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Mr. David Sidwell, Senior Independent Director
Mr. Bill Parrett, Chairman of the Audit Committee
Dr. Axel Weber, Chairman

Board of Directors
UBS Group AG
Bahnhofstrasse 45
8001 Zürich

13 April, 2015

Gentlemen,

Thank you for your letter dated 8 April, 2015.

I can see from the tone of your letter that you are frustrated and exasperated at having to answer my questions. But I want it to be clear that I make no apology for raising these issues and am seeking open, intelligent and transparent responses from you.

The recent history of the financial services sector – and of the investment banking industry in particular – is that billions of dollars of shareholder value have been destroyed by the actions of senior management and that their Boards, who are responsible for overseeing management and holding it to account, failed to prevent this from happening.

UBS has been no exception.

In light of the above, it is surely right that investors should be able to question the Board when they are concerned that it may be on the wrong track, particularly when the issues raised are governance-related matters of undoubted importance. A Board that claims to have learned the lessons of the past must be prepared to listen carefully to criticism, should address the issues directly rather than avoiding them and, where conflicts of interest with management are alleged, should do so independently.

Your letter unfortunately gives the impression that you have failed to grasp this. The fact that your response was sent to us from the CFO's office without your signatures only reinforces this impression.

You say that the questions we are raising have been previously addressed by Mr Naratil, the Group CFO. We have detailed notes of all our conversations with Mr. Naratil (and also Dr. Weber) and I must tell you that I cannot find any occasion on which the key point – a matter of governance rather than strategy – has been addressed.

So let me raise again the fundamental concern and ask you to address this in an open, intelligent and transparent way.

It is clear that the essence of the agreement reached by UBS with the Swiss authorities after its near-collapse in 2008 was to eliminate the financing benefit that the Investment Bank derives from being part of the larger UBS group. Compliance with that undertaking requires an assessment of the standalone credit of the Investment Bank and ensuring that the internal funding costs reflect that credit standing.

If that is indeed the way the Investment Bank is being funded, how can it be possible for Mr Naratil to explain to us that, if the Investment Bank were separated from the rest of UBS, its standalone credit rating would fall and its funding costs and capital needs would rise when compared with the current position?

We believe that the market as a whole – as well as your regulators and other stakeholders – would welcome greater transparency on this question as its implications are far-reaching. Given, as you say, that the Senior Independent Director and the Audit Committee have reviewed this matter, you should be in a position to give us an immediate answer.

Yours sincerely

Eric Knight

cc: Mr. Mark Branson, Chief Executive Officer, FINMA
Dr. Thomas Jordan, Chairman of the Governing Board, SNB
Federal Councillor Eveline Widmer-Schlumpf, Head of the Federal Dept. of Finance