UBS

UBS Group AG

Compensation Report 2017

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Dear shareholders

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

Throughout 2017, the BoD Compensation Committee continued to oversee the compensation framework and ensure that reward balances performance with prudent risk-taking while also creating alignment with our shareholders and other stakeholders. I am pleased to present our Compensation Report for 2017, which provides further information about our compensation philosophy and approach.

2017 performance

We delivered excellent financial results, maintained our strong capital positon and achieved our net cost reduction target in 2017.

Our adjusted[1] profit before tax increased 16% to CHF 6.2 billion. Net profit attributable to shareholders was CHF 1.1 billion, compared with CHF 3.2 billion in 2016, as it reflected a CHF 2.9 billion net write-down of deferred tax assets (DTAs). The enactment of the US Tax Cuts and Jobs Act in the fourth quarter of 2017 reduced the tax rate from 35% to 21%, thereby reducing the value of previously recognized US DTAs.

Excluding the DTA write-down, net profit attributable to shareholders would have increased by 22% year over year. The DTA write-down had no impact on our ability to return capital to shareholders and had a negligible impact on fully applied CET1 capital.

We maintained a strong capital position with a fully applied CET1 capital ratio of 13.8% and an improved CET1 leverage ratio of 3.7% while maintaining our post-stress CET1 capital ratio above the 10% objective. The BoD intends to propose a dividend of CHF 0.65 per share, an increase of 8% compared with 2016. In addition, UBS will initiate a share repurchase program of up to CHF 2 billion over three years, commencing with up to CHF 550 million in 2018.

2017 performance award pool and expenses

Based on the 2017 Group and business division results, the total performance award management pool was CHF 3.1 billion, an increase of 6% compared with the prior year. The Compensation Committee considers a range of financial factors, including risk-adjusted profit and capital strength, as well as affordability, risk profile and a focus on returns to shareholders, when determining the performance award pool. Revaluations of DTAs do not reflect the underlying performance of the business and are not within management's control; therefore consistent with prior years (when their impact has been positive), they have not affected the funding of the performance award pool.

The Group Executive Board (GEB) performance award pool, including the Group CEO, was CHF 74.2 million, an increase of 3.1%. As a percentage of the adjusted Group profit before tax, the GEB performance award pool was 1.2%, well below the cap of 2.5%.

2017 compensation philosophy and framework

Our compensation philosophy aligns the interests of our investors, clients and employees. Our approach to compensation has remained largely unchanged since we introduced our current Total Reward framework in 2012. The consistency of our approach continues to strengthen our culture of sustainable performance, accountability and appropriate risk-taking. In addition, it provides clarity in compensation discussions with our employees as well as with our shareholders.

Our variable compensation includes significant mandatory deferral for employees, thus creating alignment between our employees' and stakeholders' interests and reinforcing that compensation is appropriately linked to longer-term sustainable performance. We believe UBS has one of the most rigorous deferral regimes in the industry with a deferral period over five years, or longer for certain regulated employees.

1 Please refer to "Group performance" in the "Financial and operating performance" section of the Annual Report 2017 for more information on adjusted results.

Following the Compensation Committee's review of our principles and framework, enhancements were made to further align our approach with our long-term strategy and shareholder and client interests, as well as to remain competitive and comply with regulatory requirements. For example, to remain competitive, we have raised the cap for immediate cash performance awards to CHF 2 million. With regard to share ownership requirements, we substantially increased the requirements for the Group CEO (1,000,000 shares) and for the other GEB members (500,000 shares).

Culture and behaviors

We remain focused on further strengthening our culture to foster and sustain our competitive position. We continue to emphasize behaviors as part of our culture, and we reward not only what results were achieved but also how they were achieved.

We recognize and encourage positive behavior and culture carriers through our Group Franchise Awards (GFA) program, which fosters conduct that exemplifies our Behaviors. The GFA program aims to incentivize the collaboration and cooperation between employees as well as to recognize employees' ideas and suggestions on how to improve processes and efficiency.

Further, we continue to operate a robust Incidents & Consequences process that includes reflecting disciplinary actions and control incidents in deliberations for promotions and performance awards. This includes a multi-year review of incidents to consider behaviors over a longer time horizon.

Our disciplinary approach for violations of our Code of Conduct and Ethics and the incorporation of conduct risk in our operational risk framework demonstrate our commitment to treat each other as well as our clients and counterparties appropriately and to act with integrity in the financial markets.

We consider pay fairness an integral part of our compensation philosophy and we maintain practices designed to achieve appropriate pay across diverse groups, including gender.

Annual General Meeting 2018

The BoD and the Compensation Committee appreciate the opportunity to engage with many of our shareholders on compensation matters.

At the Annual General Meeting (AGM) 2018 on 3 May 2018, we will seek your support on the following compensation-related items:

Ann F. Godbehere
Chair of the Compensation Committee of the Board of Directors

– the maximum aggregate amount of compensation for the BoD for the period from AGM 2018 to AGM 2019
– the maximum aggregate amount of fixed compensation for the GEB for 2019
– the aggregate amount of variable compensation for the GEB for 2017
– shareholder endorsement in an advisory vote for the Compensation Report

Ann F. Godbehere
Chair of the Compensation Committee of the Board of Directors

2017 compensation philosophy

Total Reward Principles

Our compensation philosophy is to align the interests of our employees with those of our clients and investors, building on our three keys to success – our Pillars, Principles and Behaviors. Our Total Reward Principles establish a framework that balances sustainable performance and prudent risk-taking with a focus on conduct and sound risk management practices.

Our compensation structure is aligned with our strategic priorities. It therefore links the interests of our employees with those of our stakeholders and encourages our employees to focus on our clients, create sustainable value and achieve the highest standards of performance. Moreover, we reward behavior that helps build and protect the firm's reputation – specifically integrity, collaboration and challenge. We strive for excellence and sustainable performance in everything we do. Compensation for each employee is based on individual, team, business division and Group performance, within the context of the markets in which we operate.

Our Total Reward Principles

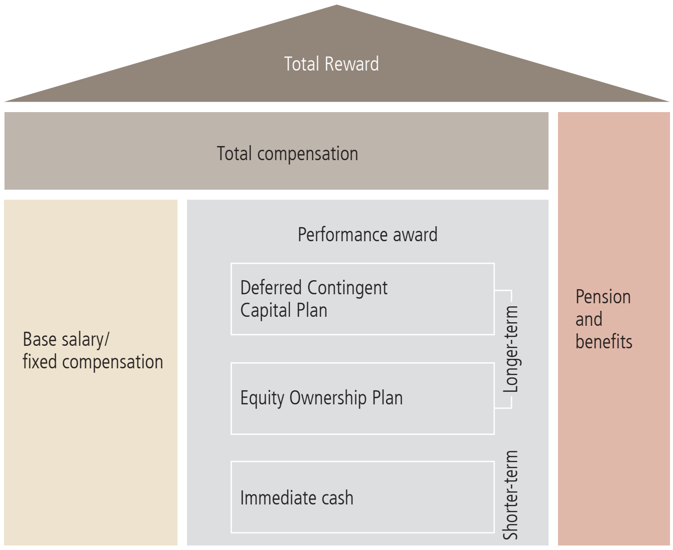
Our Total Reward Principles apply to all employees globally. They may vary in certain locations due to local laws and regulations. The table below provides a summary of our Total Reward Principles.

Attract and engage a diverse, talented workforce	We provide employees with pay that is appropriately balanced between fixed and variable elements, competitive in the market and paid out over an appropriate period
Foster effective individual performance management and communication	Thorough evaluation of individual performance and adherence to our Behaviors, combined with effective communication, ensures there is a direct connection between achievement of business objectives and compensation across the firm
Align reward with sustainable performance	We embrace a culture of integration and collaboration within the firm. Our approach to compensation fosters engagement among employees and serves to align their long-term interests with those of clients and stakeholders
Support appropriate and controlled risk-taking	Compensation is structured such that employees behave in a manner consistent with the firm's risk framework and tolerance, thereby protecting our capital and reputation, and enhancing the quality of our financial results, in line with what our stakeholders expect from us

Our Total Reward approach

At UBS we have a holistic approach to compensation. Our Total Reward approach consists of fixed compensation (base salary and role-based allowances, if applicable), performance awards (immediate cash performance award and for employees with total compensation exceeding CHF / USD 300,000 Equity Ownership Plan and Deferred Contingent Capital Plan), pension contribution and benefits. Performance awards, where applicable, are determined based on a number of factors, including Group, business division, team and individual performance, and awarded in line with applicable local employment conditions and at the discretion of the firm.

Our Total Reward is structured to support sustainable results. A substantial portion of our performance award is deferred and vests over a period of five years, or longer for certain regulated employees. This deferral regime aligns employee and investor interests, and supports our capital base and the creation of sustainable shareholder value.



Illustrative overview

Performance award

The performance award process consists of pool funding determination, allocation and delivery and, if applicable, deferral to align reward with sustainable performance as outlined in the chart below. This process also includes additional specific pay-for-performance safeguards for our Group Executive Board (GEB) members.

Performance award

Pool funding determination	Allocation	Deliver and defer
Performance award pool is determined by considering risk-adjusted and sustainable performance, including:	**Performance awards are allocated to employees based on Group, business division, team and individual performance recognizing what was achieved and how it was achieved, including:**	**Performance awards are delivered through a deferral to align employee interests with investor interests:**
– Overall performance including quality of earnings and capital strength – Returns to investors – Risk profile and adjustments – Progress on strategic initiatives – Affordability – Market competitiveness / position	– Client focus – Financial results and capital management – Risk management – People and talent development – Principles and Behaviors	– Substantial amounts of performance awards are deferred – At least 50% deferred for Key Risk Takers – Long-term deferral of up to five years, or longer for certain regulated employees – Shareholder- and debt holder-aligned vehicles – No leverage in compensation plans

Additional GEB pay-for-performance safeguards:

– Cap on individual performance awards and total GEB performance award pool	– Allocations based on a performance assessment considering quantitative and qualitative measures that includes Group / business division and / or region performance including our Pillars, Principles and Behaviors – Performance assessment includes evaluation by a control function	– At least 80% of awards are at risk of forfeiture – Cap on immediate cash performance award – Share ownership requirements – Six-month notice period in employment contracts – No hedging strategies allowed – Binding votes on aggregate GEB compensation – Advisory vote on the Compensation Report

2017 performance and compensation funding

Our performance in 2017

We delivered excellent 2017 financial results. Adjusted[1] profit before tax increased 16% to CHF 6.2 billion and reported profit before tax increased 29% to CHF 5.3 billion, reflecting higher operating income and a reduction in operating expenses. We also achieved our CHF 2.1 billion net cost reduction target while investing for growth.

Net profit attributable to UBS Group AG shareholders was CHF 1.1 billion, and included a CHF 2.9 billion net write-down of deferred tax assets (DTAs) following the enactment of the US Tax Cuts and Jobs Act in the fourth quarter of 2017, which reduced the federal corporate tax rate from 35% to 21%. This resulted primarily in a reduction of the potential future value of previously recognized US tax losses. Excluding this net DTA write-down, net profit attributable to shareholders would have increased 22% to CHF 3.9 billion. Our 2017 adjusted return on tangible equity excluding DTAs was 13.8%.

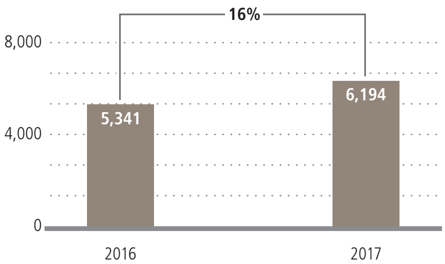
Our capital position remained strong. As of 31 December 2017, our fully applied common equity tier 1 (CET1) capital ratio remained stable at 13.8% and our fully applied CET1 leverage ratio improved from 3.5% to 3.7%. We increased our fully applied total loss-absorbing capacity by CHF 9.1 billion to CHF 78.3 billion.

For the financial year 2017, the Board of Directors intends to propose a dividend of CHF 0.65 per share, an increase of 8% on the prior year. We will also initiate a share repurchase program of up to CHF 2 billion over the next three years, commencing with up to CHF 550 million in 2018.

1 Please refer to "Group performance" in the "Financial and operating performance" section of the Annual Report 2017 for more information on adjusted results.

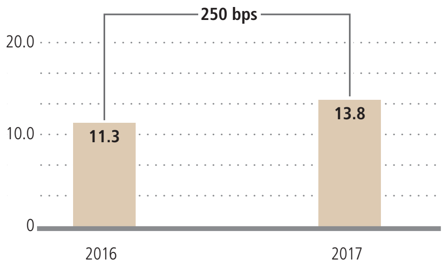
Adjusted profit before tax

CHF million



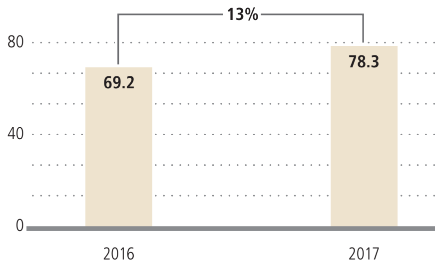
Adjusted return on tangible equity excluding DTAs[1]

in %



Total loss-absorbing capacity

CHF billion



1 Calculated as adjusted net profit / loss attributable to shareholders excluding deferred tax expense / benefit, such as the net write-down due to the US Tax Cuts and Jobs Act enacted in the fourth quarter of 2017, divided by average tangible equity attributable to shareholders excluding any DTAs that do not qualify as fully applied CET1 capital.

Our Wealth Management business reported adjusted profit before tax of CHF 2.8 billion, an increase of 15% compared with 2016, driven by increases in all income lines coupled with effective cost control. Net new money was CHF 51.1 billion, reflecting an annual growth rate of 5.2%.

Wealth Management Americas reported adjusted profit before tax of USD 1.3 billion, an increase of 8% compared with 2016. Operating income increased mainly on higher net interest and recurring net fee income. Operating expenses increased mainly due to higher financial advisor compensation reflecting changes announced in 2016 to our compensation model. Strong inflows from same store advisors were more than offset by lower net recruiting, consistent with changes in the operating model, resulting in net new money outflows of USD 7.2 billion.

Personal & Corporate Banking reported adjusted profit before tax of CHF 1.7 billion, a decrease of 4% compared with 2016, mostly due to lower net interest income reflecting the negative rate environment in Switzerland and higher funding costs, as well as higher expenses related to strategic and regulatory initiatives. Net new business volume growth for personal banking was a record 4%.

Our Asset Management business reported adjusted profit before tax of CHF 525 million, a decrease of 5% compared with 2016, primarily reflecting lower operating income. Invested assets reached a nine-year high of CHF 776 billion. Net new money inflows excluding money market flows totaled CHF 48.1 billion for the year.

Adjusted profit before tax in the Investment Bank remained broadly unchanged at CHF 1.5 billion. Lower revenues in Foreign Exchange, Rates and Credit, mainly resulting from reduced client activity due to continued low market volatility, were broadly offset by increased revenue in Equity Capital Markets and in Equity Derivatives. The adjusted return on attributed equity for the Investment Bank was 16%.

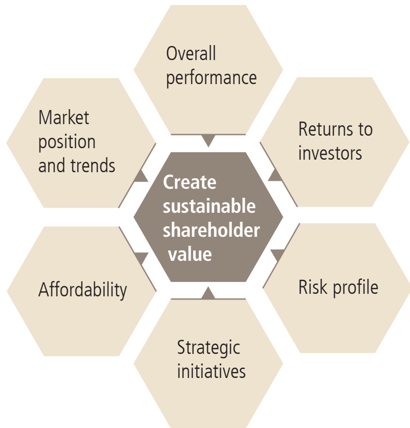
Corporate Center reported an adjusted loss before tax of CHF 1.6 billion compared with CHF 2.1 billion in 2016, mainly reflecting reduced expenses.

→ **Refer to "Group performance" in the "Financial and operating performance" section of the Annual Report 2017 for more information**

Performance award pool funding

Our performance award pool funding framework is based on business performance, which is measured across multiple dimensions as outlined below.

