UBS

Third quarter 2017 results

27 October 2017

Speeches by Sergio P. Ermotti, Group Chief Executive Officer and Kirt Gardner, Group Chief Financial Officer

Check against delivery.
Numbers for slides refer to the third quarter 2017 results presentation.

Sergio P. Ermotti

Slide 2 – Reported PBT up 39% YoY to 1.2bn

Thank you Caroline. Good morning everyone.

The third quarter was another example of the strengths of our business model, with reported profit before tax of 1.2 billion francs up almost 40% year on year, and net profit of 946 million. Our return on tangible equity, excluding the impact of deferred tax assets, was 13.3%, and we maintained our strong capital position.

We made more progress on costs and expect to realize the full 2.1 billion in savings targeted by the end of this year, which I would like to reiterate is a net number. At the same time, we have made and continue to make substantial investments in our business, partially funded through ongoing efficiency measures. We also addressed several legacy matters, further reducing the number of material items we need to resolve.

Slide 3 – Global WM – Profit before tax up 4%, YTD up 12%

We saw good results across our business divisions, including another strong quarter for Global Wealth Management. Building on a strong first half, year-to-date pre-tax profit reached the 3.1 billion mark .

Revenue rose across all income lines, notably in recurring net fee income. Invested assets continued to rise strongly, as did mandates, which now represent nearly a third of assets under management, supporting recurring revenue growth, which improves earnings quality. Loan balances increased by 7% and our efficiency metrics were broadly stable.

Slide 4: Asia-Pacific – Driving profitable growth

Asia Pacific continues to be an important driver of profitable growth for the Group, with profit up 37% year-to-date on very strong operating leverage, and double-digit net new money growth for wealth and asset management. Our invested assets in the region have now reached almost half a trillion.

Our success reflects improved client sentiment, as well as our investments across the franchise. Over the last 3 years, we have invested despite the challenging environment, and will continue to do so. An important example is our Swiss One Wealth Management IT Platform, which was recently successfully rolled out in Europe and now went live in Singapore and Hong Kong, and now supports around 80% of our non-US wealth management invested assets on a single platform. It enhances efficiency, improves our client value proposition, and is a base on which we can grow at low marginal cost.

Slide 5: Committed to sustainable performance

Around this time 10 years ago, UBS was entering the most challenging period of its history. The clearest lesson from this time is that lasting success is only possible with a durable strategy and a focus on delivering sustainable performance year after year.

Capital strength has always been at the heart of our strategy and today we remain one of the world's best capitalized banks. We have almost 80 billion francs of loss-absorbing capacity, and the improvements in our risk profile are reflected not only in some of the lowest CDS spreads in the industry, but also in strong and improved credit ratings.

We have also grown our business and invested in people and technology to sustain performance. We continue to invest in front-end capabilities that improve the client experience. But further developing our infrastructure and control systems is just as important. These investments improve our efficiency, effectiveness and risk control, and create platforms to support our growth ambitions.

For UBS, sustainable performance is not just about the results we deliver and how we deliver them; it's also about how we can help our clients achieve their investment objectives in a sustainable way. We do this by offering a choice of products and in many cases customized portfolios, designed to achieve targeted outcomes. This year, we reached the trillion franc mark for assets under management that are considered sustainable investments. Our achievements in these areas are reflected in the industry recognition you can see on the slide. And we believe these strengths are, and will continue to be, a key differentiator in the future.

So, to sum up, the strengths of our diversified business were evident in Q3. Wealth management clients have been more active than last year and markets have performed well. As a consequence, and taking into account normal seasonality, it wouldn't be a surprise to see some lower activity levels across our client base in this quarter. That said, as in the past, we will remain focused on disciplined execution and creating long-term value for our shareholders.

With that, Kirt to you to go through the details for the quarter.

Kirt Gardner

Thank you, Sergio. Good morning everyone.

Slide 6 – UBS Group AG results (consolidated)

For the third quarter, our results were adjusted for 285 million francs in net restructuring expenses.

My comments compare year-on-year quarters and reference adjusted results unless otherwise stated.

Slide 7 – Global WM

PBT for global wealth management rose by 4%, underscoring the benefits of being a globally diversified wealth manager. Our leading global wealth management business delivered another good quarter, building on a strong first half. Net margins were broadly unchanged from the prior year.

Revenues were up 6% with increases in all lines, with some variation in the trends across regions.

Transaction-based income increased 2% year on year, driven mostly by Asia Pacific. We saw a slow-down in activity in WMA, partly reflecting fewer trading days.

Net interest income rose 8% overall, reflecting higher US dollar rates and benefitting from the 10 billion francs increase in our loan balances, as this remains a key strategic focus.

