Compensation

Julie G. Richardson
Chair of the
Compensation Committee
of the Board of Directors

Dear Shareholders,

The Board of Directors and I wish to thank you for your support once again at last year's Annual General Meeting (AGM) and for sharing your views on our compensation practices over the past year.

Throughout 2019, the BoD Compensation Committee continued to oversee compensation and ensure that reward reflects performance, appropriate risk-taking and supports the alignment of employee interests with those of our shareholders. As the new Chair of the Compensation Committee, I am pleased to present our Compensation Report for 2019.

Shareholder engagement

Over the course of 2019, we continued proactively engaging with shareholders and considered the feedback we received at the 2019 AGM. While shareholders value the consistency of our approach including the long delivery of our deferred compensation over five years, the feedback also highlighted opportunities to further evolve our approach. Our revised compensation framework supports us in achieving our ambitions for the Group and greater alignment with shareholders' interests.

We conducted a holistic review of all elements of our compensation framework for our employees, most senior leaders including the Group Executive Board (the GEB), the Chairman and independent Board members. We heard feedback requesting stronger alignment and we have taken that feedback seriously. While we have maintained the most important elements of our compensation framework, our review has led to some significant changes, as summarized in the table below and further detailed throughout this report.

Key changes to our compensation framework and related disclosures

Introduction of the Long-Term Incentive Plan	– Effective for the performance year 2019, we replaced the Equity Ownership Plan (the EOP) with the **new equity-based Long-Term Incentive Plan (the LTIP)** for our most senior leaders (i.e., Group Executive Board (GEB) members, Group Managing Directors (GMDs) and Group or Divisional Vice Chair role holders). This supports the alignment of compensation with the execution of our strategy, financial performance and long-term growth. – The LTIP features an absolute and a relative performance condition based on **reported return on CET1 capital (RoCET1) and relative total shareholder return (rTSR) metrics**, creating a strong sensitivity of realized compensation to UBS's financial performance and share price, and supports alignment with shareholders. – Achieving the maximum payout under the LTIP requires both a three-year average RoCET1 of 18% and, over a three-year period, for our TSR to outperform the peer index by 25 percentage points. – The use of reported RoCET1 as a performance metric supports the focus on ensuring the cost of litigation matters has a direct impact on the compensation awarded and realized by our most senior leaders.
Additional vesting condition in connection with the resolution of the French cross-border matter	– For the Group CEO and certain other GEB members, the vesting of **a portion (30%) of the 2019 LTIP** award is, in addition to RoCET1 and rTSR performance conditions, **directly linked to the final resolution of the French cross-border matter**. This portion is entirely at risk and subject to forfeiture based on the final cost associated with the resolution of the matter. The same vesting condition also applies to a portion of the Chairman's 2019 share award. – This is consistent with our approach to **align the interests of management with those of shareholders** to resolve this matter in the best interests of all shareholders, even though the underlying issue is a legacy matter.
Rebalancing of fees for members of the Board of Directors	– Reflecting our holistic review, we have made a number of adjustments that also contribute toward our cost reduction efforts; starting with the current period from the 2019 AGM to the 2020 AGM, **the Chairman's fixed compensation was reduced by 14%**. – In the same spirit, and effective from the 2020 AGM onward, the **BoD will reduce fees for all its members** and eliminate the share price discount. – The adjustments in Board fees reflect our **commitment to sustainable results while maintaining competitive fee levels** aligned with the demands on our Board members.
Enhanced disclosure for CEO performance assessment	– We have **enhanced the transparency** of the major elements of the performance assessment for the Group CEO. – The disclosure brings **further clarity on the overall achievement, weighting and the scale of the assessment**.

Cornerstones of our compensation framework

Consistent approach to key elements has been maintained	– Strong alignment between compensation and **risk-adjusted financial performance** – Consideration of **behaviors and conduct** in performance assessment and compensation – High mandatory deferral rates into **UBS shares** and UBS **contingent capital** – **Long deferral periods** over five years – **Forfeiture and clawback** provisions

2019 financial highlights and performance award pool

In 2019, we delivered solid financial results in mixed market conditions, demonstrating the strength of our business model. Reported profit before tax was USD 5.6 billion, a decrease of 7% compared with 2018, while adjusted profit before tax decreased slightly to USD 6.0 billion. We maintained our strong capital position with a common equity tier 1 (CET1) capital ratio of 13.7% and a CET1 leverage ratio of 3.9% at year-end, both above our capital guidance. Reported return on CET1 capital was 12.4%. For 2019, the BoD intends to propose a dividend of USD 0.73 per share and we repurchased USD 806 million (CHF 800 million) of UBS shares over the course of the year.