Contribution to create a sustainable shareholder value



We assess Group and business division performance, including achievement against a set of performance targets, and we also consider performance relative to industry peers, general market competitiveness and progress against our strategic objectives, including capital growth as well as risk-weighted assets and cost efficiency. We look at the firm's risk profile and culture, the extent to which operational risks and audit issues have been identified and resolved, and the success of risk reduction initiatives.

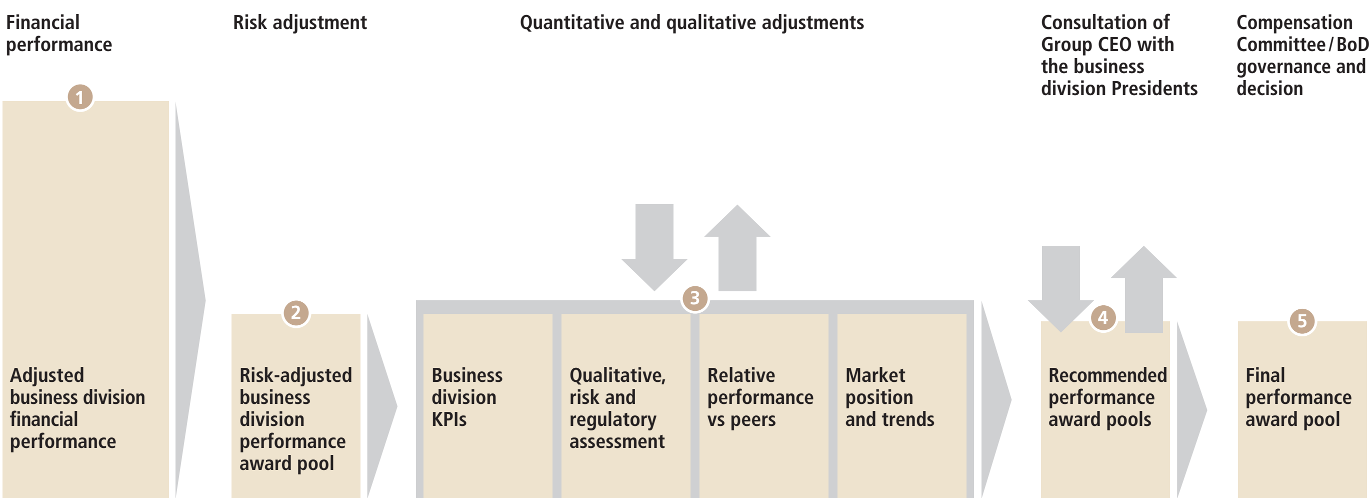
Our compensation philosophy focuses on balancing performance with prudent risk-taking and retaining talented employees. To achieve this, as performance increases, we reduce our overall performance award funding percentage. In years of strong performance, this prevents excessive compensation, resulting in an increased proportion of profit before performance award being available for distribution to shareholders or growing the Group's capital. In years where performance declines, the performance award pool will generally decrease, however funding rates may increase.

The performance award pool funding process starts with the accrual of a percentage of each business division's risk-adjusted profit before performance award. In determining the final pool, we also consider progress on our strategic objectives, quality of earnings, affordability, returns to investors and market competitiveness. Business division performance is adjusted for items that do not represent underlying performance (for example gains or losses on the sale of a property or a business). The Compensation Committee may exclude further items, including litigation and regulatory costs arising from matters that predate current management.

→ **Refer to "Group performance" in the "Financial and operating performance" section of the Annual Report 2017 for more information on adjusted results**

An illustrative overview with more details on the process is presented in the chart below.

Performance award pool funding process – illustrative overview



1	**Adjusted business division financial performance**	The starting point for the funding process is the adjusted business division financial performance excluding items that are not reflective of the underlying performance
2	**Risk-adjusted business division performance award pool**	Predetermined business division-specific funding rates are applied to risk-adjusted performance. In addition, credit risk, market risk and operational risk (including conduct) are taken into account
3	**Business division KPIs**	Each division is assessed based on specific KPIs (e.g., net new money growth rate, return on attributed equity)
3	**Qualitative, risk and regulatory assessment**	Qualitative assessment (e.g., quality of earnings, industry awards), assessment of regulatory compliance and risk assessment (such as legal, compliance, reputational and operational risk) support alignment to our Total Reward Principles
3	**Relative performance vs peers**	Performance is also assessed relative to our peers
3	**Market position and trends**	Market intelligence based on external advisors helps assess the competitiveness of our pay levels and compensation structure. It also provides a prospective view of market trends in terms of absolute compensation levels, compensation framework and industry practice
4	**Recommended performance award pools**	The business division performance award pool determination process, based on quantitative and qualitative assessments, results in a recommendation from the Group CEO (after consultation with the business division Presidents) to the Compensation Committee for consideration
5	**Final performance award pool**	The Compensation Committee considers the recommendation in the context of our overall performance, capital strength, risk profile, affordability, returns to investors, progress on strategic initiatives, market competitiveness / position, as well as business and geographic trends. The committee verifies it is in line with our strategy embodied in our Total Reward Principles to create sustainable shareholder value and may alter the recommendations of the Group CEO (upward or downward, including recommending a zero award) before making its final recommendation to the BoD

2017 performance award pool and expenses

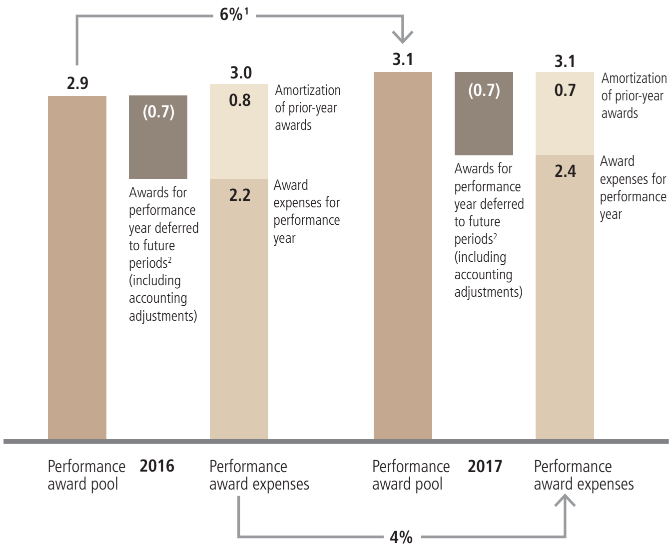
The performance award pool, which includes performance-based variable awards for 2017, was CHF 3.1 billion, reflecting an increase of 6% compared with 2016. Consistent with prior years, where the impact of deferred tax assets (DTA) was positive, the funding of the performance award pool was not affected as DTAs do not reflect the underlying business performance and are not within management's control.

Performance award expenses for 2017 increased by 4% to CHF 3.1 billion. This increase reflects the change in the performance award pool for 2017, partially offset by lower expenses related to the amortization of awards from prior years. The "Performance award pool and expenses" chart on this page compares the performance award pool with performance award expenses.

→ **Refer to the "Our deferred variable compensation plans for 2017" section of this report for more information**

Performance award pool and expenses

CHF billion



1 Excluding employer-paid taxes and social security. 2 Estimate. The actual amount to be expensed in future periods may vary, e.g., due to forfeitures.

2017 compensation for the Group CEO and the other GEB members

Base salary, role-based allowance, pensions and benefits

Each Group Executive Board (GEB) member receives a fixed base salary, which is reviewed annually by the Compensation Committee. The Group CEO's annual base salary for 2017 was CHF 2.5 million and has remained unchanged since his appointment in 2011. The other GEB members received a salary of CHF 1.5 million (or local currency equivalent), also unchanged since 2011.

One GEB member is considered a Material Risk Taker (MRT) in the UK and is in a UK Senior Management Function (SMF). Therefore, he receives a role-based allowance in addition to his base salary. This allowance reflects the market value of this specific role and is only paid while the GEB member is considered an MRT. It consists of a cash portion and a blocked UBS share award, which is granted annually. Such an allowance represents a shift in the compensation mix between fixed and variable compensation and not an increase in total compensation.

Pension contributions and benefits for GEB members are in line with local practices for other employees. No enhanced or supplementary pension contributions are made for the GEB.

At the Annual General Meeting (AGM), shareholders are asked to approve the maximum aggregate amount of fixed compensation for the members of the GEB for the following financial year.

→ **Refer to the "Our compensation for employees other than GEB members" section of this report for more information on MRTs and SMFs**

→ **Refer to the "Our compensation governance framework" section of this report for more information on the shareholders' vote on the GEB compensation**

Performance assessment

Annual performance awards for the Group CEO and other GEB members are based on the GEB compensation determination process as illustrated on the next page and, in aggregate, subject to shareholder approval at the AGM.

We assess the GEB members' performance against a number of quantitative and qualitative key performance indicators (KPIs). The quantitative measures for the Group CEO are based on overall Group performance. For other GEB members, they are based on both Group performance and the performance of the relevant business division and / or region; for those who lead Group functions, they are assessed on the performance of the Group and the function they oversee. These quantitative measures together with qualitative measures (Pillars and Principles) account for 65% of the assessment. Behaviors account for 35% of the assessment. The "Overview of the quantitative and qualitative performance assessment measures" table in this section outlines the measures on which the performance assessment is based.

The weighting between Group, business division, regional and functional KPIs varies depending on a GEB member's role. A significant weight is given to Group KPIs for all GEB members.

The performance assessment is the starting point for determining a GEB member's annual performance award. This approach is not mechanical, as the Compensation Committee can exercise its judgment with respect to the performance achieved relative to the prior year, the strategic plan, competitors, and considers the Group CEO's recommendation.

The Compensation Committee's recommendations are then reviewed and must be approved by the BoD. The Compensation Committee, and then the full BoD, follow a similar process in setting the compensation for the Group CEO, except that the Group CEO gives no recommendation on his own award.

The total amount of the awards for the Group CEO and other GEB members may not exceed 2.5% of adjusted Group profit before tax. Additionally, variable compensation for individual GEB members and the Group CEO may not exceed the specified individual compensation caps, as described later in this section.

The final aggregate performance award for the GEB, including the Group CEO, for a financial year is subject to shareholder approval at the following AGM. The individual variable performance awards for each GEB member will only be confirmed upon shareholder approval at the AGM.

Overview of the GEB compensation determination process

The compensation for the Group CEO and the other GEB members is governed by a rigorous process under Compensation Committee and BoD oversight. The illustration below shows how compensation for all GEB members is determined.

The Compensation Committee is involved at all stages of the performance and total compensation decision-making process for the Group CEO and the other GEB members, for review and approval by the BoD

	Objective setting	Performance assessment	Compensation decisions
Decision-making process	The quantitative measures are based on Group, business division, regional and / or functional performance, depending on the role of the GEB member Targets for quantitative measures are based on the strategic plan The qualitative measures relate to our Pillars, Principles and Behaviors Behaviors account for 35%, while the remaining 65% is split across the other measures	The quantitative measures are assessed based on actual results versus plan and year-on-year performance The qualitative measures relating to our Pillars, Principles and Behaviors assess how the executive achieved the financial results	When determining actual pay levels, the Compensation Committee factors in: – performance and affordability – performance assessment – relative performance vs peers – compensation market value and trends – other parameters deemed relevant Final compensation decisions for GEB members consider the Group CEO's recommendation (the Group CEO makes no recommendation on his own awards)
Role of the BoD and Compensation Committee	The Compensation Committee: – together with the BoD Chairman establishes the objectives for the Group CEO – together with the Group CEO reviews objectives for the other GEB members	The Compensation Committee: – together with the BoD Chairman evaluates the performance of the Group CEO and determines the overall assessment – together with the Group CEO reviews the performance assessment for the other GEB members	The Compensation Committee proposes to the BoD: – together with the BoD Chairman the total individual compensation for the Group CEO – together with the Group CEO the total individual compensation for the other GEB members The final decision on the aggregate amount is subject to shareholder approval

Overview of the quantitative and qualitative performance assessment measures

The table below presents the quantitative and qualitative measures for performance assessment of the Group CEO and GEB members.

Quantitative measures		
Group		A range of financial metrics including adjusted Group return on tangible equity, adjusted Group profit before tax, CET 1 targets
Business division, regional and / or functional KPIs (if applicable)[1]		Business division and / or regional KPIs vary but may include: net new money growth rate, adjusted divisional / regional profit before tax, adjusted cost / income ratio, net new business volume growth rate, net interest margin, adjusted RoAE, Basel III RWA and LRD expectations Specific functional KPIs for Corporate Center GEB members
Qualitative measures		
Pillars	Capital strength	Establishes and maintains capital. Generates efficiencies and deploys our capital more efficiently and effectively
	Efficiency and effectiveness	Contributes to the development and execution of our strategy and success across all business lines, functions and regions. Considers market conditions, relative performance and other factors
	Risk management	Reinforces risk management through an effective control framework. Captures the degree to which risks are self-identified and focuses on the individual's success to comply with all the various regulatory frameworks. Helps shape the firm's relationship with regulators through ongoing dialog
Principles	Client focus	Increases client satisfaction and maintains high levels of satisfaction over the long term. This includes promoting collaboration across business divisions and fostering the delivery of the whole firm to our clients
	Excellence	Human Capital Management – develops successors for the most senior positions, facilitates talent mobility within the firm and promotes a diverse and inclusive workforce Product and Service Quality – strives for excellence in the products and services we offer to our clients
	Sustainable performance	Brand and Reputation – protects the Group's reputation and reinforces full compliance with our standards and principles Culture – takes a personal role in making Principles and Behaviors front and center of the business requirements. Furthermore, this measure evaluates the individual's ability to reinforce a culture of accountability and responsibility, demonstrating our commitment to be a responsible corporate citizen and to act with integrity in all our interactions with stakeholders
Behaviors	Integrity	Is responsible and accountable for what they say and do; cares about clients, investors, and colleagues; acts as a role model
	Collaboration	Places the interests of clients and the firm before their own and those of their business; works across the firm; respects and values diverse perspectives
	Challenge	Encourages self and others to constructively challenge the status quo; learns from mistakes and experiences

1 Both regional and functional KPIs may include qualitative measures.

Benchmarking against peers

When recommending performance awards for the Group CEO and the other GEB members, the Compensation Committee reviews the respective total compensation for each role against the broader market as well as a group of peer companies selected for the comparability of their size, business mix, geographic presence and the extent to which they compete against us for talent. The Compensation Committee also considers our peers' strategies, practices, pay levels and regulatory environment. Overall, the total compensation for a GEB member's specific role considers the compensation paid by our primary peer group for a comparable role and performance.

The Compensation Committee periodically reviews and approves the primary peer group for executive compensation. For 2017, the primary peer group remained unchanged and consisted of:

Bank of America	Credit Suisse	Julius Baer
Barclays	Deutsche Bank	Morgan Stanley
BlackRock	Goldman Sachs	Standard Chartered
BNP Paribas	HSBC	
Citigroup	JPMorgan Chase	

This group is broadened for the purposes of business division benchmarking and for the review of specific roles, as appropriate.

2017 deferred performance awards

For each GEB member, at least 80% of the performance award is deferred, while a maximum of 20% can be paid out in the form of immediate cash, which is capped to defer a higher portion and thus further aligns GEB members' and shareholders' interests. To remain competitive, we have revised the cash cap to CHF / USD 2 million (or local currency equivalent) without impacting the overall pay levels for all relevant employees including GEB members. Any amount above this cap is granted in notional shares under the Equity Ownership Plan (EOP). Further we have increased the share ownership requirements for GEB members as explained later in this section.

For the performance year 2017, a minimum of 50% of the overall performance award is granted under the EOP, which vests in three equal installments in years 3 to 5, provided that performance conditions are met.

The remaining 30% of the overall performance award is granted under the Deferred Contingent Capital Plan (DCCP). Under the DCCP, GEB members are awarded notional additional tier 1 (AT1) capital instruments that vest after five years.

The DCCP contributes to the Group's total loss-absorbing capacity, and the awards granted to GEB members are subject to a common equity tier 1 capital ratio write-down trigger of 10%, which is higher than the trigger for other employees and holders of similar debt issued by the UBS Group. Moreover, GEB members forfeit 20% of the granted DCCP award for each year with an adjusted Group loss before tax during the vesting period. This means that 100% of the award is subject to risk of forfeiture.

