

Third quarter 2018 results

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Check against delivery.

Numbers for slides refer to the third quarter 2018 results presentation.

Sergio P. Ermotti

Slide 1 – Cautionary statement regarding forward-looking statements

Thank you, Caroline.

Slide 2 – 3Q18 net profit +32% to CHF 1.2bn

We will keep our remarks on the quarter fairly short, but we'll get a chance to go through the details on Q3 and on the way forward of course during the day.

Overall, Q3 was strong with net profit up 32% and reported PBT up 37%.

We improved our efficiency, maintained our strong capital position and delivered an adjusted return on tangible equity ex-DTAs of 15.7%, up 2 percentage points year-on-year.

Global Wealth Management improved its reported PBT by 3% year-on-year despite facing tough market conditions, which led to the decline in transaction fees that I flagged back in September. We had record mandate penetration, higher recurring fee income and continued growth in loans. Net new money was 13.5 billion despite net deleveraging from our Asian clients.

The Investment Bank had a very strong quarter, up 75%, with notable outperformance in the Americas.

Personal and Corporate's performance was good, with resilient revenues and cost discipline.

Asset Management was down against a very strong Q317, which included profits from businesses we sold last year. Nevertheless, efficiency improved and invested assets reached a 10-year high.

Slide 3 – 9M18 net profit¹ +19% to CHF 4.0bn

Year-to-date, Group net profit was up 19% to 4 billion, the highest in a decade, driven mainly by the IB and GWM.

In line with our strategy, we saw particularly strong growth in the Americas and APAC across businesses.

Global Wealth Management's profits were up 14% year-on-year , also the highest in a decade.

Year-to-date adjusted return on tangible equity ex-DTAs was 16.7%, highlighting the benefits and strengths of our diversification combined with a capital-efficient business model.

Slide 4 – 9M18 capital generation of 4.1bn

In the first nine months of the year, we have also delivered the strongest capital generation since Basel III was implemented.

On top of 1.5 billion CET1 capital build-up, we accrued almost 2 billion for dividends and repurchased 650 million francs worth of shares, which is 100 million above our target for this year.

Our capital position remains very strong with a CET1 capital ratio of 13.5%, a CET1 leverage ratio of 3.8%, and 5% tier 1 leverage ratio.

Summing up, another strong quarter with excellent capital generation despite a very challenging environment.

I'll now hand over to Kirt for the details on Q3.

Kirt Gardner

Thank you, Sergio. Good morning everyone.

Slide 5 – UBS Group AG results (consolidated)

Beginning the 1st of October, the US dollar has become our functional currency, and will also be our presentation currency from the fourth quarter. From 2019, net interest income should increase by around 250 million dollars, compared with the full-year 2018. For the fourth quarter, we expect a limited net benefit, as we incurred costs to reposition our balance sheet that offset any NII benefit. Our historic financials will be restated, with no material changes expected. Today, we published a timeseries in both Swiss francs and US dollars.

Moving to the third-quarter results, we have adjusted for restructuring expenses of 120 million and 55 million gains on sales. I will refer to adjusted results in Swiss francs unless otherwise noted.

Slide 6 – Global Wealth Management

As we all observed, the quarter was characterized by escalating geopolitical tensions with deteriorating trade talks, heightened concerns over Italy, and building tensions in the US related to the upcoming elections.

As you can see on the slide, these events weighed on markets, particularly in China, and emerging markets more broadly.

Not surprisingly, our clients froze in reaction to this particularly challenging environment. Transaction volumes were down across all asset classes and all regions, pushing our transaction-based income to its lowest level since the crisis.

Slide 7 – Global Wealth Management

Year-to-date Global Wealth Management PBT was the highest in a decade. For the quarter, profits were lower despite a ten-year high in recurring net fee income. As I just outlined, transaction-based revenues were down materially. The cost/income ratio rose slightly, reflecting 4% higher expenses, as we made further investments in technology and addressed regulatory requirements. Personnel expenses were lower, partly reflecting actions taken in the prior quarter.

Invested assets rose 6%, and all regions contributed to increased mandate penetration which reached a new high of 33.9%.

Loans were up 8% with higher balances in all regions, despite the deleveraging we saw in APAC.

Slide 8 – Global Wealth Management

Total operating income increased by 2%. Recurring net fee income increased 6% to a new high.

Net interest income was up 3% year-on-year, with deposit revenue up 14% and positive contribution from loans, partly offset by the expiry of a hedge portfolio and higher funding costs.

Slide 9 – Global Wealth Management

Third-quarter NII declined from 2Q18, as we saw reductions mainly related to currency translation, deposit net interest income and funding costs. Deposit income reduced, mostly as clients shifted into higher-yielding money market funds and other products, partly initiated by us in our fiduciary role and reflecting industry best practices, and as we issued certificates of deposit during the quarter to shore up our structural funding for current and anticipated growth in our loan book.

Slide 10 – Global Wealth Management

Moving to the regional view, we saw good growth in the Americas and in Global Ultra.

