

# Second quarter 2017 results

28 July 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 second quarter 2017 results presentation.**

**Sergio P. Ermotti**

Slide 2 – 1H17 net profit up 40% to 2.4bn

Thank you Caroline, good morning Maria, good morning everyone. We will keep our remarks short as it's a relatively straightforward quarter and we know it's a very busy day for everyone.

Kirt will focus on the quarter, which was characterized by continued positive momentum on the wealth management side. This is in contrast to low client activity affecting our institutional business, especially relative to the prior year, on the back of low volatility levels across all major asset classes, particularly in FX markets.

Considering market conditions, second quarter results were very good and contributed to an excellent performance for the first half, with adjusted profit before tax of 3.6 billion francs, almost 20% higher than last year, and net profit of 2.4 billion, up 40%.

Year-to-date returns were solid, with an adjusted return on tangible equity of 12%, or almost 17% excluding the impact of deferred tax assets.

Global Wealth Management delivered an excellent performance, with profit before tax up 17% to 2.1 billion, as increased client activity, higher US dollar rates, invested assets and lending, further progress on mandate penetration, and good cost control supported profit growth.

As previously highlighted, Personal and Corporate remains under pressure from negative rates, but we saw growth in transaction and recurring net fee income as we work to temper interest rate headwinds. Business dynamics remained strong, with the best net new business volume in over a decade and record levels of new client acquisition in personal banking.

Asset Management profits were roughly flat, despite the pressures faced by the industry as the shift from active to passive investing continues. We also saw 30 billion in net new money, excluding money market flows, our best performance in over a decade. Recently, the Chinese regulator granted a Private Fund Management license for Asset Management. We are the first qualified domestic limited partner license holder to receive such a license in China and we are very glad and honoured about that. This means that we can offer onshore investment products for Chinese institutional and high net worth investors, which we also expect Wealth Management to benefit from. While it will take time to realize the benefits, it is a significant milestone, and underlines our progress in China, which remains a top long-term growth opportunity for the Group.

Our Investment Bank's profits were up 19% and its return on attributed equity was once again very strong, at over 21%. Renewed strength in our Corporate Client Solutions business, with growth in all areas, as well as higher Equities revenues and good cost control helped offset low client activity in FRC.

On capital, our CET1 leverage ratio, which currently is our binding constraint, increased to 3.7%. Our CET1 capital ratio remains strong at 13.5% despite regulatory-driven methodology changes and other regulatory inflation in risk-weighted assets. We are very comfortable with the absolute level of capital we hold, with CET1 capital growing to 32 billion and over 74 billion of total loss-absorbing capital. We also remain very comfortable with both of our CET1 ratios. Therefore, our capital returns policy remains unchanged.

### Slide 3 – Global WM – Strong 1H17

We continued to make good progress in our world-leading wealth management business. As we have said before, our key objective for global wealth management – and for all of our businesses – is to grow profitably and sustainably over the cycle. I'm particularly pleased that we were able to generate substantial additional profits and strong net new money with fewer advisors, confirming that our growth is not dependent on aggressive hiring.

Pre-tax profits for the first half were up a very strong 17% to 2.1 billion. In terms of client sentiment, improved confidence in the first half has led to higher transactional income, although trading volumes remain volatile on a week-to-week basis. Clients are also making more use of leverage.

Recurring revenues were the highest we have seen in 8 years, as we have benefited not only from US Dollar rate rises and higher invested asset levels, but also from strategic initiatives, including increased mandate penetration.

We continued to improve efficiency, and net margin increased by 1 basis point.

### Global WM – Key strategic differentiators

Last quarter, we highlighted the three unique drivers of growth in our global wealth management business. The Americas, APAC and Ultra High Net Worth continue to deliver excellent performances. Our Americas business has added further to its strong track record, growing PBT by 25%.

Our leading APAC business is clearly a highlight, as we saw record PBT, up 41% year-on-year, and this year, the business is the second largest profit contributor regionally, after the Americas.

Our global Ultra High Net Worth business delivered PBT growth of 12%, and we are in an excellent position to benefit from the significant growth opportunity presented by this client segment. This is especially true thanks to our strong and competitive Investment Bank.

