Annual General Meeting

of UBS Group AG on May 10, 2016

Speech by Axel A. Weber, Chairman of the Board of Directors

Check against delivery.

Ladies and gentlemen, shareholders

Welcome to the UBS Annual General Meeting.
I'm delighted that so many of you have come to Basel!

2015 was an eventful year; you undoubtedly remember January 15, 2015. That was the day on which the Swiss National Bank decided to remove the euro-franc exchange rate floor.

This decision went down in history as the "Swiss franc shock." At the same time, it brought about the introduction of the most negative interest rates in the world. This day not only had direct consequences for our bank; it also had considerable consequences for each one of us personally.

The introduction of negative interest rates – now not only in Switzerland, but also in large parts of Europe and in Japan – is an extraordinary measure and should only be used in extraordinary times.

I have expressed my critical view of it on numerous occasions.

We can all only hope that the times of such drastic measures by the central bank pass as quickly as possible. Unfortunately, I have to say, unfortunately, there is little indication that negative interest rates will soon be a thing of the past. Now, for example, almost 30 per cent of all outstanding government bonds have a negative yield. These are bonds worth well over 5 trillion dollars. For Switzerland, the proportion is actually over 70 per cent.

Allow me first of all to focus on other issues that concerned us last year – and continue to concern us today:

The conflict in Ukraine, the crisis in Greece, the war in Syria and the resulting floods of refugees into Europe, the terror attacks last year in Paris and more recently in Brussels, the stock market shocks in China – the list is long and describes what we often mean when we use the word "volatility": difficult to extremely difficult situations in many regions around the world.

These events are connected to a degree and it is to be hoped that effective solutions can be found.

Fortunately, we here in Switzerland largely only experience faint echoes of the shockwaves. Nonetheless, the impact of the challenging economic development in Europe in particular is also perceptible in Switzerland:

The low interest rate environment increases the pressure on the franc. Unfortunately, the strong franc is currently having a dampening effect on local tourism and the export industry. Negative interest rates are also directly impacting important cornerstones of the finance and retirement system, for example, the pension funds. Our pension system is designed around positive interest rates. If these low to negative interest rates persist, as expected, then the pressure on pensions will increase considerably.

Low interest rates also continue to encourage many people to become property owners. This is also a potential risk to stability. The UBS Real Estate Index shows the risk of a bubble in various parts of Switzerland. Here, too, we are seeing a volatile situation. And I have not even mentioned the low energy prices. These are not only weakening all the companies active in this sector; they also harbor substantial risks for global economic development.

As you can see, the world appears to have been thrown off balance somewhat. And this also has consequences for our bank.

From companies in the export industry to hotels and transport companies in the tourist sector, to pension funds and property owners: they are all our clients or potential clients.

It is a truism that if things are going well for the client, they are also going well for the bank. And, of course, the reverse also applies.

I am reminding you of this so that all of us here in this hall can judge our bank's result from last year, also taking into account the environment in which it was achieved.

I can therefore say with a degree of pride: UBS had a very good year last year. The performance was impressive!

Anyone who is able to perform well in such a difficult environment is more successful than someone who posts excellent figures in considerably better times.

We have achieved a great deal: We recorded a net profit attributable to shareholders of CHF 6.2 billion – this is an increase of 79 per cent year-on-year and our best annual result for eight years. Sergio Ermotti will be giving a more comprehensive overview of last year's results.

We are proposing today to pay out an ordinary dividend of 60 centimes per share and a special dividend of 25 centimes per share to you our shareholders.

This is an excellent result.

It shows that we have the right strategy and that we are disciplined in implementing it.

I would therefore like to take this opportunity to thank the UBS management and employees. They all performed strongly in this difficult environment. Well done!

This performance also benefits you, our shareholders, with an increased dividend plus a special dividend. We are therefore continuing to keep our promise that shareholders should receive at least a 50 percent share of the bank's profits.

Those who do a good job are also entitled to appropriate remuneration. As you can see from the Compensation Report, our CEO Sergio Ermotti, for example, not only achieved the agreed objectives in almost all areas but also exceeded them significantly in some cases. These objectives include not only the target profit but also – and this is just as important for you as shareholders – further increasing equity capital and, in this way, protecting the bank against difficult times.