For the GEB member whose role is considered an SMF, additional provisions apply that are described in the paragraph "UK Senior Managers and Certification Regime".

The Compensation Committee has confirmed that performance conditions for all GEB members' awards due to vest in March 2018 have been satisfied and thus the awards will vest in full.

→ **Refer to the "Our deferred variable compensation plans for 2017" section of this report for more information**

→ **Refer to the "Our compensation for employees other than GEB members" section of this report for more information on MRTs and SMFs**

→ **Refer to "Vesting of outstanding awards granted in prior years subject to performance conditions" in the "Supplemental information" section of this report for more information**

Share ownership requirements: aligning GEB members' interests with those of our shareholders

To further strengthen the alignment of our GEB members' interests with those of our shareholders, we have substantially increased our share ownership requirements. The revised policy requires the Group CEO to hold a minimum of 1,000,000 UBS shares (up from 500,000) and other GEB members to hold a minimum of 500,000 UBS shares (up from 350,000). GEB members must build up their minimum shareholding within five years from their appointment and retain it throughout their tenure. The total number of UBS shares held by a GEB member consists of any vested or unvested shares and any privately held shares. GEB members may not sell any UBS shares before they reach the aforementioned minimum ownership thresholds. At the end of 2017, the GEB members met these increased share ownership requirements, except for those appointed during 2016, who need to build up and meet the required share ownership level by 2021.

Caps on the GEB performance award pool

The size of the GEB performance award pool may not exceed 2.5% of the adjusted Group profit before tax. This links overall GEB compensation to the firm's profitability.

For 2017, the Group's adjusted profit before tax was CHF 6.2 billion and the total GEB performance award pool was CHF 74.2 million (CHF 71.9 million in 2016). The performance award pool as a percentage of adjusted Group profit before tax was 1.2%, which is well below the cap of 2.5%.

In line with the individual compensation caps introduced in 2013 on the proportion of fixed pay to variable pay for all GEB members, the Group CEO's performance award is capped at five times his fixed compensation. Performance awards of other GEB members are capped at seven times their fixed compensation (or two times for the GEB member who is also an MRT). For 2017, performance awards for GEB members and the Group CEO were, on average, 3.5 times their fixed compensation (excluding benefits and contributions to retirement benefit plans).

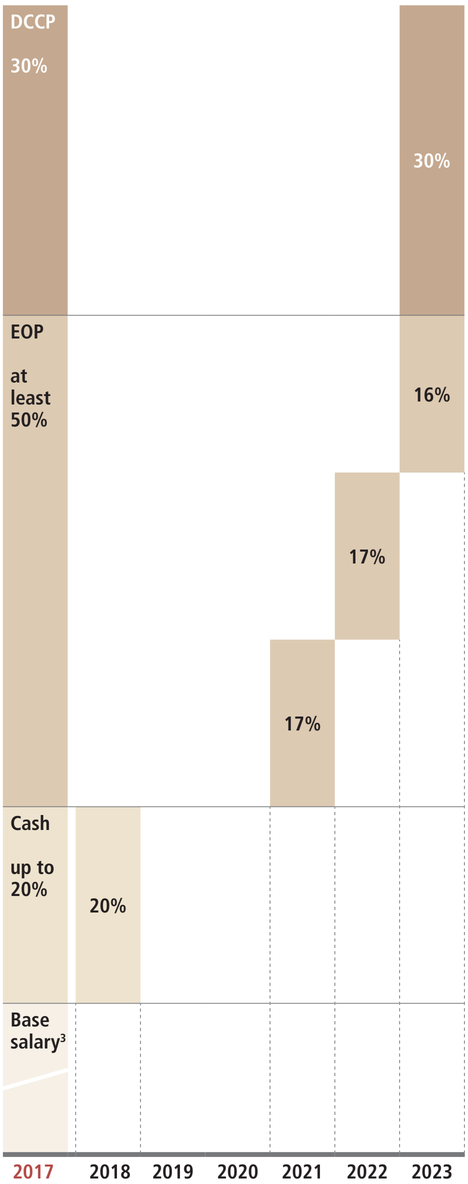
Employment contracts

The employment contracts of the GEB members do not include severance terms, sometimes referred to as golden parachutes, or supplementary pension plan contributions. All employment contracts for GEB members are subject to a notice period of six months. A GEB member leaving the firm before the end of a performance year may be considered for a performance award based on their contribution during that performance year and in line with the approach described in this report. Such awards are subject to approval of the BoD, which may decide not to grant any awards.

2017 compensation framework for GEB members

Up to 20% of the annual performance award is paid in the form of immediate cash and at least 80% will be deferred over a period of five years[1], with at least 50% granted under the EOP and the remaining 30% under the DCCP. The chart below is an illustrative example.

Payout of performance award[1]



Key features

Notional additional tier 1 (AT1) capital instruments

30% of the performance award is granted under the Deferred Contingent Capital Plan (DCCP). The award vests after five years, subject to write-down if a trigger or viability event occurs. The award is subject to 20% forfeiture for each financial year if UBS does not achieve an adjusted Group profit before tax

Notional interest payments will be made annually, where regulation permits, subject to review and confirmation by the firm

The award is subject to continued employment and harmful acts provisions

Notional shares

At least 50% of the performance award is granted under the Equity Ownership Plan (EOP). The award vests in equal installments after years 3, 4 and 5, subject to both Group and business division performance. Up to 100% of the installment due to vest may be forfeited

Dividend equivalents, where regulation permits, are subject to the same terms as the underlying EOP award

The award is subject to continued employment and harmful acts provisions

Up to 20% of the performance award is paid out in cash[2] immediately, subject to a cash cap of CHF / USD 2 million. Any amount above the cash cap is granted under the EOP

Share retention	1,000,000 UBS shares for the Group CEO 500,000 UBS shares for other GEB members	GEB members are required to hold a certain number of UBS shares as long as they are in office. This holding has to be built up within a maximum of five years from the date of their appointment to the GEB

Pay for performance and safeguards

Our compensation framework is designed to pay for performance. A performance award is based on the individual's performance assessment against a number of quantitative and qualitative measures

At least 80% of the performance award is at risk of forfeiture

Compensation plan forfeiture provisions enable the firm to reduce the unvested deferred portion if the compensation plans' relevant performance conditions are not met

Our compensation framework contains a number of features supporting appropriate risk management with safeguards to discourage inappropriate risk-taking:
- potential realized pay cannot exceed the award granted (other than for market movements and returns); no upward leverage, such as multiplier factors. The final deferred payout can be forfeited up to 100% in cases where performance conditions are not met or harmful acts provisions apply
- a balanced mix of shorter-term and longer-term performance awards with a focus on deferral
- a cap on the total GEB performance award pool of 2.5% of adjusted Group profit before tax
- individual caps on the proportion of fixed to variable pay for the Group CEO and other GEB members
- six-month notice period included in the employment contracts
- an evaluation of each GEB member's risk control effectiveness and adherence to risk-related policies and guidelines as part of their individual qualitative assessment
- provisions that enable the firm to trigger forfeiture of some, or all, of the unvested deferred performance award if an employee commits certain harmful acts or if the employment is terminated for cause

1 Senior Management Functions have extended deferral periods, with the deferred performance awards vesting in equal installments between years 3 and 7. 2 UK Material Risk Takers receive 50% in form of blocked shares. 3 May include role-based allowances that have been made in line with market practice in response to regulatory requirements.

2017 compensation for the Group Chief Executive Officer

The performance award for the Group CEO, Sergio Ermotti, is based on the achievement of both quantitative and qualitative performance targets as described earlier in this section. These targets were set to reflect the strategic priorities determined by the Chairman and the BoD, including risk-adjusted profitability, capital position and adjusted return on tangible equity, as well as a range of qualitative measures to assess the quality and sustainability of the performance. Quantitative and qualitative measures account for 65% of Mr. Ermotti's performance assessment while the remaining 35% is based on behavioral measures. The table on the following page summarizes the metrics used to assess Mr. Ermotti's performance as Group CEO for 2017.

The BoD recognized that under Mr. Ermotti's continuing strong leadership, the Group delivered excellent financial results, maintained its strong capital position and successfully concluded the CHF 2.1 billion net cost reduction program. Overall performance exceeded plan despite significant market headwinds, including low market volatility, negative interest rate environment and high funding costs.

Adjusted[1] profit before tax increased by 16% to CHF 6.2 billion and net profit attributable to UBS Group AG shareholders was CHF 1.1 billion, including a CHF 2.9 billion net write-down of deferred tax assets (DTAs) following the enactment of the US Tax Cuts and Jobs Act in the fourth quarter of 2017. Excluding this DTA write-down, net profit attributable to shareholders would have increased by 22% to CHF 3.9 billion. UBS's adjusted return on tangible equity for 2017 was 13.8% excluding the effects of deferred tax expense / benefit and DTAs.

The BoD also considered Mr. Ermotti's focus on maintaining UBS's capital position with a fully applied CET1 capital ratio of 13.8%, above our 13% target, and an improved fully applied CET1 leverage ratio of 3.7%, ahead of the Swiss systemically relevant bank fully-applied requirement of 3.5% as of 1 January 2020. Further, he also maintained our post-stress CET1 capital ratio above the 10% objective, and optimized capital usage by business divisions and legal entities. Under Mr. Ermotti's stewardship, the Group increased its total loss-absorbing capacity to CHF 78.3 billion.

The BoD also acknowledged Mr. Ermotti's strong performance relative to qualitative goals in 2017, including overseeing the delivery of significant cost savings while at the same time the bank is investing in technology and innovative platforms to drive growth in the future and differentiate our business in the digital age.

Mr. Ermotti continued to promote talent development and effectively led initiatives which have improved internal and particularly cross divisional mobility. He continued to improve diversity at senior levels toward our long term aspiration to increase the ratio of women in management roles to one-third. In addition, Mr. Ermotti continues to successfully drive the organization to be client-centric and focus on increased client satisfaction. Aligned with this priority, he demonstrated a strong personal commitment and engagement to deliver innovative and high quality client services and products.

The BoD recognizes Mr. Ermotti's clear tone from the top in setting and demanding the highest standards with respect to both a strong risk culture and behaviors. Sustained progress has been achieved in further anchoring our culture and behavior program across the firm, and Mr. Ermotti successfully spearheaded initiatives to promote cross-business engagement and collaboration, and support a culture where constructive challenge is embraced and encouraged.

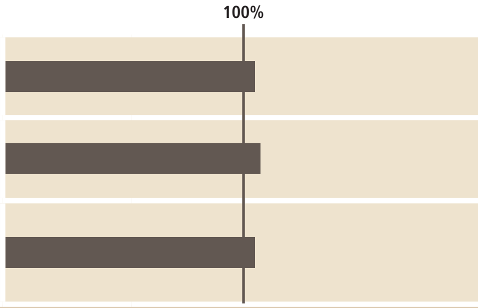
Reflecting his achievements in 2017, the BoD approved the proposal by the Compensation Committee to grant Mr. Ermotti a performance award of CHF 11.4 million, bringing his total compensation for the year (excluding benefits and contributions to his retirement benefit plan) to CHF 13.9 million. The performance award is subject to shareholder approval as part of the aggregate GEB 2017 variable compensation and will be delivered with 52% deferred in EOP over years 3 to 5 and 30% in DCCP after 5 years, subject to the achievement of certain performance and other forfeiture conditions. The remaining 18% (CHF 2 million) will be delivered in immediate cash.

→ **Refer to the "Our deferred variable compensation plans for 2017" section of this report for more information**

1 Please refer to "Group performance" in the "Financial and operating performance" section of the Annual Report 2017 for more information on adjusted results.

Performance assessment for the Group CEO

The chart below illustrates the 2017 assessment of the Group CEO performance. For additional details on the assessment, please refer to the description on the previous page.

Weightings	Quantitative measures	2016 results	2017 results	Assessment Vs Plan
65%	**Adjusted Group profit before tax**	CHF 5,341 million	CHF 6,194 million	
	Adjusted Group return on tangible equity excluding DTAs[1]	11.3%	13.8%	
	Capital management CET1 capital ratio, fully applied CET1 leverage ratio, fully applied Post-stress CET1 ratio, fully applied[2]	 13.8% 3.53% >10%	 13.8% 3.69% >10%	
	Qualitative measures	**Achievements**		
	Pillars Capital Strength Efficiency and Effectiveness Risk Management	Overall performance met expectations, given: – Maintained strong capital position and achieved capital ratios while optimizing usage by business divisions and legal entities – Performance exceeded plan despite significant market headwinds, including low market volatility, negative interest rate environment and high funding costs – Delivery of significant cost savings while at the same time the bank is investing in technology and innovative platforms to drive growth in the future and differentiate its business in the digital age		
	Principles Client Focus Excellence Sustainable Performance	Overall performance exceeded expectations, given: – Promoted talent development and led initiatives to improve internal and cross divisional mobility – Continued to improve diversity at senior levels – Successfully drives the organization to be client-centric and focus on increased client satisfaction, strong personal commitment and engagement to deliver innovative and high quality client services and products		
35%	**Behaviors** Integrity Collaboration Challenge	Overall performance exceeded expectations, given clear tone from the top and: – Set and demanded the highest standards with respect to both a strong risk culture and behaviors – Sustained progress in further anchoring the culture and behavior program across the firm – Spearheaded initiatives to further promote cross-business engagement and collaboration, and support a culture where constructive challenge is embraced and encouraged		

1 Calculated as adjusted net profit / loss attributable to shareholders excluding deferred tax expense / benefit, such as the net write-down due to the US Tax Cuts and Jobs Act enacted in the fourth quarter of 2017, divided by average tangible equity attributable to shareholders excluding any DTAs that do not qualify as fully applied CET1 capital. 2 CET1 post-stress objective is to maintain ratio above 10%.

Total compensation for GEB members for the performance year 2017

The GEB performance awards are subject to approval by the BoD based on the assessment of quantitative and qualitative performance measures and, in aggregate, subject to shareholder approval. The aggregate performance award pool for the GEB was CHF 74.2 million for 2017, an increase of 3.1% compared with the prior year. This increase of 3.1% compares with a 16% increase in adjusted profit before tax and a 6% increase in the overall performance award pool of the firm.

At the AGM 2018, shareholders will vote on the aggregate 2017 total variable compensation for the GEB.

