

Profit before tax in Corporate Center Group Asset and Liability Management was 122 million compared with a loss of 208 million in the prior quarter. Gross revenues from balance sheet risk management activities were broadly unchanged.

Gross revenues from hedging activities increased significantly to 167 million from a loss of 63 in the prior quarter, as a result of increased gains from ineffectiveness in our cash flow hedges and gains on cross-currency basis swaps held as economic hedges. While the accounting asymmetry within Group Asset and Liability Management creates quarterly volatility within our financials, the net economic effect is largely neutral, as the positions managed within Group ALM represent economic hedges offsetting UBS's structural positioning.

Profit before tax in Non-core and Legacy Portfolio was negative 240 million. Operating income was negative 80 million, compared with negative 361 million in the prior quarter. The decrease in negative income was the result of greater novation and unwind activity in the prior quarter. Operating expenses decreased by 190 million to 160 million, on lower charges for provisions for litigation, regulatory and similar matters and as the prior quarter included 52 million for the annual UK bank levy and a net charge of 42 million related to certain disputed receivables.

#### SLIDE 15 – Corporate Center cost reductions

In the first quarter of what is a critical year for our cost reduction initiatives, we made good progress, increasing our annualized cost reduction by 600 million to 800 million, based on the March exit rate versus full-year 2013.

The exit rate captures the annualized cost run-rate at the end of March, where it has been adjusted to reflect seasonality for a more accurate comparison against a full year. For our March exit rate, this was a net upward adjustment to expenses.

Our continued improvement in efficiency is the result of successful and ongoing execution of our outsourcing, near shoring and offshoring initiatives, continued optimization of our real estate footprint, and other key levers.

While we're pleased with our progress in our effectiveness and efficiency efforts this quarter, we'll need to work hard to offset incremental costs associated with permanent regulatory demand to achieve our net cost reduction target of 1.4 billion in Corporate Center by the end of the year.

#### SLIDE 16 – Swiss SRB Basel III capital and leverage ratios

Our fully applied CET1 ratio increased 30 basis points to 13.7% and remained above 10% post-stress, as CET1 regulatory capital increased largely on higher retained earnings, partly offset by the impact of a stronger Swiss franc. Risk-weighted assets were flat at 216 billion, with small moves within the business divisions and Corporate Center.

We highlighted in our annual report that the changes to the applicable discount rate and interest rate related assumptions for our Swiss pension plan during January and February would've reduced our IFRS equity and fully applied CET1 capital by around 700 million. Due to the sharp change in market and macroeconomic conditions, we carried out a detailed review of the actuarial assumptions. As a result, we enhanced the methodology for estimating the discount rate, by improving the construction of the yield curve where the market for long tenor maturities of Swiss high quality bonds was not sufficiently deep. Also, we now have a more complete set of data points based on full-year information for the rate of salary increases, interest credit on retirement savings, employee turnover and the rate of employee disabilities. These improvements in estimate more than offset the impact of a decrease in the applicable discount rate previously highlighted, resulting in a 490 million net decrease in our defined benefit obligation related to our Swiss plan. This, along with an increase in the fair value of the underlying plan assets, led to a pre-tax gain of 906 million recognized in OCI. We note that we've maintained a prudent approach in our review of the IFRS accounting for our Swiss Pension Plan, and I'd emphasize that none of these calculations impact our pensioners or current employees.

Our fully applied Swiss SRB leverage ratio increased 50 basis points to 4.6%, as our fully applied total regulatory capital increased, largely due to the issuance of 3.5 billion of high and low-trigger AT1 instruments out of UBS Group AG in February, and as our leverage ratio denominator

decreased by 21 billion. Our fully applied BIS Basel III leverage ratio was 3.4%. Looking at a pro-forma measure of the Swiss SRB leverage ratio using a denominator based on BIS rules, our fully applied ratio would be 4.5%. We've added additional disclosure on our leverage ratio based on the BIS rules in the appendix of this presentation, the capital section of our quarterly report, as well as on our investor relations website.

The decrease in our Swiss SRB leverage ratio denominator was largely driven by Non-core and Legacy Portfolio, where it decreased by 9 billion to 84 billion, on continued trade unwinds, migrations and compressions.

