

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

July 27, 2015

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

#### SLIDE 2 – 2Q15 highlights

Thank you, Caroline. Good morning everyone.

As you are aware, macroeconomic uncertainty and market turbulence increased client risk aversion in the second quarter, reducing overall activity levels. Despite this, we delivered adjusted pre-tax profit of 1.6 billion francs and net profit of 1.2 billion. This takes our first half net profit to almost CHF 3.2 billion francs, up over 70% on the same period last year and our return on tangible equity was 12%.

Every business in every region delivered a solid performance, demonstrating the resilience and diversification of our earnings and the strength of our business model.

Our Basel 3 fully applied CET1 ratio rose to 14.4%, and our fully applied Swiss SRB leverage ratio increased to 4.7%, the latter partly reflecting a substantial reduction in the leverage ratio denominator for the Non-Core and Legacy Portfolio.

Retail and Corporate reported its best second quarter since 2010, with pre-tax profits of 414 million francs. Net new business volume of 3.1% for retail clients was particularly strong for a second quarter, and the business again met all of its targets.

Our universal bank in Switzerland is a key pillar in our strategic value proposition so we're very pleased that Euromoney recently named UBS the "Best Bank in Switzerland" for the fourth consecutive year, so congratulations to the team on their continued excellent performance.



Global Asset Management delivered pre-tax profit of 134 million, as challenging market conditions for alternatives resulted in lower performance fees. Net new money was once again very strong, with net inflows balanced between Wealth Management and third-party clients.

The Investment Bank's results were solid, with 617 million in pre-tax profit, as our equities franchise had its best second quarter since we accelerated our strategy in 2012. Adjusted results in our FX and rates business improved year on year on higher volumes. The IB delivered an adjusted return on attributed equity of 34%. Pre-tax profit in the first six months rose by over 30% year-on-year while the IB operated comfortably within its risk and resource limits and continued to provide excellent service to its clients.

Recently, the IB was named Best Equity House in Western Europe and Best Flow House in North America underscoring the success of our client-centric business model.

### SLIDE 3 – The world's leading wealth management franchise

UBS is the world's only truly global wealth manager, with a strong presence in both the largest and fastest growing markets.

Wealth Management had its best second quarter since 2009, with 769 million francs of very high-quality pre-tax profit. Recurring income increased, reflecting continued success in our strategic initiatives to grow loans, increase mandate penetration, and improve pricing. Adjusted net new money was robust at 8.4 billion. Wealth Management Americas delivered record total operating income and recurring net fee income, and saw gross lending rise by 4% compared with the prior quarter. The pre-tax profit of 231 million dollars, however, was affected by various increased provisions.

This business, with the most productive advisors in the industry, in the largest market in the world, and as part of the leading wealth management franchise globally, is critical to our strategy and to our growth prospects. Let me also remind you that almost every dollar we earn in pre-tax profit across our businesses in the US is available to distribute to shareholders, as

we continue to utilize deferred tax assets. So it's not hard to see why this strong business, with its strategic and financial importance, looks attractive to our competitors, but its worth even more to UBS and its shareholders and that's why it's not for sale.

Now looking at our wealth management businesses combined, together they posted strong results for the first half, with pre-tax profits of 2.1 billion francs, up 14% annually since 2012. We were pleased that UBS regained the title of "Best Global Wealth Manager" in the 2015 Euromoney Awards for Excellence, and we were ranked as the largest global wealth manager, according to the annual Scorpio benchmark. Importantly, we were also the fastest growing large-scale wealth manager and the most diversified.

#### SLIDE 4 – Implementing our target group structure

Establishing UBS Switzerland AG was another critical milestone in improving the Group's resolvability and we are the first bank to complete this step in Switzerland. In terms of implementing our overall recovery and resolution plan, having also implemented a revised business and operating model for UBS Limited, as far as UBS is concerned we are closer to 100% complete than to 50.

