UBS

# 2016 Barclays Global Financial Services Conference

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**Kirt Gardner (Group CFO):**

SLIDE 2 – A compelling strategy with a strong execution track record

Today I would like to spend some time discussing the execution of our strategy, and some of the initiatives we are undertaking to improve our performance.

We believe that our compelling business and geographical footprint in the industry's most attractive regions and segments, as well our strategic clarity and strong track record of execution, are what set UBS apart from many other banks. Our strategy centers on our world leading wealth management businesses and the premier universal bank in Switzerland, enhanced by an asset manager and an investment bank that are world class in their chosen areas of focus.

Our business mix and geographical footprint are unique, and we are the world's largest and only truly global wealth manager.

We've made significant progress reducing costs, and will continue to improve effectiveness and efficiency.

We view capital strength as the foundation of our success and a source of competitive advantage. Our highly cash-flow generative business model allows us to accrete capital and adapt to regulatory changes while maintaining an attractive capital returns policy.

Slide 3 - Balanced businesses and global diversification

Regarding our business mix, our wealth management franchise has contributed around half of business division profits in the first half of 2016, and we've also seen strong flows, with combined net new money of nearly

40 billion Swiss francs. Alongside normal seasonality, underlying macroeconomic uncertainty and heightened geopolitical tensions continue to contribute to client risk aversion and generally low transaction volumes. However, we are well positioned to benefit from even a moderate improvement in conditions.

Our Personal & Corporate Banking division is the leading personal and corporate bank in Switzerland, serving private, corporate and institutional clients. This business consistently delivers substantial profits and is a significant source of referrals across our businesses. For the first half of the year, P&C has generated 886 million of pre-tax profit, up 3% year-over-year. We have also experienced the highest net client acquisition for a first half, mainly among younger clients who are attracted to our leading and strong e- and mobile-banking offerings.

Asset Management is a capital-light, well-diversified business with notable strengths in key areas. For example, we are one of the largest managers in the alternative space, with leading capabilities in Real Estate, Hedge Funds and Fund of Funds.

Our Investment Bank's model is designed to capture client flows, with limited mark-to-market risk, high balance sheet velocity and low inventory levels, resulting in strong risk-adjusted returns. Year-to-date, the business has delivered an adjusted return on attributed equity of 21%, while maintaining prudent risk, cost and resource management. Our client flow and resource-efficient model aims to deliver an adjusted pre-tax return on attributed equity of greater than 15% per annum. Over the past 3-plus years, we have proven that we can consistently deliver very strong risk-adjusted results, while remaining disciplined on resource utilization. Even if you add a reasonable portion of Corporate Center equity to the IB, the IB would still have generated returns in excess of its cost of equity, which is not something many other investment banks can claim.

From a regional perspective, you can see that APAC contributed 13% of 1H16 pre-tax profits, down from 20% in a very strong 2015, as the region faces macroeconomic challenges driven largely by China's economic transition. Despite these challenges, we view the region as our greatest growth opportunity and continue to invest to enhance our market leading wealth management business and our top-tier Investment Bank.

Slide 4 - Wealth Management

A very popular question we get when visiting with the investment community is "We understand that macroeconomic headwinds are out of your control, but what can you do to drive revenue and/or otherwise protect profits in your wealth management businesses?" The next couple of slides cover some of the initiatives we are implementing to do just that.

In Wealth Management, we're optimizing our operating model by implementing a single global platform, consolidating our European onshore entities, simplifying processes and streamlining non-client facing units.

Leveraging this platform, we are enhancing our coverage and offering by establishing a global distribution management function, which will further improve client access to tailored investment opportunities and solutions.

We also continue to invest in our digital capabilities, and are enhancing our Alternatives offering, allowing our clients to access industry-leading managers across a wide range of strategies. We have improved our mandate offering to make full use of the unique capabilities of our CIO and Investment Products and Services platform.

Slide 5 - Wealth Management Americas

In WMA, we have enhanced our operating model to move decision-making closer to clients, retain our most talented advisors, and free up resources to drive growth.

This changes we made are focused on four key levers:

The first is empowerment. Given the critical role Branch Managers play in the satisfaction and productivity of our advisors, we have made a variety of changes and investments to empower them to more efficiently run their branches, with emphasis on economic profitability.

