

Fourth quarter 2016 results

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Check against delivery.

Numbers for slides refer to the fourth quarter 2016 results presentation.

Sergio P. Ermotti

Slide 2 – 4Q16 results

Thank you Martin, and good morning everyone.

Last year, a variety of factors, including macroeconomic uncertainty, geopolitical tensions and divisive politics, combined to make 2016 a challenging year for the industry.

In the fourth quarter, while we saw more positive trends in the US, this did not translate globally and transaction volumes with our wealth management clients remained muted. That said, for the quarter we delivered another solid performance, with adjusted pre-tax profit of 1.1 billion francs, up 47% year-on-year, and net profit attributable to shareholders of 738 million.

In Wealth Management, the cost reduction actions we took earlier in the year more than offset revenue headwinds, enabling the business to deliver slightly higher year-on-year profits. Net new money was negative as a result of cross-border outflows, mainly in emerging markets, as well as seasonal factors. With respect to net new money, we remained disciplined and focused on the profitability outlook of new assets.

Wealth Management Americas posted very strong profits, and our financial advisors maintained their industry-leading productivity levels. As we do every quarter, we recently asked our clients and other investors in the US about their sentiment towards the economy. The survey shows that after being highly defensive prior to the election, by moving to cash and a more conservative asset allocation, they became significantly more optimistic about the economy and markets after the election. This said, business owners have a demanding "first-100 day list" for the new administration, and will need to see concrete actions to support their optimism.

Personal and Corporate had a solid quarter with robust net new business volumes. Asset Management grew profits, and our Investment Bank substantially increased profits on its highest Q4 revenues since 2012.

Slide 3 – FY16 results

During 2016, we took decisive actions to protect our profitability, and as a result, we reported a solid financial performance. Notwithstanding strong revenue headwinds, our ability to control and reduce costs resulted in adjusted pre-tax profits declining by just 3%, to 5.4 billion francs, net profit attributable to shareholders of 3.3 billion. Let me quickly reconcile the gap between last year results, 2015 results and 2016 results. First, we

had a 1.7 billion change in tax. Then, we had 550 million from different methodology in accounting and 250 million in lower gains from disposals of real estate, just to cite a few.

An adjusted return on tangible equity was 9.2%. I would highlight that excluding the significant effect of deferred tax assets, our return increases to 11.4%. I am also pleased that we generated over 42 billion francs of net new money in our wealth management businesses, while absorbing 14 billion of cross-border outflows.

We made good progress on our ambitious cost targets, increasing our net cost savings by 500 million francs to 1.6 billion, despite elevated regulatory costs. We remain confident we will achieve our 2.1 billion net cost reduction target by the end of this year, and are focused on continuously making ourselves even more effective and efficient. As I have mentioned, these efforts are not just about cost reduction. We are also making substantial investments in our front-to-back infrastructure in order to be more efficient and to better serve our clients.

In 2016, once again, we demonstrated that our balanced business mix and geographic diversification are important differentiators for UBS. We are the world's largest and only truly global wealth manager, with a strong presence in mature and high-growth regions. We are the number one bank in Switzerland, and we have competitive and specialized Investment Bank and Asset Management divisions, all of which have been, and will continue to be, critical to our success and ability to deliver solid performance in a variety of market conditions. 2016 was a great example of the power of our business model, as strong results in the US and Switzerland partly offset headwinds in Asia and the rest of Europe.

From a capital perspective, we ended the year with a strong fully-applied CET1 ratio of 13.8%, despite regulatory RWA inflation. I am also pleased that we reached the minimum CET1 leverage ratio of 3.5% three years early. However, in the short-term, we may fluctuate around this threshold, for example due to FX and other market movements, or an increase in balance sheet usage to accommodate client activity. In addition, we made strong progress toward our 2020 capital requirements by issuing 2.5 billion francs of AT1 and 11.5 billion of TLAC.