I'd also like to mention two important steps in this process. One is the establishment of an Intermediate Holding Company in the US, where we are well on our way and expect to complete the process in July of 2016.

The second will take place in Q3 of this year, when we establish a Group service company, as a subsidiary of UBS Group AG. We will then transfer more of our shared service and support functions into entities beneath it.

#### SLIDE 5 – UBS Strategic priorities

Looking ahead, I want to reiterate our priorities.

First, is to capitalize and build upon our early-mover advantage.

It's almost four years since we adapted our strategy to succeed in the new environment. We're ahead of our capital requirements and are first movers in the management of regulatory change. We have also built a clear execution track record, and now we need to press home all of these advantages.

We are also firmly focused on improving effectiveness and efficiency. This is about creating the right cost structure for a 21st century bank, to enable long-term growth in the evolving macroeconomic and regulatory environment. So, we remain fully committed to our cost reduction target of 2.1 billion francs and we continued to make good progress in the second quarter. Improving effectiveness is also critical, and as we simplify our IT infrastructure and re-engineer internal processes we have a unique opportunity to achieve much greater front-to-back integration. We're also continuing to invest heavily in compliance and risk control.

As our competitors regroup and focus on rebuilding capital, we see an environment where costs will become a key battleground. For this reason, we need to focus on our strategic efforts with the same intensity and consolidate our position as a well-capitalized, efficient organization and growing organization.

That's why our third priority is investment for long term growth and to support sustainable returns to our shareholders. These are in technology and digitalization and in certain regions – such as the Americas and particularly Asia. We're also continuing to invest in attracting the right people to the bank, from apprentices to senior executives, and we're developing the talent we have, to achieve their full potential and to better serve our clients.

On the technology front, we have been an early mover in a number of areas, and we will continue to build on this. Our Neo platform in the IB, our wealth management advisory app and e-and mobile banking services in Retail & Corporate have won broad industry recognition, but more importantly they are used extensively by our clients. These kinds of investment are not just about defending our position, but they have allowed us to capture share and drive business efficiently into the bank. Of the CHF 3 billion we are spending to restructure the bank up to 2017, over 50% represents investments in technology.

Today, UBS enjoys a unique period of strategic clarity with the capital and execution track record to back it up, and this gives me great confidence in our future.

Specifically, this means that despite expectations for higher future capital requirements and macro-economic uncertainty, our dividend policy is unchanged. We intend to pay out at least 50% of net profit subject to UBS maintaining a fully applied Basel III CET1 capital ratio of at least 13% and at least 10% post-stress. In addition, in the third quarter, we expect to pay the supplementary capital return of CHF 0.25 per share, associated with the share for share exchange.

As challenging market conditions continue, and as you have heard me say before, we will stay close to our clients and provide them with the advice and execution they need, while also delivering against the priorities and targets we have committed to.

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

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

### SLIDE 6 – UBS Group AG results (consolidated)

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

This quarter, we excluded net restructuring charges of 191 million Swiss francs, an own credit gain of 259 million, a gain of 56 million on the sale of the Belgian domestic Wealth Management business, a gain of 11 million from a further partial sale of our investment in Markit, and an impairment of 11 million of an intangible asset.

Profit before tax was 1.6 billion, up 37% year-on-year, and down 28% from a very strong first quarter.

Net profit attributable to shareholders was 1.2 billion, after a tax expense of 443 million and net profit attributable to non-controlling interests of 106 million.

As we've said in the past, you shouldn't multiply any quarterly results by four. The same is true for the first half of the year, which you shouldn't multiply by two, as the third quarter is seasonally slower.

We'd also like to highlight a number of financial reporting and accounting changes that occurred in the quarter, as well as others expected in the future.