In 2019, interest rate headwinds intensified, global growth slowed and geopolitical concerns persisted, impacting the overall Group results and, consequently, the Group performance award pool. In determining the final pool and consistent with prior years, we have considered a range of factors. These include risk-adjusted profit, returns and capital strength, as well as relative performance, progress on ESG, regulatory and litigation matters, including the impact of the French cross-border matter on the firm and the resulting share price development. The year-on-year development of the performance award pool reflected a reduction beyond that implied by underlying performance.

Based on these considerations, the performance award pool for the Group decreased 14% to USD 2.7 billion (compared with USD 3.1 billion in the prior year). This decrease demonstrates our disciplined approach in managing compensation over business cycles and alignment to shareholder interests, and we believe without significantly impacting our competitive pay position.

The GEB performance award pool, which includes the Group CEO performance award and is part of the Group pool, was CHF 70.3 million, a reduction of 14% on a per capita basis and 4% overall. As a percentage of adjusted Group profit before tax, the GEB performance award pool was 1.2%, well below the cap of 2.5%. The overall pool also reflects the changes in the composition of the GEB, including new GEB members and the elevation of certain roles to the GEB that were previously not included, and therefore the adjustments do not reflect a meaningful change in the total cost to shareholders. These changes were made to optimize our governance structure and execute on our strategic priorities.

2019 compensation philosophy and framework

Our compensation philosophy and framework support the alignment of employee interests with those of our shareholders and clients. The consistency of our approach reinforces our culture of sustainable performance, while also supporting our growth ambitions, sound governance, accountability and appropriate risk-taking. The recognition of behaviors and culture is an important element of our framework. To reinforce the behaviors framework established by the BoD and the GEB, we reward not only what was achieved, but also how those results were achieved. We reward doing the right thing, collaborating across the bank and speaking up to identify opportunities and risks. We penalize instances of behavior that do not reflect our values.

Variable compensation is earned over the performance year and many employees have a significant portion of their annual performance award deferred. We believe UBS has one of the most rigorous deferral regimes in the industry, with a deferral period of up to five years, or longer for certain regulated employees. This long deferral period, in conjunction with our deferred contingent capital (DCCP) awards, has been a cornerstone of our compensation framework to support sustainability. Since 2012, our most senior leaders have received 50% of their performance award in equity, linking a significant portion of compensation to the UBS share price. We have enhanced this feature by adding a connection to rTSR in the new LTIP.

Litigation and regulatory matters, and their resolution and remediation, are taken into consideration in the compensation decision-making process. Share price movements affect all employees receiving deferred equity-based awards. With respect to the performance conditions on LTIP awards, provisions for legal, regulatory and similar matters will directly affect the reported RoCET1 metric and thus also the final vesting amount. This metric accounts for 50% of the final payout under the 2019 LTIP. The use of reported RoCET1 as a performance metric supports the focus on ensuring the cost of litigation matters has a direct effect on the compensation awarded to and realized by our most senior leaders, including the GEB.

For 2019, to further enhance alignment with shareholders on the French cross-border matter, we have also introduced a new additional vesting condition for the Chairman, the Group CEO and certain other GEB members, which links a portion of their 2019 equity compensation to the final resolution of the French cross-border matter. This underlines their accountability for the successful resolution of the matter in the best interest of shareholders even though the underlying issue is a legacy matter.

Board fees and Chairman compensation

In our review of the remuneration framework for independent Board members, we concluded that our fundamental approach remains appropriate. However, effective from the 2020 AGM onward, a number of adjustments will be made to reduce the level of the Board's compensation while still maintaining competitive fee levels.

The Chairman's fixed compensation has been reduced by CHF 0.8 million, or 14%, to CHF 4.9 million. This change is already effective for the current period from the 2019 AGM to the 2020 AGM. As noted above, a portion of the Chairman's 2019 share award remains entirely at risk due to a new vesting condition linked to the final resolution of the French cross-border matter. This further demonstrates the Chairman's alignment with shareholders on this matter and his accountability to resolve this matter in the best interest of shareholders.

In the same spirit, the BoD will reduce their base fee and eliminate their share price discount, resulting in a total fee reduction of approximately 14% (depending on committee memberships) and a 10% reduction in our proposed maximum amount of compensation for the BoD.

Environmental, Social and Governance (ESG)

We are fully committed to ESG topics and reflect them in our compensation processes. ESG-related objectives have been embedded in our Pillars and Principles since they were established in 2011. Our contribution to supporting the planet, our workforce, our clients and society are important to our success. ESG matters are considered in the performance and compensation determination process in different aspects as described later in this report.

UBS continued to make progress in 2019 toward meeting its ambitions to be a leader in sustainable finance, in philanthropy and in sustainable business practices, as well as being an employer of choice. We were recognized as the industry leader, for the fifth time in a row, in the Dow Jones Sustainability Indices (the DJSI), the most widely recognized sustainability ranking, and received other valuable recognition from MSCI, Sustainalytics and CDP.