We talk a lot about ratios in our industry, but I want to highlight two facts. First, since the financial crisis, we have reduced our balance sheet from 2.5 trillion to around 900 billion, of which about 200 billion is high-quality liquid assets, such as treasuries and cash. Secondly, we have brought our absolute total loss-absorbing capacity to over 73 billion Swiss francs. For those who prefer to talk about ratios, this equates to approximately 10% leverage ratio on non-cash balance sheet items.

We also reached major milestones in improving our resolvability, establishing our US Intermediate Holding Company and our Group service company structure. Although implementing regulatory requirements is critical to improving the stability of the system, and we absolutely support effective and reasonable regulation, it does come at a substantial cost.

I want to take this opportunity to thank all of our employees. Without their hard work and dedication, none of these achievements would have been possible.

Despite the challenges we and the industry faced in 2016, our solid results and disciplined execution, together with our strong capital position, have allowed us to maintain our ordinary dividend at 2015 levels and reconfirm our dividend policy. As such, we intend to propose an ordinary dividend of 60 Rappen per share for approval at our next AGM.

Looking to the year ahead, while we have begun to observe improvements in investor confidence, primarily in the US, the factors that impacted client sentiment in 2016 remain relevant. Therefore, our focus remains on disciplined execution and delivering sustainable performance, while, as I said, we continue to explore opportunities for growth. Of course, in order to prudently plan for long-term growth, we need to have more stability and clarity on the regulatory framework under which we operate. Nevertheless, we welcome the decision to postpone Basel 4, and the recognition by some stakeholders that the risk of unintended consequences outweighs the benefits of a quick resolution.

To be sure, UBS remains positively levered to a normalization of macroeconomic conditions. Regardless, one thing that will not change is our utmost focus on executing our strategy and creating sustainable value for our clients and shareholders.

With that, I will turn it over to Kirt.

Kirt Gardner

Thank you, Sergio. Good morning everyone.

Slide 5 – UBS Group AG results (consolidated)

My commentary references adjusted results and comparisons are with the fourth quarter of 2015, unless otherwise stated.

For the fourth quarter, our results were adjusted for 372 million francs in net restructuring expenses, 27 million of net FX translation gains, and 88 million of gains on sales of financial assets available for sale.

Slide 6 – Wealth Management

Wealth Management PBT was up slightly year-over-year at 511 million, as lower expenses more than offset continued revenue headwinds.

Transaction-based income decreased by 2% to the lowest level on record, excluding the 45 million fee received from P&C for the shift of clients in 4Q15. These very low activity levels reflect seasonality and continued client risk aversion due to macro and political uncertainty.

Recurring net fee income decreased as a result of the effects of shifts to retrocession-free products, ongoing client asset shifts to lower-margin investments, and cross-border outflows. These declines were partly offset by higher average invested assets, improved mandate penetration, and pricing.

Net interest income decreased by 2%, as higher deposit margins and volumes were more than offset by lower treasury-related revenues.

Expenses were reduced by 9% to 1.3 billion, with a reduction in all expense lines, as substantially all the savings from the actions we announced in July have already been realized, earlier than anticipated.

Slide 7 – Wealth Management

Net new money for the full year was 27 billion, despite 14 billion in cross-border outflows, which we include in our headline net new money figure. Excluding these outflows, the full-year net new money growth rate would have been 4.3%.

The decrease in mandate penetration in the fourth quarter reflects seasonally lower net mandate sales as well as cross-border outflows.

Throughout 2016, gross and net margin erosion was caused by cross-border outflows, low client activity, deleveraging, an increase in assets from ultra-high net worth clients and shifts out of higher-margin investments. These were partially offset by our actions on pricing, an increase in mandate penetration, and structural cost reductions. We have launched a series of new revenue-related initiatives. In addition, we continued to invest in our business, including our APAC client advisors, launching new digital platforms like Smart Wealth in the UK, and migrating to one global platform to better serve our clients. These initiatives, along with the typical uptick we expect to see in client activity in the first quarter, should have a positive impact on our results. We also expect NII tailwinds from rising interest rates to help mitigate increased funding costs.

