

# Fourth quarter 2017 results

22 January 2018

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 fourth quarter 2017 results presentation.**

## Sergio P. Ermotti

Slide 2 – 2017 reported PBT up 32% to 5.4 billion

Thank you Caroline and good morning everyone.

2017 was an excellent year for us. We delivered stronger financial results and met our net cost reduction target. Greater regulatory clarity means we can open a new chapter for UBS, allowing us to sharpen our focus on growth across our businesses, make further investments in technology and deliver attractive returns to our shareholders.

Our reported profit before tax rose 32% to 5.4 billion francs as we expanded our wealth and asset management businesses, which attracted over 100 billion in net new money, and added over 360 billion to invested assets.

Personal and Corporate Banking delivered good results despite the unfavorable interest rate environment. Net new business volume growth was the highest since 2003 and net new client acquisition was a record, underlining our very strong momentum especially with younger clients via our online and mobile banking solutions.

The Investment Bank once again achieved an adjusted return on attributed equity above its 15% target for the full year, as a strong year for CCS offset the pressure from low volatility in ICS.

In Corporate Center losses were lower as we reduced NCL and litigation expenses.

As you know, our capital position is very strong, with total loss absorbing capacity of almost 80 billion.

Slide 3 – Delivered 2.1bn net cost reductions since 2013

We're also turning a page on our successful efficiency program that delivered 2.1 billion in net savings. Gross savings were 3.9 billion, and were partly offset by higher spend to grow our businesses and comply with new regulation.

Slide 4 – Delivering positive operating leverage

Increasing revenues and delivering on costs allowed us to improve our Group adjusted cost/income ratio by 3 percentage points to 78%.

Lower operating expenses and reduced litigation costs contributed to over 570 million to PBT. We made further progress in resolving legacy items. We are confident that the remaining matters are manageable, but they're likely to take some time to resolve.

Excluding the effects of the US tax law changes announced in December, net profit was more than 4 billion, up 24%. And our adjusted return on tangible equity excluding deferred tax assets increased to 14%.

Like many of our peers, the new tax law resulted in a write-down of our DTAs, but this had no impact on our fully applied CET1 capital and doesn't affect our ability to return capital. This is in line with guidance provided throughout 2017.

#### Slide 5 – Global Wealth Management – excellent 2017 results

Global Wealth Management had an excellent year, with profit before tax up 14% to 4.1 billion. Revenues rose in all lines and the cost/income ratio was down. Invested assets increased 12%, to more than 2.3 trillion, including 1 trillion from Ultra High Net Worth clients. We had record performances in APAC, the Americas and UHNW, with PBT up almost 30% in Asia, and 12% in the other businesses. We believe these areas will continue to drive superior growth. But wealth management is more than just these three areas....

#### Slide 6 – Global Wealth Management – geographic footprint

UBS is the only truly global wealth manager, with leading and diversified positions across the globe, operating both on and offshore in each region.

#### Slide 7 – Management priorities - Group

Today, we also want to look ahead at our priorities for the next three years. And what's clear is that disciplined execution remains our number one priority, and our strategy is unchanged.

Global Wealth Management remains at the heart of our bank, and I will come back to its priorities later. But UBS isn't just about wealth management, it's also about Asset Management, the Investment Bank and Personal and Corporate, as all three are successful businesses in their own right.

Together, they make a significant contribution to earnings, diversify revenues and generate high-quality returns.

Without them, Global Wealth Management would not be what it is today, nor could it deliver on its aspirations.

From a geographic standpoint, we have a clear ambition to grow in the Americas and to reinforce leadership in our home market in Switzerland. In EMEA, we want to leverage our capabilities to grow our share in a market that is more and more likely to consolidate. In all cases, continued cross-divisional collaboration creates a unique opportunity for growth.

As you know, we are big believers in the Asia-Pacific opportunity, especially China. The number of billionaires in China has exceeded the US for the first time, and the middle classes are growing even faster. UBS's competitive position here is strong and we are best placed to capture opportunities in the region across our businesses.