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Total compensation for GEB members

CHF, except where indicated[1]

Name, function	For the year	Base salary[2]	Contribution to retirement benefit plans[3]	Benefits[4]	Total fixed compensation	Immediate cash[5]	Annual performance award under EOP[6]	Annual performance award under DCCP[7]	Total variable compensation	Total fixed and variable compensation[8]
Sergio P. Ermotti, Group CEO (highest-paid)	2017	2,500,000	261,181	41,261	2,802,442	2,000,000	5,980,000	3,420,000	11,400,000	14,202,442
Sergio P. Ermotti, Group CEO (highest-paid)	**2016**	2,500,000	261,181	42,577	**2,803,758**	1,000,000	6,630,000	3,270,000	**10,900,000**	**13,703,758**
Aggregate of all GEB members[9,10,11]	2017	21,459,305	2,439,414	1,842,848	25,741,566	14,550,000	37,355,000	22,245,000	74,150,000	99,891,566
	2016	21,601,925	2,387,649	1,977,703	**25,967,277**	11,289,350	39,040,650	21,570,000	**71,900,000**	**97,867,277**

1 Local currencies have been translated into Swiss francs at the exchange rates stated in "Note 34 Currency translation rates" in the "Consolidated financial statements" section of the Annual Report 2017, or at the performance award currency exchange rate. 2 Includes role-based allowances that have been made in line with market practice in response to the EU Capital Requirements Directive of 2013 (CRD IV). 3 Includes the portion related to the employer's contribution to the statutory pension scheme. 4 All benefits are valued at market price. 5 In accordance with the remuneration section of the UK Prudential Regulation Rulebook, the immediate cash includes blocked shares for one GEB member. 6 For EOP awards for the performance year 2017, the number of shares has been determined by dividing the amount by CHF 17.999 or USD 19.234, the average closing price of UBS shares over the last ten trading days in February 2018. For EOP awards for the performance year 2016, the number of shares was determined by dividing the amount by CHF 15.75 or USD 15.67, the average closing price of UBS shares over the last ten trading days in February 2017. Starting with performance year 2017, the GEB member who is also an MRT is no longer permitted to receive dividend payments on EOP awards. Accordingly the number of shares for this GEB member was determined by dividing the amount by the share price used for other EOP awards, adjusted for the expected dividend yield over the vesting period, which represents the fair value of the non-dividend bearing awards. 7 The amounts reflect the amount of the notional additional tier 1 (AT1) capital instrument excluding future notional interest. For DCCP awards for the performance year 2017, the notional interest rate is set at 5.85% for awards denominated in US dollars and 2.30% for awards denominated in Swiss francs. For DCCP awards for the performance year 2016, the notional interest rate is set at 5.95% for awards denominated in US dollars and 2.55% for awards denominated in Swiss francs. Starting with performance year 2017, the GEB member who is also an MRT is no longer permitted to receive interest payments on DCCP awards. Accordingly the amounts reflect the fair value of the granted non-interest bearing awards. 8 Excludes the portion related to the legally required employer's social security contributions for 2017 and 2016, which are estimated at grant at CHF 5,181,559 and CHF 5,131,867, respectively, of which CHF 893,257 and CHF 856,796, respectively, for the highest-paid GEB member. The legally required employees' social security contributions are included in the amounts shown in the table above, as appropriate. 9 Twelve GEB members were in office on 31 December 2017 and on 31 December 2016. 10 2016 includes compensation for Lukas Gähwiler for eight months in office as a GEB member. 11 Excludes salaries and employer's contribution paid for 2016 to the statutory pension scheme and benefits as part of the employment contract during the notice period of CHF 1,753,997 for two GEB members who stepped down on 31 December 2015. No such payments were made in 2017.

Fixed and variable compensation for GEB members[1]

	Total for the year ended 2017		Not deferred		Deferred[2]		Total for the year ended 2016
CHF million, except where indicated	Amount	%	Amount	%	Amount	%	Amount
Total compensation							
Amount[3]	96	100	36	38	60	62	94
Number of beneficiaries	12						13
Fixed compensation[3,4]	21	22	21	100	0	0	22
Cash-based	20	21	20		0		20
Equity-based	2	2	2		0		2
Variable compensation	74	78	15	20	60	80	72
Immediate cash[5]	15	15	15		0		11
Equity Ownership Plan (EOP)[6]	37	39	0		37		39
Deferred Contingent Capital Plan (DCCP)[6]	22	23	0		22		22

1 The figures relate to all GEB members in office in 2017. 2 Based on the specific plan vesting and reflecting the total award value at grant, which may differ from the accounting expenses. 3 Excludes benefits and employer's contribution to retirement benefit plans. 4 Includes base salary and role-based allowances, rounded to the nearest million. 5 Includes allocation of vested but blocked shares, in line with the remuneration section of the UK Prudential Regulation Authority Rulebook. 6 For the GEB member who is also an MRT, the awards starting with performance year 2017 are no longer permitted to include dividend and interest payments. Accordingly the amounts reflect for EOP the fair value of the non-dividend bearing awards and for DCCP the fair value of the granted non-interest bearing awards.

2017 compensation for the Board of Directors

Chairman of the BoD

Under the leadership of the Chairman, Axel A. Weber, the Board of Directors (BoD) determines, among other things, the strategy for the Group based on recommendations by the Group CEO, exercises ultimate supervision over management and appoints all Group Executive Board (GEB) members.

The Chairman presides over all general meetings of shareholders and the BoD, and works with the committee chairpersons to coordinate the work of all BoD committees. Together with the Group CEO, the Chairman is responsible for effective communication with shareholders and other stakeholders, including government officials, regulators and public organizations. This is in addition to establishing and maintaining a close working relationship with the Group CEO and other GEB members, and providing advice and support when appropriate, as well as continuing to strengthen and promote our culture through the three keys to success – our Pillars, Principles and Behaviors.

The Chairman's total compensation is contractually fixed at CHF 5.7 million, excluding benefits and pension fund contributions. His total compensation for 2017, which is unchanged from last year, consisted of a cash payment of CHF 3.5 million and a share component of CHF 2.2 million delivered in 122,229 UBS shares at CHF 17.999 per share. The shares are blocked from distribution for four years. Accordingly, his total reward, including benefits and pension fund contributions for his service as Chairman for the full year 2017, was CHF 6,033,565.

→ **Refer to "Board of Directors" in the "Corporate governance" section of the Annual Report 2017 for more information on the responsibilities of the Chairman**

The share component aligns the Chairman's pay with the Group's long-term performance. The Chairman's employment agreement does not provide for severance terms or supplementary contributions to pension plans. Benefits for the Chairman are in line with local practices for UBS employees. The Compensation Committee approves the Chairman's compensation annually, taking into consideration fee or compensation levels for comparable roles outside the firm.

Independent BoD members

All BoD members except the Chairman are deemed independent directors and receive a fixed base fee of CHF 325,000 per annum. In addition to the base fee, independent BoD members receive committee retainers for their services on the firm's various board committees. The Senior Independent Director and the Vice Chairman of the BoD each receive an additional retainer of CHF 250,000. Independent BoD members must use a minimum of 50% of their fees to purchase UBS shares that are blocked for four years. They may elect to use up to 100% of their fees to purchase blocked UBS shares. In all cases, the number of shares that independent BoD members are entitled to purchase is calculated at a discount of 15% below the average closing price over the last 10 trading days in February. Independent BoD members do not receive performance awards, severance payments or benefits. The chart on the following page provides details and additional information on the remuneration framework for independent BoD members.

Base fees, committee retainers and any other payments to be received by independent BoD members are subject to an annual review based on a proposal submitted by the Chairman of the BoD to the Compensation Committee, which in turn submits a recommendation to the BoD for approval. The BoD proposes at each Annual General Meeting (AGM) for shareholder approval the aggregate amount of BoD remuneration, including compensation of the Chairman, which applies until the subsequent AGM.

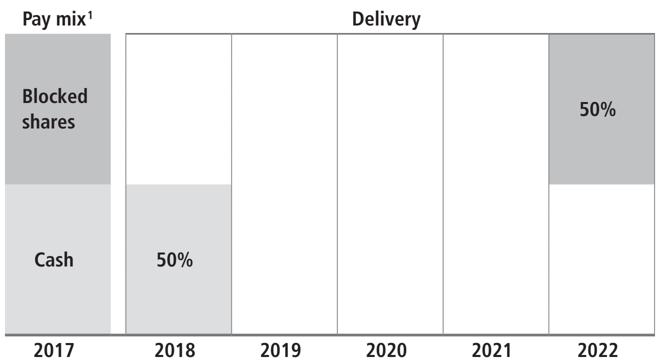
The "Remuneration details and additional information for independent BoD members" table shows the remuneration for each independent BoD member for the period from AGM 2017 to AGM 2018. The fixed base fees are unchanged from the 2016 / 17 period.

2017 / 2018 remuneration framework for independent BoD members

CHF, except where indicated

Fees include retainers for committee chair or membership and / or specific roles that are paid per annum. At least 50% of the total amounts must be used to purchase shares that are blocked for four years.

Fixed base fee	325,000	
Senior Independent Director retainer	250,000	
Vice Chairman retainer	250,000	
	Chair	Member
Audit Committee	300,000	200,000
Compensation Committee	300,000	100,000
Governance and Nominating Committee		100,000
Corporate Culture and Responsibility Committee		50,000
Risk Committee	400,000	200,000



1 Independent BoD members can elect to use 100% of their remuneration to purchase blocked UBS shares. UBS blocked shares are granted with a price discount of 15% and are blocked for four years.

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Total payments to BoD members

CHF, except where indicated	For the year	Total[1]
Aggregate of all BoD members	2017	13,133,565
	2016	13,219,569

1 Includes social security contributions paid by the BoD members but excludes the portion related to the legally required social security contributions paid by UBS, which for 2017 is estimated at grant at CHF 664,074 and for 2016 at CHF 662,740.

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Compensation details and additional information for non-independent BoD members

CHF, except where indicated

Name, function[1]	For the year	Base salary	Annual share award[2]	Benefits[3]	Contributions to retirement benefit plans[4]	Total[5]
Axel A. Weber, Chairman	2017	3,500,000	2,200,000	72,384	261,181	6,033,565
	2016	3,500,000	2,200,000	108,388	261,181	6,069,569

1 Axel A. Weber was the only non-independent member in office on 31 December 2017 and on 31 December 2016, respectively. 2 These shares are blocked for four years. 3 Benefits are all valued at market price. 4 Includes the portion related to UBS's contribution to the statutory pension scheme. 5 Excludes the portion related to the legally required social security contributions paid by UBS, which for 2017 is estimated at grant at CHF 367,999 and for 2016 at CHF 368,695. The legally required social security contributions paid by the non-independent BoD members are included in the amounts shown in this table, as appropriate.

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Remuneration details and additional information for independent BoD members

CHF, except where indicated

Name, function[1]	Audit Committee	Compensation Committee	Corporate Culture and Responsibility Committee	Governance and Nominating Committee	Risk Committee	For the period AGM to AGM	Base fee	Committee retainer(s)	Additional payments[2]	Total[3]	Share percentage[4]	Number of shares[5,6]
Michel Demaré, Vice Chairman	M	M		M		2017/2018	325,000	400,000	250,000	975,000	50	31,864
	M	M		M		**2016/2017**	325,000	400,000	250,000	**975,000**	50	36,407
David Sidwell, Senior Independent Director				M	C	2017/2018	325,000	500,000	250,000	1,075,000	50	35,133
				M	C	**2016/2017**	325,000	500,000	250,000	**1,075,000**	50	40,141
Reto Francioni, member		M	M		M	2017/2018	325,000	350,000		675,000	50	22,060
		M	M		M	**2016/2017**	325,000	350,000		**675,000**	50	25,205
Ann F. Godbehere, member	M	C				2017/2018	325,000	500,000		825,000	50	26,962
	M	C				**2016/2017**	325,000	500,000		**825,000**	50	30,806
William G. Parrett, member	C	M	M			2017/2018	325,000	450,000		775,000	50	25,328
	C	M	M			**2016/2017**	325,000	450,000		**775,000**	50	28,939
Julie G. Richardson, member					M	2017/2018	325,000	200,000		525,000	50	17,157
						2016/2017	–	–		**–**	–	–
Isabelle Romy, member	M			M		2017/2018	325,000	300,000		625,000	50	20,426
	M			M		**2016/2017**	325,000	300,000		**625,000**	50	23,338
Robert W. Scully, member					M	2017/2018	325,000	200,000		525,000	50	17,157
					M	**2016/2017**	325,000	200,000		**525,000**	100	29,917
Beatrice Weder di Mauro, member	M		M			2017/2018	325,000	250,000		575,000	50	18,792
	M				M	**2016/2017**	325,000	400,000		**725,000**	50	27,072
Dieter Wemmer, member					M	2017/2018	325,000	200,000		525,000	50	17,157
					M	**2016/2017**	215,000	160,000		**375,000**	50	14,002
Joseph Yam, former member						2017/2018	–	–		–	–	–
			M		M	**2016/2017**	325,000	250,000		**575,000**	50	21,471
Total 2017/2018										7,100,000		
Total 2016/2017										**7,150,000**		

Legend: C = Chairperson of the respective Committee, M = Member of the respective Committee

1 Ten independent BoD members were in office on 31 December 2017. Julie G. Richardson was elected and Joseph Yam stepped down at the AGM on 4 May 2017. Ten independent BoD members were in office on 31 December 2016. On Dieter Wemmer's request, his remuneration had been reduced to account for his meeting attendance as he faced a number of scheduling conflicts in 2016. 2 These payments are associated with the Vice Chairman or the Senior Independent Director function. 3 Excludes UBS's portion related to the legally required social security contributions, which for the period from the AGM 2017 to the AGM 2018 is estimated at grant at CHF 296,075 and which for the period from the AGM 2016 to the AGM 2017 was estimated at grant at CHF 294,045. The legally required social security contributions paid by the independent BoD members are included in the amounts shown in this table, as appropriate. 4 Fees are paid 50% in cash and 50% in blocked UBS shares. However, independent BoD members may elect to have 100% of their remuneration paid in blocked UBS shares. 5 For 2017, UBS shares, valued at CHF 17.999 (average closing price of UBS shares at the SIX Swiss Exchange over the last 10 trading days of February 2018), were granted with a price discount of 15%. These shares are blocked for four years. For 2016, UBS shares, valued at CHF 15.75 (average closing price of UBS shares at the SIX Swiss Exchange over the last 10 trading days of February 2017), were granted with a price discount of 15%. These shares are blocked for four years. 6 Number of shares is reduced in case of the 100% election to deduct legally required contributions. All remuneration payments are, where applicable, subject to social security contributions and / or withholding tax.

Our compensation governance framework

Board of Directors and Compensation Committee

The Board of Directors (BoD) is ultimately responsible for approving and overseeing the compensation strategy proposed by the Compensation Committee, which determines compensation-related matters in line with the principles set forth in the Articles of Association.

As determined in the Articles of Association and the firm's Organization Regulations, the Compensation Committee supports the BoD in its duties to set guidelines on compensation and benefits, to approve certain compensation and to scrutinize executive compensation. It is responsible for the governance and oversight of our compensation process and practices, including considering the alignment between pay and performance and that our compensation system does not encourage inappropriate risk-taking. Our Compensation Committee consists of four independent BoD members who are elected annually by the shareholders at the Annual General Meeting (AGM).

Among other responsibilities, the Compensation Committee, on behalf of the BoD:
– reviews our Total Reward Principles
– reviews and approves the design of the compensation framework
– reviews performance award funding throughout the year and proposes the final performance award pool to the BoD for approval
– together with the Group CEO, reviews performance targets and performance assessments and proposes base salaries and annual performance awards for the other Group Executive Board (GEB) members to the BoD, which approves the total compensation of each GEB member
– together with the Chairman of the BoD, establishes performance targets, evaluates performance and proposes the compensation for the Group CEO to the BoD
– approves the total compensation for the Chairman of the BoD
– together with the Chairman, proposes the total individual compensation for independent BoD members for approval by the BoD
– together with the BoD, proposes the maximum aggregate amounts of compensation for the BoD and for the GEB, to be submitted for approval by shareholders at the AGM
– reviews the compensation report and approves any material public disclosures on compensation matters

The Compensation Committee meets at least four times a year. In 2017, the Compensation Committee held seven meetings and two conference calls. All meetings were fully attended. The Chairman of the BoD and the Group CEO attended all meetings and calls. The Chairman of the BoD and the Group CEO were not present during discussions related to their own compensation or performance evaluations. The Chairperson of the Compensation Committee may also invite other executives to join the meeting in an advisory capacity. No individual whose compensation is reviewed is allowed to attend meetings during which specific decisions are made about their compensation. Such decisions are subject to approval of the Compensation Committee and the BoD.

After the meetings, the Chairperson of the Compensation Committee reports to the BoD on the activities of the Compensation Committee and the matters discussed. In addition, where necessary, the Chairperson submits proposals for approval by the full BoD. The minutes of Compensation Committee meetings are sent to all members of the BoD.

On 31 December 2017, the Compensation Committee members were Ann F. Godbehere, who chairs the committee, Michel Demaré, Reto Francioni and William G. Parrett.

External advisors

The Compensation Committee may retain external advisors to support it in fulfilling its duties. In 2017, HCM International Ltd. provided independent advice on compensation matters. HCM International Ltd. holds no other mandates with UBS. The compensation consulting firm Willis Towers Watson provided the Compensation Committee with data on market trends and benchmarks, including in relation to GEB and BoD compensation. Various subsidiaries of Willis Towers Watson provide similar data to Human Resources in relation to compensation for employees below the BoD and GEB level. Willis Towers Watson holds no other compensation-related mandates with UBS.