Consistent with changes in the manner in which operating segment performance is assessed, beginning in the second quarter of 2015, we now apply fair value accounting for certain internal funding transactions between Corporate Center – Group ALM and the Investment Bank and Corporate Center – Non-core and Legacy Portfolio, rather than applying amortized cost accounting. This treatment better aligns with the mark-to-market basis on which these internal transactions are risk managed within the Investment Bank and Corporate Center – Non-core and Legacy Portfolio. The terms of the funding transactions remain otherwise unchanged. In connection with these changes, own credit gains and losses are now reported in Corporate Center - Group ALM, as opposed to Corporate Center – Services. Prior periods have been restated to reflect these changes. In addition, we expect to early adopt the own credit presentation requirements of IFRS 9 in the first quarter of 2016, where changes in the fair value of liabilities related to own credit will be recognized in other comprehensive income rather than through P&L.

Further details on these and other changes, can be found in note one of our quarterly report which we'll publish tomorrow.

#### SLIDE 7 – Wealth Management

Wealth Management delivered another strong performance, with profit before tax of 769 million, its best second quarter since 2009.

Recurring revenues increased in all regions, with increases in both net interest income and recurring net fee income. Net interest income increased 1% to 568 million on higher product revenues from loans and deposits. Recurring net fee income increased by 3% to nearly a billion, as

we continued to increase mandate penetration, grow loan balances, and benefit from ongoing pricing measures.

Transaction-based income declined following a very strong first quarter, partly as a consequence of the Swiss National Bank's actions in January.

Expenses were broadly unchanged at 1.3 billion, while our cost/income ratio was 62%, within our target range of 55 to 65%.

For the first half of the year, Wealth Management's profit before tax rose by over 570 million compared to the first half of last year, and by 221 million excluding charges for litigation, regulatory and similar matters. This reflected strong growth in revenues, which rose by 268 million, and good cost control, with costs increasing marginally on an underlying basis. These results demonstrate not only the high-quality growth we're capturing, but also continued benefits from efficiency measures within Wealth Management, and the cost savings delivered by the Corporate Center.

#### SLIDE 8 – WM balance sheet and capital optimization program

As announced on the fourth quarter results call, we've acted on a number of fronts to optimize resource utilization, and to ensure that our products and services are appropriately priced relative to the resources they consume. Last quarter, we said we'd be executing a balance sheet and capital optimization program in Wealth Management in the first half, with assets in scope of around 30 billion. The program was focused on clients with high balance sheet usage. We've discussed a variety of options with affected clients, which include cash alternatives, investment products, extension of maturity on deposits, or re-pricing.

With a majority of the program complete, we can confirm it's been a success. We've had lower outflows than expected, and the program has had clear benefits. Of the client assets shifted into investment products, the largest shifts were into mandates, which increased by more than one billion from the program. We've already reduced both LRD and LCR outflow assumptions by 7 billion. In the third quarter, we expect an additional LRD reduction of around 3 billion and a further LCR outflow assumption reduction of around 2 billion. In terms of profitability, the clients who

withdrew all or part of their balances with us, in aggregate were not economically profitable, however economic profit on retained relationships has significantly improved.

We believe that the program is not only accretive to economic profit, but to total profit as well.

#### SLIDE 9 – Wealth Management

Net new money was 8.4 billion adjusted for the outflows associated with the balance sheet and capital optimization program, with only 1.1 billion contributed from Lombard lending. Our net new money growth rate was 3.5%, within our target range of 3 to 5%.

Mandate penetration increased 80 basis points to 26.3% of invested assets, as the business added 9.2 billion in net new mandates, bringing our total mandates to nearly a quarter of a trillion.

Over the past year, we've seen signs that our clients' risk appetite has picked-up slightly. For previously existing mandates, the most common shift we've seen year-to-date is a one-notch step-up in risk.

Net margin was up year-on-year for the fourth consecutive quarter, and month-to-month swings in our gross margin were limited.

#### SLIDE 10 – Wealth Management

Adjusted net new money was positive in all regions, and was particularly strong in APAC and Switzerland, with significant contribution from ultra-high net worth clients where we saw inflows of 7.1 billion. Emerging Markets adjusted net new money was positive, but continued to be impacted by geopolitical and economic challenges.