We will also invest more in technology to drive growth, better serve our clients and improve efficiency and effectiveness.

## Slide 8 – Management priorities - business divisions

Two years ago, we began to more closely align Wealth Management and Wealth Management Americas. We have already made good progress converging our Chief Investment Office, Ultra High Net Worth and Family Office into more global organizations. So, our decision to combine Wealth Management and Wealth Management Americas is the natural next step.

There has never been a greater need, or opportunity, to provide our clients with global, fully diversified products and services and a true multi-shore offering. Shared best practice, greater synergies in investments and technology, as well as new products and business lines will benefit our clients and our shareholders. We can also more effectively leverage the purchasing power of 2.3 trillion of invested assets.

That said, and this is very important, our distinct client service and local advisor models will be maintained.

In the new division we will integrate control functions and operate with single finance, risk and legal organizations and middle-and back-office functions will be more closely aligned and integrated.

On the business side, as an example, we will integrate our existing LatAm offshore and onshore operations in the Americas region, which means our clients will benefit from a more seamless multi-shore booking model.

In Global Wealth Management, our priorities are already familiar to you as they are not new. Increasing mandate, loan and banking product penetration remains important.

We will continue to collaborate across divisions to bring the best of the bank, in particular, to our family office and ultra-high net worth clients.

We will also look at ways to further enhance our offering to high net worth clients and by using technology to access core affluent wealth pools.

And lastly, to complement our existing portfolio, we will likely make small acquisitions to build our presence in attractive locations and segments.

Moving on to Personal and Corporate, here we continue to aim for sustainable growth, by developing existing clients and winning new ones supporting this through investments in our already leading digital capabilities.

In Asset Management, we will expand our offering of passive and alternative products, and continue to invest in unique B2B and 3rd party platform solutions.

In the Investment Bank, we remain focused on growth in China and the US, and will take advantage of our top-ranked global equity research and our leading execution capabilities. Both are critical to succeed in a MiFID II world. And of course the IB will remain disciplined in managing its resources.

## Slide 9 – Investing to win in the digital age

As I've said in the past, as much as the last 10 years were driven by regulatory change, I believe the next decade will be shaped by technology. Our focus is on enhancing the client experience, driving product excellence and distribution, and creating a more efficient and effective operating model.

Last year we spent 3.2 billion on both strategic initiatives and run-the-bank IT programs. Our investments will add to a total of around 1 billion to our IT costs over the next three years, with a growing proportion related to strategic initiatives rather than regulatory projects.

Technology is a means to achieve our efficiency objectives and it's not credible to expect our IT spend to go down. Therefore these expenses will remain slightly above 10% of our revenues in the near future.

#### Slide 10 – RWA and LRD outlook

Capital strength has always been a key pillar of our strategy. Since 2012 we have increased our loss-absorbing capacity by around 50 billion to around 80 billion, while improving the bank's resilience and risk profile.

While we still await further details on the implementation of the final Basel III rules, the December announcement gave us greater clarity on our medium-term capital needs. We estimate that risk-weighted assets could rise by around 40 billion through 2020, but we will consider a CET1 leverage ratio of around 3.7% to be our binding constraint over the period. As a result, we intend to build approximately 4 billion in CET1 capital over the next 3 years.

After that, our current best estimate of the impact from the finalized standards is an incremental 35 billion of Risk Weighted Assets from January 2022, although ultimately it will depend on mitigating actions and the interpretation of the standards by our regulator. Once the final rules are known of course, we will provide an update on our CET1 ratio guidance.

#### Slide 11 – Our capital returns policy 2018-2020

This welcome regulatory clarity also means that we can update our capital returns policy. Our aim is to further increase returns to shareholders while building on our strong capital position.

Going forward, our priority is to pay an ordinary dividend, growing at mid-to-high single digit percentage per annum while considering supplementary returns, most likely in the form of buybacks.

At the same time, as I said, we want to operate with a CET1 leverage ratio of around 3.7%. This means that we can potentially return almost all of our earnings after considering the 4 billion capital build-up I mentioned before, subject to regulatory approval.