In summary, we had a very strong second quarter and first half for the Group, and some of the dynamics we are seeing are encouraging, but we probably need a few more quarters of strong performance across wealth management before we call this a trend.

Thank you, and now Kirt will take you through our results for the quarter.

## Kirt Gardner

Thank you, Sergio. Good morning everyone.

### Slide 5 – UBS Group AG results (consolidated)

2Q17 was a strong quarter, with net profit attributable to shareholders of 1.2bn up 14% year-over-year, and adjusted return on tangible equity of 11.4%, or nearly 16% ex-DTAs, which we believe is much more comparable with our competitors.

For the second quarter, adjusted PBT was 1.7 billion, with adjusting items of 258 million francs in net restructuring expenses, a 107 million gain on the sale of our remaining investment in IHS Markit, and 22 of million net FX translation losses.

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

### Slide 6 – Global WM – Profit before tax up 15%

Our leading global wealth management businesses delivered another excellent quarter, increasing PBT by 15% to over one billion on good operating leverage.

Revenue rose by 7% with increases in all categories, due to improved client sentiment and activity levels, as well as the effects of management actions.

The increase in recurring fee income reflects invested asset growth and increased mandate penetration, partially offset by the impact of cross-border outflows and the shift to retrocession-free products.

At the end of the second quarter, mandate penetration was over 32%, up 130 basis points and on a larger asset base. With higher mandate penetration, we increased our recurring revenue along with improving our overall margin.

Transaction-based revenues increased by 13%, reflecting improved sentiment and activity levels globally. Asia was the biggest driver, followed by the US and Switzerland.

Net interest income growth reflects higher short-term US dollar rates, particularly for WMA, and a 4% year-on-year growth in lending balances globally, which offset higher funding costs and the effects of negative rates on WM. After a period of client deleveraging, we are encouraged that Wealth Management saw its second consecutive quarter of strong loan growth, reflecting continued improved client sentiment and risk appetite.

Costs increased by 5%, as a result of higher compensable revenues and litigation expenses in WMA, partly offset by lower costs in WM from actions taken last year.

### Slide 7 – Global WM – Regional performance

Looking at the last twelve months, we reinforced our status as the only truly global wealth manager, with a very balanced regional contribution to profit. Approximately one third of profits were generated in the US, one third in Europe including Switzerland, and one third in Emerging Markets and APAC. We are particularly pleased with the continued strong growth and profitability from our market-leading franchise in Asia.

For the first half, Wealth Management had net new money of over 32 billion, a 6.6% annualized growth rate on an invested asset base of over a trillion. We delivered very strong growth as we continued to focus on both quality and profitability, as evidenced by the 5.3 billion outflows related to the introduction of euro deposit fees, and despite 3.2 billion of cross-border outflows. We also improved productivity, as we reduced our client advisors by 4% from the previous year.

For the second quarter, WM attracted 14 billion of net new money, the highest 2Q figure in a decade, with growth in all regions.

For the second half of 2017, we expect around 3 billion of outflows related to euro deposit charging, as well as cross-border outflows of around 11 billion, with the typical peak in the fourth quarter.

WMA had net outflows of 6 billion, reflecting both seasonal tax payments of around 3.3 billion and lower recruiting in the quarter. As we further transition our operating model, we expect net new money to stabilize over the next few quarters as the effect of the new recruiting policy normalizes and we see a pick-up from same store FAs.

#### Slide 8 – Personal & Corporate Banking

Personal and Corporate's PBT declined 18% to 379 million. That said, we are pleased with the strong growth in transaction-based and recurring fee revenue – up 7 and 8%, respectively – which partly offset expected net interest income headwinds.

Net credit loss expense was 28 million, compared to a 2 million recovery in 2Q16. This was driven by a small number of newly impaired corporate client positions across a range of sectors.

Operating expenses increased by 7% to 556 million, due to increased expenditure on strategic and regulatory initiatives, as well as higher variable compensation.

#### Slide 9 – Asset Management

Asset Management generated 133 million in PBT, down 10% year-on-year, but up QoQ. Performance fees increased significantly, as nearly 80% of eligible hedge fund assets were above high water marks at quarter-end. Net management fees decreased from ongoing margin compression due to client shifts to passive strategies, as well as lower transaction fees and higher custody fee charges, partly offset by market performance.