Operating income decreased across the regions, on lower transaction-based income, mainly due to lower revenues from portfolio rebalancing and more limited FX volumes. Revenues were down across all products,



with the exception of cash equities, which increased due to strength in APAC.

#### SLIDE 11 – Wealth Management APAC

APAC's performance in the quarter was extremely strong, and first half profit before tax is up nearly 60% year-over-year to around 450 million. That's nearly 75% of the full-year profit-before tax the business delivered in 2014. Profit before tax has grown at a compound annualized growth rate of 65% since the first half of 2012. We're the largest wealth manager in the region and we're outgrowing the market in ultra-high net worth. Over the last three years, total invested assets have grown over 50%, adding nearly 100 billion to our asset base.

Our platform provides access to a full suite of CIO products, as well as innovative solutions from our leading Investment Bank and Global Asset Management businesses. Our global capabilities and insights benefit our sophisticated clients as they increasingly look to diversify their wealth. Our brand is highly valued and desired in the region, especially by the clients that we target. We're honored that a majority of APAC billionaires bank with us, seeing us as a valued partner in helping them achieve their aspirations. Our success is built on multi-generational relationships which we've developed in over 50 years of unbroken commitment to the region.

#### SLIDE 12 – Wealth Management Americas

Wealth Management Americas delivered record operating income of 1.9 billion dollars. Increased recurring income was driven both by record net interest income, which rose 9%, and record recurring net fee income, which increased 3% on continued growth in managed account fees. These increases more than offset lower transaction based income, which fell 2% on lower client activity.

Profit before tax was 231 million, and was impacted by a 71 million increase in charges for provisions for litigation, regulatory and other matters, as well as a 21 million increase in legal fees. Our underlying profit

before tax excluding provision charges was 318 million, and we're pleased with the continued growth in top line performance.

#### SLIDE 13 – Wealth Management Americas

Net new money was a solid 3.2 billion excluding outflows from record seasonal tax payments, with strong inflows from advisors who've been with the firm for more than one year. Reported net new money was negative 700 million, including an estimated 3.9 billion of outflows related to seasonal tax payments.

Invested assets were down 5 billion dollars, with the decrease mostly due to market performance.

Gross margin increased 1 basis point to 74 basis points on our record operating income, and net margin decreased 2 basis points to 9 basis points on higher operating expenses.

#### SLIDE 14 – Wealth Management Americas

FA productivity remained industry-leading, as annualized revenue per FA rose to a new record of over 1.1 million dollars.

Consistent with our strategy, we continued to grow lending balances with total loans growing 4% to 47.3 billion dollars. Average mortgage balances increased 3% to 8 billion dollars and securities-backed lending balances were up 3% to 29 billion. Our focus on banking and lending is a key pillar of growth for future profitability, and we're well positioned for any future Fed moves this year.

#### SLIDE 15 – Retail & Corporate

Retail and Corporate delivered another strong quarter with all KPIs within their target ranges. Profit before tax was 414 million francs, the highest it's been in a second quarter since 2010.

Operating income was 952 million, down 3% on lower transaction-based income and net interest income.

Following elevated client activity and gains from macro fair value hedge ineffectiveness in the prior quarter, transaction-based income decreased.

Net interest income declined 1%, on lower income from the investment of the Group's equity. Net interest margin decreased by 1 basis point to 164 basis points.

Net credit loss expenses decreased to 4 million from 21 million, as credit losses for new cases were stable, and releases and recoveries increased. The stronger Swiss franc is expected to have a negative effect on the Swiss economy, as seen in economic data for the first quarter of 2015. To date, we've seen limited effects of the stronger Swiss franc on small and medium-sized enterprises, which we attribute, in part, to existing order books. However, with the average order period of three months now passed, we would expect to see a deterioration in the results of these enterprises over the next 12 months, particularly for export-oriented entities. The tourism sector has been largely protected during the 2014-15 winter season due to pre-existing bookings, and we therefore anticipate seeing a fuller impact on the industry through extended hotel closure in the off-peak season and into the 2015-16 winter season.