When facing adverse market conditions or idiosyncratic events, we could reduce or pause the buyback, while at a minimum defending the prior year dividend.

#### Slide 12 – 0.65 dividend per share proposed, up 8%

Following our strong 2017 performance and in line with our new capital returns policy, we are proposing an increase of our ordinary dividend of 8% to 65 Rappen per share, which will be paid out of capital contribution reserves. We are also launching a 3-year buyback program of up to 2 billion francs, including up to 550 million francs this year.

#### Slide 13 – Performance targets and capital guidance 2018-2020

Alongside our integration and investment measures, we are setting new targets for the next three years. The Group will target an adjusted return on equity of around 15% excluding DTAs, which at around 20% remain a material part of our tangible equity.

Taking into account our planned increases in technology spend and the permanent nature of much of the regulatory costs we have incurred in the past few years, we are targeting a Group cost / income ratio of below 75%. Our business divisions are aiming to generate positive operating leverage, resulting in a progressive improvement in their cost / income ratios, contributing to our overall efficiency.

In addition to the existing 10-15% adjusted PBT growth target for Global Wealth Management, we are setting a 65-75% cost / income ratio target range and a 2-4% net new money growth target.

For Asset Management we are targeting around 10% growth in PBT per annum.

The Investment Bank will continue to target an adjusted return on attributed equity of at least 15% and operate at around one third of the Group's LRD and Risk Weighted Assets. This is consistent with our existing guidance.

As we enter this new chapter, one thing will stay the same and that's our focus on executing our plans with discipline. In addition, and this is very important, we will focus on investments to drive growth, efficiency and higher returns.

Over the last few years we have demonstrated our ability to master challenges while capturing opportunities and I'm confident we will continue on the right path to secure the bank's future success.

With this thought I'll hand over to Kirt, who will take you through the 4Q results.

## Kirt Gardner

Thank you, Sergio. Good morning everyone.

### Slide 14 – UBS Group AG results (consolidated)

For the fourth quarter, our results were adjusted for net restructuring expenses of 381 million francs, 153 million gains on sales, 29 million AFS gains, and 25 million in expenses related to the modification of terms of certain compensation awards.

Over the next several quarters, we expect to see a gradual convergence of our reported and adjusted results, as our restructuring declines to around half a billion in 2018 and under 200 million in 2019.

Just a note upfront on today's results, which are now a week earlier than any other major European bank, reflecting streamlining and improving our closing and reporting processes, which gives us an extra month a year to focus on other value-added activities.

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

### Slide 15 – Global WM

Global Wealth Management delivered strong fourth quarter PBT, up 18% on positive operating leverage. In fact, all four quarters this year have come in above a billion in profits. Fourth quarter net margin increased by one basis point from the prior year.

Operating income rose 6%, with all revenue lines up in both Wealth Management and Wealth Management Americas, and also improvements in all regions.

Recurring net fee income increased by 6% on higher invested assets and increased mandate penetration.

Net interest income improved, on higher US dollar rates and 9% higher loan balances. In Wealth Management, strong loan growth led to the highest revenues from lending in a decade, and we also saw the highest deposit revenues since 2011, partly reflecting euro deposit repricing and related outflows of negative margin deposits.

Wealth Management Americas had record loan balances, partly benefitting from our investments in banking products.

Global Wealth Management's transaction-based income increased 4% year on year, with increases in all regions.

Overall, costs rose less than revenue, improving cost-to-income by 2 percentage points to 75%.

The results also include a significant amount of investment in transitioning our operating model in Wealth Management Americas, tech spend, and enhancing our product offerings and client service globally. In many cases, we are already seeing benefits, but as always, our objective is to deliver sustainable profit growth.

In Wealth Management, net new money was strong at 14 billion mainly from APAC and Europe, where we benefitted from a few large inflows, and this is also net of 6 billion of cross-border outflows. For the year,

excluding outflows for cross-border and for the introduction of euro deposits fees, Wealth Management generated over 70 billion in net new money, a 7% growth rate.