Americas operating income was up 6%, as strong recurring revenue offset lower transaction revenue.

In ultra-high net worth, profit rose 15% on good revenue growth, as invested assets increased on continued strong net inflows from our wealthiest clients.

APAC PBT was down 7%, reflecting the importance of transaction revenues in this region. In addition, we added 82 new advisors, an 8% increase year-on-year. EMEA and Switzerland were down on broadly flat revenues and higher expenses related to tech and regulatory costs.

Despite the challenging environment, net new money for the quarter was respectable at 13.5 billion. Asia and EMEA included a number of big-ticket inflows from ultra-high net worth clients. In the Americas, invested asset growth was in line with US peers.

Slide 11 – Personal & Corporate Banking

PBT in our Personal and Corporate business was 422 million, down 3% from the previous year, despite the continued NII headwinds, as well as higher technology costs related to our digital transformation program.

Revenues were broadly unchanged from the prior year. Recurring fees on custody and mandate assets rose, and bundled product volumes were higher. Transaction-based income decreased despite higher FX and referral fees, as we reclassified some costs to contra-revenues earlier this year. Net interest income was down only slightly, as increased deposit revenue was offset by lower banking book revenues and higher funding costs.

Expenses were up only 2%, due to an increase in technology investments and higher regulatory-related costs, while G&A and personnel expenses were lower.

Annualized net new business volume growth reached the highest third-quarter level in a decade at 4.5%.

Slide 12 – Asset Management

PBT for Asset Management was 129 million, down year-on year, but up from the second quarter, as we started to benefit from the cost actions we took during the second quarter. Costs were down 3% quarter-on-quarter and 6% from 3Q18.

Normalized for the sale of our fund administration business in Q4 last year, net management fees were broadly stable.

Performance fees this quarter were below 3Q17 levels in both hedge fund businesses and equities due to weaker investment performance, reflecting a less constructive backdrop for active asset managers. In the fourth quarter, performance fees are expected to be broadly in line with 3Q18 levels.

Invested assets reached a decade high on strong net new money over the last 12 months and favorable markets.

Slide 13 – Investment Bank

Our IB delivered another very good quarter, with 44% PBT growth, driven by strong operating leverage. Return on attributed equity was 21%, up 6 percentage points from 3Q17. Overall, our IB results compare well with the peers that have reported to-date.

On a regional basis, we had particularly strong performance across the board in the Americas, where PBT more than doubled.

The strong quarter was driven by our ICS businesses, as the same environment that drove our wealth management clients to the sidelines, generated volatility that stimulated institutional client activity. Equities increased 15% on higher revenues across all regions and products, with stronger client flows in Financing Services. Including corporate equity derivatives to be more comparable with peers, Equities rose 4%.

FRC had a strong quarter with revenues up 29%, with increases in all products. We continued to see benefits from our FX e-trading platform investments, with volumes up 25%.

Corporate Client Solutions was down from a very good third quarter last year. Advisory had a strong quarter, as we increased fees from mergers and acquisitions against a decline in the fee pool.

Equity capital market revenues were significantly lower compared with an exceptional quarter last year.

Costs were down 2%, mostly on lower personnel expenses. We reduced our cost/income ratio by 7 percentage points.

We achieved these strong results while continuing to manage our resources prudently.

Slide 14 – Corporate Center

Corporate Center retained loss was down, reflecting lower expenses for litigation in CC Services.

The factors we highlighted last quarter continue to impact Group ALM, and structural risk management net income after allocations was a negative 128 million. We are taking actions to improve our Group ALM results going forward, which I'll come back to later today.

Non-core and Legacy Portfolio posted a small loss of 25 million, including valuation gains on our auction rate securities portfolio.

Slide 15 – New DTA recognition approach from 4Q18

During the fourth quarter, we will extend the recognition period of US tax-loss DTAs in our IHC tax group, to reflect the full life of the underlying tax losses. As a result, we expect to re-measure these DTAs less frequently, thereby reducing tax volatility in our earnings. US profits should be shielded from most cash taxes over the next decade.

In 1Q19, we will start to amortize these US tax loss DTAs, reducing their overall contribution to shareholders' equity.

We are expecting to make other DTA adjustments relating to our US operations in the fourth quarter.

All of these adjustments should have a limited net effect on net profit, IFRS equity, and CET1 capital.

From 2019, we anticipate the effective tax rate will be around 25%, of which less than half will be cash tax relevant, contributing to 88% of our PBT accreting to CET1 capital or being available for returns to shareholders.

Slide 12 – Capital and leverage ratios

Our capital position remains strong, with our CET1 ratios comfortably above the 2020 requirements, and we have TLAC of over 80 billion.

To wrap up, we had a good third quarter that highlighted the benefits of our diversified business model, contributing to a strong 2018 year to-date.

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

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Use of adjusted numbers

Adjusted results are a non-GAAP financial measure as defined by SEC regulations. Refer to pages 9-11 of the 3Q18 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 18 of the 3Q18 report for more information..

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