To date, we've seen a limited decline in credit quality. However, we expect that any negative effect on the Swiss economy will impact some of the counterparties within our domestic lending portfolio, and lead to an increase in credit loss expenses in future periods from the low levels observed in the past two quarters. As we said previously, for 2015, we expect more normalized and slightly increased credit loss expense levels compared with 2014.

We actively manage our portfolio, and we've performed detailed reviews, on a client-by-client basis. We continue to closely watch the broader portfolio for signs of deterioration, and don't see credit losses exceeding expected levels for the portfolio.

Operating expenses were broadly unchanged at 538 million.

Net new business volume growth for our retail business remained solid at 3.1%, as strong net new client assets more than offset slightly negative net new loans.

We continue to invest in e- and mobile banking technologies. During the second quarter, we successfully launched the UBS Paymit app in Switzerland, which allows users to send and request money through their smartphones – quickly, securely and conveniently. The app has had over 70 thousand downloads, and has received an average four and a half star rating on the Apple App Store.

Our clients who utilize e- and mobile continue to show higher income per client account, return on business volume and higher net new business volume per client account.

#### SLIDE 16 – Global Asset Management

In Global Asset Management, operating income decreased 7% in challenging conditions for alternative managers. Performance fees decreased to 20 million, as late quarter performance in the alternatives industry was subdued, including for O'Connor and A&Q.

Net management fees increased mainly in traditional investments and global real estate, driven by capital increases in listed funds as well as new commitments into an infrastructure and private equity product. Expenses were 342 million, up 5% on higher personnel expenses and higher technology charges from Corporate Center - Services.

Net new money excluding money markets continued to be very strong, with 8.3 billion in net inflows, was positive across all capabilities, and well balanced between our wealth management businesses and third parties.

#### SLIDE 17 – Investment Bank

The Investment Bank delivered another strong quarter with profit before tax of 617 million. Performance was very good in APAC, where the

business delivered double-digit growth both in the quarter and year-on-year.

Investor Client Services revenues were solid at 1.5 billion, with a strong performance from Equities. Revenues were up 22% year-on-year with increases in both Equities, and FX, Rates and Credit.

Equities revenues were strong, increasing 30% year-on-year to 1.1 billion, the highest second quarter since the acceleration of our strategy in 2012. A large majority of the increase was driven by APAC, mostly in financing services and derivatives.

FX, Rates and Credit revenues increased 4% year-on-year to 402 million, with strong performance in FX and rates on increased client volumes.

Corporate Client Solutions revenues were down 16% year-on-year, mainly in DCM, where leveraged finance revenues have decreased and the market fee pool declined 35% year-on-year. Revenues increased in advisory and risk management, and although revenues declined in ECM, this was to a lesser extent than our peer group.

Operating expenses increased 3% year-on-year, as higher variable compensation expenses more than offset lower general and administrative expenses. Our cost/income ratio was 73%, within our target range of 70-80%.

We continued to maximize resource efficiency through optimal use of the business's allocated resources, which were roughly unchanged in the quarter. Revenue per unit of VaR increased to a record of 214 million.

#### SLIDE 18 – Corporate Center

Profit before tax in Corporate Center Services was negative 253 million, compared with negative 222 million in the prior quarter. Operating expenses before allocations increased mainly due to higher marketing costs, as well as higher professional fees associated with on-going changes to our legal entity structure.

Profit before tax in Corporate Center - Group Asset and Liability Management was negative 127 million compared with positive 91 million in the prior quarter. Gross income decreased to 70 million, on lower gross income from hedging activities and balance sheet risk management.