In Wealth Management Americas, net new money was marginally negative, reflecting lower net recruiting in 2017 and higher attrition in Q4 related to end of the Protocol. Many of the leavers following the Protocol exit had recruitment loans that were nearing maturity or had matured, and we see this as an acceleration versus our plan and not as an indication of higher attrition to come. There will likely be some related outflows in 1Q18, which we aim to offset with same store inflows. As you know, we're focused on boosting retention and productivity through an attractive grid, and rewarding FA loyalty through to retirement. Same store NNM was strong and rose to around 8 billion this quarter, reflecting the actions we've taken throughout the year. As we have significantly reduced our recruiting, employee loans are now down 14% year-on-year, with related expenses down 9%. We expect further reductions in 2018.

Last quarter, we highlighted our increased investment in Wealth Management Americas to position this business for continued growth. Apart from investment in retention and productivity, we continue to build-out our banking products and have launched our public finance business. We are seeing early returns, with mortgages up 4% in the quarter, improved deposit margins, and initial munis deal flow. These benefits should accelerate in 2018.

In Wealth Management, the completion of our cross border and voluntary compliance programs was a critical milestone for 2017. Since 2012, we've had around 70 billion of related outflows, which has impacted our profitability. The outflows from Q4 are likely to have a slight dampening effect on recurring net fee income in 1Q18, after which we should see a more normal recurring revenue trajectory quarter on quarter. This substantially ends the largest headwind faced by this business.

The cost actions we took in 2016 help fund some of the investments we've made, notably into One Wealth Management Platform, which now covers around 80% of Wealth Management invested assets.

We will continue to invest in Global Wealth Management, to position the business for sustainable growth, including accelerating technology investments, as Sergio highlighted.

#### Slide 16 – Personal & Corporate Banking

Personal and Corporate delivered strong PBT of 428 million francs, up 8% year-on-year and our best 4Q since the crisis, benefitting from management actions taken throughout the year and strong client flows.

Recurring net fee income increased 19%, transaction-based income rose by 11%, and while net interest income from deposits improved, it was more than offset by higher funding costs and lower banking book income.

Higher expenses were driven by Corporate Center Services. Personnel costs were down due to a one-time adjustment, and we'd expect them to return to a more normalized run rate in the first quarter. As we highlighted last quarter, we expect a build-up of expenses related to our Client Experience initiative, focused on fully digitizing our leading Swiss universal bank, which will continue over the next three years, with benefits starting in 2019.

We saw 4 million net credit loss recoveries this quarter. The adoption of IFRS 9 on Jan 1 2018 may introduce greater volatility in our credit loss expense.





### Slide 17 – Asset Management

On October 1, we completed the sale of our fund administration business, resulting in a gain on sale of 153 million included in reported pre-tax results of 238 million. Therefore, the fourth quarter results don't include the roughly 10 million quarterly PBT we have seen from the business historically.

Adjusted PBT decreased to 116 million, partly due to around 20 million of one-offs that flattered the prior-year quarter, and the sale.

Excluding these items, operating income was slightly up, as net management fees increased on good market performance with positive net new run-rate fees for the second quarter running. But we had lower performance fees, mainly in real estate.

Expenses increased on higher personnel costs and allocations from Corporate Center – Services.

Asset Management recorded excellent net new money of 10 billion, contributing to a full-year record of 59 billion including money market flows, and taking invested assets to a nine-year high.

### Slide 18 – Investment Bank

We're pleased with the full-year performance in the IB; however, as you've seen, for us and our competitors, Q4 was particularly challenging due to continued low volatility levels.

The IB delivered 168 million in PBT in the fourth quarter, including 79 million in credit loss expenses, mostly due to a write-down on a margin loan.

In Corporate Client Solutions, Debt and Equity capital markets performed well, but overall revenues declined, mostly due to a 20% drop in the market fee pool for M&A, as well as a strong prior-year revenues from Advisory.

Within ICS, Equities held up well, particularly in APAC, with good performance in Cash and Derivatives more than offset by lower Financing Services revenues in the low volatility environment. This also impacted FRC, driving a significant reduction year-over-year. That said, our performance in FX recovered somewhat, particularly in our e-trading business, reflecting investments we made earlier in the year.