The second is global leverage. We are building on the partnership between Wealth Management and Wealth Management Americas, which we expect will allow WMA to achieve some of the economies of scale of its larger peers, while maintaining its agility. This emphasizes our unique "feel small, play big" positioning, which is a key differentiator for WMA.

The third lever is technology. Here the focus is on providing FAs and clients with the most cutting-edge tools, and not creating new distribution channels. For example, our strategic alliance with SigFig will allow us to implement online and mobile technologies to improve our clients' digital experience, as well as enhance the ability of our FAs to provide advice efficiently and effectively. This platform will also become available globally in due course.

The fourth and final lever is organic growth. Simply stated, we prefer to invest in our current advisors, rather than continuously recruiting new ones. The fact is, over time, a retained advisor generates significantly higher economic profits than a recruited one, due in part to greater client retention and lower capital consumption.

Slide 6 – Cost reduction

Improving effectiveness and efficiency is a key priority. Since 2013, we have reduced our net cost run-rate by 1.4 billion as of the June 2016 exit rate, and we're fully committed to achieving our target of 2.1 billion by the end of next year. We expect to do this while continuing to invest in strategic growth priorities and maintaining our focus on risk management.

Our cost reduction program is focused on structural change and improvement. It is front-to-back with targeted savings in the Corporate Center and business divisions. I want to point out that the reduction in variable compensation we have reported in the first half of 2016, reflecting lower revenues, is not considered part of this program.

We will deliver incremental savings across the Corporate Center and the business divisions by focusing on our workforce and footprint; organization and process optimization; as well as technology, robotics and workflow optimization, where we see increasingly substantial opportunities.

In addition to these cost reduction efforts, it is important to remember other areas of elevated costs should come down in the coming years:

For example, restructuring costs will decline as we complete the execution of our cost reduction program by the end of 2017.

Also, currently we spend around 700 million francs on temporary regulatory projects annually. While this will decrease, we continue to expect an increase in expenses related to permanent regulatory requirements.

While we and the industry continue to face elevated litigation expenses, which we expect to continue for the foreseeable future, we are also incurring elevated litigation-related fees for external counsel. While we continue to be exposed to a number of significant claims and regulatory matters, once we have put them behind us, we expect these legal fees to decline, along with annual expenses for provisions.

We believe that the scope of our current cost actions is sufficiently robust given the current environment, and safeguards the achievement of our long-term strategic objectives, the continuous enhancement of our control framework and our ability to help our clients achieve their objectives.

Slide 7 – Going concern capital and leverage ratios

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%.

As you know, we have been running the bank below our short to medium-term expectations for LRD and RWA, which are 950 billion and 250 billion respectively. I want to make it clear that these are not targets, and are only meant to provide a gauge for where we expect to run the business in normalized market conditions. Within that, the IB's consumption continues to be limited and below medium term expectations of roughly 1/3 of group levels. I also want to make it clear that the growth in our wealth management businesses is not constrained. In fact, our largest investors, with whom we engage frequently, understand that the headwinds we are facing in wealth management revenues cannot be fixed by simply deploying more balance sheet.

With respect to the Basel Committee on Banking Supervision's proposed changes to the capital framework, if they were to be adopted in Switzerland in their current form, this would likely lead to a significant increase in RWA, before any tactical and strategic mitigating actions that we could implement.

By decisively responding to the Swiss regulatory requirements, we have over the last 20 months, been able to fulfil all the regulatory requirements on a phased-in basis and are in an extremely comfortable position to meet fully applied requirements. Based on an LRD of 950 billion, to fully comply with January 2020 requirements, all we would need to build roughly 3 billion francs of CET1 over the next 3 years and replace maturing old style instruments, that is T2 and OpCo senior, with the new instruments like AT1 and HoldCo senior.

We have been able to issue in a variety of market conditions, including during the less favorable Q1 environment, where we were able to reopen the AT1 market as we were seen as the platinum standard in the industry. To be clear, we are in no hurry to get ahead of the final requirements, as this would add unnecessary costs with no tangible benefit. However, we've made continued progress, issuing 10 billion francs of TLAC-eligible debt and 2.5 billion of AT1 year-to-date. 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 our clients and the disciplined execution of our strategy.

This includes additional measures to improve effectiveness and efficiency and further reduce costs.

Today, our capital ratios are among the highest in our peer group and we remain committed to our policy of returning at least 50% of net profits to shareholders.

Thank you, and now I believe we have some time 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. 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 2015. 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.



**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