Slide 8 – Wealth Management

Net new money was negative 4 billion in the fourth quarter, principally as a result of over 7 billion in cross-border outflows, mainly in emerging markets, and to a lesser extent in APAC. As clients participate in voluntary tax compliance programs and automatic exchange of information becomes effective, we expect WM's net new money growth rate to remain around the lower end of our 3-5% target range for 2017.

In APAC, the gross margin drop to 65 basis points quarter-on-quarter was driven by a pronounced seasonal decline in transaction-based revenues.

During the year, APAC and the UHNW segment posted strong net growth in net new money, at 8 and 5%, respectively, further consolidating our leadership position in these strategic areas.

Slide 9 – Wealth Management Americas

With a PBT of 358 million dollars, Wealth Management Americas delivered a very strong result, up significantly year-on-year.

Operating income surpassed 2 billion dollars for the first time, on higher recurring net fee and net interest income. Managed account fees grew on increased invested assets leading to improved recurring net fee income, while net interest income rose due to higher short-term interest rates and continued growth in loan and deposit balances. For the first quarter, there are two fewer calendar days than in the fourth quarter, which will affect all income lines.

Operating expenses decreased to 1.7 billion dollars, as expenses for litigation provisions declined. This was partly offset by higher performance-based FA compensation on increased compensable revenues.

Slide 10 – Wealth Management Americas

Net new money outflows were 1.3 billion dollars, as net inflows from FAs employed with UBS for more than one year were more than offset by net outflows from net recruiting.

Slide 11 – Wealth Management Americas

Our financial advisors remained the most productive among their peers, with both invested assets and revenues per FA increasing quarter-on-quarter.

Lending balances increased 1% in the quarter and were up 6% year-on-year, on higher securities-backed lending and mortgage balances.

Slide 12 – Wealth Management Americas

From 2013 to 2016, WMA grew its PBT by an 8% compound annual growth rate to a record 1.3 billion, and we've seen improvement across all the metrics that underpin sustainable, profitable growth.

A stronger US economy and higher interest rates, combined with the positive client sentiment highlighted by Sergio, and the continued execution of our strategy should help maintain momentum in this business.

Slide 13 – Personal & Corporate Banking

Personal and Corporate posted a solid PBT of 395 million.

Operating income increased by 3% on higher transaction-based income, mainly as 4Q15 included a fee paid to Wealth Management for client shifts. This was partly offset by lower net interest income and recurring net fees.

We have seen four consecutive quarters of declining NII, and as previously highlighted, we expect this trend to continue. As you can see from our interest rate sensitivity slide in the appendix, negative implied forwards indicate an increasing drag on our net interest income, starting with a roughly 100 million decrease compared with 2016. In addition, we expect a substantial increase in funding costs related to achieving our TLAC requirements.

Operating expenses increased by 5% to 546 million, reflecting higher capital-related levies in Switzerland, expenses for litigation provisions, and marketing costs.

Annualized net new business volume growth for our personal banking business was 1.1%, the highest for a fourth quarter since 2011.

Slide 14 – Personal & Corporate Banking

For the full year, P&C delivered its best profit before tax, and lowest cost/income ratio since 2008. The business also achieved its highest net client acquisition in personal banking. Both income growth and declining operating expenses drove the 5% compound growth in PBT since 2013.

We're pleased with the performance in our home market, although we recognize the revenue headwinds this business faces.

Slide 15 – Asset Management

Asset Management delivered a profit before tax of 156 million, up 2%.

Net management fees were flat at 468 million, as fee true-ups totaling 17 million were largely offset by lower revenues following the sale of the Alternative Fund Services business in 4Q15. Performance fees were down, driven by Equities, Multi Asset and O'Connor.

Expenses were down year-over-year, driven by lower personnel expenses.

Net new money excluding money markets was negative 9.8 billion, largely due to net outflows from UBS's wealth management clients, driven by a combination of factors, including changes in asset allocation.

2016 was a challenging year for active managers, with accelerated shifts out of active into passive funds and unfavorable market conditions for many hedge funds. These conditions were exacerbated by client risk aversion. That said, we continue to value Asset Management's highly cashflow-generative and capital-light characteristics, as well as the synergies across our platform.