Earlier, Sergio mentioned that we are well positioned to succeed under MiFID 2. However, we may see some short-term impact on recognizing research revenues of around 50 million in the first quarter related to timing of billing, mostly in Equities.

Costs were down 4% due to actions taken in 2016 and good discipline throughout 2017. The UK bank levy was also around 10 million lower than last year.

### Slide 19 – Corporate Center

The Corporate Center loss before tax was 515 million.

Services' PBT improved by 116 million. During 2017, we retained less of the Corporate Center – Services costs centrally, mainly related to the elimination of the cost guarantee during 2017 and a change in funding cost allocations as a result of revising our equity attribution framework.

Group ALM's loss before tax was 213 million, with the increased losses mostly due to lower rates, increased debt issuance, and mark-to-market losses on our high-quality liquid assets.

Non-core and Legacy Portfolio posted a lower pre-tax loss at 142 million, mainly as litigation provisions and other operating expenses, including the UK bank levy, decreased. LRD is now down to 15 billion, less than 2% of total Group, and RWA ex op risk is only 6 billion.

### Slide 20 – Streamlining the Corporate Center

Over the past 4 years, we have substantially reduced the drag on Group PBT from Corporate Center. Excluding litigation, we've gone from a loss of 3 billion to 1.3 billion in that time, mostly driven by reductions in NCL, but also related to lower retained costs in Corporate Center – Services. We expect Corporate Center losses excluding litigation to continue to reduce over the next three years.

### Slide 21 – FY17 tax expense

In the fourth quarter, we recorded a net tax expense of 3.2 billion francs.

This includes a net DTA write-down of 2.9 billion francs following the enactment of the US Tax Cuts and Jobs Act. This was in line with our guidance throughout 2017 of roughly 200 million net reduction for each percentage point of tax rate decrease. The impact on fully applied CET1 capital was negligible and there is no impact on our dividend-paying capacity.

The US tax law changes also introduced the Base Erosion and Anti-abuse Tax, or BEAT, which could increase our tax liability by up to 60 million in 2018. However, we're exploring potential mitigation and will update you when we have clearer guidance.

For 2018, we expect a full-year tax rate of around 25%, excluding any effects from revaluing DTAs.

### Slide 22 – Capital and leverage ratios (fully applied)

Our capital position remains strong, with TLAC above 78 billion, and our fully applied CET1 ratios are comfortably above the 2020 requirements.

Of the 20 billion RWA increase we expect from regulatory changes over the next 3 years, we anticipate about 15 billion in 2018, including 5 billion in the first quarter. Despite this increase, as Sergio highlighted, we consider the leverage ratio to be our binding constraint over the period.

As we adopted IFRS 9 at the start of 2018, we recognized a roughly 0.7 billion reduction in equity and a 0.3 billion reduction in CET1 capital on the first of January.

This morning, we announced measures to support the long-term stability of our Swiss pension fund, including payments of up to 720 million in three instalments from 2020 to 2022, which will reduce our fully applied CET1 capital in each of those years, with no impact on P&L. Short-term, these measures will result in a PBT gain of around 225 million in 1Q18. The gain will be treated as an adjusting item in personnel expenses, with no impact on equity or CET1 capital.

#### Slide 23 – Summary

To wrap up, with fourth quarter PBT up over 20% despite challenging market conditions, we delivered a strong quarter to conclude an excellent year.

With that, Sergio and I will open 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, 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, including from changes to US taxation under the Tax Cuts and Jobs Act; (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. 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**Use of adjusted numbers**

Unless otherwise indicated, "adjusted" figures exclude the adjustment items listed on the previous slide, to the extent applicable, on a Group and business division level. Adjusted results are a non-GAAP financial measure as defined by SEC regulations. Refer to pages 10-12 of the 4Q17 report which is available in the section "Quarterly reporting" at [www.ubs.com/investors](http://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 16 of the 4Q17 report for more information.

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