UBS

Bank of America Merrill Lynch Annual Financials CEO Conference

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Sergio P. Ermotti (Group CEO):

SLIDE 2 – Balanced businesses and global diversification

UBS is unique, with a business mix and geographical footprint that are unmatched. We are well positioned across the industry's most attractive regions and businesses, and the world's only true global wealth manager. Our strategic clarity and strong capital position allow us to stay focused on our clients and opportunities for prudent growth amidst challenging market conditions.

Wealth Management and Wealth Management Americas together contributed around 50% of business division profits in the first half of this year, while attracting almost 40 billion Swiss francs of net new money.

Our Personal & Corporate Banking division is the market leader in Switzerland and consistently delivers substantial profits. Earlier this year, UBS was named the "Best Bank in Switzerland" for the fifth consecutive year by Euromoney, an accolade that covers the whole Swiss business. It is the intensive and highly effective collaboration between Personal & Corporate and ALL our other businesses that allows us to achieve such success and have the same standing with our clients.

Asset Management is a capital-light, geographically diversified business with a strong position in key growth areas, which has been strengthening its distribution and offering. For example, we are one of the largest managers in the alternatives space, with leading capabilities in Real Estate, Infrastructure and Alternatives.

Our Investment Bank's model is designed to provide advice, deliver content, and to capture client flows, with limited mark-to-market risk and low inventory levels, resulting in strong risk-adjusted returns. Since we accelerated our strategic transformation in 2012, we have proven that we can consistently deliver very strong performance in a variety of market conditions, while remaining disciplined on risk and resource utilization.

From a regional perspective, you can see that APAC contributed 13% of first half 2016 business division pre-tax profits, down from 20% in a very strong first half of 2015, as the region faces macroeconomic challenges. Despite these challenges and increased competition from both global and local players, we have been in APAC for over 50 years and we view the region as our greatest growth opportunity and we will continue to invest there.

Slide 3 - Markets

Despite recent improvement in equity markets, we observe little correlation between current equity levels and client confidence in the markets. What matters most to our clients is confidence in their ability to protect and sustainably grow their wealth, and volatility is a key influencing factor. While some volatility can be good, excessive volatility leads to increased uncertainty, which makes clients reluctant to fully invest, and we have been seeing this in full force during the second half of last year and the first half of this year.

Likewise, the low to negative interest rate environment is reinforcing these behaviors. The equity valuations we are seeing in this environment are not driven by fundamentals. This is a function of excess liquidity due to ever looser monetary policy. Many clients recognize this, and prefer not to buy into this kind of rally.

Furthermore, the rate environment makes it extremely difficult for banks to generate net interest income. As you know, in a higher or normal rates environment, cash balances would earn interest for banks. However, given the current interest rates environment, the industry is struggling to minimize the negative effects of higher cash levels, given liquidity and capital requirements. Volatility and general uncertainty has also taken its toll on primary markets, with issuance sharply down from the recovery in volumes seen in 2014.

With respect to what we have experienced so far in the third quarter, normal seasonality, underlying macroeconomic uncertainty and heightened geopolitical tensions continue to contribute to client risk aversion and generally low transaction volumes.

As mentioned before, our mix is more skewed towards Europe and APAC than the US. These differences in regional exposures, together with our product mix, are particularly relevant when comparing our IB to other investment banks. In some businesses and regions in which our IB operates, conditions have remained challenging through the third quarter.

Our WMA business is benefitting from a more stable environment in the US currently, and continues to be leveraged towards higher US dollar interest rates. Across all our businesses, we remain well positioned to benefit from even a moderate improvement in conditions.

Slide 4 - Cost reduction

So especially given the current market environment, improving effectiveness and efficiency is a key priority. Since 2013, we reduced our net cost run-rate by 1.4 billion as of the June 2016 exit rate, and we are fully committed to achieving our ambitious target of 2.1 billion net cost reductions by the end of next year. Furthermore, there are other areas of elevated costs, such as restructuring, temporary regulatory spend and expenses associated with resolving legacy and regulatory matters, which should abate in the next few years.

When you compare cost reduction programs across the industry, it is worth remembering a few things. For example, having already completed our restructuring, we do not get the tailwinds from closing business lines. Also, reductions in the front-office pay due to lower revenues are largely not taken into account in our net cost reduction figures. This is because our cost reduction program focuses on structural, front-to-back, and permanent reduction of fixed costs.

Importantly, we will reduce our cost base while continuing to invest in strategic growth opportunities and ensuring that our control framework, quality of client service and strategic growth priorities are not compromised by taking overly aggressive steps to show short-term cost reductions.

Looking beyond individual company efforts, the industry must continue to pursue opportunities and seek ways to continuously improve its efficiency and effectiveness. In an industry that is clearly operating in a state of overcapacity, as it is in Europe, one approach would be to go through consolidation, with all its pros and cons. We can, however, achieve benefits similar to those associated with consolidation, without the potential negative synergies, capital issues and regulatory challenges.

Over the past few years, a diverse network of service firms for the financial sector has emerged that is changing both the supply chain and the dynamics of supply and demand. These unregulated entities are benefiting from a number of trends in the sector, among which are standardization, a drive for lower costs, the constant need for returns, and capturing economies of scale. While these businesses are partners to the industry, some of them, over time, have evolved into potential competitors. That is the reason why banks should exploit, through different forms of partnership, the opportunity to attain some of these economies of scale and monetize certain best-in class processes and technologies. This would generate increased savings while maintaining greater control over processes and quality, and delivering higher returns to shareholders. UBS is actively working with several industry partners in a variety of regions, to come up with mutually beneficial solutions across different components of the value chain.