The Risk Committee's role in compensation

The Risk Committee, a committee of the BoD, works closely with the Compensation Committee to reinforce that our approach to compensation reflects proper risk management and control. The Risk Committee supervises and sets appropriate risk management and risk control principles and receives regular briefings on how risk is factored into the compensation process. It also monitors Group Risk Control's involvement in compensation and reviews risk-related aspects of the compensation process.

→ **Refer to *www.ubs.com/governance* for more information**

Compensation Committee 2017 / 2018 key activities and timeline

This table provides an overview of the Compensation Committee’s key scheduled activities from AGM 2017 to AGM 2018.

	June	July	Sept	Oct	Nov	Dec	Jan	Feb
Strategy, policy and governance								
Revised Total Reward Principles		●						
Three year strategic plan on variable compensation						●		
Compensation disclosure and stakeholder communication matters	●					●		●
AGM reward-related items	●							●
Compensation Committee governance		●				●		●
Annual compensation review								
Accruals and full-year forecast of the performance award pool funding		●		●	●	●	●	●
Performance targets and performance assessment of the Group CEO and GEB members						●	●	●
Group CEO and GEB members' salaries and individual performance awards							●	
Update on market practice, trends and peer group matters	●	●			●			
Pay for performance, including governance on certain higher-paid employees, and non-standard compensation arrangements	●	●	●				●	●
Board of Directors remuneration							●	●
Compensation framework								
Compensation framework and deferred compensation matters	●		●	●		●	●	●
Risk and regulatory								
Risk management in the compensation approach and joint meeting with BoD Risk Committee			●					
Regulatory activities impacting employees and engagement with regulators		●	●	●		●		●

Compensation governance

The table below provides an overview of compensation governance by specific role.

Recipients	Compensation recommendations developed by	Approved by	Communicated by
Chairman of the BoD	Chairperson of the Compensation Committee	Compensation Committee[1]	Compensation Committee
Independent BoD members (remuneration system and fees)	Compensation Committee and Chairman of the BoD	BoD[1]	Chairman of the BoD
Group CEO	Compensation Committee and Chairman of the BoD	BoD[1]	Chairman of the BoD
Other GEB members	Compensation Committee and Group CEO	BoD[1]	Group CEO
Key Risk Takers (KRTs) / (senior) employees	Respective GEB member together with functional management team	Individual compensation for KRTs and senior employees: Group CEO Performance award pool for all employees: BoD	Line manager

1 Aggregate compensation for the GEB and aggregate remuneration for the BoD are subject to shareholder approval.

Shareholder engagement and say-on-pay votes at the AGM

UBS is committed to an ongoing dialog with our shareholders to ascertain their perspectives on developments and trends in compensation and corporate governance matters. In line with the Swiss Ordinance against Excessive Compensation in Listed Stock Corporations, we seek binding shareholder approval for the aggregate compensation for the GEB and for the BoD. The BoD believes that prospective approval for the fixed remuneration for the BoD and the GEB provides the firm and its governing bodies with the certainty necessary to operate effectively. Furthermore, retrospective approval for the GEB's variable compensation awards aligns total compensation for the GEB to performance and contribution and to developments in the market place and across peers. The combination of the binding votes on compensation and the advisory vote on the compensation framework reflects our commitment to our shareholders having their say on pay.

→ **Refer to "Provisions of the Articles of Association related to compensation" in the "Supplemental information" section of this report for more information**

Approved compensation

For the performance year 2017, shareholders approved at the AGM 2016 a maximum aggregate fixed compensation amount of CHF 28,500,000 for the members of the GEB, including base salaries, role-based allowances in response to the EU Capital Requirements Directive IV (CRD IV), estimated standard contribution to retirement benefit plans, other benefits and a buffer. The aggregate fixed compensation paid in 2017 to the GEB members did not exceed the approved amount for 2017.

→ **Refer to "Total compensation for GEB members" in the "2017 compensation for the Group CEO and other GEB members" section of this report**

Say on pay – compensation-related votes at the AGM 2017

AGM 2017 say-on-pay voting schemes		AGM 2017 actual shareholder votes	Vote "for"	Compensation granted
Binding vote on GEB variable compensation	Proposal on the aggregate amount of variable compensation for the GEB for the past performance year	Shareholders approved CHF 71,900,000 for the financial year 2016[1, 2, 3]	88.9%	CHF 71,900,000
Binding vote on GEB fixed compensation	Proposal on the maximum amount of fixed compensation for the GEB for the following financial year	Shareholders approved CHF 31,500,000 for the financial year 2018	91.4%	To be disclosed in the Compensation Report 2018
Binding vote on BoD remuneration	Proposal on the maximum aggregate amount of remuneration for the BoD for the period from AGM to AGM. This ensures that the term of office and the compensation period are aligned	Shareholders approved CHF 14,000,000 for the period from the AGM 2017 to the AGM 2018[1,2]	89.1%	CHF 13,133,565
Advisory vote on compensation report	Proposal on the prior-year compensation report, which provides valuable shareholder feedback on compensation practice in relation to UBS's compensation framework, governance and policy	Shareholders approved the UBS Group AG Compensation Report 2016 in an advisory vote	88.4%	

1 Local currencies are translated into Swiss francs at the exchange rates stated in "Note 34 Currency translation rates" in the "Consolidated financial statements" section of the Annual Report 2016. 2 Excludes the portion related to the legally required employer's social security contributions. 3 Twelve GEB members were in office on 31 December 2016.

Our compensation for employees other than GEB members

Base salary

Employees' fixed compensation reflects their level of skill, role and experience, as well as local market practice. Fixed compensation generally consists of a base salary and, if applicable, a role-based allowance. Base salaries are usually paid monthly or fortnightly. We offer our employees competitive base salaries which vary between functions and locations. Since 2011, salary increases have been limited. Salary increases will continue to be granted to employees who were promoted, have scarce or in-demand skill sets, delivered a very strong performance or took on increased responsibilities.

Overall, we focus on total compensation. For example, 2017 performance award pools take into account salary increases granted earlier in the year. We will continue to review salaries and performance awards in light of market developments, affordability, our performance and our commitment to deliver sustainable returns to our shareholders. UBS is committed to ensuring women and men are paid equitably, and we have robust practices in place intended to ensure compensation and career opportunities reflect our commitment.

In addition to a base salary and as part of fixed compensation, some regulated employees may receive a role-based allowance as described in the "Material Risk Takers" section of this report. Such allowance represents a shift in the compensation mix between fixed and variable compensation and not an increase in total compensation.

Pensions, benefits, and employee share purchase program

We offer certain benefits to our employees such as health insurance and retirement benefits. These benefits may vary depending on the employee's location and are intended to be competitive in each of the markets in which we operate. Pension contributions and pension plans also vary across locations and countries in accordance with local requirements and market practice. However, pension plan rules in any one location are generally the same for all employees, including management.

The Equity Plus Plan is our employee share purchase program. It allows employees below the rank of managing director to apply up to 30% of their base salary and / or up to 35% of their performance award (up to CHF / USD 20,000 annually) for the purchase of UBS shares. Eligible employees may buy UBS shares at market price and receive one matching share for every three shares purchased through the program. The matching shares vest after a maximum of three years, provided the employee remains employed with the firm and has retained the purchased shares throughout the holding period.

→ **Refer to "Note 26 Pension and other post-employment benefit plans" in the "Consolidated financial statements" section of the Annual Report 2017 for more information**

Performance award

Most of our employees are eligible for an annual performance award. The level of the award, where applicable, depends on the firm's overall performance, the employee's business division performance, as well as individual performance and behavior, reflecting their overall contribution to the firm's results. To link pay with performance, the key performance indicators (KPIs) used to measure our progress in executing our strategy are taken into account when determining the size of each business division's performance award pool. The KPIs also serve as a basis for setting specific performance conditions for vesting of certain deferred compensation plan grants.

In addition to the firm's Principles around client focus, excellence and sustainable performance, on an individual level, Behaviors related to integrity, collaboration and challenge are part of the performance management approach. Therefore, when assessing performance, we take into account not only what was achieved, but also how those results were achieved.

Benchmarking

Because of the diversity of our businesses, our choice of benchmark companies focuses on the comparability of business division, location and scope of role. For certain businesses or roles, we may take into account practices at other major international banks, other large Swiss private banks, private equity firms, hedge funds and non-financial firms. Furthermore, we also benchmark employee compensation internally for comparable roles within and across business divisions and locations.

Deferral of performance awards

To reinforce our culture and our approach to manage risk and to emphasize the importance we place on the sustainability of results, we deliver our variable compensation through a deferral rather than a long-term incentive plan. This aligns our employees' and stakeholders' interests and appropriately links compensation to longer-term sustainable performance. A portion of performance awards above a total compensation of CHF / USD 300,000 is deferred in UBS notional shares and / or UBS notional instruments over a period of five years, or longer for certain regulated employees.

We regularly review our principles and compensation framework to remain competitive and aligned with stakeholders. For 2017, we made no changes to our overall framework, e.g., EOP and DCCP terms and conditions; however, our deferral rates for all employees have been refined to better align with market practice.

The deferred amount increases at higher marginal rates in line with the value of the performance award. The portion of the performance award paid out in immediate cash is capped. To remain competitive, we have revised the cap to CHF / USD 2 million (or the equivalent in other currencies) without impacting the overall pay levels. Amounts in excess of the cash cap are deferred in notional shares under the Equity Ownership Plan (EOP). The effective deferral rate therefore depends on the amount of the performance award and the amount of total compensation.

Of the deferred annual performance award, at least 60% is deferred in UBS notional shares under the EOP and up to 40% is deferred in notional instruments under the Deferred Contingent Capital Plan (DCCP). Asset Management employees receive at least 75% of their deferred performance awards in notional funds under the EOP and up to 25% under the DCCP. The average deferral period for deferred performance awards for employees below Group Executive Board (GEB) level is 3.5 years.

The potential realized pay cannot exceed the award granted other than for market movements and returns of the instruments. Therefore, our compensation plans have no upward leverage, such as multiplier factors, and consequently do not encourage excessive risk-taking. We believe UBS has a deferral regime with one of the longest vesting periods in the industry.

→ **Refer to the "Our deferred variable compensation plans for 2017" section of this report for more information**

→ **Refer to "Note 27 Employee benefits: variable compensation" in the "Consolidated financial statements" section of the Annual Report 2017 for more information**

Other variable compensation components

To support hiring and retention, particularly at senior levels, we may offer certain other compensation components. These include:

– Replacement payments to compensate employees for deferred awards forfeited as a result of joining the firm. Such payments are industry practice and are often necessary to attract senior candidates, who generally have a significant portion of their awards deferred at their current employer, where continued employment is required to avoid forfeiture.
– Retention payments made to key employees to induce them to stay, particularly during critical periods for the firm.
– On a very limited basis, guarantees may be required to attract individuals with certain skills and experience. These awards are fixed incentives subject to our standard deferral rules and are limited to the first full year of employment.
– Award grants to employees hired late in the year to replace performance awards that they would have earned at their previous employers, but have foregone by joining the firm. These awards are structured with the same level of deferral as for employees at a similar level at UBS. In exceptional cases, candidates may be offered a sign-on award to increase the chances of them accepting our offer.

These other variable compensation components are subject to a comprehensive governance process. Authorization and responsibility may go up to the Board of Directors (BoD) Compensation Committee, depending on the amount or type of such payments.

Employees who are made redundant may receive severance payments. Our severance terms comply with the applicable local laws (legally obligated severance). In certain locations, we may provide severance packages that are negotiated with our local social partners and may go beyond the applicable minimum legal requirements (standard severance). Such payments are governed by location-specific severance policies. In addition, we may make severance payments that exceed legally obligated or standard severance payments (supplemental severance) where we believe that they are aligned with market practice and appropriate under the circumstances. No severance payments are made to members of the GEB.

Sign-on payments, replacement payments, guarantees and severance payments

	Total 2017	*of which: expenses recognized in 2017*[5]	*of which: expenses to be recognized in 2018 and later*	Total 2016	Number of beneficiaries	
CHF million, except where indicated					2017	2016
Total sign-on payments[1]	34	*15*	*19*	43	149	145
of which: Key Risk Takers[2]	*25*	*8*	*17*	*19*	*15*	*10*
Total replacement payments[3]	96	*17*	*79*	65	278	221
of which: Key Risk Takers[2]	*52*	*11*	*41*	*26*	*27*	*14*
Total guarantees[3]	37	*17*	*20*	13	39	17
of which: Key Risk Takers[2]	*20*	*7*	*13*	*0*	*9*	*0*
Total severance payments[1,4]	222	*222*	*0*	271	2,205	2,637
of which: Key Risk Takers	*2*	*2*	*0*	*4*	*6*	*17*

1 GEB members are not eligible for sign-on or severance payments. 2 Expenses for Key Risk Takers are full-year amounts for individuals in office on 31 December 2017. Key Risk Takers include employees with a total compensation exceeding CHF / USD 2.5 million (Highly-Paid Employees). 3 No GEB member received replacement payments or guarantees for 2017 or 2016 4 Severance payments include legally obligated and standard severance. 5 Expenses before post-vesting transfer restrictions.

Compensation for financial advisors in Wealth Management Americas

In line with market practice for US wealth management businesses, the compensation for financial advisors in Wealth Management Americas is comprised of production payout and deferred compensation awards. Production payout, paid monthly, is primarily based on compensable revenue. Financial advisors may also qualify for deferred compensation awards, which vest over various time periods of up to 10 years. The awards are based on strategic performance measures, including production, length of service with the firm and net new business. Production payout rates and deferred compensation awards may be reduced for, among other things, errors, negligence or carelessness, or a failure to comply with the firm's rules, standards, practices and policies or applicable laws and regulations.

Key Risk Takers

Key Risk Takers (KRTs) are globally defined as those employees who, by the nature of their roles, have been determined to materially set, commit or control significant amounts of the firm's resources and / or exert significant influence over its risk profile. This includes employees who work in front-office roles, logistics and control functions. Identifying KRTs is part of our risk control framework and an important element in ensuring we incentivize only appropriate risk-taking. For 2017, 719 employees were classified as KRTs, including all 12 GEB members. This group also includes all employees with a total compensation exceeding CHF / USD 2.5 million (Highly Paid Employees) who may not have been identified as KRTs during the performance year.

The performance of employees identified as KRTs during the performance year is evaluated by the control functions.

In line with regulatory requirements, KRTs' performance awards are subject to a mandatory deferral rate of at least 50%, regardless of whether the deferral threshold has been met. A KRT's deferred compensation award will only vest if the relevant Group and / or business division performance conditions are met. Like for all other employees, the deferred portion of KRTs' compensation is also subject to forfeiture or reduction if the KRT commits harmful acts.

Group Managing Directors (GMDs) receive part of their annual performance award under the DCCP and EOP with the same vesting conditions as for KRTs.

Fixed and variable compensation for Key Risk Takers[1]

	Total for the year ended 2017		Not deferred		Deferred[2]		Total for the year ended 2016[3]
CHF million, except where indicated	Amount	%	Amount	%	Amount	%	Amount
Total compensation							
Amount[4]	1,324	100	806	61	519	39	1,138
Number of beneficiaries	707						649
Fixed compensation[4,5]	435	33	435	100	0	0	386
Cash-based	408	31	408		0		357
Equity-based	27	2	27		0		29
Variable compensation	889	67	371	42	519	58	752
Immediate cash[6]	371	28	371		0		233
Equity Ownership Plan (EOP)[7]	319	24	0		319		322
Deferred Contingent Capital Plan (DCCP)[7]	199	15	0		199		197

1 Includes employees with a total compensation exceeding CHF / USD 2.5 million (Highly Paid Employees), excluding GEB members who were in office on 31 December 2017. 2 Based on the specific plan vesting and reflects the total value at grant which may differ from the accounting expenses. 3 2016 figures as reported in our Annual Report 2016. 4 Excludes benefits and employer's contribution to retirement benefits plan. 5 Includes base salary and role-based allowances. 6 Includes allocation of vested but blocked shares, in line with UK Prudential Regulation Authority remuneration code. 7 Starting with performance year 2017 KRTs who are also MRTs, are no longer permitted to receive dividend and interest payments. Accordingly the amounts reflect for EOP the fair value of the non-dividend bearing awards and for DCCP the fair value of the granted non-interest bearing awards.