Slide 16 – Investment Bank

Market conditions and broader macroeconomic trends over the last year did not favor our Investment Bank's business and geographic mix. However, steps taken over the last few years to invest in our US business, proactive actions on costs and balance sheet management helped us deliver a 20% return on attributed equity for 2016.

Turning to the quarter, the IB posted a PBT of 344 million, up 54% year-on-year, as Equities and Corporate Client Solutions both delivered improved performance.

CCS revenues increased 9% year-over-year, largely due to DCM.

In ICS, Equities revenues were up 22% against a weak fourth quarter in 2015. Importantly, and partly due to our investments, the Americas region recorded its best performance for a fourth quarter in five years, driven by Cash Equities. Financing Services globally delivered its best fourth quarter since 2011.

FX, Rates and Credit revenues were down 12%, driven by weaker revenues in emerging markets as well as foreign exchange and interest rate options, as we did not benefit from the heightened volatility and volumes following the US election. Our client-centric, inventory-light and more selective FRC platform provides less upside than others may see in a market with increasing interest rates and volatility, absent an uptick in client activity.

Costs excluding variable compensation accruals were down 7% year-on-year, or 5% on a full year basis, from actions taken early in the year, as well as currency benefits. From year-end 2015, headcount was down 10%, and 4% from Q3 2016.

Slide 17 – Investment Bank

The IB has been very disciplined and diligent in managing its activities to absorb headwinds and drive returns, and enforces strict hurdle rate standards, which are aligned with its cost of capital, when deploying financial resources.

Despite a 7 billion increase in RWA from the prior year due to regulatory inflation and changes to our operational risk allocation, the IB has maintained low RWA levels, driving a very attractive return on RWA at 12% for the quarter.

LRD, which is currently the IB's binding constraint, was reduced by 14%, or 37 billion, through effective management, including netting and balance sheet reduction.

Slide 18 – Corporate Center

Corporate Center loss before tax was 662 million.

Corporate Center – Services costs before allocations were down, due to our cost reduction program.

Group ALM's profit before tax was negative 171 million, mostly due to accounting asymmetries related to economic hedges. Total risk management net income after allocations was negative 57 million this quarter and less than 200 million for the year, compared with our guidance of around negative 50 million per quarter.

Non-core and Legacy Portfolio posted a loss of 215 million, an improvement from 4Q15, mainly due to lower expenses, including for litigation provisions. LRD was down 3 billion from the prior quarter and 16 billion year-on-year to 22 billion.

Slide 19 – Cost reduction

During the quarter, we increased our net cost reduction run-rate by 100 million to 1.6 billion.

When comparing cost reduction programs across the industry, there are a few important factors to note. At UBS, non-structural reductions in front-office variable compensation, which were material in 2016, are not included in the 1.6 billion net savings achieved thus far. Also, apart from Non-core and Legacy Portfolio, we expect de minimis cost reduction contributions from business exits.

We expect restructuring expenses to taper from 2018 onwards as our cost reduction program comes to an end, providing further benefit to our reported results.

Slide 20 – Going concern capital and leverage ratios

Our capital position remained strong, with a fully applied CET1 ratio of 13.8%. The decrease from the prior quarter mostly relates to a 7 billion increase in market risk RWA, from exceptionally low levels.

Our fully-applied CET1 leverage ratio increased to 3.53%, as LRD was down 7 billion and CET1 capital increased.

As previously mentioned, the replacement of UBS AG senior and Tier 2 instruments with TLAC-eligible instruments, to comply with requirements, will lead to higher funding costs. For 2017, we expect funding costs for the Group to increase by over 100 million compared to 2016.

Slide 21 – Equity attribution framework

Our equity attribution framework reflects regulatory requirements, along with core equity that underpins each division's business activities. As regulatory requirements have evolved, we have updated the framework to reflect these changes, while maintaining a consistent and transparent approach.