I believe that the industry has now passed a point of no return as it transforms the value chain. Remaining in or going back to the old, segregated world, is not a viable option, in our view.

Slide 5 - Going concern capital and leverage ratios

We see capital strength as the foundation of our success and a very attractive feature of the bank, especially for our wealth management clients.

At the end of the second quarter, our fully applied Basel III CET1 capital ratio increased to 14.2% and our fully applied BIS Basel III CET1 leverage ratio increased to 3.4%.

Since we announced our short to medium-term expectations for LRD of 950 billion and RWA of 250 billion last year, we have been running the bank below these levels. As we have said before, these are not targets, but are only meant to indicate where we expect to run the business in normalized market and revenue conditions, where client demand would drive and justify the increased utilization of resources.

Right now, many opportunities for new business do not meet our standards, in terms of risk, return, and economic profitability. Simply allocating more balance sheet into a given business and lowering our standards in an attempt to offset revenue headwinds is not consistent with our focus on creating long-term, sustainable shareholder value. So, we will not go down the quality curve to chase revenues or attract NNM. Focusing on current resource consumption across all our businesses is actually the best way to free up resources. These can then be reinvested in new opportunities and help us in promoting a culture that focuses on the balance between profitability and capital consumption.

As for the new Swiss regulatory requirements, we are on track to meet fully applied requirements. With respect to the BCBS's proposed changes to the capital framework, the discussions seem to be entering in the final stages, with the likely outcome being a significant increase in risk-weighted assets. It is premature to talk about the potential impact and any strategic or tactical remediation that may be necessary. Our view is that if this leads to excessive capital increase and requirements, given the role of banks' balance sheets in the European economy, this would trigger a potential pro-cyclical effect and worsen an already fragile environment.

Slide 6 – Continued focus on execution

So despite the challenges we and the industry will continue to face for the foreseeable future, having completed our transformation, we have the advantage of being able to focus on serving our clients. Our strategy is clear, our business model is strong, and we've demonstrated that it is sustainable across a variety of market conditions.

There is no room for complacency, and we must also keep our focus on execution, including our cost reduction program, where our goal is to deliver sustainable cost savings that also improve the long-term effectiveness. As we do that, we will free up resources, enabling us to continue to invest for growth.

We will continue to build up our talent pool internally, but also with careful hiring of staff who excel at what they do and fit well into our culture.

We have solidified our position as the world's largest wealth manager, but we will stay focused on driving sustainable growth across all our businesses and regions, investing in leading digital solutions, and leveraging the intellectual capital of the firm. With this, we will continue to stay close to our clients and adapt how we serve them to fit their evolving needs.

Our highly cash-flow generative business model allows us to accrete capital and adapt to regulatory changes, while remaining committed to our capital returns policy.

All these factors are fundamental to us delivering value to shareholders, and I am confident in our ability to execute on our plans.

Thank you, and let me now pass back to Andy so he can open up for questions.

Cautionary statement regarding forward-looking statements: This presentation contains statements that constitute "forward-looking statements," including but not limited to management's outlook for UBS's financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS's business and future development. While these forward-looking statements represent UBS's judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's expectations. These factors include, but are not limited to: (i) the degree to which UBS is successful in executing its announced strategic plans, including its cost reduction and efficiency initiatives and its targets for risk-weighted assets (RWA) and leverage ratio denominator (LRD), and the degree to which UBS is successful in implementing changes to its wealth management businesses to meet changing market, regulatory and other conditions; (ii) the 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) requirements, or loss-absorbing capital; (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose, or result in, more stringent capital, TLAC, leverage ratio, liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration or other measures, and the effect this would have on UBS's business activities; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve a limited reduction of gone concern requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements, including changes in legal structure and reporting required to implement US enhanced prudential standards, implementing a service company model, completing the transfer of the Asset Management business to a holding company, and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements relating to capital requirements, resolvability requirements and proposals in Switzerland and other countries for mandatory structural reform of banks and the extent to which such changes have the intended effects; (vii) the uncertainty arising from the UK referendum vote to withdraw from the EU and the potential need to make changes in UBS's legal structure and operations as a result of a UK exit from the EU; (viii) changes in UBS's competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS's ability to compete in certain lines of business; (ix) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (x) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses or loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational component of our RWA; (xi) the effects on UBS's cross-border banking business of tax or regulatory developments and of possible changes in UBS's policies and practices relating to this business; (xii) UBS's ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xiii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xiv) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xv) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyber-attacks, and systems failures; (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 of its 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, including methodology, assumptions and stress scenarios, 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. 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Use of adjusted numbers

Unless otherwise indicated, "adjusted" figures exclude the adjustment items listed on the previous slide, to the extent applicable, on a Group and business division level. Adjusted results are a non-GAAP financial measure as defined by SEC regulations. Refer to pages 7-10 of the second quarter 2016 report which is available in the section "Quarterly reporting" at www.ubs.com/investors for an overview of adjusted numbers.
If applicable for a given adjusted KPI (i.e., adjusted return on tangible equity), adjustment items are calculated on an after-tax basis by applying an indicative tax rate.
Refer to page 15 of the second quarter 2016 report for more information