Central funding costs retained in Group ALM increased slightly to 180 million, and continued to be a drag to the Group's earnings, at 349 million year-to-date compared with nearly 800 million in 2014. We're ahead of our debt issuance plans, particularly with regard to AT1. However, we continue to expect these costs to decrease significantly by the end of 2016.

As a result of our ongoing efforts to optimize our legal entity structure, we anticipate that some foreign currency translation gains and losses previously booked directly into equity through OCI, will be released into our P&L due to the sale or closure of branches and subsidiaries. In the second half of 2015, we expect to record net foreign currency translation losses of around 120 million related to these disposals, although gains and losses could be recognized in different periods. Consistent with past practice, these losses will be treated as adjusting items. The release of these FCT losses to the P&L will have no impact on our equity and regulatory capital.

Profit before tax in Non-core and Legacy Portfolio was negative 132 million. Operating income of 35 million included a gain of 57 million related to the settlement of two litigation claims, which was partly offset by valuation losses. Operating expenses increased by 7 million on higher charges for provisions for litigation, regulatory and similar matters.

We made significant progress reducing the Non-core and Legacy Portfolio LRD, which decreased 14 billion to 70 billion on continued unwind and novation activity. RWA also decreased 4 billion to 32 billion on lower credit risk and market risk RWA.

Since the inception of the Non-core and Legacy Portfolio, we've reduced LRD by over 220 billion, and as you can see on slide 29 in the appendix, over 40% of the remaining LRD is expected to decay naturally by the end of 2018. We'll continue to seek opportunities for active acceleration where we believe the tradeoff between cost of exit and the cost of capital and other operating costs is reasonable. However, these opportunities may be more limited in the future.

### SLIDE 19 – Corporate Center cost reductions

We achieved an additional 100 million of annualized net cost reduction in the Corporate Center, bringing our total annualized Corporate Center cost reduction to 900 million, based on the June exit rate versus full-year 2013. The additional 100 million was driven by decreases in IT, operations and Corporate Real Estate and Services.

The annualized cost related to regulatory demand has increased to around one billion, of which around 400 million is of a permanent nature. Increased regulatory burdens continue to present significant headwinds to our targeted cost reductions. We'll continue to remain focused on overcoming these costs, to achieve the net cost reduction targets we've set out.

### SLIDE 20 – Capital and leverage ratios

Our fully applied CET1 ratio increased 70 basis points to 14.4% and remained above 10% post-stress, while our fully applied Swiss SRB leverage ratio increased 10 basis points to 4.7%. CET1 capital increased largely on higher retained earnings, partly offset by the impact of a stronger Swiss franc and accruals for capital returns for shareholders.

Risk-weighted assets declined by 7 billion to 210 billion, below our year-end target. This was driven by a 4 billion reduction in the supplemental operational risk RWA mutually agreed by UBS and FINMA, as well as lower market and credit risk RWA in Non-core and Legacy Portfolio. Our Swiss SRB LRD decreased by 33 billion to 944 billion, largely due to a substantial reduction in Non-core and Legacy Portfolio as well as Corporate Center – Group ALM. 139 billion of our leverage ratio denominator is from our high-quality liquid asset portfolio. Since the fourth quarter of 2012, we've reduced Group LRD by 262 billion, despite growing our high-quality liquid asset portfolio LRD by 9 billion.

Our fully applied BIS Basel III leverage ratio increased by 20 basis points to 3.6%.

As a result of the progress we've made in reducing our LRD, and with updated market share information for 2014 provided by FINMA, our progressive buffer requirement for 2019 has been reduced to 4.5% from 5.4%, bringing our total capital requirement for 2019 down to 17.5% from 18.4%, in line with our previous expectations.

In the third quarter, we intend to issue AT1 capital to further improve our Basel 3 leverage ratio numerator. In addition, we intend to issue TLAC-eligible debt out of a special purpose vehicle of our Group holding company. We'll treat our TLAC and AT1 issuances in the same manner as we've treated other regulatory matters – by addressing them early and decisively, and staying ahead of minimum requirements.