Material Risk Takers

For entities that are regulated in the EU, we identify individuals who are deemed to be Material Risk Takers (MRTs) based on the respective EU Commission Regulation, the Capital Requirements Directive (CRD) and the guidelines on sound remuneration policies issued by the European Banking Authority (EBA). This group consists of senior management, risk takers, selected staff in control or support functions and certain employees whose total compensation is above a specified threshold. For 2017, UBS identified a group of 623 MRTs in the UK and 59 MRTs across our other EU entities.

Variable compensation awarded to MRTs is subject to specific requirements from local regulators based on the EBA guidelines such as a maximum variable to fixed compensation ratio. Further, generally 50% of their upfront performance award is delivered in UBS shares that vest immediately but are blocked for 12 months, as well as minimum deferral requirements between 40% and 60%.

Any notional shares granted to MRTs under the EOP and notional DCCP awards for their performance in 2017 are subject to a six-month blocking period post vesting and do not pay out dividends or interest.

Since 2015, performance awards granted to UK MRTs have been subject to clawback provisions for a period of up to seven years from the date of grant. In line with the EBA guidelines, clawback has also been introduced from 2018 in other EU jurisdictions as applicable. Under these provisions, the firm may claim repayment of both the immediate and the vested deferred element of any performance award if an individual is found to have contributed substantially to significant financial losses for the Group, a material downward restatement of disclosed results, or engaged in misconduct and/or failed to take expected actions that contributed to significant harm to the Group's reputation.

In line with market practice, MRTs may receive a role-based allowance in addition to their base salary. This role-based allowance reflects the market value of a specific role and is fixed, non-forfeitable compensation. Unlike salary, a role-based allowance is paid only as long as the employee is in a specific role. Importantly, the role-based allowance represents a shift in the compensation mix between fixed and variable compensation and not an increase in total compensation. Similar to 2016, the 2017 role-based allowances consisted of an immediate cash portion and, where applicable, a blocked UBS share award.

UK Senior Managers and Certification Regime

The Senior Managers and Certification Regime (SMCR) of the UK PRA and FCA requires that individuals with specified responsibilities, performing certain significant functions and / or those in certain other identified categories be designated as Senior Management Functions (SMFs).

SMFs are subject to specific compensation requirements, including longer deferral as well as longer blocking and clawback periods. The deferral period for SMFs is seven years, with the deferred performance awards vesting in equal installments between years 3 and 7. Additionally, these awards are subject to a 12-month blocking period post vesting. The clawback policy for SMFs permits clawback for up to 10 years from the date of performance award grants (applicable if an individual is subject to an investigation at the end of the initial seven-year clawback period). All SMFs are also identified as MRTs and as such subject to the same prohibitions on dividend and interest payments.

Control functions and Group Internal Audit

Our control functions, Risk Control (including Compliance), Finance and Legal, must be independent in order to monitor risk effectively. Therefore, we determine their compensation independently from the revenue producers that they oversee, supervise or support. Their performance award pool is not based on the performance of these businesses, but on the performance of the Group as a whole. In addition, we consider other factors, such as how effectively the function has performed, and our market position. Decisions on individual compensation for the senior managers of the control functions are made by the function heads and approved by the Group CEO. Decisions on individual compensation for the members of Group Internal Audit (GIA) are made by the Head of GIA and approved by the Chairman of the BoD. Upon proposal by the Chairman, total compensation for the Head of GIA is approved by the Compensation Committee in consultation with the Audit Committee.

Our deferred variable compensation plans for 2017

Deferred compensation

Deferred compensation is delivered through two plans: (i) the Equity Ownership Plan (EOP), which primarily aligns employee interest with those of our shareholders, and (ii) the Deferred Contingent Capital Plan (DCCP), which aligns employee interest with the interests of bondholders.

The average deferral period is 4.4 years for Group Executive Board (GEB) members and 3.5 years for employees below GEB level. To further promote sustainable performance our deferred compensation components include malus conditions. Malus conditions enable the firm to forfeit unvested deferred awards under certain circumstances, including performance and harmful acts provisions. Additionally, deferred awards granted to our most senior employees and to Highly Paid Employees (employees with a total compensation exceeding CHF / USD 2.5 million) are subject to performance conditions. Under the EOP and DCCP, employees who are not Material Risk Takers (MRTs) may receive annual dividend equivalents / notional interest payments. EBA guidelines, starting with performance year 2017, no longer permit MRTs to receive dividend or interest payments on instruments awarded as deferred variable remuneration.

Overview of our deferred variable compensation plans

		Equity Ownership Plan	Deferred Contingent Capital Plan
Beneficiaries		GEB members, Key Risk Takers and all employees with total compensation greater than CHF / USD 300,000	GEB members, Key Risk Takers and all employees with total compensation greater than CHF / USD 300,000
Deferral mix[1] (between EOP and DCCP)		GEB members: at least 62.5% Asset Management employees: at least 75% All other employees: at least 60%	GEB members: up to 37.5% Asset Management employees: up to 25% All other employees: up to 40%
Vesting schedule[1]		GEB members: vests in three installments after years 3, 4 and 5 Asset Management employees: vests in three installments after years 2, 3 and 5 All other employees: vests in equal installments after years 2 and 3	GEB members and all other employees: vests in full after 5 years
Conditions influencing payout	**Share price**	√	
	Forfeiture clauses	√	√
	Harmful acts	√	√
	Performance conditions	GEB members, GMDs, Key Risk Takers (including Highly Paid Employees) and SMFs: number of UBS shares delivered at vesting depends on the achievement of both Group and respective business division performance conditions[2]	Depends on whether a trigger event or viability event has occurred and, for GEB members, also on profitability
Profitability as funding driver		√	√
Instrument		UBS notional shares[3] (eligible for dividend equivalents[4])	Notional instruments and interest[4]

1 Senior Management Functions have extended deferral periods, with the deferred performance awards vesting in equal installments between years 3 and 7. 2 Includes Asset Management employees who are Group Managing Directors (GMDs) or Key Risk Takers (including Highly Paid Employees). 3 Notional funds for Asset Management employees. 4 Material Risk Takers are ineligible for dividends, including dividend equivalents and interest, including notional interest on their unvested performance awards.

Equity Ownership Plan

The Equity Ownership Plan (EOP) is a mandatory deferral plan for all employees with total compensation greater than CHF / USD 300,000. These employees receive at least 60% of their deferred performance award under the EOP in notional shares, which are eligible for dividend equivalents where regulation permits. For performance year 2017, we granted EOP awards to 5,127 employees.

The plan includes provisions that allow the firm to reduce or fully forfeit the unvested deferred portion of the granted EOP award if an employee commits certain harmful acts, and in most cases trigger forfeiture where employment has been terminated.

EOP awards granted to Asset Management employees have a different vesting schedule and deferral mix, as shown in the table "Overview of our deferred variable compensation plans" on the previous page, and are granted as cash-settled notional funds. This aligns Asset Management employee compensation more closely with industry standards.

EOP awards granted to GEB members, Group Managing Directors (GMDs), Key Risk Takers (including Highly Paid Employees) and Senior Management Functions (SMFs) will only vest if both Group and business division performance conditions are met. The Group performance is measured based on the average adjusted return on tangible equity (RoTE) over the performance period. Our assessment for vesting purposes excludes the effect of deferred tax assets (DTAs) as these are not reflective of the underlying performance of the Group, do not impact our ability to return capital to shareholders and are not within management control. Further, the recognition of DTAs which were positive in the past, has never had an impact on the performance award vesting. Business division performance is measured on the basis of the business division's average adjusted return on attributed equity (RoAE). For Corporate Center employees, it is measured on the basis of the average operating businesses RoAE.

The primary measure to determine vesting of EOP awards is the average adjusted RoTE. If the average adjusted RoTE is equal to or above the performance threshold of 8%, the EOP award will vest in full, provided that the relevant business division performance condition has also been met. If the average adjusted RoTE is 0% or negative, the installment will be fully forfeited regardless of any business division's individual performance. If the average adjusted RoTE is between 0% and 8%, the award will vest on a linear basis at 0–100%, again provided that the relevant business division performance condition is met.

The secondary measure to determine vesting of EOP awards is business division RoAE. If the business division RoAE performance threshold (refer to the table on the next page) is met, the EOP award will vest in accordance with the achievement of the primary measure. However, if the RoAE falls below the minimum threshold but is above 0%, the award will be partly forfeited. The extent of the forfeiture depends on how far the actual RoAE falls below the performance threshold for that business division and can be up to 40% of the award that would otherwise vest based on the average adjusted RoTE. If the actual RoAE for a business division is 0% or negative, the installment will be fully forfeited for that business division. The Compensation Committee determines whether the performance conditions have been met.

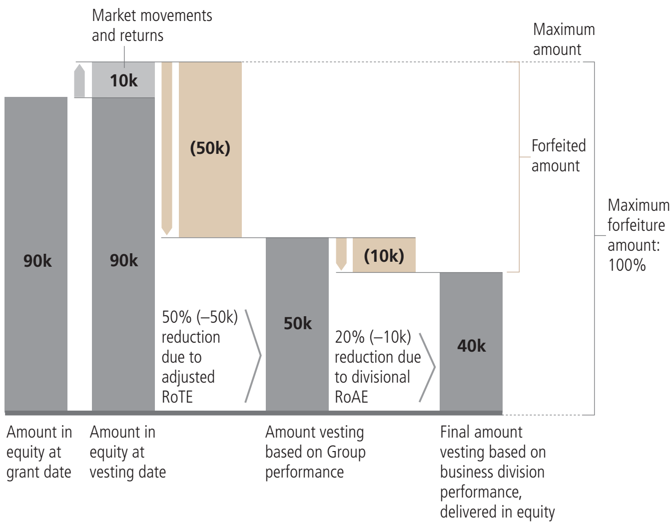
By linking the vesting of EOP awards with minimum return on equity performance over a multi-year time horizon, we encourage our employees to develop and manage the business in a way that delivers sustainable returns. The adjusted RoTE threshold of 8% promotes sustainable performance by keeping variable compensation of earlier years at a prudently established level of risk.

→ **Refer to the "Supplemental information" section of this report for more information on vesting of outstanding awards granted in prior years subject to performance conditions**

Illustrative example for EOP performance conditions

The final amount due to vest under the EOP will depend, in a first step, on the degree to which the adjusted RoTE is achieved. In a second step, the business division RoAE performance thresholds have to be satisfied. The award may forfeit up to 100% based on the adjusted RoTE performance. The remaining award is further subject to 100% forfeiture if the business division RoAE is 0% or negative, or up to 40% if the business division RoAE is between 0% and the business division performance threshold.

Example:
- EOP award granted: CHF 90,000 in equity
- EOP award at vesting date: CHF 100,000 in equity due to market movements and returns (+11%)
- Adjusted RoTE threshold: 8%; three-year average Group performance: 4%
- Business division RoAE threshold: 20%; three-year average business division performance: 10%



Performance conditions for EOP awards granted in February 2018

As part of the strategic planning process, the Compensation Committee annually sets the adjusted RoTE threshold and each business division's RoAE performance threshold for the following calendar year. The performance thresholds are set taking into consideration past performance as well as the forward-looking three-year strategic plan and any changes in the attributed equity framework. Once set, the performance thresholds remain in place for all EOP performance vesting installments for that particular award year. For GEB members, the award vests in equal installments after years 3, 4 and 5. For GMDs, KRTs including Highly Paid Employees, the award vests in equal installments after years 2 and 3.

	Vesting after	Applicable performance period
GEB / SMF[1]	3 years (installment 1)	2018, 2019 and 2020
	4 years (installment 2)	2019, 2020 and 2021
	5 years (installment 3)	2020, 2021 and 2022
GMDs, Key Risk Takers (including Highly Paid Employees)	2 years (installment 1)	2018 and 2019
	3 years (installment 2)	2018, 2019 and 2020

1 Senior Management Functions have extended deferral period, with the deferred performance awards vesting in equal installments between years 3 and 7 (including DCCP).

Group RoTE performance threshold

Average adjusted Group RoTE	≥8%

Business division RoAE performance thresholds

Global Wealth Management	≥25%
Personal & Corporate Banking	≥15%
Asset Management	≥25%
Investment Bank	≥10%
Corporate Center[1]	≥15%

1 For Corporate Center employees, average operating businesses RoAE performance threshold.

Deferred Contingent Capital Plan

The Deferred Contingent Capital Plan (DCCP) is a mandatory deferral plan for all employees with total compensation greater than CHF / USD 300,000. These employees receive up to 40% of their deferred performance award under the DCCP, with the exception of Asset Management employees, who receive up to 25%, and GEB members, who receive up to 37.5%. For performance year 2017, we granted DCCP awards to 5,100 employees.

Employees are awarded notional additional tier 1 (AT1) capital instruments, which can be settled in the form of either a cash payment or a perpetual, marketable AT1 capital instrument, at the discretion of the firm. Prior to grant, employees can elect to have their DCCP awards denominated in either Swiss francs or US dollars.

DCCP awards vest in full after five years and up to seven years for SMFs, unless there is a trigger event. They are written down if the Group's common equity tier 1 (CET1) capital ratio falls below 10% for GEB members and below 7% for all other employees. Awards are also forfeited if a viability event occurs, that is, if FINMA notifies the firm in writing that the DCCP awards must be written down to prevent an insolvency, bankruptcy or failure of UBS, or if the firm receives a commitment of extraordinary support from the public sector that is necessary to prevent such an event. As an additional performance condition, GEB members forfeit 20% of their award for each loss-making year during the vesting period. Like the EOP, the DCCP also has provisions that allow the firm to apply malus on some, or all, of the unvested deferred portion of a granted award if an employee commits certain harmful acts, or in most cases trigger forfeiture where employment has been terminated.

Under the DCCP, employees who are not MRTs may receive discretionary annual notional interest payments. The notional interest rate for grants in 2018 was 2.30% for awards denominated in Swiss francs and 5.85% for awards denominated in US dollars. These interest rates are based on the current market rates for similar AT1 capital instruments. Notional interest will be paid out annually, subject to review and confirmation by the Group.

Over the last five years, CHF 2,106 million of DCCP was issued, contributing to the Group's total loss-absorbing capacity. Therefore, DCCP awards not only support competitive pay, but also provide a loss absorption buffer that protects the firm's capital position. The following table illustrates the impact of the DCCP on our AT1 and tier 2 capital as well as on our total loss-absorbing capacity ratio.

→ **Refer to the "Supplemental information" section of this report for more information on performance award- and personnel-related expenses**

→ **Refer to the "Our compensation for employees other than GEB members" section of this report for more information on longer vesting and claw-back periods for MRTs and SMFs**

Impact of the Deferred Contingent Capital Plan on our loss-absorbing capacity[1]

CHF million, except where indicated	31.12.17	31.12.16	31.12.15
Deferred Contingent Capital Plan (DCCP)	2,106	2,271	1,903
of which: high-trigger loss-absorbing additional tier 1 capital	*1,670*	*1,380*	*991*
of which: high-trigger loss-absorbing tier 2 capital[2]	*435*	*891*	*912*
DCCP contribution to the total loss-absorbing capacity ratio (%)[3]	0.9	1.0	0.9

1 Refer to "Bondholder information" at www.ubs.com/investors for more information on the capital instruments of UBS Group AG and of UBS AG both on a consolidated and a standalone basis. 2 DCCP awards granted for the performance years 2012 and 2013. Swiss SRB framework including transitional arrangements (phase-in) as of 31 December 2017 and as of 31 December 2016. Based on the former Swiss SRB framework for 31 December 2015. DCCP instruments qualifying as tier 2 capital are eligible for regulatory capital purposes until 30 December of the year prior to maturity. 3 Impact as of 31 December 2015 was calculated for the former Swiss SRB total capital ratio.