In addition, at least 80 percent of variable compensation is linked to the sustainability of the results. This means that members of the Group Executive Board receive this variable compensation incrementally, with no payments made in the first two years and 46 percent paid only in 2021, that is to say, after five years. Our deferment period is therefore among the longest in the industry.

The variable compensation is also closely linked to the bank's long-term results and is therefore subject to the risk of forfeiture. The compensation model is thus in the interests of all concerned – management, shareholders, bondholders – and ultimately also in the interests of clients.

The Board of Directors firmly believes that the level of compensation is justified, precisely because we did our homework in a challenging environment. You, our shareholders, will have the opportunity to decide on this Compensation Report in agenda items 4 and 5.

2015 was therefore a difficult year for the world. Nonetheless: there is no reason to only see the negatives. Many Swiss companies proved to be remarkably robust in the face of the Swiss franc shock. While they are continuing to deal with a competitive disadvantage compared with European rivals, at the same time, they are getting in shape for better times.

Like many things, this situation also has two sides.

However, there are still other, perhaps even greater challenges – both for our clients and for us as a bank. For example, everyone is talking about digitization. This was the central topic at the last World Economic Forum in January, where UBS published a study on industry 4.0.

As with the strength of the Swiss franc, this topic can also be seen as either all black or all white. In its analysis, UBS showed that the upheaval of digitization and a networked world not only harbor risks, but also offer considerable opportunities.

In particular, countries with flexible labor markets, a high level of education, modern infrastructure and reliable legal systems are likely to profit the most from digitization, according to the study.

It says that these countries are well positioned to adapt their citizens, their society and their companies to a highly automated and networked world.

Most of these points clearly apply to Switzerland as well, the home of UBS. It is therefore no surprise that Switzerland is ranked number one in the latest Global Innovation Index produced by prestigious universities, such as Cornell and INSEAD, and the UN. In Zurich, Zug and elsewhere in Switzerland, a lot of start-ups with fantastic ideas have been founded. Switzerland was also the guest country at the Cebit trade fair, where it was able to show, among other things, what a dynamic corporate culture has arisen around the two Federal Institutes of Technology in Zurich and Lausanne.

The digital revolution is also affecting our bank itself.
- We are very committed to the fintech incubator Level39 in London, where research is being carried out into new technologies.
- We have our own innovation labs in Zurich und Singapore.
- We are a founding member of the global blockchain initiative R3, which focuses on developing commercial applications and standards for the financial industry.
- And in March, we announced that we are teaming up with other leading companies to initiate a support program for fintech start-ups in Switzerland.

Such partnerships with established and new market participants definitely make sense. Even for innovation projects, the competition is not just local, but global! We ourselves launched the first UBS Future of Finance Challenge, a global competition whose aim was to find innovative ideas and solutions to promote the transformation in the banking sector. Over 600 candidates from 50 countries took part in this challenge – and two Swiss participants made it to the final!

Moreover, we have continued to develop our internal IT infrastructure, as well our e-banking and mobile banking solutions for clients. These include the Swiss payment app Paymit, which some of you no doubt use. Perhaps you also know that UBS offers the option of opening an account online and that we are constantly expanding our offering in digital asset management.

All these efforts have been recognized with various awards. For example, Private Banker International honored UBS for the Most Innovative Digital Offering.

That all sounds well and good, but moving to a digital future is only possible under the right conditions. This also includes the regulatory situation.

CEO Sergio Ermotti and I have said time and again in recent years that tighter regulations definitely make sense, especially in the wake of the financial crisis. At the same time, we have warned that excessive regulations would constrain banks too much for them to be able to exploit innovative business opportunities, particularly, but not only, in the digital sphere.

In the debate about regulatory conditions, the progress made has now been acknowledged. Additional regulations or even greater capital requirements would not necessarily be constructive. In addition to capital, for example, it is important to have viable emergency plans that ensure the continued operation of systemically relevant parts of the bank. With the founding of UBS Group AG and UBS Switzerland AG, UBS made significant progress last year in precisely this regard.

