Annual General Meeting

of UBS Group AG on May 10, 2016

Speech by Sergio P. Ermotti, Group Chief Executive Officer

Check against delivery.

Ladies and Gentlemen,
dear shareholders

I, too, would like to welcome you all to Basel.

Much like previous years, 2015 was not easy. Our Chairman of the Board of Directors, Axel Weber, has already mentioned this.

The results from the first quarter of 2016 showed the environment we operate in has not become simpler – quite the opposite, in fact! Despite that, UBS delivered a robust performance in relative terms.

Let's stay with 2015. Despite headwinds, 2015 was a strong year for us. We generated a net profit attributable to shareholders of 6.2 billion francs, which is a 79% increase on the previous year and the best result in eight years. Our adjusted return on tangible equity was at just under 14% significantly above our target of 10%.

There are reasons for this success:
- We have a clear and proven strategy that we execute with discipline and we will do so in the future.
- Thanks to our profitability, we have built up a strong capital base. Our common equity tier 1 ratio at the end of 2015 was 14.5%, and our leverage ratio for Swiss systemically relevant banks 5.3%. Capital strength remains the basis for our success.
- We have made excellent progress in terms of fulfilling the regulatory "too big to fail" requirements: We launched UBS Switzerland AG and established a service company as a subsidiary of the holding company. And the holding company issued new core capital and total loss-absorbing bonds.
- In addition, we are focused on keeping a firm grip on costs.
- Lastly, we spare no effort in responsibly managing the risks associated with our business.

All of these have allowed us to reap the reward of the work we have done over the last few years in 2015. The adjusted pre-tax results for 2015 were just as positive – and in all five business divisions and all regions!
- Wealth Management increased its profit before tax by 13% to 2.8 billion francs, the best result since 2008. The business division also made good progress in terms of strategic goals.
- Wealth Management Americas recorded 874 million dollars in profit before tax, setting a new record in operating income and seeing solid inflows of net new money as well as further growth in banking and credit products.
- Personal & Corporate Banking, the Swiss private and corporate client business, posted 1.7 billion francs in profit before tax – the best since 2010, despite headwinds on the interest-rate side – and attracted more new clients than ever before.

– Asset Management increased profit before tax by 20% to 610 million francs and also made good progress in terms of strategic goals.
– And our Investment Bank achieved a profit before tax of 2.3 billion francs – an excellent result. This shows that an investment bank that concentrates strictly on client business and the efficient deployment of resources can be very competitive.

Our clients are at the center of everything we do. We aim to deliver excellent services on a long-term basis – for our clients and therefore for you, our shareholders.

We embrace the principles of client focus, service excellence and sustainable performance in our day-to-day work, and I am convinced this why we repeatedly receive recognition from outside the bank, which of course gives us great pleasure.

But the most important honor for us remains the trust of our clients. I am often stopped on the street or at the airport and told: "You at UBS are doing a great job." That is a wonderful compliment. And spontaneous compliments like this are the most gratifying for me and my colleagues.

This kind of recognition and these awards show we are in fact doing something right at UBS. But we are judged not only by what we do, but by the way we do it. Financial success cannot be sustainable without a solid corporate culture.

In 2015, management and staff all gave their best every single day to create such a culture. This determines our conduct and is a decisive factor in how we assess the performance of management and employees.

So much for the past year. I hope that you are all as proud of it as my colleagues and I.

But the work is far from finished. This means that we must do everything to help improve earnings or cut costs. Or both. We must break down our value chain into individual parts. And decide what we can do best ourselves and what we should outsource or do jointly with others. Technological change will play a positive role in this respect. Not only in client-facing areas, but also in the digitization of our processes.

Another observation on the topic of costs. Since 2011, we have undertaken a great deal and reduced costs by 1.9 billion francs, and we are continuing to work toward achieving our planned savings of 2.1 billion francs. There is, however, no miracle cure.

We keep one eye on the current situation and look to the future with the other.

It is clear we must carry out tactical adjustments to the cost basis to absorb the current pressure on earnings and to compensate for unexpected and permanent regulatory costs. From 2012 to 2015, these regulatory costs amounted to approximately 2.4 billion francs.

It is also clear that, at the same time, to ensure UBS remains sustainably profitable, we must invest in structural growth – and in doing so strike the right balance.

As mentioned earlier, we want to generate an appropriate and sustainable return for our shareholders. But we must not forget that our success depends not solely upon ourselves – other factors are in play here. The current economic and geopolitical climate presents severe challenges, and not just for us. And then there are the key issues surrounding the future, such as digitization, which will bring a great deal of change. It will expose many sectors, including our own, to new risks, but present them with new opportunities, too.

Let’s stay with the finance industry for now.
I see five key issues that burden our sector: lack of growth; a low-interest environment; regulation; overcapacity; and finally, dealing with the past.