Supplemental information

Performance awards granted for the 2017 performance year

The "Variable compensation" table below shows the amount of variable compensation awarded to employees for the performance year 2017, together with the number of beneficiaries for each type of award granted. In the case of deferred awards, the final amount paid to an employee depends on performance conditions and consideration of relevant forfeiture provisions. The deferred share award amount is based on the market value of these awards on the date of grant.

Variable compensation[1]

	Expenses recognized in the IFRS income statement		Expenses deferred to future periods[4]		Adjustments[4]		Total		Number of beneficiaries	
CHF million, except where indicated	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Non-deferred cash	2,047	1,817	0	0	0	0	2,047	1,817	45,664	47,581
Deferred compensation awards	392	373	590	671	65	54	1,048	1,098	4,922	4,818
of which: Equity Ownership Plan	*235*	*214*	*323*	*372*	*65*[5]	*54*[5]	*623*	*639*	*4,483*	*4,388*
of which: Deferred Contingent Capital Plan	*132*	*133*	*241*	*266*	*0*	*0*	*373*	*399*	*4,891*	*4,785*
of which: Asset Management EOP	*25*	*26*	*27*	*34*	*0*	*0*	*51*	*60*	*439*	*428*
Total variable compensation – performance award pool	2,439	2,191	590	671	65	54	3,095	2,916	45,671	47,603
Variable compensation – other[2]	148	266	191	162	(78)[6]	(98)[6]	262	330		
Wealth Management Americas: Financial advisor compensation[3]	3,025	2,695	513	804	0	0	3,538	3,499	6,822	7,025
Total variable compensation including WMA FA compensation	5,613	5,152	1,294	1,637	(12)	(44)	6,895	6,745		

1 Expenses under "Variable compensation – other" and "Wealth Management Americas: Financial advisor compensation" are not part of UBS's performance award pool. 2 Comprised of replacement payments, forfeiture credits, severance payments, retention plan payments and interest expense related to the Deferred Contingent Capital Plan. 3 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment that are subject to vesting requirements. 4 Estimate. The actual amount to be expensed in future periods may vary, e.g., due to forfeitures. 5 Represents estimated post-vesting transfer restriction and forfeiture discounts. 6 Included in expenses deferred to future periods is an amount of CHF 78 million (2016: CHF 98 million) in interest expense related to the Deferred Contingent Capital Plan. As the amount recognized as performance award represents the present value of the award at the date it is granted to the employee, this interest amount is adjusted out in the analysis.

Performance award expenses in the 2017 performance year

Performance award expenses include all immediate expenses related to 2017 compensation awards and expenses deferred to 2017 related to awards made in prior years. The chart "Amortization of deferred compensation" shows the amount at the end of 2017 of unrecognized awards to be amortized in subsequent years. This was CHF 1.3 billion as of 31 December 2017 and CHF 1.6 billion as of 31 December 2016.

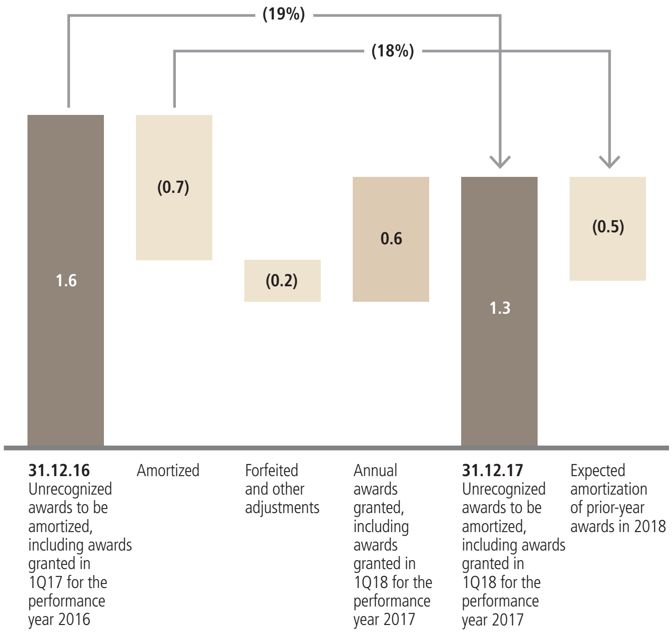
The "GEB and KRTs deferred compensation" table on the next page shows the current economic value of unvested outstanding deferred variable compensation awards subject to ex-post adjustments. For share-based plans, the economic value is determined based on the closing share price on 29 December 2017. For notional funds, it is determined using the latest available market price for the underlying funds at year-end 2017, and for deferred cash plans, it is determined based on the outstanding amount of cash owed to award recipients.

The "GEB and KRTs ex-post explicit and implicit adjustments to deferred compensation in 2017" table on the next page shows the value of actual ex-post explicit and implicit adjustments to outstanding deferred compensation in the financial year 2017. Ex-post adjustments occur after an award has been granted. Ex-post explicit adjustments occur when we adjust compensation by forfeiting deferred awards. Ex-post implicit adjustments are unrelated to any action taken by the firm and occur as a result of share price movements that impact the value of an award. The total value of ex-post explicit adjustments made to UBS shares in 2017, based on the approximately 7.7 million shares forfeited during 2017, is a reduction of CHF 138.5 million. The size of implicit adjustments is mainly due to an increase in the share price. However, the share price as of year-end means that many of the options previously granted remain out of the money. Hence, the majority of outstanding option awards had no intrinsic value at the end of 2017.

→ **Refer to "Note 27 Employee benefits: variable compensation" in the "Consolidated financial statements" section of the Annual Report 2017 for more information**

Amortization of deferred compensation

CHF billion



GEB and KRTs deferred compensation[1,2]

CHF million, except where indicated	Relating to awards for 2017	Relating to awards for prior years[3]	Total	*of which: exposed to ex-post explicit and / or implicit adjustments*	Total deferred compensation year-end 2016	Total amount of deferred remuneration paid out in 2017[4]
GEB						
Deferred Contingent Capital Plan[6]	22	79	101	*100%*	81	0
Equity Ownership Plan (including notional funds, if applicable)[6]	37	139	176	*100%*	138	18
Discontinued deferred compensation plans[5]	0	0	0	*100%*	2	2
KRTs						
Deferred Contingent Capital Plan	199	919	1,119	*100%*	1,003	0
Equity Ownership Plan (including notional funds) [6]	319	1,177	1,496	*100%*	1,372	310
Discontinued deferred compensation plans[6]	0	0	0	*100%*	2	2
Total GEB and KRTs	578	2,314	2,892		2,599	332

1 Based on specific plan vesting and reflecting the economic value of the outstanding awards, which may differ from the accounting expenses. Year to year reconciliations would also need to consider the impacts of additional items including off-cycle awards, FX movements, population changes, and dividend equivalent reinvestments 2 Refer to "Note 27 Employee benefits: variable compensation" in the "Consolidated financial statements" section of the Annual Report 2017 for more information. 3 Takes into account the ex-post implicit adjustments, given the share price movements since grant. 4 Valued at distribution price and FX rate for all awards distributed in 2017. 5 Senior Executive Equity Ownership Plan (SEEOP) and Incentive Performance Plan (IPP). 6 Starting with performance year 2017, GEB and KRT members who are also MRTs, are no longer permitted to receive dividend and interested payments. Accordingly the amounts reflect for EOP the fair value of the non-dividend bearing awards and for DCCP the fair value of the granted non-interest bearing awards.

GEB and KRTs ex-post explicit and implicit adjustments to deferred compensation in 2017

	Ex-post explicit adjustments[1]		Ex-post implicit adjustments to unvested awards[2]	
CHF million	31.12.17	31.12.16	31.12.17	31.12.16
GEB				
Deferred Contingent Capital Plan	0	0	0	0
Equity Ownership Plan (including notional funds, if applicable)	0	0	25	4
Discontinued deferred compensation plans	0	0	0	0
KRTs				
Deferred Contingent Capital Plan	(7)	(3)	0	0
Equity Ownership Plan (including notional funds)	(6)	(5)	209	42
Discontinued deferred compensation plans	0	0	0	0
Total GEB and KRTs	(13)	(8)	234	46

1 Ex-post explicit adjustments are calculated as units forfeited during the year, valued at the share price on 31 December 2017 (CHF 17.94) and 31 December 2016 (CHF 15.95) for UBS shares. For the notional funds awarded to Asset Management employees under the EOP, this represents the forfeiture credits recognized in 2017 and 2016. For the DCCP, the fair value at grant of the forfeited awards during the year is reflected. 2 Ex-post implicit adjustments for UBS shares are calculated based on the difference between the weighted average grant date fair value and the share price at year-end. The amount for notional funds is calculated using the mark-to-market change during 2017 and 2016.

Total personnel expenses for 2017

As of 31 December 2017, there were 61,253 employees (on a full-time equivalent basis). The "Personnel expenses" table below shows our total personnel expenses for 2017. It includes salaries, pension contributions and other personnel costs, social security contributions and variable compensation. Variable compensation includes cash performance awards paid in 2018 for the 2017 performance year, the amortization of unvested deferred awards granted in previous years and the cost of deferred awards granted to employees who are eligible for retirement in the context of the compensation framework at the date of grant.

The performance award pool reflects the value of performance awards granted relating to the 2017 performance year, including awards that are paid out immediately and those that are deferred. To determine our variable compensation expenses, the following adjustments are required in order to reconcile the performance award pool to the expenses recognized in the Group's financial statements prepared in accordance with International Financial Reporting Standards (IFRS):

– reduction for the unrecognized future amortization (including accounting adjustments) of unvested deferred awards granted in 2018 for the performance year 2017
– addition for the 2017 amortization of unvested deferred awards granted in prior years

As a large part of compensation consists of deferred awards, the amortization of unvested deferred awards granted in prior years forms a significant part of the IFRS expenses in both 2016 and 2017.

→ **Refer to "Note 6 Personnel expenses" and "Note 27 Employee benefits: variable compensation" in the "Consolidated financial statements" section of the Annual Report 2017 for more information**

Personnel expenses

	Expenses recognized in the IFRS income statement				
CHF million	Related to the performance year 2017	Related to prior performance years	Total expenses recognized in 2017	Total expenses recognized in 2016	Total expenses recognized in 2015
Salaries[1]	6,037	0	6,037	6,230	6,282
Non-deferred cash	2,047	(25)	2,022	1,775	1,980
Deferred compensation awards	392	676	1,068	1,197	1,230
of which: Equity Ownership Plan	*235*	*337*	*572*	*699*	*722*
of which: Deferred Contingent Capital Plan	*132*	*304*	*437*	*428*	*429*
of which: Asset Management EOP	*25*	*31*	*55*	*65*	*67*
of which: Other performance awards	*0*	*4*	*4*	*6*	*12*
Total variable compensation – performance awards[2]	2,439	651	3,090	2,972	3,210
of which: guarantees for new hires	*17*	*19*	*36*	*30*	*38*
Replacement payments[3]	13	58	71	86	76
Forfeiture credits	0	(105)	(105)	(73)	(86)
Severance payments[4]	111	0	111	217	157
Retention plan and other payments	25	37	62	74	117
Deferred Contingent Capital Plan: interest expense	0	109	109	113	81
Total variable compensation – other[2]	148	99	248	418	346
Contractors	451	0	451	420	365
Social security	755	43	798	747	820
Pension and other post-employment benefit plans[5]	710	0	710	670	808
Wealth Management Americas: financial advisor compensation[2,6]	3,025	962	3,986	3,697	3,552
Other personnel expenses	546	25	570	565	600
Total personnel expenses[7]	14,110	1,780	15,889	15,720	15,981

1 Includes role-based allowances. 2 Refer to "Note 27 Employee benefits: variable compensation" in the "Consolidated financial statements" section of the Annual Report 2017 for more information. 3 Payments made to compensate employees for deferred awards forfeited as a result of joining UBS. Includes the expenses recognized in the financial year (mainly the amortization of the award). 4 Includes legally obligated and standard severance payments. 5 Refer to "Note 26 Pension and other post-employment benefit plans" in the "Consolidated financial statements" section of the Annual Report 2017 for more information. 6 Consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment that are subject to vesting requirements. 7 Includes net restructuring expenses of CHF 534 million, CHF 751 million and CHF 460 million for the years ended 31 December 2017, 31 December 2016 and 31 December 2015, respectively. Refer to "Note 30 Changes in organization and disposals" in the "Consolidated financial statements" section of the Annual Report 2017 for more information.

Vesting of outstanding awards granted in prior years subject to performance conditions

The tables below show the extent to which the performance conditions for awards granted in prior years have been met and the percentage of the awards that vest in 2018.

Equity Ownership Plan (EOP) 2012 / 2013, EOP 2013 / 2014, EOP 2014 / 2015 and EOP 2015 / 2016		
Performance conditions	Performance achieved	% of installment vesting
Adjusted return on tangible equity[1] and divisional return on attributed equity	The Group and divisional performance conditions have been satisfied. For the EOP 2012 / 2013, the third and final installment for the Group Executive Board (GEB) members vests in full. For the EOP 2013 / 2014, the second installment for the GEB members and the second installment for all other employees covered under the plan vest in full. For the EOP 2014 / 2015, the first installment for the GEB members and the second installment for all other employees covered under the plan vest in full. For the EOP 2015 / 2016, the first installment for all other employees covered under the plan vests in full	100%

1 The assessment for vesting purposes excludes the effect of deferred tax assets (DTAs). Further, DTAs, when positive, have never had an impact on the performance award vesting.

Deferred Contingent Capital Plan (DCCP) 2012 / 2013		
Performance conditions	Performance achieved	% of installment vesting
Common equity tier 1 (CET1) capital ratio, viability event and additionally for GEB, Group adjusted profit before tax	The performance conditions have been satisfied. The DCCP 2012 / 2013 vests in full	100%

Discontinued deferred compensation plans

The table below lists discontinued compensation plans that had outstanding balances as of 31 December 2017. The firm has not granted any options since 2009. The strike price for stock options awarded under prior compensation plans has not been reset.

→ **Refer to "Note 27 Employee benefits: variable compensation" in the "Consolidated financial statements" section of the Annual Report 2017 for more information**

Plan	Years granted	Eligible employees	Instrument	Performance conditions	Vesting period and other conditions	Status as of March 2018
Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP)	2002–2009	Selected employees (approximately 17,000 employees between 2002 and 2009)	Share-settled stock appreciation rights (SARs) or stock options	None	Vests in full three years after grant, subject to continued employment, non-solicitation of clients and employees and non-disclosure of proprietary information	Expired (some options / SARs remain exercisable)
Senior Executive Stock Option Plan (SESOP)	2002–2009	GEB members and members of the Group Managing Board	Stock options	None	Vests in full three years after grant, subject to continued employment, non-solicitation of clients and employees and non-disclosure of proprietary information	Expired (some options remain exercisable)

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Share and option ownership / entitlements of GEB members[1]

Name, function	on 31 December	Number of unvested shares / at risk[2]	Number of vested shares	Total number of shares	Potentially conferred voting rights in %	Number of options[3]	Potentially conferred voting rights in %[4]
Sergio P. Ermotti, Group Chief Executive Officer	2017	1,632,464	460,377	2,092,841	0.121	0	0.000
	2016	1,365,537	265,515	1,631,052	0.097	0	0.000
Martin Blessing, Co-President Global Wealth Management	2017	65,761	0	65,761	0.004	0	0.000
	2016	0	0	0	0.000	0	0.000
Christian Bluhm, Group Chief Risk Officer	2017	131,520	0	131,520	0.008	0	0.000
	2016	0	0	0	0.000	0	0.000
Markus U. Diethelm, Group General Counsel	2017	589,659	194,000	783,659	0.045	0	0.000
	2016	538,520	154,820	693,340	0.041	0	0.000
Kirt Gardner, Group Chief Financial Officer	2017	264,718	61,652	326,370	0.019	0	0.000
	2016	142,646	38,581	181,227	0.011	0	0.000
Sabine Keller-Busse, Group Chief Operating Officer	2017	244,676	176,602	421,278	0.024	0	0.000
	2016	200,272	120,897	321,169	0.019	0	0.000
Ulrich Körner, President Asset Management and President UBS EMEA	2017	881,979	95,597	977,576	0.057	0	0.000
	2016	797,165	95,597	892,762	0.053	0	0.000
Axel P. Lehmann, President Personal & Corporate Banking and President UBS Switzerland	2017	156,180	277,978	434,158	0.025	0	0.000
	2016	0	277,978	277,978	0.017	0	0.000
Tom Naratil, Co-President Global Wealth Management and President UBS Americas	2017	1,047,311	422,298	1,469,609	0.085	281,640	0.016
	2016	838,193	352,634	1,190,827	0.071	412,917	0.025
Andrea Orcel, President Investment Bank	2017	1,328,113	251,439	1,579,552	0.091	0	0.000
	2016	1,203,535	184,220	1,387,755	0.083	0	0.000
Kathryn Shih, President UBS Asia Pacific	2017	581,546	0	581,546	0.034	74,599	0.004
	2016	567,777	0	567,777	0.034	143,869	0.009
Jürg Zeltner, former President Wealth Management	2017	976,001	1,075	977,076	0.057	42,628	0.002
	2016	881,976	1,075	883,051	0.053	64,164	0.004
Total	2017	7,899,928	1,941,018	9,840,946	0.569	398,867	0.023
	2016	6,535,621	1,514,211	8,049,832	0.479	620,950	0.037

1 Includes all vested and unvested shares and options of GEB members, including those held by related parties. 2 Includes shares granted under variable compensation plans with forfeiture provisions. The actual number of shares vesting in the future will be calculated under the terms of the plans. Refer to the "Our deferred variable compensation plans for 2017" section of this report for more information on the plans. 3 Refer to "Note 27 Employee benefits: variable compensation" in the "Consolidated financial statements" section of the Annual Report 2017 for more information. 4 No conversion rights outstanding.