Leverage ratio denominator also decreased by 7 billion in Wealth Management Americas, mainly due to a reassessment of securities-based lending credit lines.

We've also made continued progress in our measures to improve the resolvability of the bank in response to too big to fail requirements. We expect to complete the transfer of our Retail & Corporate and Wealth Management business booked in Switzerland from UBS AG to UBS Switzerland AG, as early as mid-June. The transfer arrangements will provide that UBS Switzerland AG and UBS AG will each have joint liability for most obligations of the other entity that exist on the asset transfer date. The joint liability is explained in further detail on page 10 of the report.

Thank you. I'll now hand it back over to Sergio for some closing remarks..

### **Sergio P. Ermotti (Group CEO): Closing remarks**

#### SLIDE 17 – The world's leading wealth management franchise

Thank you Tom.

It is clear that our businesses were at the top of their game this quarter.

In particular, our wealth management businesses combined delivered a pre-tax profit of over 1.1 billion francs, up 23% in the quarter and 24% year-over-year, the first time profits have exceeded 1 billion francs since 2008. Almost three quarters of the 3.9 billion in revenues we generated were recurring.

The businesses delivered 19 billion in net new money, which along with investment performance, partly offset currency-related headwinds to our two trillion franc invested asset base.

The positive long-term trends we see in our wealth management businesses remain strong. First quarter revenues, pre-tax profit, and invested assets have all increased year-over-year for 3 consecutive years.

UBS is the world's largest and most geographically diverse wealth manager. As we've said in the past, you can't realistically build or buy the world's leading high and ultra-high net worth wealth management franchise. We're also the only large bank with global wealth management at the center of its strategy. Our exposure to the world's fastest growing wealth pools is evidenced by our strength in APAC, which is the result of over 50 years of commitment to the region, as well as the partnerships between Wealth Management, the Investment Bank and Global Asset Management.

SLIDE 18 – UBS - a unique and attractive investment proposition.

Before we open up for your questions, I would like to close with a few thoughts and observations.

Looking ahead, the macro-environment continues to evolve at an accelerated pace, especially as global monetary policies are likely to diverge. Negative interest rates in Switzerland and the Eurozone will continue to be an issue, at least in the short term, as well as high levels of volatility in foreign-exchange markets.

The industry also continues to face increasing regulatory requirements. In Switzerland, the review of the too big to fail regulation is underway. We continue to support a strong and comprehensive regulatory framework while allowing Switzerland's financial industry to remain competitive. While I have no reason to believe future changes will be unreasonable, it's quite clear that the debate will include consequences not only for the banking industry but also for the overall economy, and as further requirements will most likely lead the industry to re-price in order to achieve appropriate shareholder returns. Therefore, the outcome of this process will not change the fundamental investment case for UBS.



We have a unique business model with an attractive investment proposition. We are the world's leading wealth manager, operating in the world's largest and fastest growing markets. Retail & Corporate, Global Asset Management and the Investment Bank all add to our wealth management franchise, providing a unique proposition for clients.

We are confident that we will achieve our full-year targeted return on tangible equity of around 10% for this year. We remain committed to our attractive capital returns policy, without compromising our capacity to reinvest in our businesses, and while maintaining capital strength as a key element of our success.

In closing, I'm pleased with the strong quarter. We stayed close to our clients, we stayed disciplined on risk and we delivered across all businesses and regions. The results again demonstrate the benefits of a strategy defined early and executed with a focus on long-term value creation. I can assure you that we will have the same focus going forward.

Thank you. Tom and I will now take your questions.

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**Adjusted results:** Unless otherwise indicated, first-quarter 2015 "adjusted" figures exclude each of the following items, to the extent applicable, on a Group and business division level: an own credit gain of CHF 226 million, the abovementioned gains on sales of real estate of CHF 378 million and the gain on sale of a subsidiary of CHF 141 million, as well as net restructuring charges of CHF 305 million. For the fourth quarter of 2014, the items we excluded were an own credit gain of CHF 70 million, gains on sales of real estate of CHF 20 million, net restructuring charges of CHF 208 million and a credit of CHF 8 million related to changes to retiree benefit plans in the US. Adjusted results are non-GAAP financial measures as defined by SEC regulations. Please refer to the "Group performance" section of the First Quarter 2015 Report for more information on adjusted results.

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