On net interest income, there are a few moving parts in WMA that I would like to call out. Given US rate rises, we've often been asked about deposit betas, and interest expenses have risen by around 15 million dollars since 2Q17, when higher client rates were introduced.

In the US, we also offer our clients the ability to sweep balances in excess of the FDIC-insured limits to other banks, so they benefit from additional deposit insurance. This reduces our required levels of HQLA, benefitting liquidity coverage and leverage ratios. We lose a little net interest income as a result, gain some recurring net fees, and overall, improve economic profit.

Recurring net fee income for global wealth management rose 6% on strong invested asset growth and improved mandate penetration, which increased by 170 basis points year over year, as we continue our focus in this area, which benefits our clients and shareholders.

Overall costs rose by 7%, again with notable regional differences.

Wealth Management continued to demonstrate good cost control and benefitted from actions taken in the prior year. In fact, personnel expenses excluding variable compensation were the lowest they've been for 7 years.

In WMA, costs rose year on year as we reposition the business for future growth. FA comp increased on higher revenue, and as we changed our pay grid in January of this year to improve FA retention and productivity. We have also invested in specialists to support our banking products platform and as we relaunched our public finance business. These investments should become accretive over the next 12 to 18 months.

On net new money, the results were influenced by a number of management actions.

In Wealth Management, net new money was 5 billion, including outflows of 2.5 billion each for cross-border and related to the introduction of euro deposit fees for large balances. So underlying net new money is closer to 10 billion and just over 50 billion year-to-date, a 7% annualized growth rate, with fewer client advisors.

Our cross-border outflow guidance for the full year still stands at 14 to 15 billion. During the fourth quarter this year, we expect outflows of around 8 billion, which will be a headwind to our recurring revenue growth in 2018.

In WMA, net outflows were mainly due to lower recruiting this year.

Importantly, and in line with our new operating model, we saw higher same store net new money, along with lower FA attrition. Year-to-date, inflows were substantially higher for same store FAs. We expect net new money to stabilize around the lower end of our target range as we continue to execute on our strategy.

WMA's invested assets reached a new record of 1.2 trillion dollars, up 9% year on year, with managed account penetration of 36.3%, also a record.

Slide 8 – Global WM – Regional performance

Concluding on our global wealth management business, profit contribution was a third from the Americas, a third from Asia Pacific and Emerging markets, and a third from Europe including Switzerland. Margins held up, and invested assets increased by double digits across the board on an annualized basis.

Slide 9 – Personal & Corporate Banking

Personal and Corporate delivered PBT of 436 million francs with management actions and client activity helping to offset some of the headwinds from funding and negative interest rates.

Transaction-based income increased 4%, recurring net fee income was up 3%, and net interest income from deposits also rose.

Net interest income was overall down, as the positive performance on deposits was more than offset by increased TLAC-related funding costs and lower banking book income.

Higher expenses mainly related to tech spend and temporary regulatory costs. We have initiated a major investment program in P&C, focused on enhancing our digital leadership, which we expect to bring both income and cost benefits in the medium term.

Our personal banking business had the strongest 3Q and nine-month annualized net new business volume growth in a decade, as well as the highest client acquisition rate year-to-date.

Slide 10 – Asset Management

Asset Management delivered 11% PBT growth, driven by positive operating leverage. Invested assets reached a nine-year high, resulting in improved management fees in the quarter.

Cost discipline was good, as management took action in the prior year to reduce personnel costs.

We are pleased to see continued momentum in net new money, as we attracted 9 billion excluding money market flows in the quarter. It's worth noting that after a period of significant margin pressure from passive flows, our net new run-rate fees were positive. Year-to-date, net new money including money market flows was a new record at almost 50 billion, a 10% annualized growth rate.

The previously announced sale of our Swiss and Luxembourg fund services units closed in early October, and is expected to reduce quarterly PBT by roughly 10 million going forward.

Slide 11 – Investment Bank

The IB delivered a resilient performance in a tough quarter for our flow-based business model, with PBT up 3%.

Corporate Client Solutions had another strong performance, its fourth consecutive quarter of revenues above the 700 million mark. All regions performed well, and results compared favorably to the market fee pool development. ECM had a particularly good quarter, including a number of landmark transactions.

Continued low volatility levels weighed on Investor Client Services, but especially on our FRC business, which has more of a bias towards institutional clients and around 60% of revenues from FX. Equities was only down marginally, thanks to a strong performance in Derivatives.

We're pleased that we have more analysts ranked by Institutional Investor than any other research house, which, along with our innovative Evidence Lab, positions us particularly well for the MiFID II environment.

Costs were down slightly, and included a net litigation provision release.

The IB's return on attributed equity was over 15%.

