UBS

Morgan Stanley European Financials Conference

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Sergio P. Ermotti (Group CEO):

<u>SLIDE 1 – Cautionary statement regarding forward-looking statements</u>

Thank you Magdalena, and good morning everyone.

Before I start, I would like to draw your attention to our cautionary statement on this slide.

<u>SLIDE 2 – Balanced and well diversified businesses mix</u>

I'll keep my remarks quite short as the fundamentals of our business haven't changed for some time. UBS is highly cashflow generative, with 80% of our business division PBT in 2016 coming from our wealth and asset management and Personal and Corporate Banking businesses, driven by recurring fee and net interest income. Their contribution to PBT continues to be in line with expectations announced in 2012.

Our Investment Bank complements these businesses and is critical to their success, by focusing on its strengths in equities, FX, and advisory and capital markets. The IB has generated industry-leading risk-adjusted returns over the last four years, no matter which equity allocation methodology we look at.

Our business diversification has served our clients and shareholders well throughout this cycle, as has our regional footprint. Our Swiss home market contributes the largest share of profits. The Americas region posted over a quarter of our business division PBT, and by utilizing DTAs in the US, its contribution to net profit is even more meaningful. UBS has a long and committed history in APAC, and despite slower growth in recent quarters, this remains a critically important region for our long-term growth.

I would also like to point out our long-standing commitment to transparency in our reporting. Going back twenty quarters, we have provided the same key data on our businesses, and we believe this consistency is critical for the market to judge our performance, but also to build trust and credibility.

Slide 3 – Compelling synergies

As an organization, all of our businesses are critical to our success, and we view the whole as much more valuable than the sum of the parts. There are synergies among the divisions and their products and services, which enable us to better serve our clients.

A very simple illustration of this is the ten thousand plus cross divisional referrals in 2016, which added 17 billion in loans and other assets, and contributed to revenues and PBT.

It's clear that our ultra-high net worth franchise and corporate business in Switzerland wouldn't be competitive stand-alone without the support of the entire Group.

Slide 4 - The world's only truly global wealth management franchise

UBS is the largest and only truly global wealth manager in a highly fragmented industry. Our regional footprint is balanced, with a strong presence in the largest and fastest growing markets.

Looking forward, considerable long-term potential for global wealth expansion remains, and we are well positioned to take advantage of the expected growth in our client and asset base.

Barriers to entry also remain high for the upper wealth segments. While it's feasible to set up a local firm covering individual families or the mass affluent, providing the global products and services, knowledge, networks, and credibility required to succeed in the ultra space is much harder, and would take decades to create from scratch.

But as I have said before, there is no room for complacency here or in any other part of our business. We have to ensure we monetize the excellent advice we provide to our clients, be nimble when opportunities arise to use leverage, and maintain our risk discipline. So, while ultra may not be the easiest space to break into, we recognize the growing use of technology and robo advice which could affect many areas of our business and thus we too are investing in those areas. This is not only to protect, but also to grow our business.

Slide 5 - Our combined wealth management businesses

We are proud of our progress in recent years. The transformation we have experienced across wealth management in many ways has been as challenging as what we did in the IB.

WMA came through the crisis as a loss-making business and last year recorded adjusted pre-tax profits of over 1.2 billion dollars. And outside the Americas, the business faced challenging markets, negative interest rates, and around 50 billion in cumulative cross-border outflows, yet together they still averaged 8% annual growth in PBT since 2012. Over 80% of our revenues today are recurring. We've increased mandate and managed account penetration to nearly a third of our invested asset base. And we've grown our loan book while maintaining our high standards on risk. Bottom line: We've protected and grown our profits through repricing, loan growth, and cost control – and of course, without compromising our service quality to our clients.

Slide 6 – Capital strength

On capital, we've already achieved the 2020 minimum requirement for CET1 leverage ratio, and will accrue any further CET1 capital needed from our earnings.

When we set out our strategy and targets, the cost of TLAC was unknown. In late 2015, we started to incur costs for TLAC. For 2017, the incremental funding cost increase year-on-year for the Group is around 100 million. Also, as we've completed our transformation and the regulatory requirements have evolved, we've updated our equity attribution framework, while maintaining a consistent approach, allocating more equity and TLAC funding costs to the business divisions, and away from Corporate Center. Under the new allocation framework, we will further increase external transparency on the resources consumed by our business divisions, directly and indirectly. Overall, we expect a roughly 300 million net NII headwind at business division level.

Slide 7 – Strong capital generation throughout our transformation

UBS is highly cashflow generative, reflecting the business mix and market position I've outlined before. Since 2012, we have added over 5 billion to our CET1 capital base, while paying out or accruing nearly 10 billion in dividends on a stable share count, despite awarding share-based compensation.

We've also spent nearly 12 billion on litigation matters and costs related to temporary regulatory demand. As we work through the remaining legacy litigation matters, and the regulatory outlook stabilizes, there is real scope to increase shareholder returns and to invest in growing our business.

Litigation and the burden of regulatory costs have also impacted our return on tangible equity. I am often asked if I believe our 15% adjusted RoTE target is achievable, and the answer is clearly yes. Excluding litigation and temporary regulatory costs, our RoTE excluding DTA effects last year was 14.6%. So as these items reduce, we complete our 2.1 billion cost savings program, and markets show more signs of normality, then you can see how a 15% adjusted RoTE is a reasonable target for us. Couple that with the potential for attractive capital returns and I believe this sets us apart from most of our peers and makes UBS a compelling long-term investment.

Slide 8 – Management priorities

Summing up, our priorities are clear: We will continue to execute our strategy, work to improve effectiveness and efficiency, and invest for growth.

With that, I'd like to hand over to Magdalena again to start with Q&A.

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(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, completing the implementation of a service company model, 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 jurisdictions for mandatory structural reform of banks or systemically important institutions and the extent to which such changes will have the intended effects; (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; (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, including by developing digital channels and tools and in our trading businesses; (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; 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Refer to pages 27-30 of the Annual Report 2016 for more information.