#### SLIDE 21– Deferred tax assets

Consistent with past practice, we expect to remeasure our deferred tax assets in the third quarter based on a reassessment of future profitability, taking into account updated business plan forecasts. As mentioned in our 2014 Annual Report, we'll also consider a further extension of the forecast period used for US DTA recognition purposes from six to seven years.

In the event that the forecast period is extended, we estimate that the effect combined with the updated business plan forecasts, could lead to a net upward DTA revaluation of around 1.5 billion. We expect any DTA revaluation from this year's reassessment to be recognized 75% in the third quarter, and 25% in the fourth.

The US DTAs have been recognized principally on the expected future profits of Wealth Management Americas, and we'd expect WMA to be the main driver of any future recognition of the remaining 15.8 billion of US DTA that are currently unrecognized.

#### SLIDE 22 – UBS - a unique and attractive investment proposition.

In conclusion, our results for the quarter were strong, with good underlying performance across all of our businesses. We continued to reduce cost and improve effectiveness and efficiency. In Non-core and Legacy Portfolio,





we've made material progress in reducing LRD. We've also further improved our resolvability by implementing UBS Switzerland AG.

UBS represents a truly unique and attractive investment proposition. We're the world's leading wealth manager, and we're a growing business with a clear strategy, a strong capital position, and a firm commitment to deliver attractive capital returns to shareholders.

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

**Cautionary statement regarding forward-looking statements:** This presentation 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 executing its announced strategic plans, including its cost reduction and efficiency initiatives and its planned further reduction in its Basel III risk-weighted assets (RWA) and leverage ratio denominator (LRD), and to maintain its stated capital return objective; (ii) developments in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, currency exchange rates and interest rates and the effect of economic conditions and market developments on the financial position or creditworthiness of UBS’s clients and counterparties, and the degree to which UBS is successful in implementing changes to its business to meet changing market, regulatory and other conditions; (iii) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings, or arising from requirements for bail-in debt or loss-absorbing capital; (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose, or result in, more stringent capital (including leverage ratio), liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration or other measures; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve reductions to the incremental RWA resulting from the supplemental operational risk capital analysis mutually agreed to by UBS and FINMA, or will approve a limited reduction of capital requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in establishing a US intermediate holding company and implementing the US enhanced prudential standards, completing the squeeze-out of minority shareholders of UBS AG, and other changes which UBS may make in its legal entity structure and operating model, including the possible consequences of such changes and other similar changes that have been made previously, 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, including capital requirements, resolvability requirements and proposals in Switzerland and other countries for mandatory structural reform of banks; (vii) changes in UBS’s competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS’s ability to compete in certain lines of business; (viii) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including measures to impose new or enhanced duties when interacting with customers or in the execution and handling of customer transactions; (ix) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations; (x) the effects on UBS’s cross-border banking business of tax or regulatory developments and of possible changes in UBS’s policies and practices relating to this business; (xi) UBS’s ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xiii) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xiv) whether UBS will be successful in keeping pace with competitors in updating its technology, in trading businesses; (xv) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading and systems failures; (xvi) restrictions to the ability of subsidiaries of the Group to make loans or distributions of any kind, directly or indirectly, to UBS Group AG; and (xvii) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. 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**Adjusted results:** Unless otherwise indicated, "adjusted" figures exclude the adjustment items listed on the previous slide, to the extent applicable, on a Group and business division level. Adjusted results are a non-GAAP financial measure as defined by SEC regulations. Refer to page 14 of the 2Q15 financial report for an overview of adjusted numbers. If applicable for a given adjusted KPI (i.e., adjusted return on tangible equity), adjustment items are calculated on an after-tax basis by applying indicative tax rates (i.e., 2% for own credit, 22% for other items, and with certain large items assessed on a case-by-case basis). Refer to page 24 of the 2Q15 financial report for more information.

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