Slide 12 – Corporate Center

The Corporate Center loss before tax was 479 million, which included around 280 million of expenses for litigation matters in relation to substantially resolving the Banco UBS Pactual tax matter and progressing towards the resolution of the RMBS Trustee Suit.

We expect Corporate Center cost allocations to business divisions to increase in the fourth quarter, consistent with the pattern that we've seen in previous years, as well as on higher costs related to strategic and regulatory initiatives.

Group ALM's loss before tax was 66 million, with the reduction in operating income mostly due to lower net income on accounting asymmetries related to economic hedges, which mean-revert to zero over time.

Non-core and Legacy Portfolio posted a pre-tax loss of 21 million, a significant improvement from the prior year as a result of net litigation provision releases in this quarter, compared to a material provision taken last year. Over the past year, risk-weighted assets are down 28% to 6 billion excluding op risk, and LRD is down 29% to 18 billion.

Slide 13 – Cost reduction

During the quarter, we increased our net cost reduction run-rate to 1.9 billion, with contributions mainly from the business divisions. We remain confident that we will achieve the full 2.1 billion net target by year-end.

We expect restructuring costs to be between 300 and 400 million in the fourth quarter, and then to taper from 2018.

Slide 14 – Net tax expense and deferred tax assets (DTAs)

In the third quarter, we recorded a net tax expense of 272 million francs, including a net increase in recognized deferred tax assets of 174 million. The DTA write up includes a 224 million upward revaluation of US tax-loss DTAs, mostly driven by an increase in our profit forecast for Wealth Management Americas.

Consistent with prior practice, in the third quarter, we recognized 75% of the expected full-year DTA write-up in relation to profit forecasts beyond 2017, and we expect to book the remaining 25% in the fourth quarter, after we finalize our business planning process.

Year-to-date usage of our DTAs has resulted in a reduction in cash tax expenditure of around one billion, which fully benefits our capital.

Slide 15 – US tax loss DTAs

Our 2017 year-end US DTA balance is expected to increase versus the prior year, excluding any currency effects. This reflects higher US profit forecasts over a 7-year recognition period.

Let me explain some of the mechanics of the recognized US tax loss DTAs on our balance sheet. In effect, over the course of the year, we recognize an expense relating to the use of tax loss DTAs against profits earned. However, we also effectively recognize an equivalent increase in US DTAs, since we have a significant amount of unrecognized US tax losses with a long remaining life. These offsetting balances do not flow through the tax expense line.

The additional amount we recognize in Q3 and Q4 as part of the revaluation essentially reflects increased optimism in our US business.

Slide 16 – Capital and leverage ratios (fully applied)

On a fully applied basis, our CET1 capital increased by over 700 million, mainly as a result of profits in the quarter. Our capital position remains strong. Our CET1 capital ratio was 13.7%, a 20 basis point increase during the quarter. The leverage ratio was 3.7%, comfortably above the 2020 requirement of 3.5%. And TLAC of 78 billion was up 4.6 billion in the quarter.

RWA increased by one billion from last quarter, entirely due to regulatory-driven methodology changes and other regulatory inflation. For the fourth quarter of 2017, we currently expect around 4 billion of regulatory-driven increases.

Our LRD increased to 885 billion from a historic low of 861 billion last quarter, largely on foreign currency translation, as well as increases mostly in our Investment Bank and Group ALM. This, in combination with higher CET1 capital, results in our CET1 leverage ratio remaining unchanged at 3.7%.

In conclusion, we're particularly pleased with our performance this quarter and our strong year-to-date results.

With that, Sergio and I will open it up for questions.

Cautionary statement regarding forward-looking statements: This document 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 the ongoing execution of its strategic plans, including its cost reduction and efficiency initiatives and its ability to manage its levels of risk-weighted assets (RWA), including to counteract regulatory-driven increases, leverage ratio denominator, liquidity coverage ratio and other financial resources, 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) 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); (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, constraints on transfers of capital and liquidity and sharing of operational costs across the Group or other measures, and the effect these would have on UBS's business activities; (v) uncertainty as to the extent to which the Swiss Financial Market Supervisory Authority (FINMA) will confirm limited reductions 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, 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, to proposals in Switzerland and other jurisdictions for mandatory structural reform of banks or systemically important institutions or to other external developments, 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) UBS's ability to implement new technologies and business methods, including digital services and technologies and ability to successfully compete with both existing and new financial service providers, some of which may not be regulated to the same extent; (xv) limitations on the effectiveness of UBS's internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (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; (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 2016. 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
Adjusted results are a non-GAAP financial measure as defined by SEC regulations. Refer to pages 7-9 of the 3Q17 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 3Q17 report for more information.