I would like to take this opportunity to remind you how important the financial industry is for Switzerland. The financial sector is not just a nice episode in history, but a crucial part of the Swiss economy.

As a large, extensively networked economy, Switzerland needs a large, international financial sector.

Every second franc is earned abroad and one out of two is spent abroad. A strong, internationally well-connected financial industry is therefore essential for the Swiss economy.

It is not just important as a means of support for other industries, but also as an independent economic factor and part of Switzerland's identity. Two of the world's 10 largest financial centers are in Switzerland – in Zurich and Geneva. The financial industry has a 10 percent share of the Swiss gross national product, which corresponds to 61 bn Swiss francs, and a one-third share of the trade surplus. The well-being of the financial industry is a very significant factor for the health of the Swiss economy.

If Switzerland does not want to risk losing this leading role, it must retain a sense of proportion in its use of regulations.

In many areas, we already have the tightest regulations and requirements in the world. The Swiss are known for being efficient. This applies to regulations too: they should not overstep their mark.

I am therefore pleased that the topic is currently being debated again in a more open-minded manner. The aim must be for banks to be perceived no longer primarily as a risk, but instead as an important partner for the economy, as in the past.

I am happy to repeat that only when our clients are doing well, does the bank also thrive. And only if the bank has a functioning business model can it provide its clients with the best possible products and services – also in an increasingly digitized and regulated world.

At the same time, our clients are increasingly focusing on values other than the bottom line.

Many would like to invest sustainably or give something back to society. Dow Jones operates the best-known sustainability index worldwide, and it recently named UBS as the sector leader, precisely because of our comprehensive offering in the area of sustainability.

The figures speak for themselves:
The investments we manage in line with strict sustainability criteria amounted to nearly 1 trillion Swiss francs at the end of last year. That is more than a third of the total assets managed at UBS!

This, too, is powerful confirmation that we and the bank are on the right track!

The United Nations Climate Change Conference in Paris championed a comprehensive agreement to combat climate change and reduce greenhouse gases. This battle begins at home: UBS is bolstering its commitment in this area and implementing it with a comprehensive climate change strategy.

We do this because we think it is right and important.
This should be the benchmark for all our actions in the future, too:
– How does it benefit our bank and society?
– Is it sustainable?
– Does it create value in the long term?

Our 2015 annual review is also entitled "Creating value," and it examines these issues in detail.

If we keep to this maxim, UBS will experience good and successful times, even in challenging phases, such as today. We should not let ourselves be guided by short-term indicators, but instead we should look far ahead and stay on course.

Global upheaval, unconventional monetary policy, digital transformation: the risks are varied and substantial, but so are the opportunities. Ultimately, what counts is the result, how we have achieved it, and how comfortable we feel in ourselves while doing so.

And people must feel good about themselves in this country. After all, the Swiss have been classed in the top two of the happiest people in the world for years. That makes me optimistic, at least for our home market. And on a personal level, I only can say the same: I feel very happy here in Switzerland – and not just because of the excellent chocolate!

When I visit our branches, for example, I take pleasure in seeing how the good relationship between the Swiss people and UBS has been restored.

On this positive note, I'd like to conclude this speech by expressing my thanks.

I would like to say thank you to our investors, to you, valued shareholders, for your support and for the trust you place in the Board of Directors and Group Executive Board of UBS.

I would like to say thank you to our clients worldwide, who are making increasing use of our services. This testifies to the considerable confidence in the largest Swiss bank, not just in good times, but also in more turbulent times.

And I would like to give a big thank you to our Group Executive Board under the leadership of Sergio Ermotti. The Board works hard and with considerable expertise for the success of our bank.

I would like to thank my colleagues on the Board of Directors. They have helped and continue to help to lead UBS in a strategically consistent and far-sighted manner.

And of course a huge thank you to our employees, who give their best for UBS day after day.

Ladies and gentlemen, thank you for your attention.

Language versions I This document was produced for the convenience of our English-speaking investors and various other stakeholders. The German version takes precedence in questions of comprehension as it serves as the official document.