During our 2016 planning process, we modified the framework to reflect recent regulatory changes, most notably LCR and the Swiss TBTF capital regime. Under the new allocation, which is effective as of January 1st, 2017, we will further increase external transparency on the resources consumed by our business divisions, directly and indirectly.

Our revised framework captures a number of improvements:

1. We will move from one third RWA / LRD / Risk-Based Capital – or RBC – to 50% each RWA and LRD, with an RBC floor if the CET1 equivalent of RBC exceeds the RWA / LRD calculation.
2. We will continue to use an 11% RWA and 3.75% LRD conversion factor to CET1, both of which are higher than the 2020 regulatory requirements.
3. We will now allocate equity directly associated with activity managed centrally by Group ALM on behalf of the divisions. The majority of this is due to HQLA held against our divisions' liquidity requirements, based on a 110% LCR. Approximately 60% of Group ALM's LRD will be attributable to the business divisions as a result. Group ALM RWA related to the HQLA book will also be allocated, although this is a

less material amount, given the low risk-weighting of these assets. Starting in 1Q17, we will disclose the attributable portion of RWA and LRD by business division.

4. Equity related to excess funding and liquidity, in other words, amounts above the 110% LCR for liquidity, will be retained in Group ALM.
5. Under the new framework, 100% of the equity related to goodwill and intangibles will be allocated to the relevant business divisions.
6. And finally, we will allocate 100% of shareholders' equity, with Corporate Center retaining all other Basel 3 deduction items, such as DTAs, dividend accruals, unrealized gains from cash-flow hedges, and Treasury share components.

With these changes, we believe our equity attribution framework fully allocates capital required by our businesses under currently known regulatory requirements. It also has the flexibility to accommodate further regulatory developments, including the finalization of Basel 3 and NSFR.

As a consequence of the increase in CET1 capital attributed to the business divisions, and including the 100 million plus headwind from Group funding costs I just mentioned, we expect to see a headwind to net interest income allocated to the business divisions by around 300 million in 2017 versus 2016. This change will principally affect the IB, P&C, and WM.

The CET1 capital attributed to the IB would equate to an implied CET1 capital ratio of more than 13% for 4Q16. On a total going and gone-concern basis, its implied capital ratio would be over 30%. Despite an increase in the IB's attributed equity by around a quarter, we are maintaining its target return on attributed equity of greater than 15% over the cycle, based on the current regulatory regime. Using the new framework, the IB's average return on attributed equity would have been around 15% over the last four years, and nearly 20% excluding expenses for litigation provisions. Despite the increase in allocation of resources as a result of the revised equity allocation framework, we expect the IB to continue to operate within our short to medium-term expectations of 85 billion RWA and 325 billion LRD. We will assess our targets and expectations for all business divisions once the Basel 3 rules have been finalized. The adoption of our revised attributed equity framework has not provided any new insight that would lead us to change our strategy or manage our businesses differently.

In closing, as Sergio said, 2016 was a solid year, especially considering the very challenging environment. We believe our strategy and balanced business mix, combined with our focus on execution, position us well to continue to deliver for our clients and shareholders in 2017.

With that, 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 targets for risk-weighted assets (RWA) and leverage ratio denominator (LRD), and the degree to which UBS is successful in implementing changes to its wealth management 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 may impose, or result in, more stringent 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 would have on UBS’s business activities; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve, or confirm, limited reductions of gone concern requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements, including changes in legal structure and reporting required to implement US enhanced prudential standards, implementing a service company model, completing the transfer of the Asset Management business to a holding company, and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements relating to capital requirements, resolvability requirements and proposals in Switzerland and other countries for mandatory structural reform of banks and the extent to which such changes have the intended effects; (vii) 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 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; (xiv) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xv) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyber-attacks, and systems failures; 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Use of adjusted numbers

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 7 of the 4Q16 report which is available in the section "Quarterly reporting" at www.ubs.com/investors for an overview of adjusted numbers.

If applicable for a given adjusted KPI (i.e., adjusted return on tangible equity), adjustment items are calculated on an after-tax basis by applying an indicative tax rate. Refer to page 13 of the 4Q16 report for more information.

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