UBS

Morgan Stanley European Financials Conference

March 22, 2018

Sergio P. Ermotti (Group CEO):

SLIDE 1 – Cautionary statement regarding forward-looking statements

Thank you Magdalena. This morning I will keep my remarks short and will cover the highlights for 2017 and our priorities so that we can leave more time for Q&A. First of all I would like to draw your attention to our cautionary statement.

SLIDE 2 – Delivered positive operating leverage in 2017

Let me start by saying that we had nothing to do with setting the theme of this year's conference. But "shifting gears and focusing on operating models" is an accurate description of what we have been doing in the last few years.

We shifted into a higher financial gear in 2017, and I liken this to driving a sports car on a drying track, traction is better, we can be more agile and visibility is improving.

Last year we increased reported PBT by 29% and net profit, excluding the effects of the US tax changes, rose to nearly 4 billion francs. We delivered positive operating leverage while making material investments across our businesses even with ultra-low interest rates, the shift into passive investment, and reduced market volatility, which presented real challenges across the bank.

Besides strong earnings, a highlight from the past year was further clarity on the future capital requirements. We also made good progress on resolving legacy litigation matters and now see cross-border outflows as materially completed. These factors all paved the way for our updated, more flexible capital returns policy.

To ensure our strong earnings are sustainable, we are focusing on what we believe is the best operating model for UBS - Global Wealth Management and our universal bank in Switzerland complemented with our strong and competitive Investment Bank and Asset Management businesses.

Slide 3 – Attractive capital returns policy

On capital returns, we intend to steadily increase our ordinary dividend and supplement it with other forms of returns, most likely in share buybacks. Thus, we are in the vanguard of European banks enhancing regular dividends with additional payouts to shareholders.

We have announced a buyback program of up to 2 billion over the next three years, with 550 million targeted for 2018. Our buyback should not be mistaken for an estimate of our distributable income. It is a conservative starting point and each year we can revisit our assumptions, returning more or less, depending on the cycle and the needs of the business.

While being attractive, the policy reflects our overall philosophy: it is responsible, sensible, flexible and aims to balance the demands of the many stakeholders of the bank. It supports our aim to be among the best capitalized global banks and factors in the additional 4 billion of CET1 capital we've said we will retain by the end of 2020.

CET1 leverage ratio remains our binding constraint and we intend to operate at around 3.7%, and given the disclosed RWA increases, we're expecting to operate at a CET1 ratio of around 13% this quarter.

Slide 4 - Global Wealth Management – strong performance

Global Wealth Management had an excellent year, with profit before tax up 14% to 4.1 billion francs.

Revenues rose in all lines and the cost/income ratio was down. Invested assets increased 12%, to more than 2.3 trillion, including 1 trillion from Ultra High Net Worth clients. We had record performances in APAC, the Americas and Ultra High Net Worth.

It's from this position of strength that we have decided to combine our wealth management businesses.

Slide 5 - Global Wealth Management – geographic footprint

UBS is the only truly global wealth manager with leading and diversified positions across the world. Our global reach is complemented by our dominant position in the fast-growing Ultra High Net Worth segment, giving us strong presence across the largest and fastest growing market segments. And we benefit from best-in-class advisor productivity in the US.

Some of you have questioned why we would bring together businesses that are so different. Others asked why we haven't done it before. The reality is somewhere in between. The needs of wealthy people are not defined by the color of their passport. The truth is that we see more and more convergence in the needs of Ultra High Net Worth clients and Global Family Office clients. UHNW individuals globally are seeking connectivity, best in class advice, and access to unique products, all delivered by people and organizations they trust.

The new organization will allow us to fully exploit the benefits of a global model, while maintaining our strong regional approach to serving clients and competing for talents.

In terms of the timing, we wanted to ensure cross border matters were largely addressed in Wealth Management and that restructuring and management changes in the US were bedded down.

On the cost side, finance, operations, risk and HR have already been combined and we are working through the basic synergies of aligning these functions.

Taking full advantage of our CHF 2.3 trillion buying power of our invested assets, alignment of investment spend in tech and innovation, and a greater ability to benchmark ourselves internally in terms of cost and efficiency will help us achieve the ambitious cost / income targets set for the business.

Net net it' is a clear win for clients and for shareholders.

Slide 6 – Global Wealth Management - 2017 regional performance

We've updated our GWM disclosures to reflect the new business established on February 1 and we intend to demonstrate the benefits of our diversified model in this format going forward.

Slide 7 – Improving efficiency 2018-2020

As you know, we have updated financial targets for the next three years, which we see as realistic and sustainable. They take into account a number of factors, namely our investment needs, capital requirements and the dividend policy, as well as the ongoing costs of the many remaining regulatory changes. We also have considered potential idiosyncratic events, like litigation.

They also reflect our assumptions on markets, which we believe are realistic. We have planned for more of the same and we believe we can achieve our targets without unfounded optimism. If market conditions improve, then this may come at a small opportunity cost but we believe it's the right risk return profile for the bank.

On the cost side, at the Group level we intend to reduce our cost / income ratio to below 75% over the next three years. And when I say "below "I mean "below."

On the face of it, this target looks worse than the 60-70% range we set a few years ago, but after we set this range, regulatory costs including the costs of TBTF2 have added around 500 basis point to our cost/income ratio. As I have said before, efficiency is no good if we can't increase our effectiveness, and history has taught us the alternative is a false economy. Our focus is on sustainable performance.

Now more than ever we need to invest to protect and grow our business. While there are areas where we can improve efficiency, taking a hatchet to expenses and reducing investment will not serve our stakeholders in the long term. We view technology as a means to achieve both, and IT expenses will remain slightly above 10% of our revenues in the near future.

Of course, there are structural differences between UBS and many of our peers that explain variations in cost / income ratios.

Our Investment Bank is advice, research and flow based, which is far less capital heavy than other models. This means we can deliver best in class returns on capital but our cost / income ratio is higher. The US wealth management industry also operates at an elevated cost / income ratio compared to the rest of the world but also delivers strong capital returns.

Finally, UBS is a global business in every sense of the word, and this means higher capital, liquidity and funding needs and higher costs to address many local regulatory requirements. The benefits however come in the form of diversification as we have demonstrated over the last few years- in terms of growth, earnings and risk and last but not least, and last but not least in higher capital returns.

Slide 8 – USD-based reporting

As you may have seen, we are considering a change in our functional and reporting currency to the US dollar. It is a next logical step as most of our revenues, costs, and profits are already denominated in US dollar or linked currencies and we believe this ratio is only going to get higher.

The move would reduce volatility in our earnings resulting from FX swings, like those we've observed over the last few quarters including this one. It would also enable more efficient hedging of currency impacts on our capital and leverage ratios.

Slide 9 – Summary

To briefly summarize. We are already running in a higher gear financially while increasing capital returns to our shareholders as well as building capital. Improving efficiencies remains critical but what we won't do, is over-promise on targets, or mortgage our future by chasing short-term gains. Rather we will use the good times to invest to sustain our performance over the long term.

With that, I'd like to hand back over to Magdalena. Thank you.

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(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; 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If applicable for a given adjusted KPI (i.e., adjusted return on tangible equity), adjustment items are calculated on an after-tax basis by applying an indicative tax rate. Refer to page 68 of the Annual Report 2017 for more information.