Let’s begin with a lack of growth: Too many politicians and observers in Europe are demanding more and more central bank medicine, instead of doing their jobs and undertaking long overdue reforms. Unpopular measures can of course cost politicians votes, but, monetary policy alone cannot drive growth on its own – it only buys time, and the price of that is unclear. All of these problems depress economic growth and banks’ profitability suffers as a result .

Secondly, allow me to talk about the low-interest environment, which has already been covered by Axel Weber. Let’s take a look at this problem from an operational perspective. The core of traditional banking is the net interest margin – the difference between savings and loan interest rates or other types of investment offered by the bank.

Because of low and even negative interest rates, we and the whole industry are now presented with a frankly absurd question: Do we still really want to take on client assets when doing so costs the bank money – and when we have to back up liquid assets with an unreasonably large amount of capital? I have my doubts as to whether this is good for the financial system and the economy.

It is clear that we are being forced to respond to the policies of the central banks and the regulators just to ensure we maintain a certain level of profitability and return on capital. This is why we have already had to increase interest rates on loans. And we are already obliged to pass on negative interest rates to businesses. If the conditions remain as they are or grow worse, we will have to consider extending these measures to very wealthy clients and increasing interest rates on loans yet higher. Or we will have to demand payment for services that were previously free – with the possibility that additional fee adjustments in the future will also be necessary.

This brings us to our third point: regulation. The Chairman of the Board of Directors has already shared some of his thoughts with you on this topic, too. I would just like to briefly add to what I have already repeatedly stressed: more equity capital and sensible regulation for banks were necessary after the crisis. But the constant uncertainty over new regulations under consideration is unhealthy. As it is impossible for our industry to plan for the long term when there are no clear rules.

Fourth: overcapacity. The issue today is not one of "too big to fail," but "too small to survive." The industry suffers from overcapacity primarily in Europe, but also here in Switzerland.

For banks, a certain critical mass is a must if they are to defy the strong headwinds – especially in connection with points I have already mentioned. Size when focused is good – it is not a problem per se and should not be demonized.

Critical mass cannot be reached through organic growth alone. This is why consolidation will play a role – it can affect all or just selected bank activities. This assumes there will be the right framework in place to allow banks to reach a certain size.

Five: dealing with the past. I would gladly speak to you only about the bank’s future. But we and the industry are still addressing issues from the past – even issues that do not directly impact banks. Provisions for legal matters are large, and vast sums of money have already been paid out.

In part, this process is understandable. What I find problematic is the arbitrariness with which the amounts are set, the politicization and instrumentalization of many processes and the sometimes uncoordinated manner in which public officials acted. We have – where appropriate – shown responsibility and learned our lessons. The process erodes our profitability and reputation; it consumes resources and limits our ability to look to the future.

UBS recognized early on many of the issues that are impacting our industry today. We began adapting to the new reality more than four years ago. As a result, we now have a head start. But: there can be no room for complacency.

As you know, we have focused on global wealth management and the universal bank in Switzerland. In both sectors, we are the clear number one. Our Investment Bank and our Asset Management are key components of our model and are very competitive.

With this balanced earnings mix and the focus on quality of earnings, UBS is exceptionally well positioned within the industry.

Ladies and gentlemen. As already mentioned, we cannot generate economic growth under our own power and independently of other forces. A prosperous economy is the best way that banks can stay healthy. This holds true globally and of course also for Switzerland.

I always take great effort to emphasize that UBS is a Swiss bank, and without a strong domestic base we cannot succeed globally. We have a great interest in a strong economy, and we make a contribution to this.

But it also requires the political will and the support of the public to initiate and implement the necessary reforms. If we take a step back for a moment and view the situation historically, we quickly see what it was that transformed Switzerland within 150 years from being a poor country in the middle of Europe to one of the world's richest countries:

- A liberal system of government that limited its action to setting only the most important framework conditions.
- And a hard-working population eager to learn that thinks and acts pragmatically.

So I ask that we return to this liberal path and give our citizens and companies more freedom to act. Our competitors will not sleep, and this is why we need reforms that continue to make Switzerland an attractive place to do business internationally.

Dear shareholders
We at UBS are also doing everything to be successful in the future. We have achieved much in recent years and our priorities are clear:

- Demonstrate the sustainability of our business model
- Become more effective and efficient
- Invest in growth
- Focus on our clients' needs
- Continue to foster and promote a culture in the bank that is borne together and recognized by all as the foundation of our success

Dear shareholders

As a final word, I would like to express my thanks. First, I would like to thank all of our employees who performed so well in such a difficult environment.

I would also like to thank the Board of Directors under the leadership of Axel Weber, who is a loyal and critical supporter of the management.

Above all, I would like to thank our clients and you, our esteemed shareholders.

Your confidence is the best proof that we are on the right path. And your confidence is also a major motivation for me and everyone at UBS to continue on this path.

Grazie!

Language versions I This document was produced for the convenience of our English-speaking investors and various other stakeholders. The German version takes precedence in questions of comprehension as it serves as the official document.