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Dr Axel Weber  
Chairman of the Board  
UBS AG  
Bahnhofstrasse 45  
CH - 8001 Zürich

1 August 2014

Dear Dr Weber

I hope this letter finds you well.

As requested in your letter dated 27 May, I met yesterday with Mr. Naratil to present our proposal for a Spin-Off of the newly created "UBS Group AG" as an alternative to the Exchange Offer that is planned for later this year. A copy of the presentation is attached and I have also sent copies to your colleagues on the Board of Directors and the Group Executive Board.

We continue to have concerns about UBS' Operational Risk -- in particular that which comes directly and indirectly from running large trading platforms not only in NCL but also in IB -- and believe that our concerns are shared by UBS' regulators, large shareholders and other stakeholders particularly in Switzerland. The increase in Operational Risk RWAs in Q1 and Q2 coming only a few months after the massive increase in Operational Risk RWAs imposed on UBS by FINMA at the end of last year suggests that these concerns are not abating.

The unhelpful combination of a capital base that is being steadily eroded by litigation (FX, CDS, dark pools etc.) and continuing regulatory pressure for more capital places doubt on the feasibility of UBS' promise to distribute excess capital to shareholders in its current structure. In our opinion, this is the main reason why the market is no longer willing to give you credit for the otherwise excellent performance across the board.

The proposal that is included in the attached presentation has three main benefits compared to the existing strategy.

First, it resolves once and for all the growing tension that is all too evident between UBS' Management and its regulators on the question of capital adequacy and minimum leverage ratios.

Secondly, it removes the constraints that IB faces in terms of business development. Competitive advantage in investment banking is increasingly driven by scale (if only to cover the cost of hugely expensive trading platforms) and the current strategy sits uncomfortably between competing for scale and competing as a niche player.

Thirdly, we believe that it would result in a 50-100% increase in value for shareholders that would be inconceivable within the timeframe of the existing strategy which implicitly relies on regulatory pressure easing (or regulatory forbearance continuing).

The fact that UBS is in the process of recapitalizing its main investment banking subsidiaries in the UK and US so as to make them self-standing and reorganizing itself so as to segregate the IB/ NCL exposure that sits in the London Branch provides a unique opportunity to reopen the question of UBS' strategy and structure.

We are constructive and supportive long term shareholders of UBS and look forward to discussing this proposal with you, or your colleagues if you prefer, as soon as convenient. I would be grateful if we could do this before the end of August as time is of the essence.

With kind regards

A handwritten signature in blue ink, appearing to read "Eric Knight". The signature is fluid and cursive, with the first name "Eric" and the last name "Knight" clearly distinguishable.

Eric Knight

Cc: Board of Directors  
Group Executive Board