Operating expenses increased, driven by higher variable compensation, partly offset by lower salary and G&A expenses.

We attracted over 10 billion of net new money excluding money market flows, with over 70% into passive strategies. This follows the substantial inflows already seen last quarter and underlines the strength of our passive franchise. With over 700 billion of total invested assets, we're now at the highest level since 3Q08. Nearly 250 billion of these are in passive strategies.

Earlier this year, we announced the sale of our Swiss and Luxembourg Fund Services Units, which is expected to close in 3Q17 and reduce quarterly PBT by roughly 10 million.

## Slide 10 – Investment Bank

The IB delivered a return on attributed equity of 18% for the quarter, a good result in challenging market conditions. PBT declined by 6%, as lower operating expenses and increased CCS and Equities revenues couldn't fully offset 36% lower FRC revenues.

Corporate Client Solutions was up 10%, driven by higher ECM revenues from both private transactions and public offerings.

In ICS, Equities revenues increased 3%, mainly as Derivatives benefitted from increased client activity.

As a reminder, our FX-dominated Foreign Exchange, Rates and Credit business is flow-driven and balance sheet light, making it highly dependent on client activity, especially institutional client flows. The low volatility and volumes seen throughout 2017 have therefore created a particularly challenging environment for our business. The year-on-year comparison also reflects a strong 2Q16, which benefitted from increased flows around Brexit.

Operating expenses were down 3%, partly as a result of the cost actions taken in 2016 and a UK bank levy credit.

The IB's LRD fell by 10 billion francs in the quarter, mainly due to foreign currency translation and continued prudent management. I'll discuss RWA developments in more detail shortly.

## Slide 11 – Corporate Center

The Corporate Center loss before tax was 269 million.

Services' loss before tax was 137 million, a 76 million improvement, mainly as a greater proportion of costs are allocated to business divisions this year. We expect Corporate Center allocations to business divisions to increase somewhat in the second half of the year, consistent with the pattern we have seen in previous years, as well as an increase related to strategic and regulatory initiatives.

Group ALM's loss before tax was 81 million, mostly due to accounting asymmetries related to losses on economic hedges, which mean-revert to zero over time.

Non-core and Legacy Portfolio posted a pre-tax loss of 51 million, an improvement of 73 million as a result of litigation provision releases and a UK bank levy credit.

## Slide 12 – Cost reduction

During the quarter, we increased our net cost reduction run-rate to 1.8 billion, with contributions from both Corporate Center and business divisions. We remain confident that we'll achieve the full 2.1 billion target by year-end.

We expect restructuring costs to be around 700 million in the second half of this year, and then to significantly taper from 2018.

### Slide 13 – RWA development

In the last 6 quarters, we have seen 25 billion of regulatory-driven methodology changes and other regulatory inflation in RWA, nearly half of which in the second quarter of 2017. This accounts for substantially all of the RWA increase in the last year and a half. Business growth during this period has been offset by foreign currency translation and efficient resource management. We believe that the majority of this quarter's increase is essentially an advance on changes that are expected once Basel 3 is finalized.

For the second half of 2017, we expect around 6 billion of regulatory-driven increases.

After that, the extent and timing of further increases will depend on regulatory developments. Once these are finalized, we will assess the impact and develop an appropriate response.

### Slide 14 – Capital and leverage ratios (fully applied)

On a fully applied basis, our CET1 capital increased by 600 million to nearly 32 billion, mainly as a result of profits in the quarter. Our capital position remains strong, with a CET1 capital ratio of 13.5%.

Our LRD reduced by 20 billion to a historic low of 861, largely on foreign currency translation, along with continued prudent resource management. This, in combination with our higher CET1 capital, pushed our CET1 leverage ratio up to 3.7%, a level which we'd also be happy with in the longer term, although it may still fluctuate during the transition period.

In conclusion, we're pleased with our overall performance. We saw continued progress on our cost reduction program and double-digit profit growth in global wealth management, which offset the headwinds faced by our other businesses, underlining the benefits of our diversified business model.

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

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(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; 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**Use of adjusted numbers**

Adjusted results are a non-GAAP financial measure as defined by SEC regulations. Refer to pages 7-10 of the 2Q17 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 15 of the 2Q17 report for more information.

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