Gender-related aspects in compensation

UBS remains committed to hiring, retaining and promoting more women at all levels across the firm. With two female GEB members and four female independent Board members, we have a leading position with regard to this topic.

The Compensation Committee systematically reviews any gender pay gap for equivalent roles across the workforce. Our policies and practices are impartial and support equal pay, and we are committed to ensuring that all employees are paid fairly.

Pay equity is embedded into our compensation policies and practices and we conduct regular reviews to ensure that all employees are paid fairly. In 2019, an independent third party conducted an analysis across the globe that shows that the unexplained salary differential between female and male employees is less than 1% at UBS. We continue to review the root causes and address any issue that cannot be explained by business factors such as experience, role / job, responsibility, performance or location.

Overall, we continue to make progress toward our aspiration of increasing the ratio of women in management roles to one-third, but progress takes time and we are committed to accelerating our efforts to progress women at all ranks.

Compensation Committee membership

In 2019, Dieter Wemmer and I welcomed Reto Francioni back to the committee and Fred Hu to the committee for the first time.

2020 Annual General Meeting

At the 2020 AGM on 29 April, we will seek your support on the following compensation-related items:
– the maximum aggregate amount of compensation for the BoD for the period from the 2020 AGM to the 2021 AGM;
– the maximum aggregate amount of fixed compensation for the GEB for 2021;
– the aggregate amount of variable compensation for the GEB for 2019; and
– shareholder endorsement in an advisory vote for this Compensation Report.

On behalf of the Compensation Committee and the BoD, I would like to thank you again for your feedback. The changes made have enhanced our compensation framework in the interests of shareholders, and we respectfully ask for your continued support at the upcoming AGM.

Julie G. Richardson
Chair of the Compensation Committee of the Board of Directors

Performance and compensation at a glance

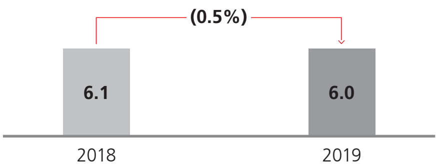
Financial achievements and strategic highlights[1]

- We delivered solid financial results in mixed market conditions, reflecting the strength of our business model. Profit before tax decreased 7% to USD 5.6 billion, as a 4% decrease in operating income was not fully offset by lower operating expenses. Adjusted profit before tax decreased slightly to USD 6.0 billion, as reduced adjusted operating expenses nearly offset lower adjusted operating income.
- Net profit attributable to shareholders decreased 5% to USD 4.3 billion. Return on common equity tier 1 (CET1) capital was 12.4%. Our reported cost / income ratio increased 62 basis points to 80.5%, reflecting cost management measures that partly offset lower revenues, while our adjusted cost / income ratio saw a 51 basis point improvement to 78.9%, reflecting 4% lower expenses and 3% lower revenues.
- Our capital position remained strong, with a CET1 capital ratio of 13.7% and a CET1 leverage ratio of 3.9%, both above our capital guidance of around 13% and 3.7%, respectively. We increased our total loss-absorbing capacity by USD 5.9 billion to USD 89.6 billion.
- For the financial year 2019, the Board of Directors intends to propose a dividend of USD 0.73 per share, an increase compared with 2018. During 2019, we repurchased USD 806 million (CHF 800 million) of UBS shares and our tangible book value per share increased 6% to USD 13.29.

→ **Refer to the "Financial and operating performance" section of our Annual Report 2019 for further details about our Group and business division performance**

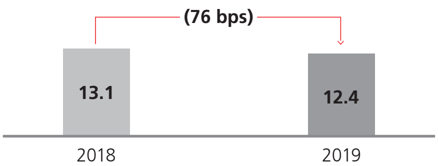
Adjusted Group profit before tax[1]

USD billion



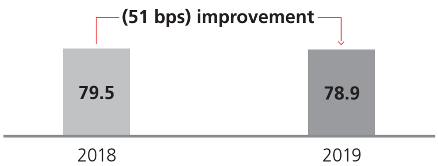
Return on CET1 capital

in %



Adjusted cost / income ratio[1]

in %

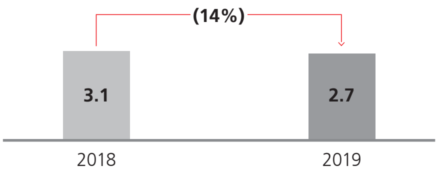


1 Adjusted results are alternative performance measures (APMs) and non-GAAP financial measures. Refer to "Group Performance" in the "Financial and operating performance" section of our Annual Report 2019 for further information and a reconciliation of adjusted results to reported results.