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Total of all vested and unvested shares of GEB members[1,2]

	Total	of which: vested	of which: vesting				
			2018	2019	2020	2021	2022
Shares on 31 December 2017	9,840,946	*1,941,018*	*1,796,694*	*1,825,372*	*1,992,458*	*1,465,516*	*819,888*
			2017	2018	2019	2020	2021
Shares on 31 December 2016	8,049,833	*1,514,211*	*1,267,603*	*1,750,024*	*1,762,463*	*1,132,150*	*623,381*

1 Includes shares held by related parties. 2 Includes shares granted under variable compensation plans with forfeiture provisions. The actual number of shares vesting in the future will be calculated under the terms of the plans. Refer to the "Our deferred variable compensation plans for 2017" section of this report for more information.

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Number of shares of BoD members[1]

Name, function	on 31 December	Number of shares held	Voting rights in %
Axel A. Weber, Chairman	2017	642,100	0.037
	2016	635,751	0.038
Michel Demaré, Vice Chairman	2017	290,694	0.017
	2016	254,287	0.015
David Sidwell, Senior Independent Director	2017	154,672	0.009
	2016	205,540	0.012
Reto Francioni, member	2017	76,772	0.004
	2016	51,567	0.003
Ann F. Godbehere, member	2017	232,263	0.013
	2016	201,457	0.012
William G. Parrett, member	2017	106,916	0.006
	2016	104,385	0.006
Julie G. Richardson, member[2]	2017	0	–
	2016	–	–
Isabelle Romy, member	2017	94,376	0.005
	2016	91,038	0.005
Robert W. Scully, member	2017	29,917	0.002
	2016	0	0.000
Beatrice Weder di Mauro, member	2017	126,809	0.007
	2016	99,737	0.006
Dieter Wemmer, member	2017	14,002	0.001
	2016	0	0.000
Joseph Yam, former member[2]	2017	–	–
	2016	109,938	0.007
Total	2017	1,768,521	0.102
	2016	1,753,700	0.104

1 Includes blocked and unblocked shares held by BoD members, including those held by related parties. No options were granted in 2017 and 2016. 2 Julie G. Richardson was newly elected and Joseph Yam stepped down from the BoD at the AGM on 4 May 2017.

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Total of all blocked and unblocked shares of BoD members[1]

	Total	*of which: unblocked*	*of which: blocked until*			
			2018	*2019*	*2020*	*2021*
Shares on 31 December 2017	1,768,521	*294,924*	*366,821*	*347,106*	*364,161*	*395,509*
			2017	*2018*	*2019*	*2020*
Shares on 31 December 2016	1,753,700	*276,602*	*337,751*	*385,005*	*367,597*	*386,745*

1 Includes shares held by related parties.

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Vested and unvested options of GEB members[1]

on 31 December	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Tom Naratil, Co-President Global Wealth Management and President UBS Americas						
2017	281,640	181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
2016	412,917	131,277	2007	01.03.2010	28.02.2017	CHF 73.67
		181,640	2008	01.03.2011	28.02.2018	CHF 35.66
		100,000	2009	01.03.2012	27.02.2019	CHF 11.35
Kathryn Shih, President UBS Asia Pacific						
2017	74,599	74,599	2008	01.03.2011	28.02.2018	CHF 35.66
2016	143,869	69,270	2007	01.03.2010	28.02.2017	CHF 73.67
		74,599	2008	01.03.2011	28.02.2018	CHF 35.66
Jürg Zeltner, former President Wealth Management						
2017	42,628	42,628	2008	01.03.2011	28.02.2018	CHF 35.66
2016	64,164	7,105	2007	01.03.2008	28.02.2017	CHF 67.00
		7,105	2007	01.03.2009	28.02.2017	CHF 67.00
		7,103	2007	01.03.2010	28.02.2017	CHF 67.00
		223	2007	02.03.2009	02.03.2017	CHF 67.08
		42,628	2008	01.03.2011	28.02.2018	CHF 35.66

1 Includes all options held by GEB members, including those held by related parties. 2 No conversion rights outstanding. 3 Refer to "Note 27 Employee benefits: variable compensation" in the "Consolidated financial statements" section of the Annual Report 2017 for more information.

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Loans granted to GEB members[1]

In line with article 38 of the Articles of Association of UBS Group AG, Group Executive Board (GEB) members may be granted loans. Such loans are made in the ordinary course of business on substantially the same terms as those granted to other employees, including interest rates and collateral, and neither involve more than the normal risk of collectability nor contain any other unfavorable features for the firm. The total amount of such loans must not exceed CHF 20 million per GEB member.

CHF, except where indicated[2]

Name, function	on 31 December	Loans[3]
Ulrich Körner, President Asset Management and President UBS EMEA (highest loan in 2017)	2017	8,240,000
Ulrich Körner, President Asset Management and President UBS EMEA (highest loan in 2016)	2016	8,286,193
Aggregate of all GEB members[4]	2017	37,442,914
	2016	37,137,347

1 No loans have been granted to related parties of the GEB members at conditions not customary in the market. 2 Local currencies are translated into Swiss francs at the exchange rates stated in "Note 34 Currency translation rates" in the "Consolidated financial statements" section of the Annual Report 2017. 3 All loans granted are secured loans. 4 Excludes unused uncommitted credit facilities of CHF 4,952,596 in 2017 that had been granted to two GEB members, and of CHF 2,430,050 in 2016 that had been granted to one GEB member.

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Loans granted to BoD members[1]

In line with article 33 of the Articles of Association of UBS Group AG, loans to independent Board of Directors (BoD) members are made in the ordinary course of business at general market conditions. The Chairman as a non-independent member may be granted loans in the ordinary course of business on substantially the same terms as those granted to employees, including interest rates and collateral, neither involving more than the normal risk of collectability nor containing any other unfavorable features for the firm. The total amount of such loans must not exceed CHF 20 million per BoD member.

CHF, except where indicated[2]

	on 31 December	Loans[3,4,5]
Aggregate of all BoD members	2017	3,524,370
	2016	3,653,370

1 No loans have been granted to related parties of the BoD members at conditions not customary in the market. 2 Local currencies are translated into Swiss francs at the exchange rates stated in "Note 34 Currency translation rates" in the "Consolidated financial statements" section of the Annual Report 2017. 3 All loans granted are secured loans. 4 CHF 600,000 for Reto Francioni and CHF 2,924,370 for William G. Parrett in 2017 and CHF 600,000 for Reto Francioni and CHF 3,053,370 for William G. Parrett in 2016. 5 Excludes an unused uncommitted credit facility of CHF 243,698 that had been granted to one BoD member in 2017 and CHF 254,448 in 2016.

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Compensation paid to former BoD and GEB members[1]

CHF, except where indicated[2]

	For the year	Compensation	Benefits	Total
Former BoD members	2017	0	0	0
	2016	0	0	0
Aggregate of all former GEB members[3]	2017	336,789	44,636	381,425
	2016	0	44,381	44,381
Aggregate of all former BoD and GEB members	2017	336,789	44,636	381,425
	2016	0	44,381	44,381

1 Compensation or remuneration that is related to the former members' activity on the BoD or GEB or that is not at market conditions. 2 Local currencies are translated into Swiss francs at the exchange rates stated in "Note 34 Currency translation rates" in the "Consolidated financial statements" section of the Annual Report 2017. 3 Includes payments in 2017 to two former GEB members and a payment in 2016 to one former GEB member.

Provisions of the Articles of Association related to compensation

Under the say-on-pay provisions in Switzerland, shareholders of Swiss-listed companies have significant influence over board and management compensation. At UBS, this is achieved by means of an annual binding say-on-pay vote in accordance with the following Articles of Association provisions related to compensation:

Say on pay: In line with article 43 of the Articles of Association of UBS Group AG, the Annual General Meeting (AGM) shall approve the proposals of the BoD in relation to the maximum aggregate amount of compensation of the BoD for the period until the next AGM, the maximum aggregate amount of fixed compensation of the GEB for the following financial year and the aggregate amount of variable compensation of the GEB for the preceding financial year. The BoD may submit for approval deviating or additional proposals. In the event the AGM does not approve a proposal, the BoD shall determine, taking into account all relevant factors, an aggregate amount or partial amounts for subsequent approval by shareholders.

Principles of compensation: In line with articles 45 and 46 of the Articles of Association of UBS Group AG, compensation of the BoD comprises a base remuneration and may comprise other compensation elements and benefits. Compensation of the GEB consists of fixed and variable compensation elements. Variable compensation elements depend on quantitative and qualitative performance measures as determined by the BoD. Remuneration of the BoD and compensation of the GEB may be paid or granted in the form of cash, shares, financial instruments or units, in kind or in the form of benefits. The BoD determines the key features such as grant, vesting, exercise and forfeiture conditions and applicable harmful acts provisions.

Additional amount for GEB members hired after the vote on the aggregate amount of compensation by the AGM: In line with article 46 of the Articles of Association of UBS Group AG, for the compensation of GEB members who will be appointed after the approval for compensation by the AGM, and to the extent that the aggregate amount of compensation as approved does not suffice, an amount of up to 40% of the average of total annual compensation paid or granted to the GEB during the previous three years is available without further approval by the AGM.

→ **Refer to *www.ubs.com/governance* for more information**

Building a better working world

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To the General Meeting of
UBS Group AG, Zurich

Basel, 8 March 2018

Report of the statutory auditor on the remuneration report

We have audited the compensation report dated 8 March 2018 of UBS Group AG for the year ended 31 December 2017. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the following tables labeled "audited" of the compensation report: *Total compensation for GEB members, Total payments to BoD members, Compensation details and additional information for non-independent BoD members, Remuneration details and additional information for independent BoD members, Loans granted to GEB members, Loans granted to BoD members* and *Compensation paid to former BoD and GEB members*.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility
Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the compensation report for the year ended 31 December 2017 of UBS Group AG complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young Ltd

Marie-Laure Delarue
Licensed audit expert
(Auditor in charge)

Bruno Patusi
Licensed audit expert

Information sources

Reporting publications

Annual publications: *Annual Report (SAP no. 80531):* Published in English, this single-volume report provides a description of our Group strategy and performance; the strategy and performance of the business divisions and Corporate Center; a description of risk, treasury, capital management, corporate governance, corporate responsibility and our compensation framework, including information on compensation for the Board of Directors and the Group Executive Board members; and financial information, including the financial statements. *Auszug aus dem Geschäftsbericht (SAP no. 80531):* This publication provides the translation into German of selected sections of the Annual Report. *Annual Review (SAP no. 80530):* The booklet contains key information on our strategy and performance, with a focus on corporate responsibility at UBS. It is published in English, German, French and Italian. *Compensation Report (SAP no. 82307):* The report discusses our compensation framework and provides information on compensation for the Board of Directors and the Group Executive Board members. It is available in English and German.

Quarterly publications: The quarterly financial report provides an update on our strategy and performance for the respective quarter. It is available in English.

How to order publications: The annual and quarterly publications are available in PDF at *www.ubs.com/investors* in the "UBS Group AG and UBS AG consolidated financial information" section, and printed copies can be requested from UBS free of charge. For annual publications refer to *www.ubs.com/investors* in the "Investor services" section, which can be accessed via the link on the left-hand side of the screen. Alternatively, they can be ordered by quoting the SAP number and the language preference, where applicable, from UBS AG, F4UK–AUL, P.O. Box, CH-8098 Zurich, Switzerland.

Other information

Website: The "Investor Relations" website at *www.ubs.com/investors* provides the following information on UBS: news releases, financial information, including results-related filings with the US Securities and Exchange Commission, information for shareholders, including UBS share price charts as well as data and dividend information, and for bondholders, the UBS corporate calendar and presentations by management for investors and financial analysts. Information on the internet is available in English, with some information also available in German.

Results presentations: Our quarterly results presentations are webcast live. A playback of most presentations is downloadable at *www.ubs.com/presentations*.

Messaging service: Email alerts to news about UBS can be subscribed to under "UBS News Alert" at *www.ubs.com/investors*. Messages are sent in English, German, French or Italian, with an option to select theme preferences for such alerts.

Form 20-F and other submissions to the US Securities and Exchange Commission: We file periodic reports and submit other information about UBS to the US Securities and Exchange Commission (SEC). Principal among these filings is the annual report on Form 20-F, filed pursuant to the US Securities Exchange Act of 1934. The filing of Form 20-F is structured as a "wrap-around" document. Most sections of the filing can be satisfied by referring to parts of the annual report. However, there is a small amount of additional information in Form 20-F that is not presented elsewhere and is particularly targeted at readers in the US. Readers are encouraged to refer to this additional disclosure. Any document that we file with the SEC is available on the SEC's website *www.sec.gov,* or at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC, 20549. Call the SEC on +1-800-SEC-0330 for more information on the operation of its public reference room. Refer to *www.ubs.com/investors* for more information.

Corporate information

UBS Group AG is incorporated and domiciled in Switzerland and operates under art. 620ff. of the Swiss Code of Obligations as an Aktiengesellschaft, a corporation limited by shares. Its registered office is at Bahnhofstrasse 45, CH-8001 Zurich, Switzerland, phone +41-44-234 11 11, and its corporate identification number is CHE-395.345.924. UBS Group AG was incorporated on 10 June 2014 and was established in 2014 as the holding company of the UBS Group. UBS Group AG shares are listed on the SIX Swiss Exchange and on the New York Stock Exchange (ISIN: CH0244767585; CUSIP: H42097107). UBS Group AG owns 100% of the outstanding shares of UBS AG.

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Corporate calendar UBS Group AG

Publication of the first quarter 2018 report:	Monday, 23 April 2018
Annual General Meeting 2018:	Thursday, 3 May 2018
Publication of the second quarter 2018 report:	Tuesday, 24 July 2018
Publication of the third quarter 2018 report:	Tuesday, 23 October 2018

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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), including to counteract regulatory-driven increases, leverage ratio denominator, 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) 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 have imposed, or resulted in, or may do so in the future, more stringent or entity-specific 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 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, including changes in legal structure and reporting required to implement US enhanced prudential standards, 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, to 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) uncertainty as to the extent to which the Swiss Financial Market Supervisory Authority (FINMA) will confirm limited reductions of gone concern requirements due to measures to reduce resolvability risk; (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 risk 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, including from changes to US taxation under the Tax Cuts and Jobs Act; (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, 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 2017. 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 absolute variances are calculated on the basis of rounded figures displayed in the tables and text and may not precisely reflect the percentages, percent changes and absolute variances that would be calculated on the basis of figures that are not rounded.

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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