Performance award pool year-on-year development

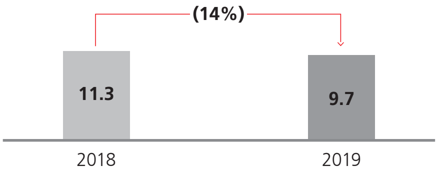
Group performance award pool

CHF billion



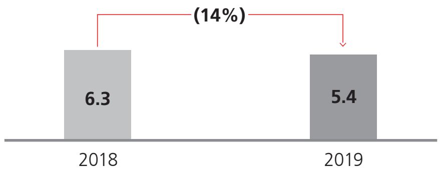
Group CEO performance award

CHF million



Per capita GEB performance award pool

CHF million



- The Group performance award pool for 2019 decreased 14% compared with the previous year. This significant decrease, which is a greater reduction than the change in underlying performance, demonstrates our disciplined approach in managing compensation over business cycles and alignment to shareholder interests, and we believe without significantly impacting our competitive pay position. It also considers the impact of the French cross-border matter on the firm and the resulting share price development.
- The Group CEO performance award for 2019 was CHF 9.7 million, a decrease of 14% compared with 2018. The award is comprised of 20% in cash (CHF 1.9 million) with the remaining 80% (CHF 7.8 million) deferred over three to five years.
- The GEB performance award pool, which includes the Group CEO performance award and is part of the Group performance award pool, was CHF 70.3 million, a decrease of 14% on a per capita basis and 4% overall. The overall pool also reflects the changes in the composition of the GEB, including new GEB members and the elevation of certain roles to the GEB that were previously not included, and therefore the adjustments do not reflect a meaningful change in the total cost to shareholders. These changes were made to optimize our governance structure and execute on our strategic priorities.
- The new Long-Term Incentive Plan introduced for 2019 performance awards increases the GEB's exposure to the future performance of the Group and directly links compensation to relative total shareholder return.
- In addition, CHF 7.3 million of the GEB performance award pool is entirely at risk, contingent upon the final resolution of the French cross-border matter.

Cautionary Statement Regarding Forward-Looking Statements | This report contains statements that constitute "forward-looking statements," including but not limited to management's outlook for UBS's financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS's business and future development. While these forward-looking statements represent UBS's judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's expectations. These factors include, but are not limited to: (i) the degree to which UBS is successful in the ongoing execution of its strategic plans, including its cost reduction and efficiency initiatives and its ability to manage its levels of risk-weighted assets (RWA) and leverage ratio denominator (LRD), including to counteract regulatory-driven increases, liquidity coverage ratio and other financial resources, and the degree to which UBS is successful in implementing changes to its businesses to meet changing market, regulatory and other conditions; (ii) the continuing low or negative interest rate environment in Switzerland and other jurisdictions, 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, geopolitical tensions, and changes to national trade policies 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, including Interest Rate Benchmark Reform, and regulation in Switzerland, the US, the UK, the European Union and other financial centers that have imposed, or resulted in, or may do so in the future, more stringent or entity-specific capital, TLAC, leverage ratio, net stable funding ratio, liquidity and funding requirements, heightened operational resilience requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration, constraints on transfers of capital and liquidity and sharing of operational costs across the Group or other measures, and the effect these will or would have on UBS's business activities; (v) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements and the potential need to make further changes to the legal structure or booking model of the UBS Group in response to legal and regulatory requirements, proposals in Switzerland and other jurisdictions for mandatory structural reform of banks or systemically important institutions or to other external developments, and the extent to which such changes will have the intended effects; (vi) UBS's ability to maintain and improve its systems and controls for the detection and prevention of money laundering and compliance with sanctions to meet evolving regulatory requirements and expectations, in particular in the US; (vii) the uncertainty arising from the UK's exit from the EU; (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 regulations 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, potentially large fines or monetary penalties, or the loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational risk component of our RWA as well as the amount of capital available for return to shareholders; (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; (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) UBS's ability to implement new technologies and business methods, including digital services and technologies, and ability to successfully compete with both existing and new financial service providers, some of which may not be regulated to the same extent; (xv) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyberattacks or other cybersecurity disruptions, and systems failures; (xvii) restrictions on the ability of UBS Group AG to make payments or distributions, including due to restrictions on the ability of its subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA or the regulators of UBS's operations in other countries of their broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; (xviii) the degree to which changes in regulation, capital or legal structure, financial results or other factors may affect UBS's ability to maintain its stated capital return objective; and (xix) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS's Annual Report on Form 20-F for the year ended 31 December 2019. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

Rounding | Numbers presented throughout this report may not add up precisely to the totals provided in the tables and text. Percentages, percent changes, and adjusted results are calculated on the basis of unrounded figures. Information about absolute changes between reporting periods, which is provided in text and which can be derived from figures displayed in the tables, is calculated on a rounded basis.

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

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